IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE BASE PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (EACH, A "QIB") IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, you must be (i) a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) or (ii) a QIB. By accepting the e-mail and accessing the Base Prospectus, you shall be deemed to have represented to us that you are not a U.S. person or that you are a QIB and that you consent to delivery of such Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in anyplace where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the permanent dealers or any affiliate of the permanent dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the permanent dealers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there by any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the Base Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Base Prospectus. The Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of J.P. Morgan Securities Ltd. and UBS Limited nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from J.P. Morgan Securities Ltd., UBS Limited or JSC Kazkommerts Securities.

JSC KAZKOMMERTSBANK

(an open joint stock company incorporated in the Republic of Kazakhstan)

U.S.$2,000,000,000

Debt Issuance Programme

This Base Prospectus has been approved by the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom (the "UK Listing Authority"), as a base prospectus issued in compliance with Article 5(4) of the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to any issue of notes ("Notes") by JSC Kazkommertsbank (the "Bank" or the "Issuer") under the above debt issuance programme (the "Programme") during the twelve month period commencing the date hereof.

Application has been made to admit Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof to listing on the official list of the UK Listing Authority (the "Official List") and to trading on the regulated market (the "Regulated Market") of the London Stock Exchange plc (the "London Stock Exchange"). The Regulated Market is regulated for the purposes of the Directive 2004/39/EC (MiFID). The Programme also permits Notes to be issued on an unlisted basis or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges, regulated markets and/or quotation systems as may be agreed with the Issuer. In addition, with respect to each issuance of Notes under the Programme, the Issuer will make an application to the Kazakhstan Stock Exchange ("KASE") for such Notes to be admitted to the official list of the KASE. In order for payments to be made on the Notes exempt of Kazakhstan withholding tax, it will be necessary for the Notes to be admitted to the official list of the KASE. In addition, no Notes may be issued or placed without the prior approval of the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA").

An investment in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 11.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). The Notes may be offered and sold (i) within the United States to qualified institutional buyers (each, a "QIB"), as defined in Rule 144A under the Securities Act ("Rule 144A"), in reliance on the exemption from registration provided by Rule 144A (such Notes so offered and sold, the "Rule 144A Notes") and (ii) to non U.S. persons in offshore transactions in reliance on Regulation S (such Notes so offered and sold, the "Regulation S Notes"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Arrangers

J.P. Morgan **UBS Investment Bank**

Permanent Dealers

J.P. Morgan **UBS Investment Bank**

JSC Kazkommerts Securities

Base Prospectus dated 6 May 2011

IMPORTANT NOTICE

This Base Prospectus contains information provided by the Issuer in connection with the Programme under which the Issuer may issue and have outstanding at any time the Notes on the terms set out herein (the "Terms and Conditions of the Notes", and as supplemented by the final terms applicable to each issue, the "applicable Final Terms") up to a maximum aggregate amount of U.S.$2,000,000,000 or its equivalent in alternative currencies. The Notes will be constituted by and have the benefit of a trust deed dated 22 October 2010 as from time to time supplemented, amended or restated (the "Trust Deed") between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "Trustee" which term shall include any successor trustee or trustees under the Trust Deed). The Issuer has pursuant to a dealer agreement (the "Dealer Agreement") dated 22 October 2010 as from time to time supplemented, amended or restated appointed the Dealers (as defined herein) as dealers for the Notes under the Programme and have authorised and requested the Dealers to circulate this Base Prospectus in connection with the Programme subject as provided in the Dealer Agreement.

Notes under the Programme must have a minimum denomination of €100,000 (or its equivalent in another currency). Subject thereto and in compliance with all applicable legal regulatory and/or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market and admitted to the Official List.

This Base Prospectus contains, and any final terms may contain, ratings of the Issuer and the Notes. Fitch is established in the European Union and has applied for registration under regulation (EC) no 1060/2009 of the European parliament and of the council of 16 September 2009 on credit rating agencies (the "CRA Regulation"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. Moody's is established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. S&Ps is not established in the European Union and has not applied for registration under the CRA Regulation but the rating issued by it is endorsed by Standard & Poor's Credit Market Services France SAS which is established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied relating to the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

An investment in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 11.

None of the Dealers or the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness at any time of this Base Prospectus or any supplement hereto. No person has been authorised by the Issuer, the Dealers or the Trustee to give any information or to make any representation not contained in this Base Prospectus or any supplement hereto, and, if given or made, such information or representation must not be relied upon as having been authorised.

The distribution of this Base Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Notes come are required by the Issuer, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. In particular, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Base Prospectus and other information in relation to the Notes set out under "*Subscription and Sale*" and "*Transfer Restrictions*" below.

Furthermore, none of the Issuer, the Dealers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The Issuer does not intend to provide any post issuance or transaction reporting regarding the Notes. No person is authorised to give any information or make any representation not contained in or not consistent with this Base Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Bank, the Trustee or any Dealer.

Application has been made to list Notes issued under the Programme on the Regulated Market of the London Stock Exchange. The Programme provides that Notes may in the future be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each issue, *provided that* the relevant requirements have been met. The applicable Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and traded on the Regulated Market of the London Exchange (or any other stock exchange). The Issuer may also issue unlisted Notes pursuant to the Programme.

With respect to each issuance of Notes under the Programme, the Issuer will make an application to the KASE for such Notes to be admitted to the "rated debt securities" section of the official list of the KASE. No Notes may be issued or placed without the prior approval of the FMSA.

Regulation S Notes of each Series which are sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by interests in a global unrestricted note in registered form (each, a "Regulation S Global Note"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on its Issue Date (as defined below). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs, as referred to in, and subject to, the transfer restrictions described in "*Subscription and Sale*" and "*Transfer Restrictions*", will initially be represented by interests in a global restricted Note in registered form (each, a "Rule 144A Global Note" and, together with any Regulation S Global Notes, the "Global Notes"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Summary of the Provisions Relating to the Notes in Global Form*". Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

NEITHER THE NOTES NOR ANY BENEFICIAL INTERESTS THEREIN HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action shall be conducted by the Stabilising Manager(s) or persons acting on behalf of the Stabilising Manager(s) in accordance with applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEABILITY OF JUDGMENTS

The Bank is a joint stock company organised under the laws of Kazakhstan and all of its officers and directors and certain other persons referred to in this Base Prospectus are residents of Kazakhstan, apart from two members of the board of directors, Mrs. Gail Buyske, a U.S. citizen, and Mr. Sergey Shibaev, a Canadian citizen. All or a substantial portion of the assets of the Bank and most of such persons are located in Kazakhstan. As a result, it may not be possible (a) to effect service of process upon the Bank or any such person outside Kazakhstan, (b) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained on the Trust Deed in the courts of England.

The Notes and the Trust Deed are governed by the laws of England and the Issuer has agreed in the Trust Deed that disputes arising thereunder or in respect of the Notes are subject to arbitration in London, England or, at the election of the Trustee or, in certain circumstances, a Noteholder, to the jurisdiction of the English courts. Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and, accordingly, such an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO UNITED STATES FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE UNITED STATES INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON EACH TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

SUPPLEMENTAL BASE PROSPECTUS

The Issuer will, in connection with the listing of the Notes on the Official List and admission to trading on the Regulated Market, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer which is not reflected in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Official List and admitted to trading on the Regulated Market.

The Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Base Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Series of Notes.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Bank maintains its books of account in Tenge in accordance with the relevant laws in Kazakhstan and with the regulations of the NBK.

Unless otherwise indicated, financial information set forth herein relating to the Bank and its subsidiaries (the "Group") has been derived from its audited financial statements which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory notes (the "Financial Statements"). Due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts in 2010, balances relating to the consolidated statements of comprehensive income for the years ended 31 December 2009 and 2008 have been restated in order to be comparable to the balances for the year ended 31 December 2010. In addition, the presentation of the consolidated statement of cash flows of the Group has been restated for the years ended 31 December 2009 and 2008. This restatement has been made because the currency risk sensitivity analysis of the Group had included a clerical error when presented in the previously published consolidated financial statements for each of the years ended 31 December 2009 and 2008. There was also a revision of the Group's accounting policy in relation to cash and cash equivalents to make the disclosure more comparable with that of other Kazakhstan banks. The change in accounting policy, involving a reclassification of due from banks to cash and cash equivalents (where the maturity is less than three months) has been applied retrospectively to the earliest reported period. Full details of these changes and the effect thereof on the Group's consolidated cash flows for the years ended 31 December 2009 and 2008 are set out in Notes 4 and 15 of the Financial Statements. The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standard Board (the "IASB"). The Financial Statements were also prepared in compliance with IFRS as adopted in the European Union.

Deloitte, LLP, the auditors of the Group, have issued an unqualified audit opinion in respect of the Financial Statements for each of the three years ended 31 December 2010, 2009 and 2008. The opinion includes an emphasis of matters in relation to the Notes 4 and 15 of the Financial Statements.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The Bank has obtained certain statistical and market information that is presented in this Base Prospectus on such topics as the Kazakhstan banking sector and the Kazakhstan economy in general and related subjects from certain third-party sources described herein. This third-party information is presented in the following sections: "*Overview of the Bank*", "*Overview of the Offering*", "*Risk Factors*", "*Banking Sector in Kazakhstan*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition.*" The Bank has accurately reproduced such information and, so far as the Bank is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Prospective investors should note that some of the Bank's estimates are based on such third-party information. Neither the Bank nor the Managers have independently verified the figures, market data or other information on which third parties have based their studies.

The Bank has derived substantially all of the information contained in this Base Prospectus concerning its competitors from publicly available information, such as annual reports, and has accurately reproduced such information and, so far as the Bank is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Bank has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Base Prospectus has been derived from official data of the FMSA, the NBK and the NSA. Official data published by Kazakhstan governmental or regional agencies is substantially less complete or researched than those of more developed countries. Further, official statistics, including those produced by the FMSA, the NBK and the NSA, may be produced on different bases than those used in more developed countries. Any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

In this Base Prospectus:

- "2005 Shareholders" refers to CAIC, Mr. Subkhanberdin and Ms. Zhussupova;
- "ADRs" refers to American Depositary Receipts;
- "ALMC" refers to the Assets and Liabilities Management Committee;
- "Alnair" refers to Alnair Capital Holding JSC;
- "Basel Accord" refers to the 1988 Capital Accord adopted by the Basel Committee on Banking Supervision, then known as the Basel Committee on Banking Regulations and Supervisory Practice;
- "Basel II" refers to the report titled "*International Convergence of Capital Measurement and Capital Standards: A Revised Framework*" of the Basel Committee on Banking Supervision;
- "BTA Bank" refers to JSC BTA Bank;
- "CAIC" refers to JSC Central Asian Investment Company;
- "CIS" refers to the Commonwealth of Independent States;
- "Clearstream, Luxembourg" refers to Clearstream Banking, *société anonyme*;
- "CRA Regulation" refers to Regulation (EC) No. 1060/2009 of the European Parliament and the Council of 16 September 2009 on credit rating agencies;
- "DAMU" refers to the Entrepeneur Development Fund "DAMU";
- "DBK" refers to the Development Bank of Kazakhstan;
- "Dealers" refers to the Permanent Dealers and all persons appointed as a dealer in respect of one or more of the Tranches;
- "EBRD" refers to the European Bank for Reconstruction and Development;
- "euro", "EUR" and "€" refer to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;
- "Euroclear" refers to Euroclear Bank SA/NV;
- "Fitch" refers to Fitch Ratings CIS Limited;
- "FMSA" refers to the Agency of the Republic of Kazakhstan for the Regulation and Supervision of Financial Markets and Financial Organisations which, as from 12 April 2011, was abolished and its regulatory functions transferred to the NBK;
- "FMSA Regulations" refers to the regulations published by the FMSA;
- "GDP" refers to the gross domestic product of Kazakhstan;
- "GDRs" refers to Global Depositary Receipts;
- "Government" refers to the government of Kazakhstan;
- "Group" refers to the Bank and its subsidiaries;
- "IASB" refers to the International Accounting Standards Board;

- "Implementation Agreement" refers to the Implementation Agreement entered into by Samruk-Kazyna, CAIC, Mr. Subkhanberdin, Alnair and the Bank dated 15 January 2009;
- "Initial Rights Offering" refers to the second stage of the IPO where the Bank offered 103.5 million Shares to its pre-IPO shareholders;
- "IPO" refers to the November 2006 initial purchase offering where GDRs were sold on the London Stock Exchange;
- "JSC Law" refers to the Joint Stock Companies Law of Kazakhstan;
- "KASE" refers to the Kazakhstan Stock Exchange;
- "Kazakhstan" refers to the Republic of Kazakhstan;
- "Moody's" refers to Moody's Investors Service Ltd.;
- "Memorandum of Understanding" refers to the Memorandum of Understanding dated 9 December 2008 between, *inter alios*, Samruk-Kazyna, CAIC, Mr. Subkhanberdin, the Government of the Republic of Kazakhstan, the NBK, FMSA and the Bank;
- "NBK" refers to the National Bank of Kazakhstan;
- "NSA" refers to the National Statistical Agency of Kazakhstan;
- "Option Agreement" refers to the Option Agreement dated 15 January 2009 between Samruk-Kazyna and the Significant Shareholders granting a put option with respect to the Shares;
- "Permanent Dealers" refers to J.P. Morgan Securities Ltd., UBS Limited and JSC Kazkommerts Securities;
- "Pound Sterling", "£" and "GBP" refer to the pound sterling, the lawful currency of the United Kingdom;
- "Principal Shareholders" refers to EBRD, CAIC, Alnair and Mr. Subkhanberdin;
- "Put Option Agreement" refers to the Put Option Agreement entered into by the EBRD dated 6 June 2003;
- "Rights Offering" refers to the Bank's offer to shareholders and GDR holders the right to purchase new Shares and new GDRs in April 2009;
- "RUR" refers to Russian roubles, the lawful currency of the Russian Federation;
- "Samruk-Kazyna" refers to the JSC National Welfare Fund "Samruk-Kazyna";
- "Share Trust Management Agreement" refers to the Share Trust Management Agreement entered into by CAIC, Mr. Subkhanberdin and Samruk-Kazyna;
- "Shareholders' Agreement" refers to the Shareholders' Agreement entered into by the Bank and the EBRD dated 6 June 2003;
- "Shares" refers to the common shares of the Bank;
- "Significant Shareholders" refers to CAIC, Alnair and Mr. Subkhanberdin and "Significant Shareholder" refers to any one of them;
- "SME" refers to small- and medium-sized enterprises;
- "Subscription Agreement" refers to the Subscription Agreement executed by the Bank and the EBRD on 24 June 2005 as amended on 7 December 2005;
- "S$" and "SGD" refers to the lawful currency of the Republic of Singapore;

- "S&P" refers to Standard & Poor's International Services Inc., a division of the McGraw Hill Companies;
- "Tenge" and "KZT" refer to Kazakhstan Tenge, the lawful currency of Kazakhstan;
- "United States" and "U.S." refers to the United States of America; and
- "U.S.$" and "U.S. dollars" refers to the lawful currency of the United States.

The selected consolidated financial data presented in this Base Prospectus as at and for the three years ended 31 December 2010, 2009 and 2008 has been derived from and should be read in conjunction with the Financial Statements, including the notes thereto, contained elsewhere in this Base Prospectus.

Solely for the convenience of the reader, the Bank has translated the selected income statement information for the year ended 31 December 2010 into U.S. dollars at the rate of U.S.$1.00 = KZT147.35, and the statement of financial position information as at 31 December 2010 into U.S. dollars at the rate of U.S.$1.00 = KZT147.50. The Bank has translated the capitalisation information as at 31 December 2010 into U.S. dollars at the rate of U.S.$.1.00 = KZT147.50. This is not consistent with the methodology that would be required for a convenience translation for a document that would be filed with the US Securities and Exchange Commission, which would require the rate at the reporting date to be applied to all convenience translations. See "*Exchange Rates and Exchange Controls*."

No representation is made that the Tenge or U.S. dollar amounts in this Base Prospectus could have been converted into U.S. dollars or Tenge, as the case may be, at any particular rate or at all.

Prospective investors should read the following summary selected consolidated financial data and other information in conjunction with the information contained in "*Risk Factors*", "*Capitalisation of the Bank*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", "*Selected Statistical and Other Information*", and the Financial Statements, including the explanatory notes thereto, and the other financial data appearing elsewhere in this Base Prospectus.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward looking statements that involve a number of risks and uncertainties. Certain such forward looking statements can be identified by the use of forward looking terminology such as "estimates", "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and include statements regarding the Bank's intentions, beliefs or current expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, strategies and the industry in which it operates. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Investors should be aware that forward looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates, may differ materially from those made in or suggested by the forward looking statements contained in this Base Prospectus. In addition, even if the Group's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- the stability of the banking sector in Kazakhstan generally;
- changes in the Bank's corporate, retail, SME, insurance and investment banking businesses and changes in its cross-selling activities among client segments and products and in its deposit base;
- expectations as to the impact of projects undertaken to improve cost efficiencies and enhance liquidity and revenues; and
- estimates and financial targets for changing and diversifying the composition, as well as the quality, of the Group's loan portfolio.

Factors that might affect such forward looking statements include, amongst other things:

- effects of the global financial crisis;
- overall economic and business conditions, including commodities prices;
- the demand for the Bank's services;
- competitive factors in the industries in which the Bank and its customers compete;
- changes in Government regulation and in the Government's and/or Samruk-Kazyna's policies regarding support for the banking sector in Kazakhstan;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations and other capital market conditions;
- exchange rate fluctuations;
- economic and political conditions in international markets, including Governmental changes;
- hostilities and restrictions on the ability to transfer capital across borders; and
- the timing, impact and other uncertainties of future actions.

The sections of this Base Prospectus entitled "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", "*Risk Factors*", "*The Bank*" and "*Selected Statistical and Other Information*" contain a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Base Prospectus may not occur.

The Bank does not undertake any obligation to publicly update or publicly revise any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to the Bank or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

ADDITIONAL INFORMATION

The Issuer is not required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). For so long as the Issuer is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer will, upon request, furnish to each holder or beneficial owner of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Rule 144A Notes under the Securities Act, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that (i) this Base Prospectus contains all information with respect to the Issuer, the Group and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Base Prospectus relating to the Issuer and the Group are in every material particular true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Base Prospectus with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Base Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

The information in this Base Prospectus contained under the headings "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Kazakhstan's Economy*" and "*The Banking Sector in Kazakhstan*" has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information provided herein. The Issuer accepts responsibility for accurately reproducing such extracts, and as far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.

OVERVIEW OF THE BANK

The following overview highlights significant aspects of the Bank's business and the Programme, but prospective investors should read this entire Base Prospectus, including the Financial Statements and related notes, included elsewhere in this Base Prospectus, together with the related Final Terms before making an investment decision. Prospective investors also should carefully consider the information set forth under "Risk Factors."

THE BANK

Established in 1990, the Bank is the largest bank in Kazakhstan on the basis of total assets and total deposits and the second largest on the basis of retail deposits (calculated by the Bank on the basis of FMSA data as at 1 January 2011). The Bank provides a full range of corporate, SME and retail banking services through a network of 23 full service branches and 130 limited service branches in 45 cities throughout Kazakhstan as at 1 January 2011. In addition, the Bank has well developed alternative distribution channels including 1,251 ATMs (including 231 new ones installed since 31 December 2009 and 209 which are cash-in ATMs), 12,415 point-of-sale terminals and telephone banking and internet banking. The Bank's subsidiaries also provide insurance, brokerage, asset management and pension fund management services in Kazakhstan and corporate, SME and retail banking services in Russia, Tajikistan and Kyrgyzstan. The Bank has been given a senior unsecured debt rating of "B-" by Fitch, a foreign currency senior unsecured debt rating of "B2" by Moody's and a senior unsecured debt rating of "B" by S&P. For the details of all of the Bank's credit ratings, see "*– Credit Ratings*" and "*The Bank – Credit Ratings*".

KEY STRENGTHS

The Bank believes it has the following strengths that will enable it to maintain its position as one of the leading financial institutions in Kazakhstan:

- An adaptable and flexible business structure.
- Continued improvements in corporate governance.
- An experienced management team with a proven track record.
- Continued technology and product development.
- Broad funding sources.
- Strong corporate relationships.
- An extensive branch network.
- Strong market share in corporate and retail.
- An established customer service network.

STRATEGY

The Bank's strategy is to remain a universal bank with an active presence in all sectors of Kazakhstan's financial market, focusing in particular on asset quality, liquidity management, lending to growth sectors (including SME and retail), whilst maintaining its client base and operating efficiency. The Bank's strategy includes the following components:

Corporate banking

- Focusing on asset quality including maximising its recovery of non-performing loans.
- Lending to corporate sectors that have potential for growth.

- Maintaining its relationship with corporate clients, particularly in deposits and diversifying its corporate deposit base.

- Participation in Government stabilisation programmes.

- Focusing on cross sales and sales of non-credit banking products to corporate borrowers.

SME banking

- Maintaining and gradually increasing its SME loan portfolio with a specific focus on asset quality when making SME loans and active participation in Government programmes supporting SMEs.

- Strengthening its relationship with SME clients and cross-selling non-credit banking products to SME clients.

- Optimising its internal procedures in SME banking to improve its credit processes.

Retail banking

- Maintaining the efficiency of its branch network for sustainable and profitable growth.

- Developing alternative distribution channels.

- Maintaining and seeking opportunities to increase its existing retail deposit base.

- Gradually increasing retail loans.

- Focusing on increasing fee income.

- Optimising business processes related to retail banking.

RISK FACTORS

Risks Relating to the Bank

- The crisis in the global financial markets and deterioration of general economic conditions have materially and adversely affected the Bank's results of operations and financial condition and could continue to cause them to decline.

- Financial instability in emerging markets has caused and could cause the price of the Bank's securities to suffer.

- Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would materially and adversely affect the Bank.

- The Bank's asset quality is weak due to a large amount of non-performing loans.

- Volatility in the real estate market in Kazakhstan may materially and adversely affect the Bank's asset quality and collateral value.

- Changes to the NBK minimum reserve requirements and potential restrictions imposed by the FMSA may materially and adversely affect the Bank's statement of financial position and results of operations.

- Potential declines in customer deposits, which are an important source of funding for the Bank and which have a high concentration of deposits from state-owned entities, may negatively affect the Bank's funding base.

- There is a risk that the Bank could breach financial covenants in certain financing arrangements.

- The Bank is exposed to a number of market risks, including interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and on its interest-earning assets and foreign currency exchange risk resulting from fluctuations in the prevailing foreign currency exchange rates.

- The Bank may have significant liabilities under cross-currency swaps.

- The Bank may face difficulties servicing, repaying and refinancing upcoming international debt obligations.

- Any slowdown in loan growth will likely lead to a gradual seasoning of the Bank's loan portfolio which may increase the proportion of loan defaults.

- The Bank may face difficulties maintaining profitability due to shrinking interest margins and increased provisioning charges relating to weak and deteriorating asset quality.

- Lower than expected growth of Kazakhstan's gross domestic product in 2011 could limit lending opportunities for the Bank and put increasing pressure on the ability of its existing borrowers to repay their loans.

- Changes in the funding support for the Kazakhstan banking sector may lead to decreased liquidity.

- Changes in the regulation of the banking industry in Kazakhstan may materially and adversely affect the Bank's business and existing regulations are not as developed as in many Western countries.

- The Bank's share ownership is currently highly concentrated.

- Samruk-Kazyna is a large shareholder of the Bank and its interests may differ from the interests of the Bank's other shareholders and investors.

- The Bank faces significant competition, which may increase in the future.

- Concentration of the Bank's loan portfolio subjects it to risks from default by its largest borrowers and from exposure to particular sectors of the Kazakhstan economy.

- The Bank relies on information provided by clients and other counterparties. The lack of accurate statistical, corporate and financial information in Kazakhstan may limit the ability of the Bank to assess its credit risks accurately.

- The Bank's success is reliant on its key personnel.

- Any failure or interruption in or breach of the Bank's information systems and any failure to update such systems may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

- The Bank's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks.

- The Shareholders' Agreement and the Subscription Agreement between the Bank and the EBRD may limit and restrict the operations and business of the Bank.

- The Bank faces operational risk.

- The Bank is subject to money-laundering risks.

Risk Factors Relating to Kazakhstan

- Risks associated with emerging markets generally.

- Risks resulting from failures in the Kazakhstan's banking industry could adversely affect the Bank.

- It is not possible to predict the full impact on the Bank of the financial stability laws in Kazakhstan which were introduced in 2008.

- The Kazakhstan corporate governance and disclosure laws which apply to the Bank are different from those generally applicable to corporations organised in the United States, the United Kingdom and other jurisdictions.
- Most of the Bank's operations are conducted, and substantially all of its assets are located, in Kazakhstan. Accordingly, the Bank's financial position and its results of operations are substantially dependent on the legal, economic and political conditions prevailing in Kazakhstan.
- Exchange rate policies in Kazakhstan impose risks.
- The Kazakhstan economy is highly dependent on oil exports and, as a result, is affected by oil price volatility.
- A sharp drop in world prices for oil and other commodities would have a negative impact on the growth prospects of the Kazakhstan economy.
- There are risks associated with rising operating costs as Kazakhstan's commodity sector recovers.
- Without solvent borrowers and a diversified economy, the Kazakhstan banking sector may not be able to complete its recovery from the global financial crisis.
- Uncertainty over the outcome of the implementation of further market based economic reforms may impose risks.
- The Kazakhstan regulatory and tax regime, as well as the judicial system, are not fully developed and are therefore unpredictable.
- There are risks associated with the underdevelopment of Kazakhstan's securities markets.
- Reliability of official statistics and other data published by Kazakhstan authorities.
- Kazakhstan's president, Nursultan Nazarbayev, has been in office since 1991 and should he leave office without a smooth transfer to his successor, Kazakhstan could become unstable.

Risks Relating to an Investment in the Notes

- The Notes may not be a suitable investment for all investors.
- A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors.
- Noteholders may be bound by the decision of other holders notwithstanding that they were not present at the meeting.
- The Notes could be subject to taxation.
- The Bank may offer further issues of Notes with original issue discount.
- Trading in the clearing systems is subject to minimum denomination requirements.
- Although application may be made to list the Notes, there is no prior market for the Notes.
- The trading price of the Notes may be volatile.
- The Notes are subject to exchange rate risks and exchange control risks.
- The Notes are subject to interest rate risks.
- Credit ratings of the Notes may not reflect all risks.
- Legal investment considerations may restrict certain investments.
- The Notes do not limit incurrence of additional indebtedness.

- There are risks in relation to modifications, waivers and substitutions.
- There are risks in relation to Notes where denominations involve integral multiples.

See "*Risk Factors*" for a further description of some of the risk factors relating to the Bank.

Summary Financial and Other Information

The following table sets forth summary financial information related to the Bank as at the dates indicated. The data has been extracted from the Financial Statements.

	As at 31 December		
	2010	2009	2008
		(KZT millions)	
Total assets	2,688,108	2,587,873	2,614,805
Loans to customers	2,174,760	2,160,767	2,144,782
Customer accounts	1,506,800	1,276,464	979,453
Total equity	413,746	389,588	313,862

Credit Ratings

The Bank is rated by Fitch, Moody's and S&P and its credit ratings are as follows:

Fitch

Long-term issuer default rating – B- (B minus)
Short-term issuer default rating – B
Senior unsecured debt rating – B- (B minus)
Subordinated debt rating – CC
Outlook – Stable

Moody's

Long-term foreign and local currency deposit rating – Ba3
Foreign currency senior unsecured debt rating – B2
Foreign currency subordinated debt rating – B3
Bank financial strength rating – E+, Outlook – Stable
Outlook – Negative

S&P

Long-term issuer credit rating – B
Senior unsecured debt rating – B
Subordinated debt rating – CCC+
Short-term debt rating – C
Outlook – Stable

OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Base Prospectus.

Issuer:	JSC Kazkommertsbank
Description:	Debt Issuance Programme
Size:	Up to U.S.$2,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arrangers:	J.P. Morgan Securities Ltd. and UBS Limited
Dealers:	J.P. Morgan Securities Ltd., UBS Limited and JSC Kazkommerts Securities. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches (as defined below) or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Kazakhstan Dealer:	JSC Kazkommerts Securities. The Kazakhstan Dealer will assist the Bank with any offering and sale of Notes in Kazakhstan in accordance with the terms of the Dealer Agreement.
Trustee:	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent, Calculation Agent and Transfer Agent:	The Bank of New York Mellon
Registrar:	The Bank of New York Mellon (Luxembourg) S.A.
Paying Agent and Transfer Agent:	The Bank of New York Mellon
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant Final Terms.
FMSA Approval:	No Notes may be issued or placed without the prior approval of the FMSA.
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	Each Series of Notes will be issued in registered form only. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.

Clearing Systems:	DTC (in the case of Rule 144A Notes), Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes), JSC Central Securities Depositary (Kazakhstan) (in relation to any Notes trading or to be traded on the KASE) and such other clearing system as may be agreed between the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Rule 144A Global Note will be deposited with a custodian for DTC and the Regulation S Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Notes will be registered in the name of a nominee of DTC, and the Regulation S Global Notes will be registered in the name of a nominee for the common depositary for Euroclear and Clearstream, Luxembourg. Global Notes relating to Notes that are not listed on the Regulated Market may also be deposited with any other clearing system or may be delivered outside any clearing system *provided that* the method of such delivery has been agreed in advance by the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, Notes may have any maturity between one month and 30 years.
Denomination:	Notes will be in such denominations as may be specified in the relevant Final Terms (the "Specified Denomination"), *provided that* (i) the Specified Denomination(s) shall not be less than €100,000 or its equivalent in other currencies, (ii) with respect to (a) Notes which are not admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive and (b) Notes with a maturity of less than 365 days, a lower Specified Denomination may apply as more fully set out in the relevant Final Terms and (iii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 or its equivalent in other currencies.
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.
Zero Coupon Notes:	Zero Coupon Notes may be issued at their nominal amount or at a discount and will not bear interest.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.

Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption:	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA (Financial Services and Markets Act 2000) must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.
Optional Redemption:	The relevant Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of Notes:	The Notes will constitute unsubordinated and unsecured obligations of the Issuer, all as described in "*Terms and Conditions of the Notes – Status*".
Negative Pledge:	See "*Terms and Conditions of the Notes – Condition 4*".
Certain Covenants:	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on transactions at less than the fair market value; and (ii) limitation on payment of dividends. See "*Terms and Conditions of the Notes – Condition 4*".
Cross Default:	See "*Terms and Conditions of the Notes – Events of Default*".
Rating:	Notes to be issued under the Programme may be rated or unrated, and where an issue of Notes under the Programme is rated, its rating will not necessarily be the same as the rating applicable to the Programme. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the

marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Where Notes to be issued under the Programme are rated, the applicable rating(s) will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Credit ratings included or referred to in this Base Prospectus have been issued by Fitch, Moody's and S&P. Fitch is established in the European Union and has applied for registration under regulation (EC) no 1060/2009 of the European parliament and of the council of 16 September 2009 on credit rating agencies (the "CRA Regulation"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. Moody's is established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. S&Ps is not established in the European Union and has not applied for registration under the CRA Regulation. The rating issued by it is endorsed by Standard & Poor's Credit Market Services France SAS which is established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

Early Redemption: Except as provided in "*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".

Withholding Tax: All payments by the Issuer under the Notes will be made without the imposition of any Kazakhstan withholding taxes provided that the Notes are admitted to the official list of the KASE. See "*Taxation – Kazakhstan Taxation*".

In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by the Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes, the Issuer will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required. See "*Terms and Conditions of the Notes – Condition 8*".

Governing Law: The Notes and the Trust Deed will be governed by, and shall be construed in accordance with, English law.

Listing:	Application has been made to list Notes issued under the Programme on the Official List and traded on the Regulated Market or as otherwise specified in the relevant Final Terms. In addition, with respect to each issuance of Notes under the Programme, the Issuer will make an application to the KASE for such Notes to be admitted to the "rated debt securities" section of the official list of the KASE. As specified in the relevant Final Terms, a Series of Notes may be unlisted.
Selling Restrictions:	The offering and sale of Notes is subject to all applicable selling restrictions, including, without limitation, those of the United States, United Kingdom and Japan. See "*Subscription and Sale*".
Further Issues:	The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as a Series of Notes that was previously issued in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single Series with the outstanding securities of any Series (including such Notes) or upon such terms as the Issuer may determine at the time of their issue.
	Additional Notes that are treated for non-tax purposes as a single series with previously issued Notes may be treated as a separate series for U.S. federal income tax purposes. In such case, the additional Notes may be considered to have been issued with "original issue discount" (as defined under the U.S. Internal Revenue Code and the Treasury Regulations issued thereunder), or if the previously issued Notes were issued with original issue discount, the additional Notes may be considered to have been issued with a greater amount of original issue discount, which in either case creates certain adverse tax consequences for certain holders subject to U.S. federal income taxation. Since additional Notes may not be distinguishable from the previously issued Notes, the market value of the previously issued Notes could be impacted by any original issue discount imposed with respect to the additional Notes.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Base Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. These risk factors, individually or collectively, could have a material adverse effect on the Issuer's or the Group's respective business, financial condition, results of operations and prospects and/or the rights under the Notes of the holders of the Notes. Additional risks and uncertainties that the Bank is not aware of or that the Bank currently believes are immaterial may also materially and adversely affect the Bank's financial condition or results of operations. If any of the possible events described below occurs, the Bank's financial condition or results of operations could be materially and adversely affected.

RISKS RELATING TO THE BANK

The crisis in the global financial markets and deterioration of general economic conditions have materially and adversely affected the Bank's results of operations and financial condition and could continue to cause them to decline.

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty, particularly the very severe disruption of the financial markets around the world that began in August 2007 and that substantially worsened in September 2008 with adverse consequences for many large global commercial and investment banks, insurance companies and other financial institutions. This disruption severely impacted general levels of liquidity and the availability of credit together with the terms on which credit is available. Governments around the world, including Kazakhstan's, have sought to inject liquidity into banking systems and to recapitalise the banking sector to reduce the risk of systemic failure and increase confidence in the financial markets.

This market disruption was also accompanied by a slowdown in many economies, including Kazakhstan's. These developments adversely affected the Bank's earnings and profits. For example, for the year ended 31 December 2010, the Bank's net interest income (before provisions for impairment losses) decreased by 28 per cent. from KZT 193.6 billion in 2009 to KZT 139.4 billion for 2010. Net non-interest income for 2010 also decreased significantly by 65.8 per cent. to KZT 20.6 billion compared to KZT 60.3 billion for the same period in 2009 while operating expenses increased by 18.9 per cent. in 2010 compared to 2009 and amounted to KZT 35.8 billion for the year ended 31 December 2010. The Bank's cost-to-income ratio in 2010 was equal to 22.4 per cent. compared to only 11.9 per cent. in 2009. In addition, non-performing loans constituted 25.4 per cent. of total gross loans for the year ended 31 December 2010, up 2.6 per cent. from 22.8 per cent. for the year ended 31 December 2009. For a detailed discussion of the Bank's financial performance and condition for the three years ended 31 December 2010, 2009 and 2008, see "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and "*Selected Statistical Information*".

Continued general deterioration in the world economy including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would further reduce the level of demand for, and supply of, the Bank's products and services, lead to lower realisations as well as write downs and impairments of investments and negative fair value adjustments of assets, and could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

The Kazakhstan banking sector has been particularly affected by the lack of availability of international wholesale debt financing and the volatility of deposits, both of which Kazakhstan banks have previously heavily relied on as a source of funding. The high dependence on capital market funding poses a significant refinancing risk for both individual banks and the banking system as a whole, with wholesale debt financing having become significantly more expensive. Although there seems to be some recovery in the Kazakhstan banking sector with one or two participants having been able to access the international debt markets recently at more reasonable rates, if the availability of international wholesale debt financing continues to be limited or available at significantly higher cost or if the Bank suffers from increased volatility of its deposit base, this could materially and adversely affect the Bank's business, financial condition, results of operations and prospects. The effect of any of these conditions may be exacerbated by the deterioration of the financial condition of other banks in Kazakhstan.

The full range and consequences of the risks faced by the Bank are difficult to predict and guard against in view of the fact that many of those risks are either totally or partially outside the control of the Bank and may be exacerbated by the severity of the financial crisis.

Financial instability in emerging markets has caused and could cause the price of the Bank's securities to suffer.

Financial instability in any emerging market country tends to adversely affect prices in stock markets as investors move their money to more developed markets that they perceive to be more stable. As has happened in the recent past, financial problems or an increase in the perceived risks associated with investing in emerging economies has caused and could cause foreign investment in Kazakhstan to dampen and adversely affect the Kazakhstan economy. In addition, during such times, emerging market companies may continue to face severe liquidity constraints if foreign funding sources continue to be withdrawn.

If market conditions and circumstances deteriorate, this could cause a decline in credit quality, declines in asset prices, increases in defaults and non-performing debt and/or worsening of general economic conditions in the Bank's key markets, all of which would materially and adversely affect the Bank's business, financial condition, results of operations and prospects. Financial instability in any other emerging market country also could materially and adversely affect the Bank's business and/or the price of its securities.

Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would materially and adversely affect the Bank.

As at 31 December 2010, the Bank's Tier I and total capital adequacy ratios calculated in accordance with FMSA Regulations were 12.3 per cent. and 15.0 per cent. respectively, compared to the minimum levels of 5 per cent. for Tier I and 10 per cent. for total capital required under the FMSA Regulations for commercial banks whose shareholder has the status of the bank holding company under the FMSA Regulations, as is the case for the Bank. The FMSA has placed a moratorium on changes to the FMSA Regulations on capital adequacy until 2013. The Tier I and total capital adequacy ratios as calculated in accordance with the Basel Accords were 16.2 per cent. and 20.1 per cent. respectively for the year ended 31 December 2010.

Any deterioration in the Bank's loan portfolio quality and the consequent need to make impairment provisions may require the Bank to raise additional capital to meet required capital adequacy levels. In addition, the regulated levels may be increased in the future.

Any failure to raise capital as and when needed could substantially limit the Bank's ability to meet or to grow its business in compliance with applicable capital adequacy requirements. Any such events would have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's asset quality is weak due to a large amount of non-performing loans.

Non-performing loans, which include Corporate and SME loans past due more than 30 days and retail loans past due for more than 60 days, amounted to KZT 698.2 billion, or 25.4 per cent. of gross loans as at 31 December 2010. This represents an increase of 2.6 per cent. in 2010 compared to KZT 608.1 billion or 22.8 per cent. of gross loans as at 31 December 2009. As at 31 December 2010, restructured loans amounted to 20.3 per cent. of gross loans, which together with non-performing loans represent 45.7 per cent. of gross loans. In addition, of KZT 85.0 billion of net interest income before provision for impairment losses on interest-bearing assets, approximately KZT 54.4 billion represented interest accrued but not received on certain corporate customer loans, where under the contractual terms of the loan agreements there are no cash flows to the Group prior to 2013; these amounts are fully provisioned. These figures demonstrate the weakness of certain assets held by the Bank which could result in higher allowances for impairment losses and write-offs. In addition, the quality of the Bank's assets is subject to high concentrations in the Bank's balance sheet (in particular the high concentration of deposits from state-owned entities) and its exposure to the Kazakh real estate and construction sectors. For a detailed description of these risks, see "*Potential declines in customer deposits, which are an important source of funding for the Bank and which have a high concentration of deposits from state-owned entities, may negatively affect the Bank's funding base*" and "*Volatility in the real estate market in Kazakhstan may materially and adversely affect the Bank's asset quality and collateral value*". Although the Bank's focus is to prioritise the improvement of its asset quality, if the

Bank is not able to recover the amounts owed to it in respect of these loans or if there is a further deterioration in asset quality giving rise to increased impairment losses and write-offs, this could materially and adversely affect the Bank's business, financial condition, results of operations and prospects. See "*Selected Statistical and Other Information – Non-performing Loans*".

Volatility in the real estate market in Kazakhstan may materially and adversely affect the Bank's asset quality and collateral value.
The Bank has a relatively high exposure to the housing construction, commercial real estate construction and real estate sectors with 16.9 per cent., 7.4 per cent. and 15.1 per cent. respectively of net loans. Real estate prices in Kazakhstan, increased significantly between 2002 and June 2007, but dropped sharply thereafter. Such volatility in the real estate market has had and could continue to have an adverse affect on the Bank's business, financial condition, results of operations and prospects.

Some of the borrowers making up the Bank's ten largest exposures are involved in sectors that have been affected by the decline in the real estate market, particularly the sectors relating to real estate and construction. The Bank's exposure to the real estate and construction sectors has been cited in reports of each of the major credit rating agencies as a risk for the Bank and certain other Kazakhstan banks.

In addition, a substantial amount of the Bank's loans to customers are secured by real estate. As at 31 December 2010, 50.3 per cent. of total loans to customers were collateralised by real estate. The declines in prices of real estate in Almaty and Astana have made it difficult to value certain collateral held by the Bank. The collateral value ultimately realised by the Bank will depend on the fair value as determined at the time the collateralised asset is realised and may be materially different from the current or estimated fair value. In the event that a portion of the Bank's loans to customers which are secured by real estate go into default, the Bank may not be able to recover the full value of the loan by taking ownership and disposing of the underlying real estate, which may result in a material adverse impact on the Bank's business, financial condition, results of operations and prospects.

Changes to the NBK minimum reserve requirements and potential restrictions imposed by the FMSA may materially and adversely affect the Bank's statement of financial position and results of operations.
The FMSA approved new regulations on portfolio supervision and provisioning on 1 April 2007. These portfolio supervision regulations generally provide for more stringent classification requirements. These new regulations did not result in an increase in the Bank's provisions. In August 2007, the NBK postponed the implementation of additional reserve requirements to alleviate the liquidity crisis in Kazakhstan's banking industry. However there is no guarantee that additional reserve requirements will not be required in the future which may result in the Bank having to increase its capital.

In December 2007 and again in September 2008, the FMSA adopted resolutions increasing the charter capital and own capital requirements for second-tier banks. The minimum own capital (net worth) requirement for commercial banks was increased from KZT 1 billion to KZT 5 billion on 1 October 2009 and it will be increased to KZT 10 billion on 1 July 2011. In addition, the FMSA introduced a new requirement that starting from 3 March 2009, minimum reserve requirements for liabilities should constitute at least 1.5 per cent. of internal liabilities and 2.5 per cent. for other liabilities.

In the event that the Bank is unable to meet these or future requirements imposed by the NBK or FMSA, its business, financial condition, results of operations and prospects may be materially and adversely affected.

Potential declines in customer deposits, which are an important source of funding for the Bank and which have a high concentration of deposits from state-owned entities, may negatively affect the Bank's funding base.
Corporate deposits are volatile in nature (and have been particularly volatile in the banking crisis), and if such deposits decline the Bank will have to rely more heavily on other sources of funding, including wholesale debt funding on the international markets, which is not as readily available as it was in early 2007 and continues to be significantly more expensive than deposit funding, which could materially and adversely affect the Bank's business, financial condition, results of business and prospects.

Although the Bank is focused on reducing its deposit concentration, the Bank's deposits continue to be highly concentrated, with the ten largest customers comprising 51.07 per cent. of total deposits as at 31 December 2010. In making this determination, the Group considers Samruk-Kazyna as one customer for concentration risk purposes. The Bank's deposit base consists, in substantial part, of entities which are majority-owned or controlled by the Government. Deposits by Government majority-owned or controlled entities represented *more than half of deposits* made by the Bank's ten largest customers as at 31 December 2010. The Bank has had long term banking relationships with many of these entities and, except in relation to Government-funded programmes, their deposits are made on arms' length terms as part of those relationships. However, while the Bank does not anticipate that these deposits would be withdrawn in substantial part or on short notice, should the Bank's relationship with the Government change or the Government change its policies with respect to supporting the Kazakhstan banking sector or Government majority-owned or controlled entities withdraw their deposits from the Bank in substantial part or on short notice, this would likely result in a decrease in the Bank's liquidity and in an increase in the Bank's funding costs which would materially and adversely affect the Bank's business, financial condition, results of business and prospects. See "*Selected Statistical and Other Information – Funding – Customer Accounts*".

There is a risk that the Bank could breach financial covenants in certain financing arrangements.

Though the Bank is currently in compliance with the terms of its financing arrangements there is the risk that there could be a breach. Most of the Bank's financing arrangements, including its Eurobonds, the Notes, and all international borrowings, contain either cross default or cross acceleration provisions. The cross default provisions provide that the Bank will be in default under the relevant financing arrangements if it defaults under another agreement evidencing indebtedness, irrespective of whether or not the lender under that instrument has declared such amounts due and payable as a result of that default. The Bank's management monitors all cross default provisions on a continuous basis and believes, as at the date of this Base Prospectus, that it has sufficient liquidity to prepay any financing if necessary. However, should the financial performance of the Bank deteriorate, it could breach this covenant triggering cross default and cross acceleration provisions in most of its other financing arrangements (including the Notes). This would have a material adverse affect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to a number of market risks, including interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and on its interest-earning assets and foreign currency exchange risk resulting from fluctuations in the prevailing foreign currency exchange rates.

Although the Bank believes that it has policies and procedures in place together with the appropriately trained staff to measure, monitor and manage both liquidity and market risks, maturity mismatches or any significant volatility in interest rate movements, exchange rates or commodity market prices could have an adverse effect on the Bank's financial condition or results of operations. Management of these risks also requires substantial resources. The failure to appropriately manage risk may materially and adversely affect the Bank's financial condition or results of operations. The Bank has some open currency exposure and although Kazakhstan regulations set a maximum aggregate currency exposure of 25 per cent. of regulatory capital, to the extent that these risks are not managed correctly, any losses incurred may have a material and adverse effect on the Bank's financial condition or results of operations.

The Bank may have significant liabilities under cross-currency swaps.

The Bank hedges cash flow on its foreign currency liabilities using cross-currency swaps and currently has two cross-currency swap agreements outstanding with nominal amounts of EUR 650 million and £350 million. On 23 March 2011, a third currency swap was terminated when the Bank repaid a EUR 300 million Eurobond. These cross currency swaps have also had a significant impact on the losses and gains that the Bank has experienced in derivative financial instruments as exchange rates have fluctuated. The Bank may have significant liabilities under cross-currency swaps. The Bank cannot predict the magnitude of fluctuations in exchange rates and these positions could lead to losses and a significant loss could materially and adversely affect the Bank's business, financial condition, results of operations and prospects. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition - Derivative Financial Instruments.*"

The Bank may face difficulties servicing, repaying and refinancing upcoming international debt obligations.

As at 31 December 2010 the Bank had KZT 375.2 billion of indebtedness under debt securities outstanding, and KZT 147.1 billion on loans and advances from banks and other financial institutions outstanding. The KZT 15 billion deposit of Samruk-Kazyna is maturing at the end of May 2011. The Bank's repayment obligations in 2011 total approximately U.S.$437 million, of which approximately U.S.$64 million is repayable by the end of May 2011, and the remaining obligations comprised of trade finance and bilateral loans are due in June, July and December in relatively equal instalments. In addition, the Bank has future repayment obligations of U.S.$570 million in 2012, U.S.$483 million in 2013, U.S.$390 million in 2014, U.S.$413 million in 2015, U.S.$560 million in 2016 and U.S.$808 million in 2017. As at the date of this Base Prospectus, the Bank's management believes that the Bank has sufficient liquidity to service all current indebtedness. The Bank's ability to service, repay and refinance its indebtedness will depend on its ability to generate cash in the future. This ability is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Bank's control. Although the Bank has been focussing on reducing its foreign funding exposure, if the Bank is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on its outstanding foreign obligations, it may default under the terms of its indebtedness, and the holders of the indebtedness would be able to accelerate the maturity of such indebtedness, which could cause cross defaults under, and potential acceleration of, the Bank's other indebtedness including under the Notes. As a consequence of this, the Bank may be unable to make repayments to investors investing in the Notes relating to this Base Prospectus. The Bank's inability to generate sufficient cash flow to satisfy its debt obligations as they come due could materially and adversely affect its business, financial condition, results of operations and prospects. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Financial Condition as at 31 December 2010, 2009 and 2008 – Total liabilities*" and "S*elected Statistical and Other Information – Liquidity and Interest Rate Risk*". For the maturities for the Bank's financing arrangements, please also see the notes to the Financial Statements.

Any slowdown in loan growth will likely lead to a gradual seasoning of the Bank's loan portfolio which may increase the proportion of loan defaults.

The Bank's net loan portfolio increased during 2010 by 0.65 per cent. to KZT 2.17 trillion as at 31 December 2010 from KZT 2.16 trillion as at 31 December 2009. Deterioration in the general macroeconomic situation may result in reduced lending activities of the Bank, which is likely to lead to a gradual seasoning of the Bank's loan portfolio as the concentration of older loans in the portfolio could be expected to rise. There is evidence that the likelihood of borrower default increases with loan age. Therefore, as a result of the expected gradual seasoning of its loan portfolio, the Bank is expected to experience a gradual increase in non-performing loans which could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

The Bank may face difficulties maintaining profitability due to shrinking interest margins and increased provisioning charges relating to weak and deteriorating asset quality.

Investors should be aware that shrinking interest margins and increases in provisioning charges for weak and deteriorating assets could affect the profitability of the Bank. The average net yield on loans to customers for the year ended 31 December 2010 decreased to 14.7 per cent. from 16.2 per cent. for the year ended 31 December 2009. As at 31 December 2010, net interest margin decreased to 6.2 per cent. from 7.8 per cent. in 2009. Adjusted net interest margin, which means net interest income before provision adjusted for interest accrued on certain corporate customer loans, where there are no cash flows to the Bank prior to 2013, divided by average interest bearing assets, was 3.8 per cent. for the year ended 31 December 2010. The average yield on loans to customers could decrease further, meaning that returns on loans made to borrowers could remain low. If interest rates remain low, the Bank may face difficulty in achieving high rates of return on its loan portfolio. In addition to this, the Bank could face competition from other banks who may be able to offer loans to borrowers at lower interest rates. As a consequence of this, the Bank could lose business and this in turn could be detrimental to the Bank's profitability. As at 31 December 2010, non-performing loans as a percentage of gross loans were equal to 25.4 per cent., representing an increase of 2.6 per cent. in 2010 from 22.8 per cent. in 2009. Any further deterioration in the Bank's asset quality will result in an increase in provisioning charges and write-offs, affecting the Bank's profitability and which could materially and adversely affect the Bank's business, financial condition, result of operations and prospects.

Lower than expected growth of Kazakhstan's gross domestic product could limit lending opportunities for the Bank and put increasing pressure on the ability of its existing borrowers to repay their loans.

The Government expects a 5-6 per cent. real growth in Kazakhstan's gross domestic product in 2011. Lower than expected gross domestic product growth could limit the Bank's growth in interest income which could affect the Bank's business, financial condition, results of operations and prospects.

Changes in the funding support for the Kazakhstan banking sector may lead to decreased liquidity.

The NBK and the Government have taken steps, including the provision of short term funding support, to protect the Kazakhstan banking sector from the turmoil in the financial markets as a result of the financial crisis.

Starting in the second half of 2008, the NBK adopted a number of measures aimed at providing additional liquidity to the banks. In particular, minimum reserve requirements have been changed several times. Starting from 3 March 2009, the requirements were revised to 1.5 per cent. of total liabilities with respect to most domestic liabilities and 2.5 per cent. of total liabilities with respect to other, including foreign, liabilities. Additional measures taken include the deposit of the temporary excess cash of national companies, enterprises and joint stock companies which are wholly or partially owned by the Government or controlled by the NBK into local commercial banks and the establishment of JSC Distressed Assets Fund to buy doubtful assets, in particular mortgages, of commercial banks. More recently, the Government has entered into further discussions with Kazakhstan banks to find additional solutions for dealing with distressed assets and providing funding support to the Kazakhstan banking sector.

If the NBK and the Government were to withdraw their funding support it would lead to decreased overall liquidity in the Kazakhstan banking sector. This decreased liquidity would likely result in an increase in the Bank's funding costs which would materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

Changes in the regulation of the banking industry in Kazakhstan may materially and adversely affect the Bank's business and existing regulations are not as developed as in many Western countries.

The Bank operates in a highly regulated environment; however, like most of Kazakhstan's legislation regarding business activities, Kazakhstan's laws regarding banks and banking activities have only been adopted relatively recently and are subject to change and development, which could, in certain cases, be rapid and unexpected. It is difficult to forecast how changes in banking and financial regulation may affect the Kazakhstan banking system, and no assurance can be given that the regulatory system will not change in a way that will impair the Bank's ability to provide a full range of banking and financial services or to compete effectively, thus materially and adversely affecting the Bank's financial condition or results of operations.

In addition, notwithstanding regulatory standards in Kazakhstan, investors should understand that regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the relevant regulators may differ from those applicable to banking operations in countries with more developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

In February 2007, to reduce the risks associated with rapid growth in the external debt of Kazakhstan banks, the FMSA introduced certain amendments to Kazakhstan's capital adequacy regulations. These regulations limit the total amount of foreign borrowings which a bank may incur to a multiple of such bank's regulatory capital. Although the Bank fully complies with the new regulations as of the date hereof, the Bank's access to the foreign loan and capital markets may be curtailed in the future. See "*The Banking Sector in Kazakhstan*".

The future implementation by the FMSA (and with effect from 12 April 2011, the NBK) of the recommendations of the Basel III framework may impose constraints on the Bank's business which may materially and adversely affect the Bank's business, financial condition, results of operations and prospects. See "*The Banking Sector in Kazakhstan*".

The Bank's share ownership is currently highly concentrated.

As of 31 December 2010, the Bank's three largest shareholders, referred to herein as the Significant Shareholders, held 73.7 per cent. of the Bank's outstanding Shares. Pursuant to the Share Trust Management

Agreement, the CAIC has the ability to vote with some of the Shares held by Samruk-Kazyna in order to retain the voting rights to at least 50 per cent. plus 1 Share of the outstanding Shares. As such, the Significant Shareholders are able to control or affect the composition of the Board of Directors, the outcome of any corporate transaction or other matter submitted to the Bank's shareholders for approval, including acquisitions, divestitures, financing or other transactions of the Bank, and also could prevent or cause a change in control. Further, the interests of the Significant Shareholders may conflict with the interests of the Bank's other shareholders and third parties may be discouraged from making a tender offer or bid to acquire the Bank because of this concentration of ownership. For a description of the ownership of the Bank, see "*Principal Shareholders*".

Samruk-Kazyna is a large shareholder of the Bank and its interests may differ from the interests of the Bank's other shareholders and investors.

Samruk-Kazyna has a 21.3 per cent. shareholding in the Bank, but pursuant to the relevant agreements between the Significant Shareholders of the Bank, the Bank's Principal Shareholders (CAIC, Mr. Subkhanberdin, Alnair and the EBRD) maintain control of the Bank. Pursuant to the terms of an option agreement, the Significant Shareholders have the option to acquire Samruk-Kazyna's holding and Samruk-Kazyna may, pursuant to a put option, compel the purchase of its holding by them. Samruk-Kazyna does not participate in the day-to-day management of the Bank. However, as a large shareholder, Samruk-Kazyna has the ability to influence the strategy, business plan and operations of the Bank and it has supported the Bank through various initiatives. As the Government's national management holding company, with the goal of supporting and diversifying Kazakhstan's economy, the interests of Samruk-Kazyna may differ significantly from or compete with the Bank's interests or the interests of other shareholders, and there can be no assurance that Samruk-Kazyna will continue to support the Bank or will exercise influence over the Bank in a manner that is in the best interests of the Bank, the Bank's other shareholders or the holders of the Notes.

The Bank faces significant competition, which may increase in the future.

The Bank is subject to significant competition from both domestic and foreign banks. As at 31 December 2010, there were 39 commercial banks in Kazakhstan (excluding the NBK and the DBK), of which 24 were banks with foreign participation, including subsidiaries of foreign banks. In addition, regulatory changes may make it easier for foreign banks to increase their penetration in Kazakhstan.

There are relatively few large corporate customers that do not have established banking relationships, which means that competition in the sector is intense and banks have had to find other sources of revenue, primarily in SME and retail banking.

Although foreign owned banks do not currently provide significant domestic competition, some of these institutions have significantly greater resources and cheaper funding sources than the Bank. Foreign banks also have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. In addition, regulatory changes may make it easier for foreign banks to increase their market penetration in Kazakhstan, and this may be more likely in connection with any World Trade Organisation accession by Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate and retail banking sectors in the long-term.

Concentration of the Bank's loan portfolio subjects it to risks from default by its largest borrowers and from exposure to particular sectors of the Kazakhstan economy.

The Bank intends to seek to continue to diversify its portfolio and reduce concentrations in its lending, both in terms of customers and sectors. As of 31 December 2010, the Bank's top 20 borrowers comprised 37.8 per cent. of its total gross loans to customers.

A substantial portion of the Bank's loan portfolio consists of businesses that are engaged in the construction and trade industries. The Bank monitors this credit exposure by focusing on credit quality and utilising financial and management controls. However, if these efforts fail, any resulting default or sustained adverse market developments in the industries to which the Bank is exposed may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank relies on information provided by clients and other counterparties. The lack of accurate statistical, corporate and financial information in Kazakhstan may limit the ability of the Bank to assess its credit risks accurately.

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally, or specific economic sectors within it, or corporate or financial information relating to companies or other economic enterprises, is not as comprehensive as those of many countries with established market economies. Moreover, the Bank's customers, particularly in the SME sector, may not have detailed financial information regarding their creditworthiness. Under-reporting of income by the Bank's customers in Kazakhstan, which is common, also makes it more difficult for the Bank to accurately make credit assessments. Thus, the statistical, corporate and financial information, including Financial Statements and recognised debt rating reports, available to the Bank as well as other Kazakhstan banks relating to its prospective and existing corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining any collateralisation requirements, the difficulties associated with the inability to accurately assess the post-enforcement value of collateral may reduce the accuracy of the Bank's assessments of credit risk.

The Bank, in co-operation with other Kazakhstan commercial enterprises and Experian, an international credit reference agency, established a credit reference bureau in Kazakhstan in 2004 to provide information about potential borrowers. However, the credit reference bureau is still developing and, as a result, the quality of information it provides may not be accurate or sufficient, in which case the Bank may continue to have limited information on which to base its lending decisions.

The Bank's success is reliant on its key personnel.

The Bank relies on its senior management for the implementation of its strategy and operation of its day-to-day activities. The loss of any of these individuals could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. The banking industry is relatively new in Kazakhstan and there are a limited number of experienced banking managers in the country. The Bank believes that there is also a high level of competition for the services of these individuals. While the Bank believes it has been successful in attracting skilled and motivated employees and officers, it may be at risk of losing qualified personnel in an increasingly competitive environment.

Any failure or interruption in or breach of the Bank's information systems and any failure to update such systems may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank relies heavily on information systems to conduct its business. Any failure or interruption in or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing and/or loan origination systems. Although the Bank has developed back up systems and a fully equipped disaster recovery centre, and may continue some of its operations through branches in case of emergency, if the Bank's information systems failed, even for a short period of time, it might be unable to serve some customers' needs on a timely basis and might lose their business. Likewise, a temporary shutdown of the Bank's information systems may result in the Bank incurring costs associated with information retrieval and verification. In addition, a failure to update and develop the Bank's existing information systems may result in a competitive disadvantage. No assurance can be given that such failures or interruptions will not occur or that the Bank will adequately address them if they do occur. Accordingly, the occurrence of any failures or interruptions could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Notwithstanding the foregoing, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Bank's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks.

Although the Bank invests substantial time and effort in the development, implementation and monitoring of its risk management strategies and techniques, it may nevertheless fail to adequately manage risks under certain circumstances, particularly when it is confronted with risks that it has not identified or anticipated. If circumstances arise that the Bank has not identified or anticipated in developing its statistical models, its losses could be greater than expected. If its measures to assess and mitigate risk prove insufficient, or if its models yield inaccurate results or incorrect valuations, the Bank may experience material unexpected losses. For example, assets that are not traded on public trading markets, such as derivative contracts between banks, may be assigned values using mathematical models which may be inadequate or imperfect and the values they generate may be incorrect. The deterioration of assets like these could lead to unexpected losses.

The Shareholders' Agreement and the Subscription Agreement between the Bank and the EBRD may limit and restrict the operations and business of the Bank.

The Shareholders' Agreement dated 24 June 2005 as amended on 7 December 2005 between the Bank and three of the Bank's then significant shareholders, the 2005 Shareholders, and the Subscription Agreement dated 24 June 2005 as amended on 7 December 2005 between the Bank and the EBRD may impose limitations and restrictions on the operations and business of the Bank.

The Shareholders' Agreement requires that the 2005 Shareholders shall not vote and shall procure that any of their representatives on the Bank's Board of Directors shall not vote, in favour of resolutions to, amongst other things, amend the Bank's Charter, change the policy statement of the Bank, vary, increase or decrease its authorised or issued share capital or the rights attaching to Shares, grant options, warrants or similar rights convertible into Shares of the Bank, make any distribution, payment or make a return of a capital nature to members, take steps to wind up or dissolve the Bank, make or permit any material change in the Bank's business or sell, lease, transfer, dispose of or acquire a material part of the Bank's assets, in each case without the prior approval of the EBRD. It also provides that, in case of the listing of the Bank's capital on any major stock exchange, the 2005 Shareholders shall ensure that the EBRD shall have the same rights as the 2005 Shareholders have to dispose of its Shares via such stock exchange. Following any listing of the Shares on any major stock exchange, the EBRD shall be entitled to dispose of its Shares in the Bank held at the time of such listing becoming effective and the 2005 Shareholders shall be entitled to dispose of a proportion of their Shares held at the time of such listing becoming effective equal to the proportion of the number of Shares disposed of by the EBRD.

The Subscription Agreement provides that unless the EBRD shall otherwise agree: (a) while the EBRD owns any Shares, the Bank shall not issue any shares of any class, increase its share capital, change the nominal value, or the rights attached to, any of its shares of any class or take any other action which might result in a dilution of the interest in the Bank represented by the Shares held by the EBRD; (b) the Bank shall not make changes, or permit changes to be made, to the nature of its present business or operations and the Bank shall not carry out any business or activity other than banking or financial services business, either directly or through a subsidiary; (c) the Bank shall not make changes, or permit changes to be made, to its share capital; (d) the Bank shall not make any changes, or permit changes to be made, to its Charter, unless such changes are specifically required to be made under the mandatory provisions of the laws of the Republic of Kazakhstan; and (e) the Bank shall not sell, transfer, lease or otherwise dispose of more than a specified percentage of its property or assets (whether in a single transaction or in a series of transactions, related or otherwise) and the Bank shall not undertake or permit any merger, consolidation or reorganisation.

According to the Shareholders' Agreement, any change or increase in the authorised or issued share capital of the Bank shall be subject to EBRD's prior written consent.

For a description of the Shareholders' Agreement and the Subscription Agreement, see "*Principal Shareholders – Shareholders' Agreement with the EBRD*" and "*Principal Shareholders – Subscription Agreement with the EBRD.*"

The Bank faces operational risk.

The Bank is exposed to operational risk. Operational risk is the risk of losses that may arise as a result of system inefficiencies, break-downs in internal processes, human error or the effect of any external negative factor. The Bank has extensive risk management controls in place which are overseen by the Risk Management Department and the Operational Risks Committee. However, there can be no assurance from the Bank that the Risk Management Department and the Operational Risks Committee will be able to prevent operational risks materialising, or mitigate the damage caused should such operational risks materialise. Prior to the global financial crisis there was a large expansion in the number of branch networks of the Bank, which arguably led to over reliance on these branches. The substantial increase in retail loans formed part of the Bank's rapid expansion of its overall loan book prior to the global financial crisis. Isolated cases of fraud, committed during the loan origination process, were subsequently unearthed, some of which included the knowing involvement of employees of the Bank. In certain cases, Bank employees collaborated with fraudulent customers in making false loan applications. Not only were such employees dismissed but they were also subject in most cases to prison sentences. In response to this experience of fraudulent activity, the Bank strengthened its verification procedures; however, no assurances can be given that the procedures implemented by the Bank will be successful in eliminating losses arising from fraudulent behaviour.

Any failure to deal with operational risk may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Notwithstanding the foregoing, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Bank is subject to money-laundering risks.
The existence of "black" and "grey" market economies in Kazakhstan, inconsistent legislation and the lack of administrative guidance on its interpretation increase the risk of Kazakhstan's financial institutions being used as vehicles for money-laundering.

In 2009 the Parliament of Kazakhstan adopted an anti-money-laundering law which identifies various types of transactions subject to financial monitoring and establishes thresholds for each of them, such as exchanges or withdrawals of large sums of cash, large insurance payments and major securities or real estate transactions. Banks, pension funds, insurance and reinsurance companies and certain other financial institutions and individuals are obliged to monitor any such transaction entered into by their clients by conducting diligence as outlined in the law with respect both to the clients and the transaction. In case it is not possible to conduct such diligence, the financial institution must prevent their clients from entering into such a transaction. The law requires any suspicious transaction to be reported to an authorised state body.

The Bank has implemented measures aimed at preventing it from being used as a vehicle for money-laundering, including "know your client" policies and the adoption of anti money-laundering and compliance procedures in all its branches. However, there can be no assurance that attempts to launder money through the Bank will not be made or that anti money-laundering measures implemented by the Bank will be effective. If the Bank were associated with money-laundering, albeit only through the failure of its anti money-laundering measures, or if it were unable to comply with all of the relevant laws and internal policies regarding financial assistance or money-laundering, it could be subject to significant fines as well as harm to its reputation, and its business, financial condition, results of operations and prospects may be materially and adversely affected.

RISK FACTORS RELATING TO KAZAKHSTAN

Risks associated with emerging markets generally.
The disruptions experienced in recent years in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets such as Kazakhstan may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and as such any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets. In particular, the construction and real estate markets in Kazakhstan have experienced significant volatility primarily as a result of the reduction of available financing, which has in turn increased the exposure of Kazakhstan banks to the construction and real estate markets and has made them more susceptible to macroeconomic factors. See "*—Volatility in the real estate market in Kazakhstan may materially and adversely affect the Bank's asset quality and collateral value*".

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Risks resulting from failures in the Kazakhstan's banking industry could adversely affect the Bank.
The global economy and the global financial system have experienced a period of significant turbulence and uncertainty in recent years, particularly the severe disruption of the financial markets around the world that began in August 2007 and that has substantially worsened since September 2008 with adverse consequences for many large global commercial and investment banks, insurance companies and other financial institutions. This disruption has severely impacted on general levels of liquidity and the availability of credit together with terms on which credit is available. Governments around the world, including that of Kazakhstan, have sought to inject liquidity into banking systems and to recapitalise their banking sectors to reduce the risk of systemic failure and increase confidence in the financial markets.

This market disruption has also been accompanied by a slowdown in many economies including that of Kazakhstan. The Kazakhstan banking sector has been particularly affected by the lack of availability of international wholesale debt financing and the volatility of deposits. Kazakhstan banks have previously heavily relied on such financing and deposits as a source of funding. The high dependence by Kazakh banks on capital market funding poses a significant refinancing risk for both individual banks and the banking system as a whole. Wholesale debt financing has now become significantly more expensive.

The NBK and the Government have taken steps to protect the Kazakhstan banking sector from the recent turmoil in the financial markets, including the provision of short term liquidity support, the deposit into local commercial banks of temporary excess cash of national companies, enterprises and joint stock companies which are wholly or partially owned by the State or controlled by the NBK and the establishment by the Government of a Distressed Assets Fund to buy doubtful assets of commercial banks. If the NBK and the Government were to withdraw their liquidity support it would lead to decreased overall liquidity in the Kazakhstan banking sector.

The Kazakhstan banking system remains under stress with banks seeking to deleverage through partial repayments and debt restructurings. Although BTA, Alliance and Temir Bank completed the process of being restructured, Astana Finance is in the process of being restructured. Further defaults and debt restructurings cannot be ruled out and the Bank is therefore exposed to the risk of further bank failures. This could in turn have an adverse effect on the Bank's ability to receive support from Samruk-Kazyna if needed, as the Government's resources may become strained and the Government may be required to allocate support and funds selectively.

It is not possible to predict the full impact on the Bank of the financial stability laws in Kazakhstan which were introduced in 2008.
In October 2008, the Kazakhstan Parliament adopted a financial stability law which introduced numerous amendments to the Banking Law, the JSC Law and the Securities Market Law with a view to improving the stability of the financial sector.

Under the new law, in the event of (i) a breach by a bank of capital adequacy or liquidity ratios; or (ii) two or more breaches by a bank in any twelve month period of any other prudential or other mandatory requirements, the Government may, with the agreement of the NBK, acquire, either directly or through a national management holding company, the authorised shares of any bank in Kazakhstan to the extent necessary (but not less than 10 per cent. of the total amount of issued and outstanding shares of such bank, including those to be acquired by the Government or a national management holding company) to improve such bank's financial condition and ensure compliance with prudential or other mandatory requirements. The new law provides that the management and shareholders of an affected bank do not have the right to approve any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre emptive rights to existing shareholders. Following such an acquisition, the state body appointed by the Government to manage the acquired bank or the national management holding company is authorised to appoint no more than 30 per cent. of the members of the board of directors and the management board of the affected bank.

The main objectives of the new financial system stability law are to improve early detection mechanisms for risks in the financial system, to provide powers to the Government to acquire shares in commercial banks that face financial problems and to improve the overall condition of financial institutions in Kazakhstan. The law also consolidates authority to oversee large and second Tier Kazakhstan banks and provides additional mechanisms for supervising commitments made by banks and other financial institutions.

The Kazakhstan corporate governance and disclosure laws which apply to the Bank are different from those generally applicable to corporations organised in the United States, the United Kingdom and other Jurisdictions.

The Bank's governance is subject to the laws governing companies incorporated in Kazakhstan. The corporate governance regime in Kazakhstan is less developed than that in the United States and the United Kingdom and the rights of shareholders and the responsibilities of members of the Board of Directors and the Management Board under Kazakhstan law are different from those generally applicable to corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and certain other countries is to promote the full and fair disclosure of all material corporate information to the public. Although the Bank is subject to certain disclosure requirements under Kazakhstan law, these requirements are less stringent than the comparable requirements in the United States, the United Kingdom and certain other jurisdictions and, therefore, there is less information publicly available about the Bank than would be required if the Bank were organised in the United States, the United Kingdom or certain other jurisdictions.

The Government has stated that it intends to continue to reform the corporate governance regulations with a view towards increasing disclosure and transparency in the corporate sector in order to promote growth and stability. However, the Government may not continue to pursue such a policy in the future or such policy, if continued, may not ultimately prove to be successful. It is not possible to predict the effect of future legislative developments on the Bank.

Most of the Bank's operations are conducted, and substantially all of its assets are located, in Kazakhstan. Accordingly, the Bank's financial position and its results of operations are substantially dependent on the legal, economic and political conditions prevailing in Kazakhstan.

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has undergone significant change as it has emerged from a single party political system and a centrally controlled command economy to a market oriented one. The transition was initially marked by political uncertainty and tension, a recessionary economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this Prospectus will continue or that such reforms will achieve all or any of their intended aims. Kazakhstan depends on neighbouring countries to access world markets for a number of its major exports, including oil, gas, steel, copper, ferro alloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export and has taken various steps to promote regional economic integration among neighbouring countries. In September 2003, Kazakhstan signed an agreement with Ukraine, Russia and Belarus for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to harmonise their fiscal, credit and currency policies to support further economic integration with the CIS countries and to assure continued access to export routes. However, should access to export routes be materially impaired, this could adversely affect the economy of Kazakhstan. Moreover, adverse economic factors in the markets of such member countries may adversely affect Kazakhstan's economy.

Although Kazakhstan has in the recent past enjoyed relative political stability, it could be adversely affected by political unrest in the Central Asian region. Additionally, in common with other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or by military or other action taken against sponsors of terrorism in the region.

According to figures compiled by the NSA, GDP grew in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.8 per cent. in 2002, 9.2 per cent. in 2003, 9.4 per cent. in 2004, 9.4 per cent. in 2005, 10.7 per cent. in 2006 and 8.9 per cent. in 2007. In 2008, the pace of the GDP growth decreased, such that the GDP increased by only 3.2 per cent. In 2009, GDP increased by only 1.2 per cent., in 2010 by 7 per cent. and in 2011, is expected to increase by 5 per cent.

Kazakhstan has experienced a general economic slowdown which has resulted and is likely to continue to result in higher unemployment, reduced corporate profitability, increased corporate insolvency rates, increased personal insolvency rates and increased interest rates. This in turn may reduce borrowers' ability to repay loans, cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the value of the collateral securing many of the Bank's loans and increasing writedowns, and negatively affect the ability and willingness of companies and individuals to place deposits with domestic banks, including the Bank.

Factors outside Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, S&P downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's downgraded the bank financial strength ratings of six banks. Other ratings services have also downgraded certain of Kazakhstan's banks. The rating agencies have stated that these downgrades were the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions and specifically mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan have experienced difficulty in refinancing maturing international debt and, as a result, have sought short-term funding from the NBK and substantially limited issuance of new loans. Pursuant to the terms of financial stability legislation adopted by the Government in February 2009, two of Kazakhstan's largest banks, BTA Bank and Alliance Bank, were effectively nationalised by the Government in the wake of the new fiscal stability legislation and have recently completed substantial restructuring programmes. It is not clear what impact this will have on the prospects of other participants in the Kazakhstan banking sector and their customers, including the Bank. The small and medium-sized enterprises have been particularly affected while larger companies and state-owned entities have generally continued to have access to offshore funding albeit on a more limited basis and on less favourable terms.

On 5 April 2010, Moody's changed the outlook on the sovereign rating of Kazakhstan to stable from negative, based on its analysis of evidence that the economic downturn is proving shallower than expected and that the Government will emerge relatively unscathed from Kazakhstan's serious banking crisis. However, any downgrade of Kazakhstan's sovereign rating is likely to result in a downgrade of the Bank's ratings. A downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Bank's prospects, business, financial condition and results of operations.

Exchange rate policies in Kazakhstan impose risks.

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate was limited to interventions in the domestic currency market in order to prevent exchange rate volatility caused by short term changes in supply and demand. In April 1999, the NBK and the Government publicly announced that the NBK would cease to establish fixed exchange rates for the Tenge and permit the exchange rate to float freely, and that the NBK would continue to intervene in the foreign exchange market only where necessary to support the Tenge. This decision was supported by international financial organisations such as the IMF. As a result, the Tenge depreciated from a pre announcement rate of KZT 88.00 per U.S. dollar to a rate of approximately KZT 130.00 per U.S. dollar by May 1999. For the next three years the Tenge generally continued to depreciate in nominal terms against the U.S. dollar, although from 2002 to 2008 it strengthened overall against the U.S. dollar as a result of export proceeds from oil, agricultural products and other commodities.

On 4 February 2009, the NBK devalued the Tenge by 18 per cent. to KZT 143.98 per U.S.$1.00. This devaluation was due in part to recent pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) in the international markets. Devaluation of the Tenge is also intended to enhance export competitiveness of Kazakhstan goods.

A further devaluation or depreciation of the Tenge against the U.S. dollar or other foreign currencies could negatively affect the Bank in a number of ways, including, among other things, by causing a further outflow of Tenge deposits, by increasing the actual cost to the Bank of financing its U.S. dollar based liabilities and by making it more difficult for Kazakhstan borrowers to service their U.S. dollar loans. Any of these developments may in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Kazakhstan economy is highly dependent on oil exports and, as a result, is affected by oil price volatility.

Countries in the Central Asian region, including Kazakhstan, whose economies and state budgets rely on the export of oil, oil products and other commodities as well as the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability. In addition, any fluctuations in the value of the U.S. dollar relative to other currencies may cause volatility in earnings from U.S. dollar denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which would, in turn, have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

A sharp drop in world prices for oil and other commodities would have a negative impact on the growth prospects of the Kazakhstan economy.

The national budget for 2011 projected revenues on the basis of world oil prices of U.S.$65 per barrel. Although oil prices have recovered for the time being, there can be no assurance that further revisions of the national budget will not be required in light of continuing oil price volatility.

As Kazakhstan is negatively affected by low commodity prices, particularly in respect of the oil and gas sector, and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may materially adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

There are risks associated with rising operating costs as Kazakhstan's commodity sector recovers.

As the commodity sector in Kazakhstan recovers, it is possible that operating costs will increase in line with this recovery. Operating costs, such as labour costs, leases, machinery and plant costs may all rise resulting in increased expenses for businesses operating in this sector. Rising costs will impact the profit margins of such companies and may adversely affect their ability to service loans made to them by the Bank, which in turn may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. As a cause of this, the Bank may experience a decline it its profitability which could affect its ability to meet loan repayments. This should be borne in mind by potential investors who wish to ensure a return on their investments.

Without solvent borrowers and a diversified economy, the Kazakhstan banking sector may not be able to complete its recovery from the global financial crisis.

Having been greatly affected by the global financial crisis, the Kazakhstan economy is in the process of recovery. In order for this to be fully achieved, there needs to exist solvent borrowers, as well as a diversified economy, which will stimulate economic growth. The Kazakhstan economy was one of the worst hit and only after many lengthy debt-restructurings to a number of Kazakhstan's largest banks, does it look to emerge from the crisis. Without solvent borrowers, the Bank's returns on its loans will be limited which will continue to hamper its profitability.

Uncertainty over the outcome of the implementation of further market based economic reforms may impose risks.

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company.

However, there remains a need for substantial investment in many sectors of the Kazakhstan economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the significant size of the shadow economy may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. However, there can be no assurance that these measures will be effective or that any failure to implement them may not materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

The Kazakhstan regulatory and tax regime, as well as the judicial system, are not fully developed and are therefore unpredictable.

Although a large volume of legislation has come into force since early 1995 (including a new tax code in January 2009, laws relating to foreign arbitration in 2004, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation), the legal framework in Kazakhstan is still in a relatively early stage of development compared to countries with established market economies. The judicial system, judicial officials and other government officials in Kazakhstan may not be independent of external social, economic and political forces. There have been instances of improper payments being made to public officials, administrative decisions have been inconsistent and court decisions have been difficult to predict.

Further, due to numerous ambiguities in Kazakhstan's commercial legislation, in particular in its newly adopted tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the 2009 Tax Code, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

It is also expected that tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the business, financial condition results of operations and prospects of companies operating in Kazakhstan, including the Bank.

The 2009 Tax Code was adopted at the end of 2008 and came into force as at 1 January 2009. The 2009 Tax Code provides for reduced rates for certain taxes, including the corporate income tax rate from 30 per cent. in 2008 to 20 per cent. in 2009, 2010, 2011 and 2012 (and further to 17.5 per cent. in 2013 and 15 per cent. in 2014 and subsequent years). On 13 July 2010, the Government issued Decree No. 709, which introduced export customs duty on crude oil at the rate of U.S.$20 per tonne. For 2007, the rate was set at U.S.$0 per tonne. The decree came into force on 16 August 2010. The Government has indicated that this rate may increase, perhaps significantly, in the near-to-medium term.

Under the 2009 Tax Code, the excess profit tax has also been revised. While the former excess profit tax was based on the internal rate of return of each field, the new excess profit tax is based on revenue and deductible expenses for each sector as determined in accordance with Kazakhstan tax accounting, and ranges from 0 per cent. to 60 per cent. based on the revenue-to-expense ratio of each field. The Bank's management expects that the new excess profit tax will be less onerous with respect to fields with a low revenue-to-expense ratio, but higher with respect to fields with a high revenue-to-expense ratio.

The Bank expects that there will be additional revenue raising measures which may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Bank's business and financial condition and on the results of operations of companies operating in Kazakhstan. The newly adopted tax legislation, which came into force on 1 January 2009, introduced numerous changes to the existing tax regime and it is not clear how this new legislation will be interpreted and applied.

In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. The Government has stated that it believes in continued reform of corporate governance processes and shall endeavour to improve discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business, financial condition, results of operations and prospects.

As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. Kazakhstan's tax system is still in a transitional phase and no assurance can be given that new taxes and duties or new tax rates will not be introduced during the life of the Programme. Further changes in the withholding tax regime may give the Bank the right to redeem Notes prior to their stated maturity.

There are risks associated with the underdevelopment of Kazakhstan's securities markets.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid to late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed in Kazakhstan, or as strictly enforced, as compared to the United States, the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan entities, such as the Bank, may be publicly available to investors in securities issued or guaranteed by such entities than is available to investors in entities organised in the United States, the United Kingdom or in Western Europe.

Reliability of official statistics and other data published by Kazakhstan authorities.

Official statistics and other data published by Kazakhstan authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. The Bank has not independently verified such official statistics and other data and therefore any discussion of matters relating to Kazakhstan in this Base Prospectus is subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data obtained in this Base Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Base Prospectus.

In addition, certain information contained in this Base Prospectus is based on the knowledge and research of the Bank's management using information obtained from non-official sources. The Bank has accurately reproduced such information and, so far as the Bank is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. However, this information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Base Prospectus.

Kazakhstan's president, Nursultan Nazarbayev, has been in office since 1991 and should he leave office without a smooth transfer to his successor, Kazakhstan could become unstable.

Kazakhstan's president, Nursultan Nazarbayev, is 70 years old and has been in office since Kazakhstan became an independent sovereign state in 1991. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development. President Nazarbayev was re-elected by a 95.5 per cent. majority for a new five year term in elections which took place in early April 2011. In May 2007, Kazakhstan's Parliament voted to amend Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of elections. While this amendment will allow President Nazarbayev to seek re-election at the end of his term, there is no guarantee that he will remain in office. Given that an independent Kazakhstan has not had to face a Presidential succession and that the political environment is not currently producing a clear succession process, there can be no assurance that any succession will result in a smooth transfer of office. Should President Nazarbayev fail to complete his current term of office for whatever reason or should a new president succeed him without a clear mandate, Kazakhstan's political situation and economy could become unstable and the investment climate in Kazakhstan could deteriorate, which would have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

RISKS RELATING TO AN INVESTMENT IN THE NOTES

The Notes may not be a suitable investment for all investors.
Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In Particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors.
Set out below is a description of the most common such features:

Notes subject to optional redemption by the Bank
An optional redemption feature of notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of the other investments that may be available at that time.

Index Linked Notes and Dual Currency Notes
The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier grater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified;

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield;

(viii) a direct investment in the shares, commodities or other assets underlying an index or in a fund that invests in those assets, or in the currencies comprised in a Dual Currency Note, might give rise to different, and potentially higher returns, than an investment in the Index Linked Notes or Dual Currency Notes; and

(ix) no statutory, judicial or administrative authority directly addresses the characterisation of Index Linked Notes or securities similar to Index Linked Notes for United States federal income tax purposes. As a result, significant United States federal income tax consequences of an investment in such Notes are not certain. The Bank has not requested a ruling from the United States Internal Revenue Service for any such Notes and gives no assurance that the Internal Revenue Service will agree with the statements made in this document or the applicable Final Terms relating to those Notes.

Partly-paid Notes
The Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor
Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related feature, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes
Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as a LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreased the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes
Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when

it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rate on its Notes.

Notes issued at a substantial discount or premium
The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Noteholders may be bound by the decision of other holders notwithstanding that they were not present at the meeting.
The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined percentages of Noteholders to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a contrary manner.

The Notes could be subject to taxation.
Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Bank will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

In addition, with respect to each issuance of Notes under the Programme, the Bank will make an application to the KASE for such Notes to be admitted to the official list of the KASE. Furthermore, in order for payments to be made on the Notes exempt of Kazakhstan withholding tax, it will be necessary for the Notes to be admitted to the official list of the KASE and moreover, no Notes may be issued or placed without the prior approval of the NBK. Whilst the Bank does not presently anticipate any difficulties in obtaining these approvals, there can be no assurances given that such approvals will be obtained.

The Bank may offer further issues of Notes with original issue discount.
The Bank may offer further Notes with original issue discount for United States federal income tax purposes ("OID") as part of a further issue of Notes to be consolidated with and form a single Series therewith. Purchasers of Notes after the date of consolidation of any further issue of Notes will not be able to differentiate between the Notes sold as part of the further issue and previously issued Notes. If the Bank were to issue further Notes with OID, purchasers of Notes after such a further issue of Notes may be required to accrue OID (or greater amounts of OID than they would otherwise have accrued) with respect to their Notes. These OID consequences may affect the price of outstanding Notes following a further issue. Prospective purchasers of Notes should consult their own tax advisers with respect to the implications of any future decision by the Bank to undertake a further issue of Notes with OID.

Trading in the clearing systems is subject to minimum denomination requirements.
The terms and conditions of the Notes provide that Notes will be issued with a minimum denomination of €100,000 (or its equivalent in other currencies) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

Although application may be made to list the Notes, there is no prior market for the Notes.
An active trading market in the Notes may not develop or be maintained after any listing. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The trading price of the Notes may be volatile.
In recent years stock markets have experienced significant price fluctuations. These fluctuations often were unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile. Markets for such securities are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. In the last quarter of 1997, certain markets in Southeast Asia experienced significant financial turmoil that had a ripple effect on other emerging markets. In August 1998, the government of the Russian Federation declared a moratorium on the payment of certain debt obligations of Russian entities and forced a restructuring of certain short-term domestic sovereign instruments. Although this moratorium expired in November 1998, the economic and financial situation in Russia remains uncertain and events may occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998. Any such volatility may adversely affect the liquidity of the market for, or price of, the Notes.

The Notes are subject to exchange rate risks and exchange control risks.
The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Notes are subject to interest rate risks.
Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings of the Notes may not reflect all risks.
One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments.
The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (1) Notes are lawful investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes do not limit incurrence of additional indebtedness.
The Terms and Conditions of the Notes do not restrict the ability of the Bank to incur additional indebtedness or require the Bank to maintain financial ratios or specified levels of net worth or liquidity. If the Bank incurs additional indebtedness in the future, these higher levels of indebtedness may adversely affect the Bank's creditworthiness generally and its ability to pay principal of and interest on the Notes.

There are risks in relation to modifications, waivers and substitutions.
The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions stipulate defined majorities required to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of any of the provisions of the Notes or the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders, or (iii) the substitution of another company as principal debtor under any Notes in place of the Bank, in the circumstances described in "*Terms and Conditions of the Notes – Condition 11 (Meetings of Noteholders, Modification, Waiver and Submission)*".

There are risks in relation to Notes where denominations involve integral multiples.
In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amount of Notes, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

U.S. Holders of the Notes may be required to pay U.S. federal income tax on certain amounts of interest received without the corresponding receipt of cash.

Some Series of the Notes may be issued with original issue discount for U.S. federal income tax purposes, and, therefore, a U.S. Holder would be required to include the original issue discount in gross income on a constant yield to maturity basis without the corresponding receipt of cash to which such original issue discount is attributable. See "*Taxation – United States Federal Income Taxation*".

EXCHANGE RATES AND EXCHANGE CONTROLS

EXCHANGE RATES

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate was limited to interventions in the domestic currency market in order to prevent exchange rate volatility caused by short term changes in supply and demand. In April 1999, the NBK and the Government publicly announced that the NBK would cease to establish fixed exchange rates for the Tenge and permit the exchange rate to float freely, and that the NBK would continue to intervene in the foreign exchange market only where necessary to support the Tenge. This decision was supported by international financial organisations such as the IMF. As a result, the Tenge depreciated from a pre-announcement rate of KZT 88.00 per U.S. dollar to a rate of approximately KZT 130.00 per U.S. dollar by May 1999. For the next three years the Tenge generally continued to depreciate in nominal terms against the U.S. dollar, although from 2002 to 2008 it strengthened overall against the U.S. dollar as a result of export proceeds from oil, agricultural products and other commodities. On 4 February 2009, the NBK reduced its level of support for the Tenge/U.S. dollar exchange rate from KZT 117 – KZT 123 per U.S. dollar to KZT 150 per U.S. dollar (+/-5 per cent.). This devaluation was due in part to recent pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) in the international markets and to prevent a significant decrease of Kazakhstan's gold and currency reserves. It was also intended to enhance export competitiveness. In February 2011, the NBK cancelled this exchange rate fluctuation corridor and changed to a new currency support regime. This new "managed floating exchange rate" regime generally allows the NBK to intervene when necessary to support the Tenge, without any reference to a formal fluctuation corridor or specific parameters. NBK officials believe this will help strengthen the Tenge.

The following table sets forth the period-end, average and low and high rates for Tenge, each expressed in Tenge and based on the KZT/U.S. dollar exchange rates on the KASE, as reported by the NBK:

Period ended	Period end	Average[(1)]	High	Low
31 December 2000	145.00	142.13	144.50	138.20
31 December 2001	150.60	146.73	150.20	145.00
31 December 2002	155.85	153.28	155.60	150.60
31 December 2003	143.33	149.50	155.89	143.66
31 December 2004	130.00	136.04	143.33	130.00
31 December 2005	133.77	132.88	136.12	129.83
31 December 2006	127.00	126.07	133.85	117.25
31 December 2007	120.30	122.55	127.00	118.79
31 December 2008	120.79	120.29	120.87	119.48
31 December 2009	148.46	147.57	151.40	120.79
31 January 2010	148.21	148.14	148.46	147.88
28 February 2010	147.32	147.82	148.21	147.32
31 March 2010	146.98	147.09	148.45	146.89
30 April 2010	146.43	146.69	147.07	146.41
31 May 2010	146.69	146.69	147.04	146.43
30 June 2010	147.55	147.07	147.55	146.65
31 July 2010	147.69	147.51	147.73	147.25
31 August 2010	147.33	147.31	147.78	147.12
30 September 2010	147.57	147.38	147.57	147.16
31 October 2010	147.51	147.56	147.79	147.44
30 November 2010	147.58	147.50	147.69	147.28
31 December 2010	147.50	147.40	147.68	147.13
31 January 2011	146.87	147.08	147.50	146.78
28 February 2011	146.02	146.40	146.96	146.00
31 March 2011	145.70	145.72	146.07	145.55

(1) The average rate reported by the NBK on each day during the relevant period.

The daily average KZT/U.S. dollar exchange rate on the KASE, as reported by the NBK, on 21 April 2011 was KZT 145.31 per U.S.$1.00.

The above rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Base Prospectus. The inclusion of these exchange rates is not intended to suggest that the Tenge amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all.

EXCHANGE CONTROLS

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain outflowing and inflowing capital account operations require notification to, or registration with, the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

Following the influx of U.S. dollars into Kazakhstan due to, among other things, rising oil prices, a number of steps aimed at liberalising the currency control regime were undertaken in Kazakhstan from 2002 to 2004. The Law on Currency Regulation and Currency Control and supporting regulations came into effect at the end of 2005, representing a significant milestone towards achieving the liberalisation of currency operations, extension of export of capital and elimination of double control in Kazakhstan. Among other things, the new currency control rules substantially expanded the classes of Kazakhstan investors that can invest abroad and eased the requirements for international financing in Kazakhstan.

Since 1 January 2007, when certain provisions of the Law on Currency Regulation and Currency Control came into effect, it has become unnecessary to obtain an NBK licence for any foreign currency transactions, including the opening by Kazakhstan residents of accounts with foreign banks. Further, since 1 January 2007, most foreign currency transactions only require notification to the NBK, or are not subject to currency control at all. Only financial loans (with a non-bank local counterparty), direct investments and certain other capital account operations require registration with the NBK. With respect to most of their offshore operations, Kazakhstan banks are only obliged to notify the NBK as to the existence of such operations.

USE OF PROCEEDS

The Issuer will use the net proceeds it receives from each issue of Notes to redeem indebtedness of the Group and/or for general banking purposes.

CAPITALISATION

The following table sets forth the consolidated capitalisation of the Bank as at 31 December 2010. This information is unaudited and should be read in conjunction with "Use of Proceeds", "Selected Consolidated Financial Data", "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Financial Statements, and the related notes thereto, included elsewhere in this Base Prospectus.

	As at 31 December 2010	
	(U.S.$ thousands)[1]	(KZT millions)
Long term debt:		
Senior long term debt[2]	5,139,892	758,134
Subordinated long term debt[3]	914,339	134,865
Total long term debt	6,054,231	892,999
Equity:		
Issued and outstanding share capital	61,227	9,031
Share premium reserve	1,322,197	195,024
Property and equipment revaluation reserve	37,342	5,508
Other reserves	1,377,010	203,109
Total equity attributable to equity holders of the parent	2,797,776	412,672
Total capitalisation	8,852,007	1,305,671

(1) See "*Selected Consolidated Financial Data*" for information as to the U.S. dollar/KZT exchange rate used to calculate the U.S. dollar amounts.

(2) Senior long term debt represents liabilities that fall due after more than one year and are not subordinated (excluding financial liabilities at fair value through profit or loss, accrued interest and other financial liabilities).

(3) Subordinated long term debt is the portion of subordinated debt which falls due after more than one year. This amount includes KZT 32.9 billion of 10-year notes issued in 2005 to 2009 (the Bank's fourth to eighth issuances) placed in the domestic market; and also 10-year notes for the total amount of U.S.$450 million placed domestically; perpetual subordinated notes in the principal amount of U.S.$100 million, a subordinated 10-year loan from Citigroup maturing in 2014 in the amount of U.S.$100 million and U.S.$45.4 million of liabilities in relation to preference shares.

On 2 July 2010, Samruk-Kazyna provided KZT 24 billion to the Bank to refinance certain real estate construction projects in Astana and on 3 August 2010, the Bank issued subordinated bonds in the principal amount of KZT 2,329 million under its domestic bond programme.

Except as disclosed above, there has been no material change in the Bank's capitalisation since 31 December 2010.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as at and for the three years ended 31 December 2010, 2009 and 2008 has been derived from and should be read in conjunction with the Bank's Financial Statements, including the notes thereto, contained elsewhere in this Base Prospectus.

Due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts in 2010, balances relating to the consolidated statements of comprehensive income for the years ended 31 December 2009 and 2008 have been restated in order to be comparable to the year ended 31 December 2010. In addition, the presentation of the consolidated cash flows of the Group has been restated for the years ended 31 December 2009 and 2008. These restatements were made because currency risk sensitivity analysis of the Group had included a clerical error when presented in the consolidated financial statements for each of the years ended 31 December 2009 and 2008. There was also a revision of the Group's accounting policy in relation to cash and cash equivalents to make the disclosure more comparable with that of other Kazakhstan banks. The change in accounting policy, involving a reclassification of due from banks to cash and cash equivalents (where the maturity is less than three months) has been applied retrospectively to the earliest reported period. Full details of these changes and the effect thereof on the Group's consolidated cash flows for the years ended 31 December 2009 and 2008 are set out in Notes 4 and 15 of the Financial Statements. Deloitte, LLP, the auditors of the Group, have issued an unqualified audit opinion in respect of the Financial Statements for each of the three years ended 31 December 2010, 2009 and 2008, which included an emphasis of matters in relation to the restatements described in this paragraph.

Solely for the convenience of the reader, the Bank has translated the selected income statement information for the year ended 31 December 2010 into U.S. dollars at the rate of U.S.$1.00 = KZT 147.35 and statement of financial position information as at 31 December 2010 into U.S. dollars at the rate of U.S.$1.00 = KZT 147.50. This is not consistent with the methodology that would be required for a convenience translation for a document that would be filed with the US Securities and Exchange Commission, which would require the rate at the reporting date to be applied to all convenience translations.

Prospective investors should read the following summary selected consolidated financial data and other information in conjunction with the information contained in "Risk Factors", "Capitalisation of the Bank,", "Management's Discussion and Analysis of Results of Operations and Financial Condition", "Selected Statistical and Other Information"and the Bank's Financial Statements, including the related notes thereto, and the other financial data appearing elsewhere in this Base Prospectus.

	For the year ended 31 December		
	2010	2009 Restated[1]	2008 Restated[1]
		(KZT millions except per share data)	
Consolidated Income Statement:			
Interest income	291,515	372,460	380,043
Interest expense	(152,091)	(178,846)	(181,212)
Net interest income before provision for impairment losses on interest-bearing assets	139,424	193,614	198,831
Provisions for impairment losses on interest-bearing assets	(95,555)	(192,406)	(148,780)
Net interest income	43,869	1,208	50,051
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(5,947)	24,524	(27,515)
Net gain/(loss) on foreign exchange and precious metals operations	2,562	(14,965)	6,028
Fee and commission income	20,974	20,731	21,448
Fee and commission expense	(3,779)	(3,540)	(4,302)
Net realised gain/(loss) on investments available-for-sale	69	(1,026)	(2,490)
Dividends received	181	186	176
Other income	6,530	34,427	9,294
Net non-interest income	20,590	60,337	2,639
Operating income	64,459	61,545	52,690
Operating expenses	(35,833)	(30,148)	(32,477)
Profit before other operating provisions and results of associates	28,626	31,397	20,213
Provision for impairment losses on other transactions	(3,679)	(2,511)	(1,096)
Recovery of provision for guarantees and other contingencies	3,261	600	856
Gain from sale of associates and share of results of associates	–	4,372	(3,585)
Operating profit before income tax	28,208	33,858	16,388
Income tax (expense)/benefit	(7,419)	(13,101)	8,298
Net profit from continuing operations	21,988	19,023	20,164
Attributable to:			
Ordinary shareholders of the Parent	19,494	17,152	18,406
Preference shareholders of the Parent	2,385	2,271	3,399
Non-controlling interest	109	(400)	(1,641)
Earnings per share			
Basic and diluted (KZT)	25.04	24.27	32.01

(1) The prior year balances have been restated to be comparable to the current year due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts in 2010.

	As at 31 December		
	2010	2009	2008
		(KZT millions)	
Consolidated Statement of Financial Position:			
Assets:			
Cash and balances with the national (central) banks	61,216	90,533	90,478
Precious metals	1,345	1,209	317
Financial assets at fair value through profit or loss	223,231	114,203	58,130
Loans and advances to banks and other financial institutions	146,331	148,375	241,813
Loans to customers	2,174,760	2,160,767	2,144,782
Investments available-for-sale	16,822	16,696	15,056
Investments held-to-maturity	1,996	943	776
Investments in associates	–	–	1,775
Goodwill	2,405	2,405	2,405
Property, equipment and intangible assets	31,857	33,971	35,465
Other assets	28,145	18,771	23,808
Total assets	2,688,108	2,587,873	2,614,805
Liabilities and Equity:			
Loans and advances from banks and other financial institutions	147,139	209,122	296,391
Customer accounts	1,506,800	1,276,464	979,453
Financial liabilities at fair value through profit or loss	36,047	35,991	54,339
Debt securities issued	375,199	463,656	678,285
Other borrowed funds	23,943	31,172	137,324
Provisions	10,190	11,945	10,276
Deferred income tax liabilities	30,035	24,519	10,205
Dividends payable	4	15	5
Other liabilities	7,868	8,990	16,941
Subordinated debt	137,137	136,411	117,724
Total liabilities	2,274,362	2,198,285	2,300,943
Total Equity:			
Equity attributable to equity holders of the Parent	412,672	389,811	313,584
Non-controlling interest	1,074	(223)	278
Total liabilities and equity	2,688,108	2,587,873	2,614,805
Equity attributable to equity holding of the Parent:			
Issued and outstanding share capital	9,031	9,031	6,990
Share premium reserve	195,024	195,006	152,684
Property and equipment revaluation reserve	5,508	4,935	6,918
Other reserves	203,109	180,839	146,992
Total Equity	413,746	389,588	313,862

	As at or for the year ended 31 December		
	2010	2009	2008
	(%)	(%) (unaudited)	(%)
Combined Key Ratios:			
Return on average shareholders' equity[(1)]	5.5	5.3	6.0
Return on average assets[(1)]	0.8	0.7	0.7
Operating expenses/operating income before provisions for impairment losses	22.4	11.9	16.1
Operating expenses/operating income after provisions for impairment losses	55.6	49.0	61.6
Profitability Ratios:			
Net interest margin	3.8[(2)]	7.8	7.9
Net interest income after provisions for impairment losses/average interest-bearing assets[(1)(6)]	2.0	0.0	2.0
Operating expenses/net interest income before provisions for impairment losses	25.7	15.6	16.3
Operating expenses/average total assets[(1)]	1.3	1.0	1.1
Statement of financial position Ratios:			
Total net loans to customers/total assets	80.9	83.5	82.0
Customer accounts/total assets	56.1	49.3	37.5
Total equity/total assets	15.4	15.1	12.0
Liquid assets/customer accounts[(3)]	24.9	21.5	32.7
Liquid assets/liabilities of up to one month[(3)(7)]	64.4	66.4	67.1
Capital Adequacy Ratios:[(4)]			
Total capital	20.1	20.1	17.7
Tier I Capital	16.2	15.9	13.5
Credit Quality Ratios:[(5)]			
Non performing loans/total gross loans[(6)]	25.40	22.8	8.1
Non performing loans/total gross loans[(6)] and guarantees	24.80	25.2	8.8
Allowances for impairment losses/non performing loans	82.06	71.8	128.4
Allowances for impairment losses/total gross loans	20.84	19.0	11.9

(1) Averages are based upon average daily balances for the Bank and its banking subsidiaries and upon average quarterly balances for other subsidiaries.

(2) Adjusted net interest margin. Adjusted net interest margin means net interest income before provision, adjusted for interest accrued on certain corporate customer loans where there are no cash flows to the Bank prior to 2013, divided by average interest bearing assets. Net interest margin, which for the year ended 31 December 2010 was 6.2 per cent. means net interest income before provision for impairment losses divided by average interest bearing assets.

(3) Liquid assets include cash and balances with the national (central) banks, loans and advances to banks (with maturities of less than one month), precious metals, financial assets at fair value through profit or loss (net of derivative financial instruments), loans and investments available-for-sale.

(4) Year end numbers are calculated in accordance with the Basel Accord. As at 31 December 2010, the Bank's Tier I and total capital adequacy ratios calculated in accordance with FMSA Regulations were 12.3 per cent. and 15.0 per cent. respectively.

(5) For the definition of non-performing loans used by the Bank, see "*Selected Statistical and Other Information—Non performing Loans*."

(6) Total gross loans less loans under reverse repurchase agreements.

(7) Liabilities of up to one month includes provisions.

THE BANK

The Bank is the largest bank in Kazakhstan on the basis of total assets and total deposits and second largest on the basis of retail deposits (calculated by the Bank on the basis of FMSA data as at 1 January 2011). The Bank provides a full range of corporate, SME and retail banking services through a network of 23 full service branches (offering both corporate and retail services) and 130 limited service branches in 45 cities throughout Kazakhstan as at 1 January 2011. In addition, the Bank has well developed alternative distribution channels including 1,251 ATMs (including 231 new ones installed since 31 December 2009 and 191 which are cash-in ATMs), 12,415 point-of-sale terminals and telephone banking and internet banking. Through its subsidiaries the Bank also provides insurance, brokerage, asset management and pension fund management services in Kazakhstan and corporate, SME and retail banking services in Russia, Tajikistan and Kyrgyzstan. The Bank has been given a senior unsecured debt rating of "B-" by Fitch, a foreign currency senior unsecured debt rating of "B2" by Moody's and a senior unsecured debt rating of "B" by S&P. For the details of all of the Bank's credit ratings, see "– *Credit Ratings*".

As at 31 December 2010, the Bank was a market leader in lending to corporate clients in Kazakhstan with a 30.3 per cent. market share (calculated by the Bank on the basis of FMSA data as at 31 December 2010). The Bank provides various services to its corporate and SME clients, including trade and structured finance products, project finance services, transactional services, internet banking and asset management services, as well as short term credit facilities and other general banking services.

The Bank offers its retail customers a comprehensive range of products including deposit and current accounts, residential mortgages, consumer loans, internet banking and debit and credit cards. The Bank is a market leader in terms of point-of-sale terminals with a 47.9 per cent. share, and one of the market leaders in terms of the number of ATMs with a 16.4 per cent. share (according to NBK data).

The Bank has a well-established treasury department. The main objective of the Bank's treasury operations is to efficiently manage liquidity, interest rate and market risks by managing its foreign currency exposure and funding costs in the foreign exchange markets. The Bank's treasury operations largely comprise spot transactions in Tenge and other currencies, transactions in government securities and the utilisation of currency derivatives for hedging purposes.

Brokerage and investment banking services are undertaken by the Bank through its subsidiary JSC Kazkommerts Securities. The Bank is authorised to engage in other activities, including the sale, purchase and safekeeping of precious metals (including gold and silver). Since 2001 the Bank has offered asset management services as well as insurance and pension products to its corporate and retail clients.

HISTORY

The Bank was established in 1990 as JSC Medeu Bank by a group of local businessmen and community organisations in the period of economic liberalisation which preceded the end of the Soviet Union. The current Chairman of the Bank's Board of Directors, Nurzhan Subkhanberdin, was hired as a manager in 1990. By 1991 Mr. Subkhanberdin had organised a new management team and JSC Medeu Bank's name was changed to JSC Kazkommertsbank. During the next few years the Bank's shareholders acquired a number of small banks and transferred their customers to the Bank. Subsequently management decided that organic growth was preferable to growth by acquisitions.

In 1997, the Bank was the first bank in Kazakhstan to conduct an initial public offering including the offering of global depositary receipts. This offering doubled the Bank's capital base. Following the offering the Bank received its first rating from an international credit rating agency and became the second largest bank in terms of assets and capitalisation in Kazakhstan (calculated by the Bank on the basis of FMSA data). The Bank received its first international syndicated loan in 1997 and its first Eurobond issue was in 1998. In 1999, the Bank was the first CIS bank to receive two international syndicated loans after the Russian financial crisis. In 2002, the Bank started a substantial upgrade of its information technology systems and took management control of LLP Moskommertsbank. In the same year, the Bank's Kyrgyzstan subsidiary received a banking licence. In 2003, the EBRD purchased 15 per cent. of the outstanding Shares of the Bank. In October 2005, the Bank acquired 100 per cent. of JSC OCOPAIM Grantum Asset Management and 80 per cent. of JSC Grantum Pension Fund. In November 2005, it became the first bank in the CIS to issue Tier I hybrid capital.

In the second half of 2006 the Bank was the first financial institution in Kazakhstan to conduct an initial public offering of its Shares to institutional investors in the United States and elsewhere through the listing of its GDRs on the London Stock Exchange. A domestic placement of 103.5 million Shares was completed on 9 January 2007. The domestic placement was the second stage of the public offer. As part of the first stage, several shareholders of the Bank sold 91,495,412 Shares in the form of GDRs and used the proceeds of such sale to subscribe for new Shares in the domestic placement. The proceeds received by CAIC, Mr. Nurzhan Subkhanberdin and the EBRD exceeded U.S.$845 million.

As at 31 December 2010 Alnair held 223,922,790 Shares in the form of GDRs (held through the Bank of New York Mellon as depositary). Alnair acquired an initial 25.2 per cent. shareholding in the Bank in 2008. This shareholding constitutes 28.8 per cent. of the outstanding Shares of the Bank as at 31 December 2010. Alnair is a Kazakhstan joint stock company owned by a private investment fund established by Abu Dhabi's Sheikh Takhnun bin Zaid Al Nahayan.

As at 31 December 2010 Samruk-Kazyna held 21.3 per cent. of the Bank's Shares, acquired on completion of the Rights Offering in April 2009. This investment was made as part of the ongoing implementation of an initiative by the Government to strengthen the capital of the Bank as part of a broader plan to stabilise the Kazakhstan financial system. In order to facilitate this acquisition the Bank undertook the Rights Offering.

The Bank has banking licence no. 48 and is registered with the Ministry of Justice under no. 4905-1900-AO. The registered office of the Bank is 135 zh, Gagarin Ave., Almaty 050060, Kazakhstan and its telephone number is +7 727 258 51 25.

KEY STRENGTHS

The financial crisis has profoundly affected the financial services industry in Kazakhstan, reshaping the competitive landscape and bringing about new challenges for all firms. The Bank believes that it is uniquely positioned to capitalise on new opportunities given its ability to optimise costs and generate and maintain revenues. The Bank believes it has the following strengths that will enable it to maintain its position as one of the leading financial institutions in Kazakhstan:

- *An adaptable and flexible business structure.* The Bank has adopted an organisational structure that promotes both adaptability and flexibility to changing market conditions.

- *Continued improvements in corporate governance.* The corporate governance of the Bank has been improved over the past few years as the Bank has sought to implement international corporate governance standards. To that end, three out of the seven members of the Board of Directors are independent directors and three committees (the Audit Committee, the Risk Management Committee and the Nomination and Remuneration Committee) have been introduced and all are headed by independent directors.

- *An experienced management team with a proven track record.* The Bank's management has substantial experience in the Kazakhstan banking industry. Management is focused on introducing and maintaining a Western-style culture with an emphasis on setting and meeting strategic objectives. The Bank's management believes it has demonstrated in the past its ability to deliver on its strategic objectives. The Bank has benefited, and continues to benefit, from its ability to retain its key employees during the global financial crisis. The Bank was not only able to retain its key employees, but was also able to attract a number of highly qualified professionals in the industry.

- *Continued technology and product development.* Throughout the global financial crisis, the Bank has continued to invest in its IT systems and did not cease to make improvements in its risk management systems. Continuous investment in new businesses and products has allowed the Bank to produce new and innovative products in such areas as cash management for corporate customers and online banking. Furthermore, the Bank has been an innovator of unique services, such as bespoke services for high net worth customers.

- *Broad funding sources.* The Bank has shown its ability to tap new sources of funding to meet its repayment obligations. The Bank has participated in various Government programmes, which has allowed the Bank to diversify its funding sources.

- *Strong corporate relationships*. In the past, strong corporate relationships were integral to the Bank's financial success. The global financial crisis tested and ultimately strengthened these relationships due to the support given by the Bank to its clients.

- *An extensive branch network*. The Bank benefits from an extensive retail and branch network. Apart from certain optimisations in the branch network, the Bank chose not to aggressively scale back its geographical presence in Kazakhstan. The Bank also maintains a presence in Russia, Kyrgyzstan and Tajikistan.

- *Strong market share in corporate and retail*. The reputation of the Bank to deliver integrated solutions for corporate customers is key to maintaining its leading role in the corporate banking sector. The Bank has developed and maintained a strong retail brand that has allowed the firm to maintain its market share.

- *An established customer service network*. The Bank has an extensive customer service network. It has a wide presence of branches and the Bank boasts one of the largest ATM networks in the country. It also has a strong internal Bank platform.

STRATEGY

The Bank's current strategy is to remain a universal bank with an active presence in all sectors of Kazakhstan's financial market, focusing in particular, on asset quality, liquidity management, and lending to the growth sectors of the economy, SME and retail, while maintaining its operating efficiency.

Corporate banking

As at 31 December 2010, the Bank was the market leader in Kazakhstan in lending to corporate clients with a market share of 30.3 per cent. (calculated by the Bank on the basis of FMSA data). The Bank intends to implement the following strategies in this segment:

- *Focusing on asset quality including maximising its recovery of non-performing loans*. The Bank continues to concentrate its efforts to reduce the negative impact of macroeconomic conditions on the quality of its loan portfolio. The Bank is working closely with its corporate clients to prioritise their financing needs and to assist in mergers, acquisitions, asset disposals and asset recoveries.

- *Lending to corporate sectors that have potential for growth*. The Bank plans to take advantage of lending opportunities in corporate sectors that have potential for growth, including oil and gas infrastructure, certain wholesale and retail sectors, infrastructure and construction.

- *Maintaining its relationships with corporate clients, particularly in deposits and diversifying its corporate deposit base*. The Bank has been able to develop strong relationships with large corporate clients due to its extensive experience and well-developed corporate client relationship management system. The Bank benefits from deposits placed and kept with it by both large corporate clients including state-owned companies. The Bank's goal is to maintain strong relationships with corporate clients and maintain its corporate deposit base while seeking to further diversify this deposit base.

- *Participating in Government stabilisation programmes*. The Bank has and plans to continue to actively participate in different Government programmes instituted to support the Kazakhstan economy, including residential construction and SME. As at 31 December 2010, the total amount of funds received by the Bank under the Government stabilisation programmes amounted to KZT 154.6 billion (KZT 24.0 billion for the refinancing of mortgages, KZT 37.5 billion for crediting the real economy sector, KZT 73.2 billion to complete construction projects, KZT 3.6 billion for the refinancing of large-scale businesses in the manufacturing sector and KZT 16.3 billion for the financing and refinancing of SME clients). In 2010 the Bank repaid KZT 66.0 billion out of the deposits received under Government stabilisation programmes, of which KZT 46.5 billion were prepaid before maturity. The Bank expects to receive further funds throughout the remainder of 2011.

- *Focusing on cross sales and sales of non-credit banking products to corporate borrowers*. The Bank will seek to provide its corporate borrowers with a wide range of non-credit products, as well as non-banking products including insurance. The Bank has established a special division to offer these products.

SME banking

The Bank's SME banking strategy includes:

- *Maintaining and gradually increasing its SME loan portfolio with a specific focus on asset quality when granting SME loans and actively participating in Government programmes supporting SMEs.* The total outstanding funds received from the DAMU to refinance SME clients was KZT 16.3 billion as at 31 December 2010. The Bank's aim is to modify its existing lending products to improve lending terms and procedures.

- *Strengthening its relationship with SME clients and cross-selling non-credit banking products to SME clients.* The Bank will concentrate its efforts on providing tailor-made solutions for SME clients. The Bank will take advantage of existing cross-selling opportunities in offering non-credit banking products to SME clients, including, but not limited to, payroll accounts, transactional services, internet banking, banking cards and insurance products.

- *Optimising its internal procedures in SME banking to improve its credit processes.* The Bank will revise its SME lending policies and procedures to make lending more efficient, subject to compliance with risk management requirements.

Retail banking

The Bank's retail banking strategy includes:

- *Maintaining the efficiency of the branch network for sustainable and profitable growth.* During 2009–2010 the Bank finalised the optimisation of its branch network by locating outlets in areas of high business activity and/or population, and closing less profitable branches. The Bank believes that the existing branch network is sufficient to enable quick and easy access for customers in all cities of Kazakhstan. The Bank therefore does not expect further substantial changes in the number of branches.

- *Developing alternative distribution channels*. The Bank intends to continue to exploit its leadership in information technology systems to maintain and increase its retail client base. It will seek further to develop its automated distribution channels, including its ATM network, internet banking and telephone banking. The Bank will seek to provide a wide range of products, such as payment services, deposits and foreign currency exchange through these alternative distribution channels.

- *Maintaining and seeking opportunities to increase its existing retail deposit base.* The Bank will continue its efforts to maintain and increase its retail deposit base. The Bank will look for a possible reduction in the cost of its retail deposits in line with general market trends.

- *Gradually increasing retail loans*. The Bank's efforts will be focused on preventing further contraction of its retail loan book, and the Bank plans to gradually increase its retail loan portfolio by offering unsecured personal loans, mortgages and other products. Loans are offered to employees of corporate clients, which have payroll agreements with the Bank as well as to retail customers with an above-average income. The Bank applies stringent requirements to ensure appropriate levels of portfolio quality.

- *Focusing on increasing fee income*. The Bank will continue to take advantage of its diverse and advanced distribution channels (outlets, internet, POS, ATMs, call-center, etc.) to offer the full range of products. Debit and credit cards will continue to make the biggest contribution to the growth of fee and commission income.

- *Optimising business processes related to retail banking*. The Bank will focus on optimising business processes through the automation of processes (by using WorkFlow software), the introduction of queue control systems and by training and improving the quality of its personnel. The Bank believes that these initiatives will enable the Bank to improve the speed and quality of the services it offers to its retail clients.

SUBSIDIARIES

The following table sets forth certain information as at and for the year ended 31 December 2010, regarding the Bank's principal subsidiaries, affiliates and entities over which it exercises management control.

Name	Shareholders' equity	Net income
	(KZT millions, unaudited)	
Domestic		
JSC OCOPAIM Grantum Asset Management	1,378	729
JSC Grantum APF	5,629	606
JSC Insurance Company Kazkommerts-Policy	8,606	1,191
JSC Life Insurance Company Kazkommerts Life	1,031	236
JSC Kazkommerts Securities	1,565	161
LLP Processing Company	(0.4)	(1)
Foreign		
LLP Commerical bank Moskommertsbank	17,493	726
CJSC Kazkommertsbank Tajikistan	1,531	49
OJSC Kazkommerts Kyrgyzstan	2,070	21
Finance Subsidiaries[(1)]		
Kazkommerts International B.V.	3,229	112
Kazkommerts Capital II B.V.	196	2.8
Kazkommerts Finance II B.V.	672	56

(1) Special purpose vehicles.

Except as described below, all the entities listed above are wholly owned by the Bank.

Domestic

The Bank's principal domestic subsidiaries and affiliates are:

- *JSC OCOPAIM Grantum Asset Management*. JSC OCOPAIM Grantum Asset Management is a wholly owned subsidiary of the Bank. As at 31 December 2010, it held 6.6 per cent. of all pension fund assets in Kazakhstan (calculated by the Bank on the basis of FMSA data). JSC OCOPAIM Grantum Asset Management is licensed to carry out pension fund investment management, portfolio investment management and broker dealer activities.

- *JSC Grantum APF*. The Bank purchased an 80.01 per cent. stake in JSC Grantum APF from ABN AMRO in 2005 for U.S.$13.3 million. In May 2010, it increased its stake to 82.5 per cent. JSC Grantum APF's primary business is the management of pension fund assets. As at 31 December 2010, it held 6.6 per cent. of all pension fund assets in Kazakhstan (calculated by the Bank on the basis of FMSA data).

- *JSC Insurance Company Kazkommerts-Policy*. JSC SK Kazkommerts-Policy was a wholly owned subsidiary of the Bank from 1999 until 2003 when the EBRD purchased a 35 per cent. interest. In May 2008, the Bank exercised its option to repurchase the EBRD 35 per cent. interest and once again became the sole shareholder. As of 31 December 2010, JSC SK Kazkommerts-Policy was one of the leading non-life insurance companies in Kazakhstan with a market share, on the basis of gross written premiums, of approximately 10.8 per cent. of the Kazakhstan non-life insurance market (according to the FMSA). JSC SK Kazkommerts-Policy primarily underwrites property and casualty insurance policies for retail and commercial clients and provides valuable cross-selling opportunities for the Bank.

- *JSC Life Insurance Company Kazkommerts Life*. In September 2006, the Bank acquired 100 per cent. of the outstanding shares of its life insurance subsidiary, JSC Kazkommerts Life Insurance Company for KZT 800 million. On 15 December 2009, the Bank made a further capital contribution of KZT 69 million in order to maintain the financial stability of this subsidiary. As at 31 December 2010 JSC Kazkommerts Life Insurance Company had a market share, on the basis of gross written premiums, of 15.4 per cent. of the Kazakhstan life insurance market (according to the FMSA).

- *JSC Kazkommerts Securities*. JSC Kazkommerts Securities is a wholly owned subsidiary of the Bank. It was established to provide investment services to both foreign and domestic clients and to participate in privatisation projects. JSC Kazkommerts Securities is engaged in investment banking and brokerage operations and is one of the major underwriters of corporate domestic bonds in Kazakhstan. As at 31 December 2010 JSC Kazkommerts Securities had U.S.$14.3 million in assets. It is also the Kazakhstan Dealer in respect of the Notes.

- *LLP Processing Company*. In 2004, the Bank acquired 100 per cent. of LLP Processing Company, which clears and settles payment card transactions.

Foreign

The Bank's principal foreign subsidiaries and entities over which it exercises managerial control are described below:

- *LLP Commercial Bank "Moskommertsbank"*. LLP Commercial Bank "Moscommertsbank" has been a strategic partner of the Bank since 2001 and in May 2008 became a wholly owned subsidiary of the Bank. LLP Commercial Bank "Moskommertsbank" is a universal bank focusing on SME, retail and private banking. It has eight full service branches and three limited service branches in major Russian cities. The total assets of LLP Commercial Bank "Moskommertsbank" as at 31 December 2010 were U.S.$926.5 million, or 5.0 per cent. of the Bank's total assets.

- *OJSC Kazkommertsbank Kyrgyzstan*. OJSC Kazkommertsbank Kyrgyzstan is a commercial bank headquartered in Bishkek with two further branches in Dzhalal-Abad and Osh. The Bank purchased a 72.4 per cent. stake in OJSC Kazkommertsbank Kyrgyzstan in 2002 for KZT 244 million and subsequently increased its shareholding to 95.75 per cent. OJSC Kazkommertsbank Kyrgyzstan offers both retail and corporate banking services. OJSC Kazkommertsbank Kyrgyzstan initially focused on servicing the Bank's existing clients conducting business in Kyrgyzstan and in 2006 refocused its efforts on servicing the domestic retail and SME markets. The total assets of "OJSC Kazkommertsbank Kyrgyzstan" as at 31 December 2010 were U.S.$34.7 million, or 0.2 per cent. of the Bank's total assets.

- *CJSC Kazkommertsbank Tajikistan*. CJSC Kazkommertsbank Tajikistan was established in December 2007. It is a commercial bank headquartered in Dushanbe and is a wholly owned subsidiary of the Bank with chartered capital of U.S.$10 million. In January 2008 CJSC Kazkommertsbank Tajikistan was issued licenses for banking in national and foreign currencies by the National Bank of Tajikistan. CJSC Kazkommertsbank Tajikistan allows the Bank to service its clients needs in Tajikistan. The total assets of "CJSC Kazkommertsbank Tajikistan" as at 31 December 2010 were U.S.$17.2 million, or 0.1 per cent. of the Bank's total assets.

Finance subsidiaries

The Bank's finance subsidiaries are:

- *Kazkommerts International B.V.* Kazkommerts International B.V. is a wholly owned finance subsidiary of the Bank which has raised approximately U.S.$5 billion in the domestic and international capital markets since 2003. It had no outstanding debt as at 31 December 2010 given that the Bank was substituted as the Issuer in February 2010.

- *Kazkommerts Finance II B.V.* Kazkommerts Finance II B.V. is a wholly owned finance subsidiary of the Bank which is used to raise capital in the international capital markets. Its total outstanding debt as at 31 December 2010 was U.S.$100 million.

- *Kazkommerts Capital II B.V.* Kazkommerts Capital II B.V. is a wholly owned finance subsidiary of the Bank, which is used to raise capital in the international capitals markets. It had no outstanding debt as at 31 December 2010.

BANKING SERVICES

Corporate banking

The Bank has been servicing corporate clients for almost 20 years and believes that its continuous focus on quality of service has made it the bank of choice for large corporate clients in Kazakhstan.

The principal products and services the Bank offers to corporate clients include short and medium-term credit facilities and project finance denominated both in Tenge and other currencies (predominantly U.S. dollars and euro) as well as transactional services including trade finance, structured finance and cash management.

Trade finance products include letters of credit, guarantees and advance payment facilities. The Bank also enters into trade finance transactions which are not self-liquidating and which are effectively structured as back-to-back bilateral loan agreements. Under this kind of arrangement, the Bank obtains a bilateral loan from a foreign financial institution and on-lends the proceeds as lender under its own loan agreement to a Kazakhstan borrower in order to facilitate a trade finance transaction. Under the second loan, the Bank assumes the credit risk and therefore, if the Kazakhstan borrower defaults the Bank remains liable under its loan with the foreign financial institution.

As at 31 December 2010, corporate loans accounted for 89.3 per cent. of the Group's loan portfolio. Due to the economic downturn in Kazakhstan as a result of the global financial crisis, the Bank has aimed to actively utilise funds provided by the Government's stabilisation programmes in its lending activities.

Loans to trade, residential, commercial construction and the real estate sectors constitute the majority of the Bank's loan book. The sectoral composition of the loan portfolio has not changed significantly largely due to the fact the Bank has been one of the major participants in the Government's stabilisation programmes which target these sectors. Using the support provided by these programmes the Bank continues to lend to the sectors of the economy that have been most affected by the economic downturn, such as the real estate and construction sectors. The Bank has participated in a number of Government programmes focused on lending to the real estate and construction sectors. Many loans have been made using Government funds where the interest rates have been capped and many loans were refinanced at reduced rates. Part of the initiative undertaken by the Government was to restore stability and confidence in the real estate sector and including finishing uncompleted housing projects.

Despite the global economic downturn the Bank is striving to support the import and export financing needs of its corporate clients using trade finance (such as documentary letters of credit and guarantees), ECA covered financing and financing provided under credit lines provided by development institutions such as the EBRD, the Islamic Development Bank and Deutsche Investitions-und Entwicklungsgesellschaft mbH.

SME banking

The range of products offered to SME clients is similar to that offered to the Bank's large corporate customers. Loans constitute the largest part of the Bank's exposure to SMEs.

The Bank's lending relationship with an SME customer generally commences with a working capital loan and develops into the financing of capital expenditures as the customer's business grows.

The Bank was one of the first banks in Kazakhstan to cooperate with the EBRD in its programme for the development of the SME sector and thereby benefited from the funding and training which the EBRD provided. The EBRD's programme started in 1998 and established a framework for lending to the SME sector in Kazakhstan. Most of Kazakhstan's largest banks have participated in the EBRD programme. Although the programme has now ended, participants continue to report on the status of their SME loans made under this programme. These loans were generally between U.S.$50,000 and U.S.$200,000. The Bank is involved in a similar programme in Kyrgyzstan through its subsidiary OJSC Kazkommertsbank Kyrgyzstan.

Since 2008, the Bank has attempted to optimise its business structure in relation to SMEs to address the global financial crisis and its consequences. Medium-sized borrowers are now being served by the Bank's headquarters in Almaty while the branch network continues to offer banking products to small businesses as well as cash and non-cash settlement services to both small and medium sized businesses. The introduction of a scoring system and the transfer of the credit approval process to the decision making centre, as described in "*Risk Management Policies,*" is expected to facilitate faster decision making.

The Bank plans to continue to refinance its SME clients under the Government stabilisation programme. The total funds received from Samruk-Kazyna to refinance SME clients was KZT 16.3 billion as at 31 December 2010. In addition, the Bank plans to actively participate in the new "Road Map-2020 programme", which envisages the making of loans to SME clients at reduced rates.

Retail banking

The Bank provides a comprehensive range of banking products with the aim of growing its client base. The Bank offers its retail customers a comprehensive range of retail products including deposit and current accounts, debit and credit cards, residential mortgages and consumer loans. The Bank is seeking to increase its retail deposit base with a view to growing non-interest fee based revenues.

The Bank has one of the leading retail banking franchises in Kazakhstan with a 19.8 per cent. share of the Kazakhstan retail deposit market and a 10.3 per cent. share of the Kazakhstan retail loans market as at 31 December 2010 (according to FMSA data).

The Bank uses credit scoring technology for potential loans to retail clients.

As at 31 December 2010, retail customer deposits totalled KZT 451.4 billion, which was the second largest retail deposit base in the country (calculated by the Bank on the basis of FMSA data). The Bank will concentrate its efforts on maintaining and increasing its existing retail deposit base. During 2010, the Group experienced retail deposit inflows of 37.8 per cent. The Bank is also focusing increasingly on attracting payroll accounts from its corporate clients.

The Bank has strong positions in the debit and credit card business. It issues debit cards, credit cards and virtual cards (virtual cards are a special category of debit card which have particular security features and can only be used for internet transactions). The Bank issues both VISA and Europay/MasterCard cards which provide access to the Cirrus/Maestro system. The Bank is an exclusive partner for the distribution of American Express cards in Kazakhstan. In 2002, the Bank was the first bank in Kazakhstan to issue EMV-standard chip cards for use at certified point-of-sale terminals. In 2003, the Bank was the first bank in Kazakhstan to obtain certification for card servicing under the 3D-Secure protocol developed by VISA International (with the support of MasterCard International) to protect against internet fraud. By 31 December 2010, the Bank had issued 1,065,769 cards, most of which were debit and credit cards.

The Bank was the first bank in Kazakhstan to offer a credit card with bonus features branded as the "GO!Card". Bonus points can be earned and redeemed at approximately 5,703 trade partners in the GO!Card network. As at 31 December 2010, the Bank had issued more than 41,000 GO!Cards.

Although credit cards are not as extensively used in Kazakhstan as in some other countries, the Bank believes that this market will continue to experience strong growth and that at present it is one of the market leaders in terms of volume of credit card transactions. The Bank currently uses scorecard applications for the approval of credit cards.

The Bank's settlement and payment system, both at branches and via the internet, enables individuals to pay a wide range of bills, including utility bills and taxes. The Bank has a UNICOM system which facilitates rapid client payments due to the automation of its back office processes.

The Bank's consumer loan portfolio consists of car loans and express loans. These loans are approved through an approval process focused on income verification of a potential borrower. The Bank has entered into agreements with a number of car dealers pursuant to which customers can finance their vehicle purchases.

In 2002, the Bank was the first bank in Kazakhstan to offer residential mortgages. Residential mortgages comprised 62.0 per cent. of the Group's net retail loan portfolio as at 31 December 2010. Due to recent weaknesses in the real estate market in Kazakhstan and pressure on disposable incomes, the Bank has significantly decreased its new mortgage lending, while focusing on the quality of its existing mortgage portfolio.

In 2009, Samruk-Kazyna allocated KZT 120 billion to participating banks in Kazakhstan in order to facilitate the refinancing of existing mortgages. The Bank received KZT 24 billion under this programme and the interest rates on the mortgages of 5,921 borrowers (including 1,491 public sector employees) were reduced to 9 per cent.

Other banking and financial services

The main objective of the Bank's treasury operations is to efficiently manage liquidity and interest rate and market risks by managing its foreign currency exposure and funding costs by entering into transactions in the foreign exchange and money markets. The Bank's treasury operations consist largely of spot transactions in Tenge and other currencies, trading in government securities and using currency derivatives used for hedging purposes.

Brokerage and investment banking services are undertaken by the Bank through its subsidiary JSC Kazkommerts Securities. The Bank is authorised to engage in the sale, purchase and safekeeping of precious metals (including gold and silver). Since 2001 the Bank has offered asset management services and insurance and pension products to its corporate and retail clients.

The Bank engages in securities transactions on behalf of its clients but it does not engage in a significant amount of proprietary trading.

DISTRIBUTION NETWORK

Branches

As at 31 December 2010, the Bank's branch network was comprised of 23 full-service branches and 130 limited-service branches. The Bank will continue to optimise its branch network by locating outlets in areas which have a high proportion of business activity and/or population density and will close less profitable branches.

For business optimisation and efficiency purposes, the Bank has centralised its operations at its headquarters. The branch network provides cash and non-cash settlement services, small business lending, credit and debit cards and retail services. The co-ordination and planning of the operations of the branches and internal controls of each branch are regulated and overseen by the Bank's head office which monitors the operations and financial results of the branches and is responsible for the development of the Bank's regional policies and strategies. All branches undergo an annual internal audit. See "*Risk Management Policies*".

Alternative distribution channels

As at 31 December 2010, the Bank operated 1,251 ATMs throughout Kazakhstan. The Bank believes that its ATM network is one of the largest in Kazakhstan (based on NBK data) and seeks to attract customers to its network by locating machines in densely populated areas and high traffic locations, such as shopping malls and large office buildings. The Bank has a policy of only placing ATMs in locations that are accessible for 24-hour maintenance. The Bank believes that, relative to its competitors, it maintains a high ratio of machines to issued debit and credit cards thus ensuring easy access to funds for its customers. The Bank charges a fee for each ATM withdrawal, including withdrawals by its own account holders.

As at 31 December 2010 the Bank operated 12,415 point-of-sale terminals, making it the market leader in Kazakhstan (based on NBK data).

The Bank was the first bank in Kazakhstan to offer telephone and internet banking services. Currently internet banking services include online access to account statements, payment of mobile and fixed line telephone bills, payment of utility and cable TV bills, and the payment of taxes. Telephone banking customers are able to obtain account and card balance information, pay mobile and fixed line phone bills and cable TV bills. As at 31 December 2010, over 289,451 customers had registered for internet banking services. In addition, as at 31 December 2010 the Bank had 210 Info kiosks which provide a full range of services available to internet banking customers.

In addition to providing services to the Bank's customers, the Bank's call centre has recently become involved in early stage debt collection, telephoning borrowers to remind them that their payments are overdue.

TECHNOLOGY

In 2002, the Bank introduced and implemented Equation DBA, a centralised, integrated banking information system which connects the head office to the branch network. The Bank believes that the Equation DBA system has significantly improved the scope and efficiency of its information systems with respect to risk management and financial reporting under IFRS. In 2003 the Bank introduced an Oracle-based WorkFlow electronic documents circulation system with a view to reducing human error and accelerating client service. In order to improve efficiency, the Bank has also introduced banking technologies such as a customer relationship management system based on the integration of Siebel CRM and CallCenter software products. The Bank has also introduced a new business process management system (which is based on Oracle's WorkFlow software) and new internet banking systems for both retail and corporate clients.

The Bank utilises credit scoring technologies for potential loans to retail and SME clients. In particular, the Bank is currently using an application scorecard for the approval of credit cards. This scoring model has been developed with the assistance of Experian (an international provider of information, analytical and marketing services). Experian is also currently developing several other applications on the Bank's behalf including behavioural scorecards for both the credit card business and the SME business of the Bank. The Bank has also developed several scoring models for express and car loan products in-house. The Bank is planning to extend the use of scoring models to other consumer products.

In co-operation with consultants, the Bank is currently evaluating opportunities to further automate its risk management systems and provide real-time monitoring of its risk exposures. Over the next few years the Bank expects to implement increasingly automated risk management software systems.

In 2005 the Bank initiated an e-procurement system which now has more than 2,600 registered suppliers. The system has held more than 1,600 on-line auctions, generating substantial savings to the Bank.

The Bank's computer systems are located in two stand-alone data centres in Almaty, which are earthquake and fire resistant and equipped with back-up power supply systems. The data centres have advanced access control and security systems including 24-hour continuous video monitoring. The data centres are also equipped with an intrusion detection system and a network monitoring and analysis system. The Bank opened another back-up data centre in Astana which has substantially the same capabilities as the Almaty data centres and further reduces the possibility of operational failure. In the last three years, the Bank has suffered disruptions to its computer systems that arose as a result of short-term power failures. These failures were rectified by the installation of additional power generators. The Bank is also susceptible to computer attacks by hackers from time to time, though there have not, as of yet, been any major security breaches.

The Bank regularly undertakes emergency drills in order to test its ability to operate via the data centres. The Bank believes that it would be able to re-establish full operational functions within one to ten days, depending on the nature of the relevant incident.

SECURITY AND ANTI-MONEY LAUNDERING

In co-operation with consultants, the Bank has implemented security procedures and policies for all of its locations. Each new branch is initially reviewed by the Bank's Security Department to ensure compliance with the Bank's procedures and policies. All of the Bank's branches contain video surveillance systems and each of its ATMs is monitored by CCTV.

The Bank maintains a strict anti-money laundering policy in relation to all of its customers. The Bank interviews most applicants and performs background investigations. All applicants are required to provide the Bank with identification documents, as well as their Kazakhstan tax identification number. Each new high net worth customer must be recommended by an existing high net worth customer.

PROPERTIES

The Bank owns the majority and leases the remainder of its branch premises, foreign exchange bureau properties, ATMs, garages, warehouses and other facilities in Kazakhstan. For leased properties, the Bank typically enters into operational leases with terms of between six months and ten years. As at 31 December 2010, the gross book value of the Group's property, equipment and intangible assets was KZT 31.9 billion, including the Bank's new head office building which had a gross book value of KZT 9.2 billion.

INSURANCE

The Bank has a banker's blanket bond insurance policy provided by JSC Insurance Company Kazkommerts-Policy (and reinsured with a leading international reinsurer). This policy covers losses in relation to banks and financial institutions, computer fraud, safe deposit theft and ATM and internet services fraud. The maximum coverage depends on the type of insurance but will not exceed KZT 456 million, either for individual events or in aggregate. Coverage is subject to a number of conditions and qualifications and money-laundering liabilities and losses due to terrorism are specifically excluded.

In addition, the Bank has a number of other insurance policies provided by JSC Insurance Company Kazkommerts-Policy, including obligatory insurance of employer's civil liability to employees, third-party liability insurance (maximum coverage KZT 150 million) and voluntary property insurance (maximum coverage KZT 4,925 billion). The policies are typically renewed annually.

COMPETITION

Kazakhstan's banking industry was principally established following the independence of Kazakhstan in 1991. As at 31 December 2010, there were 39 commercial banks in Kazakhstan (according to FMSA data). Banks in Kazakhstan can be divided into three groups: large local banks (including the Bank, Halyk Bank and BTA Bank); banks under foreign ownership (such as The Royal Bank of Scotland in Kazakhstan, Citibank Kazakhstan, HSBC Kazakhstan, Bank CenterCredit, Sberbank and ATF Bank); and smaller local banks. The Bank believes that its main competitors are Halyk Bank, Bank CenterCredit and ATF.

The Bank believes that competition in its target markets is primarily driven by brand recognition, the range of services offered and the quality of customer service and geographical coverage. The Bank believes that it is well positioned to compete on the basis of its size, large capital base, regional network, participation in the Government stabilisation programmes, strong franchise in the corporate and retail segments, cost efficiency, risk management, advanced and integrated information technology system, presence in non-banking financial services and its experienced management team.

On the basis of unconsolidated data published by the FMSA, at 31 December 2010 the Bank's assets constituted 20.2 per cent. of the total assets of the Kazakhstan banking system, the Bank's capital constituted approximately 21.2 per cent. of the total capital of the Kazakhstan banking system (excluding BTA Bank), the Bank's deposits constituted 21.2 per cent. of the total deposits of the Kazakhstan banking system and the Bank's retail deposits constituted 19.8 per cent. of the total retail deposits of the Kazakhstan banking system.

The following table sets out the top 10 banks (by assets) in Kazakhstan (on the basis of unconsolidated data provided by the FMSA) as at 31 December 2010:

	As at 31 December 2010	
	KZT millions (unaudited)	(%)
Kazkommertsbank	2,430,236	20.2
Halyk Bank	2,023,522	16.8
BTA Bank	1,993,994	16.6
Bank CenterCredit	1,211,057	10.1
ATF Bank	982,965	8.2
Alliance Bank	489,442	4.1
Eurasian Bank	358,742	3.0
Kaspi Bank	352,905	2.9
Sberbank	282,692	2.3
Nurbank	261,508	2.2
Top 10 Banks	10,387,063	86.3
Others	1,644,427	13.7
Total	12,031,490	100

EMPLOYEES

As at 31 December 2010, the Bank had 5,437 full-time employees, of which 3,630 were employed in the branch network and 1,807 were employed at the Bank's head office in Almaty. The average age of the Bank's employees is 32 and a large portion of them are university graduates. The Bank has not experienced strikes or other work stoppages resulting from labour disputes and it does not have any unionised employees.

The following table shows the number of employees of the Bank as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	2009 (unaudited)	2008
Head office	1,807	1,695	1,662
Branches	3,630	3,533	3,875
Total	5,437	5,228	5,537

The increase in personnel in 2010 was mainly attributable to increased staffing of both the headquarters and branches, including retail sales personnel and support staff.

To promote operational efficiency, the Bank offers educational and training initiatives to its employees. As part of an organisational restructuring the Bank has introduced staffing guidelines and a new human resources management policy to improve the quality of the Bank's employees. The Bank also holds internal and external training and staff rotation programmes designed to improve the skills and cross-selling abilities of its employees.

LITIGATION

There are no and have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months prior to the date of this Base Prospectus or in the recent past which may have or have had significant effects on the Bank's or the Group's financial position or profitability.

CREDIT RATINGS

The Bank is rated by Fitch, Moody's and S&P and its credit ratings are as follows:

Fitch

Long-term issuer default rating – B- (B minus)
Short-term issuer default rating – B
Senior unsecured debt rating – B- (B minus)
Subordinated debt rating – CC
Outlook – Stable

Moody's

Long-term foreign and local currency deposit rating – Ba3
Foreign currency senior unsecured debt rating – B2
Foreign currency subordinated debt rating – B3
Bank financial strength rating – E+, Outlook – Stable
Outlook – Negative

S&P

Long-term issuer credit rating – B
Senior unsecured debt rating – B
Subordinated debt rating – CCC+
Short-term debt rating – C
Outlook – Stable

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Group's results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors". In this Base Prospectus, the consolidated financial statements presented are those of the Group. This discussion is based on the Financial Statements and should be read in conjunction with the Financial Statements and the accompanying notes appearing elsewhere in this Base Prospectus. Unless otherwise indicated, all of the financial data and discussions thereof are based upon the Financial Statements prepared in accordance with IFRS. See "Presentation of Financial and Certain Other Information".

Critical Accounting Policies

The Group's Financial Statements, selected statistical and other information appearing elsewhere in this Base Prospectus are, to a large degree, dependent upon the Bank's accounting policies. The Bank's significant accounting policies are fully described in Note 3 to the Financial Statements.

The Bank has identified certain accounting policies that it believes are the most critical to an understanding of the results of operations and financial condition of the Group and are subject to significant judgment and estimation. The critical accounting policies and a discussion of the estimates and judgements is included in Note 3 to the Financial Statements and the Bank wishes to draw your attention, in particular, to the discussion under the heading "*Areas of significant management judgement and sources of estimation uncertainty*" and specifically the sub-headings "*Allowance for impairment losses of loans and receivables*", "*Valuation of financial instruments*" and "*Goodwill*". The impact and any associated risks related to the Bank's critical accounting policies on its business operations are discussed throughout this section where these policies affect the Group's financial results as presented in this Base Prospectus.

Analysis of Financial Results of Operations for the Year Ended 31 December 2010 Compared to the Year Ended 31 December 2009

Net Profit

The following table presents the main components of the Group's net profit and certain other financial data for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December			
	2010	2009 (Restated)[1]	Variation	
	(KZT millions)		(KZT millions)	(%)
Interest income	291,515	372,460	(80,945)	(21.7)
Interest expense	(152,091)	(178,846)	26,755	(15.0)
Net interest income before provision for impairment losses on interest-bearing assets	139,424	193,614	(54,190)	(28.0)
Provision for impairment losses on interest-bearing assets	(95,555)	(192,406)	96,851	(50.3)
Net interest income	43,869	1,208	42,661	3,531.5
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(5,947)	24,524	(30,471)	(124.2)
Net gain/(loss) on foreign exchange and precious metals operations	2,562	(14,965)	17,527	117.1
Fee and commission income	20,974	20,731	243	1.2
Fee and commission expense	(3,779)	(3,540)	(239)	(6.8)
Net realised gain/(loss) on investments available-for-sale	69	(1,026)	1,095	106.7
Dividends received	181	186	(5)	(2.7)
Other income	6,530	34,427	(27,897)	(81.0)
Net non-interest income	20,590	60,337	(39,747)	(65.9)
Operating income	64,459	61,545	2,914	4.7
Operating expenses	(35,833)	(30,148)	(5,685)	18.9
Provision for impairment losses on other transactions	(3,679)	(2,511)	(1,168)	46.5
Recovery of provision for guarantees and other contingencies	3,261	600	2,661	443.5
Gain from sale of associates and share of results of associates	–	4,372	(4,372)	100.0
Operating profit before income tax	28,208	33,858	(5,650)	(16.7)
Income tax (expense)/benefit	(7,419)	(13,101)	5,682	43.4
Profit/(loss) from discontinued operations, net of tax	1,199	(1,734)	2,933	169.1
Net profit	21,988	19,023	2,965	15.6
Attributable to:				
Ordinary shareholders of the Parent	19,494	17,152	2,342	13.7
Preference shareholders of the Parent	2,385	2,271	114	5.0
Non-controlling interest	109	(400)	509	127.3
Combined key ratios[2]				
Return on average shareholder's equity	5.5%	5.3%	–	–
Return on average assets	0.8%	0.7%	–	–
Net interest margin	3.8%[3]	7.8%	–	–

(1) The prior year balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts in 2010.

(2) See *"Selected Consolidated Financial Data"* for definitions.

(3) Adjusted net interest margin. Adjusted net interest margin means net interest income before provision, adjusted for interest accrued on certain corporate customer loans where there are no cash flows to the Bank prior to 2013, divided by average interest bearing assets. Net interest margin, which for the year ended 31 December 2010 was 6.2 per cent. means net interest income before provision for impairment losses divided by average interest bearing assets.

Operating profit before income tax for the year ended 31 December 2010 decreased by 16.7 per cent. to KZT 28.2 billion, compared to KZT 33.9 billion for the year ended 31 December 2009. This was primarily due to a decrease in interest income of KZT 80.9 billion, or 21.7 per cent., in 2010, resulting from a corresponding 22.4 per cent. decrease in interest on loans to customers in 2010 caused by a decrease in the average volume of gross loans to customers. For the year ended 31 December 2010, the Group had an income tax expense of KZT 7.4 billion, compared to an income tax expense of KZT 13.1 billion for the year ended 31 December

2009. The Group's net profit for the year ended 31 December 2010 increased by 15.6 per cent. to KZT 22.0 billion, compared to KZT 19.0 billion for the year ended 31 December 2009.

The increase of 4.7 per cent. in operating income in 2010 primarily resulted from lower allowances for provision on loans to customers equal to KZT 95.4 million for the year ended 31 December 2010, compared to KZT 192.8 million for the year ended 31 December 2009. In 2010 the growth in problem loans was significantly slower than in 2009.

Interest income

The following table sets out the Group's interest income for the year ended 31 December 2010 and the year ended 31 December 2009:

	Year ended 31 December 2010	2009 (Revised)[1]
	(KZT million)	
Interest income comprises:		
Interest income on financial assets recorded at amortised cost:		
– interest income on homogenous and individually assessed watch assets	197,504	249,535
– interest income on individually impaired financial assets	64,532	69,784
– interest income on unimpaired financial assets	24,338	48,661
Interest income on financial assets at fair value through profit or loss	4,407	3,211
Interest income on investments available-for-sale	734	1,269
Total interest income	291,515	372,460
Interest income on financial assets recorded at amortised cost comprises:		
Interest on loans to customers	279,394	359,860
Interest on loans and advances to banks and other financial institutions	6,447	7,236
Interest on investments held-to-maturity	56	69
Amortisation of discount on loans	477	815
Total interest income on financial assets recorded at amortised cost	286,374	367,980
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	4,407	3,211
Total interest income on financial assets at fair value through profit or loss	4,407	3,211
Interest income on investments available-for-sale	734	1,269
Total interest income	291,515	372,460

(1) The prior year balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts in 2010.

Interest income for the year ended 31 December 2010 decreased by 21.7 per cent. (or KZT 80.9 billion) to KZT 291.5 billion compared to KZT 372.5 billion for the year ended 31 December 2009. This decrease was mainly due to a decrease of 9.6 per cent. in average interest earning assets (predominantly gross loans to customers) in 2010 and a corresponding decrease in the average yield on interest-bearing assets to 13.1 per cent. in 2010 compared to 15.1 per cent. in 2009. The decline in average yield was due to the Bank's participation in Government programmes where interest rates on funding provided by the Government were capped, resulting in decreased margins. Many of the Bank's loans were made and/or refinanced at reduced rates with Government funds.

The decrease in interest on loans to customers in 2010 of KZT 80.5 billion, or 22.4 per cent., was mainly due to a decrease in the average volume of gross loans to customers of 7.4 per cent. combined with a decrease in the average yield thereon to 11.5 per cent. for the year ended 31 December 2010 compared to 13.7 per cent. for the year ended 31 December 2009.

The following table sets out the Group's average annual yield on loans to customers for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December 2010	2009
	(%)	
KZT loans to customers	11.6	13.8
To corporates	11.7	13.8
To individuals	10.9	13.9
Foreign currency loans to customers	11.4	13.6
To corporates	11.6	14.0
To individuals	9.7	11.3
Total gross loans to customers	11.5	13.7
Total loans to customers after allowance for impairment losses	14.7	16.2

Interest income on loans and advances to banks and other financial institutions decreased by KZT 789 million, or 10.9 per cent., in 2010 because of an overall decrease in the average volume of such loans and advances of 10.1 per cent., whilst the average yield for 2010 was 4.91 per cent. Whilst there was an increase in loans and advances to banks of 32.7 per cent. in 2010, this was offset by a decrease in corresponding accounts with other banks of 62.2 per cent. combined with a decrease in loans under reverse repurchase agreements of 22.8 per cent. for the same period.

The following table sets out the average annual yield on loans and advances to banks and other financial institutions for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December 2010	2009
	(%)	
KZT loans and advances to banks and other financial institutions	0.6	8.0
Foreign currency loans and advances to banks and other financial institutions	6.2	5.9
Total loans and advances to banks and other financial institutions	4.9	6.2
Total loans and advances to banks and other financial institutions after allowance for impairment losses	4.9	6.2

Interest income on the Group's securities portfolio increased by 14.2 per cent. to KZT 5.2 million for the year ended 31 December 2010 from KZT 4.5 million for the year ended 31 December 2009. This was due to an increase in the average value of the securities portfolio by 179.0 per cent. in 2010 and despite the decrease in average yield to 3.1 per cent in 2010 from 7.6 per cent. in 2009 resulting from the Bank's investment in typically low yield investments such as Government securities.

The following table sets out the average annual yield on the Group's securities portfolio for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December 2010	2009
	(%)	
Trade portfolio securities in local currency	2.7	8.2
Trade portfolio securities in foreign currency	5.4	6.9
Total securities portfolio	3.1	7.6

Interest expense

The following table sets out the details of the Group's interest expense for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December 2010	2009		Variation
	(KZT millions)			(%)
Interest on customer accounts	96,997	84,436	12,561	14.9
Interest on debt securities issued	31,313	60,162	(28,849)	(48.0)
Interest on loans and advances from banks and other financial institutions	7,947	15,123	(7,176)	(47.5)
Interest expense on subordinated debt	13,544	13,874	(330)	(2.4)
Interest expense on securitisation programme	–	2,792	(2,792)	(100.0)
Preference share dividends	731	747	(16)	(2.1)
Other interest expense	1,559	1,712	(153)	(8.9)
Total interest expense	152,091	178,846	(26,755)	(15.0)

The average volume of interest-bearing liabilities decreased by 10.5 per cent. for the year ended 31 December 2010 due to scheduled and early repayments of the Group's liabilities (comprising, largely, foreign liabilities such as Eurobonds) resulting in a decrease in interest expense of 15.0 per cent. to KZT 152.1 billion for the year ended 31 December 2010 as compared to KZT 178.8 billion for the year ended 31 December 2009. The cost of interest-bearing liabilities also decreased to 7.1 per cent. for the year ended 31 December 2010 compared to 7.5 per cent. for the year ended 31 December 2009.

Interest expense on customer accounts as a percentage of total interest expense increased to 63.8 per cent. for the year ended 31 December 2010 as compared to 47.2 per cent. for the year ended 31 December 2009. This was largely due to an increase in the volume of customer accounts partially off-set by a decrease in foreign debt liabilities. Interest expense on customer accounts increased by 14.9 per cent. to KZT 97.0 billion for the year ended 31 December 2010 from KZT 84.4 billion for the year ended 31 December 2009. This was due to growth in the average volume of customer accounts of 18.7 per cent. in 2010 combined with a slight decrease in the average yield thereon of 0.1 per cent. for the same period.

The following table sets out the average annual yield on customer accounts for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December 2010	2009
	(%)	
Customer deposits	7.0	7.1
KZT deposits	6.7	7.1
Time deposits (corporate)	7.2	8.5
Time deposits (retail)	12.1	12.1
Demand deposits (corporate)	2.8	2.2
Demand deposits (retail)	0.6	0.5
Foreign currency deposits	7.3	7.0
Time deposits (corporate)	7.0	6.9
Time deposits (retail)	9.7	10.2
Demand deposits (corporate)	1.9	2.0
Demand deposits (retail)	0.4	0.4

Interest expense on debt securities issued decreased by KZT 28.8 billion to KZT 31.3 billion for the year ended 31 December 2010 from KZT 60.2 billion for the year ended 31 December 2009. This was predominantly as a result of scheduled and early repayments of Eurobonds previously issued by the Bank. The average volume of debt securities issued decreased by 36.9 per cent. in 2010 while the average yield thereon decreased to 8.5 per cent. for the year ended 31 December 2010, compared to 8.8 per cent. the year ended 31 December 2009.

Interest expense on loans and advances from banks and other financial institutions decreased by 47.5 per cent. to KZT 7.9 billion for the year ended 31 December 2010 compared to KZT 15.1 billion for the year ended 31 December 2009. This was due to a decrease in the average volume of loans and advances from banks and other financial institutions of 34.7 per cent. in 2010 combined with a decrease in the average yield thereof to 4.4 per cent. for the year ended 31 December 2010 from 5.4 per cent. for the year ended 31 December 2009.

The following table sets out the average annual yield on loans and advances from banks and other financial institutions for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December	
	2010	2009
	(%)	
Correspondent accounts	0.04	0.01
KZT	0.14	0.05
Foreign currency	–	–
Short term interbank loans	7.6	5.5
KZT	2.7	5.3
Foreign currency	7.7	5.5
Long term interbank loans	2.1	6.1
KZT	4.2	7.0
Foreign currency	2.1	6.09
Total loans and advances from banks	4.4	5.4

Net interest income

The following table sets out the details of the Group's net interest income for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December			
	2010	2009		Variation
	(KZT millions)			(%)
Interest income	291,515	372,460	(80,945)	(21.7)
Interest expense	(152,091)	(178,846)	26,755	15.0
Net interest income before provision for impairment losses on interest bearing assets	139,424	193,614	(54,190)	(28.0)
Provision for impairment losses on interest-bearing assets	(95,555)	(192,406)	96,851	50.3
Net interest income	43,869	1,208	42,661	3,531.5

Net interest income before provision for impairment losses on interest bearing assets decreased by 28.0 per cent. to KZT 139.4 billion for the year ended 31 December 2010 from KZT 193.6 billion for the year ended 31 December 2009. This was primarily due to a decline in the average yield of interest earning assets of 2.1 per cent. in 2010 (from 15.1 per cent. for the year ended 31 December 2009 to 13.1 per cent. for the year ended 31 December 2010) combined with only a slight decrease in the average yield of interest bearing liabilities of 0.4 per cent in 2010 (from 7.5 per cent. for the year ended 31 December 2009 to 7.1 per cent. for the year ended 31 December 2010).

Net interest margin before provision for impairment losses on interest bearing assets was 6.2 per cent. for the year ended 31 December 2010 compared to 7.8 per cent. for the year ended 31 December 2009. Adjusted net interest margin, which means net interest income before provision, adjusted for interest accrued on certain corporate customer loans where there are no cash flows to the Bank prior to 2013, divided by average interest bearing assets, was 3.8 per cent. for the year ending 31 December 2010. This decrease was mainly attributable to adjustments of KZT 54.4 million made by management in 2010 for the purposes of calculation of this ratio, in relation to the allowance for loan losses against certain loans to corporate customers (being loans on which the Bank does not expect to receive accrued interest in full, and where the accrued interest has been fully provided for). For more detail see Note 6 to the Financial Statements.

The following table sets out selected financial indicators in relation to net income for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December			
	2010	2009	Variation	
	(KZT millions)			(%)
Average interest-bearing assets	2,234,313	2,471,877	(237,564)	(9.6)
Interest income	291,515	372,460	(80,945)	(21.7)
Net interest income before provision for impairment losses on interest-bearing assets	139,424	193,614	(54,190)	(28.0)
Yield[(1)]	10.6%	15.1%		
Margin	3.8%[(2)]	7.8%		
Spread[(3)]	3.5%	7.6%		

(1) Interest income divided by average-interest bearing assets. The yield for the purposes of calculation of this ratio for the year ended 31 December 2010 was calculated as interest income adjusted for interest accrued on certain corporate customer loans, where, under the contractual terms of the loan agreements, there are no cash flows to the Group prior to 2013, divided by average interest-bearing assets. The accrued interest on these loans for the year ended 31 December 2010 amounted to KZT 54.4 million and was fully provisioned. Yield, which for the year ended 31 December 2010 was 13.1 per cent. means interest income divided by average-interest bearing assets.

(2) Adjusted net interest margin. Adjusted net interest margin means net interest income before provision, adjusted for interest accrued on certain corporate customer loans where there are no cash flows to the Bank prior to 2013, divided by average interest bearing assets. Net interest margin, which for the year ended 31 December 2010 was 6.2 per cent. means net interest income before provision for impairment losses divided by average interest bearing assets.

(3) Average interest rate earned on interest-bearing assets minus the average rate paid on interest-bearing liabilities. See "*Interest expense*" for the rate paid.

Provision for impairment losses on interest-bearing assets

For the year ended 31 December 2010, the Group recorded provision for impairment losses on interest-bearing assets in the amount of KZT 95.6 billion compared to KZT 192.4 billion for the year ended 31 December 2009. This represented a decrease of KZT 96.9 billion, or 50.3 per cent., over the previous period.

For the year ended 31 December 2010, the Group has identified certain corporate customer loans with no cash flows to the Group prior to 2013. These loans are considered impaired by the Bank's management. In accordance with IAS 39, interest should continue to be accrued on impaired loans, even where there are doubts in relation to collection. The accrued interest income on these loans for the year ended 31 December 2010 amounted to KZT 54.4 million. Management has established an allowance for loan losses of KZT 54.4 million against this interest. Had this interest not been accrued, net interest income before provision for impairment losses on interest-bearing assets for the year ended 31 December 2010 would have been KZT 85.0 million and the provision for impairment losses on interest-bearing assets would have been KZT 41.2 million. While there is currently evidence of impairment, the Group continues to progress work-out strategies on these loans. The Group regularly evaluates probable cash flow and changes, where necessary, to the list of these corporate loans.

The following table sets out the provision for impairment losses on interest-bearing assets for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December			
	2010	2009	Variation	
	(KZT millions)			(%)
Provision for impairment loss on loans to customers	95,422	192,756	(97,334)	(50.5)
Provision/(recovery of provision) for impairment losses on loans and advances to banks and other financial institutions	115	(350)	465	132.9
Provision for impairment loss on investments available-for-sale	18	–	18	100.0
Total provision for impairment losses on interest-bearing assets	95,555	192,406	(96,851)	(50.3)

Net non-interest income

Net non-interest income was equal to KZT 20.6 billion for the year ended 31 December 2010 as compared to KZT 60.3 billion for the year ended 31 December 2009. This amounted to a 65.9 per cent. decrease over the previous period and was caused by a high level of other income recognised in 2009, mainly due to the buy-back and cancellation of the Group's own debt securities of KZT 30.7 billion in 2009 as well as unrealised income from the revaluation of cross-currency swaps (compared to an unrealised loss in 2010 of the same swaps).

The Group recognised a loss of KZT 8.2 billion as a result of an unrealised decrease in the fair value of derivative financial instruments for the year ended 31 December 2010, as compared to a profit of KZT 26.2 billion for the year ended 31 December 2009. The net loss on financial assets and liabilities at fair value through profit or loss of KZT 5.9 billion for the year ended 31 December 2010 compared to a gain of KZT 24.5 billion for the year ended 31 December 2009 arose due to losses incurred on the revaluation of cross-currency swaps used to hedge liabilities in Euro and Pound Sterling as a result of the depreciation of these currencies against the Tenge. There was a corresponding net gain on foreign exchange and precious metals operations equal to KZT 2.6 billion during the year ended 31 December 2010, as compared with a loss of KZT 15.0 billion during the year ended 31 December 2009 which arose as a result of the same depreciation of the Euro and Pound Sterling against the Tenge. See *"Derivative Financial Instruments"*.

Net fee and commission income remained unchanged at KZT 17.2 billion for the year ended 31 December 2010 and the year ended 31 December 2009 despite certain changes in the composition of fee and commission income. As a percentage of total fee and commission income, income attributable to operations with banking (plastic) cards increased to 25.7 per cent. for the year ended 31 December 2010 compared to 20.5 per cent. for the year ended 31 December 2009, whilst income settlements increased to 16.2 per cent. for the year ended 31 December 2010 compared to 14.3 per cent. for the year ended 31 December 2009. This increase was due to the growth of fee and commission income for these operations by 14.4 per cent. in 2010 which, in turn, was attributable to a general improvement in the Kazakhstan economy during this period. The composition of fee and commission expenses also changed. As a percentage of total fee and commission expenses, expenses attributable to banking (plastic) card services increased from 44.6 per cent. in 2009 to 49.3 per cent. in 2010.

Operating expenses

The following table sets out the Group's operating expenses for the year ended 31 December 2010 and the year ended 31 December 2009:

	Year ended 31 December		
	2010	**2009**	**Variation**
	(KZT million)		**(%)**
Staff costs	17,709	14,180	24.9
Depreciation and amortisation	3,481	3,643	(4.4)
Payments to the Individuals' Deposit Insurance Fund	3,103	2,160	43.7
Operating leases	2,386	2,600	(8.2)
Property and equipment maintenance	2,085	1,890	10.3
Taxes, other than income tax	1,319	1,127	17.0
Advertising costs	1,183	886	33.5
Communications	753	692	8.8
Bank cards services	725	648	11.9
Consulting and audit services	396	377	5.0
Business trip expenses	346	221	56.6
Vehicle maintenance	329	266	23.7
Security services	299	333	(10.2)
Collection services	284	153	85.6
Charity and sponsorship expenses	248	88	181.8
Training and information services	201	143	40.6
Stationery	125	130	(3.8)
Mail and courier expenses	99	92	7.6
Legal services	34	98	(65.3)
Other expenses	728	421	72.9
	35,833	30,148	18.9
Operating expenses/Net interest income before provision for impairment losses	25.70%	15.57%	
Operating expenses/Average assets	1.36%	1.16%	

Operating expenses increased by 18.9 per cent. to KZT 35.8 billion for the year ended 31 December 2010 from KZT 30.1 billion for the year ended 31 December 2009. The increase in 2010 was mainly attributable to increases in staff costs of KZT 3.5 billion, payments made to the to the Individuals' Deposit Insurance Fund of KZT 943 million and advertising costs of KZT 297 million.

Staff costs constituted 49.4 per cent. of operating expenses for the year ended 31 December 2010, compared to 47.0 per cent. for the year ended 31 December 2009. The increase in staff costs of 24.9 per cent. in 2010 was largely attributable to increases in salaries and the number of employees. The salary increases were driven by an increase in inflation, following a salary freeze that had been in effect since 2006. The total number of employees of the Group increased by 234 to 6,999 as at 31 December 2010 from 6,765 as at 31 December 2009.

In 2010, costs related to the depreciation of fixed assets and amortisation of intangible assets decreased by 4.4 per cent. (or KZT 162 million) to KZT 3.5 billion from KZT 3.6 billion in 2009. This decrease was caused by lower than budgeted investments.

Payments to the Individuals' Deposit Insurance Fund were equal to KZT 3.1 billion for the year ended 31 December 2010, compared to KZT 2.2 billion for 2009. This increase was due to an increase in the Bank's deposit base.

Advertising costs increased by 33.5 per cent. to KZT 1.2 billion for the year ended 31 December 2010 from KZT 886 million for the year ended 31 December 2009 as a result of increased advertising by the Bank in 2010 compared to 2009.

Operating lease expenses amounted to KZT 2.4 billion for the year ended 31 December 2010, compared to KZT 2.6 million for the year ended 31 December 2009, having decreased by 8.2 per cent. during this period. This decrease was due to a reduction in the overall size of the branch network. The Bank closed 32 outlets in 2009 and an additional 10 outlets in 2010. The effect of the reduction in outlets was realised in 2010.

Property and equipment maintenance expense increased by KZT 195 million, or 10.3 per cent., to KZT 2.1 billion for the year ended 31 December 2010 from KZT 1.9 billion for the year ended 31 December 2009. This increase was mainly caused by the rise in the cost of building maintenance work which resulted from the use of the Bank's new head office building and the cost of obtaining property revaluations.

Tax expenses (excluding corporate income tax) increased by KZT 192 million to KZT 1.3 billion for the year ended 31 December 2010 compared to KZT 1.1 billion for the year ended 31 December 2009. This increase was primarily due to the property tax payable on the Bank's new head office building.

Expenses for consulting and audit services slightly increased by 5.0 per cent. to KZT 396 million for the year ended 31 December 2010, from KZT 377 million for the year ended 31 December 2009.

Vehicle maintenance expenses increased by 23.7 per cent. to KZT 329 million for the year ended 31 December 2010 compared to KZT 266 million for the year ended 31 December 2009. This increase was due to increased repair and fuel costs of vehicles.

Banking card services increased by 11.9 per cent. to KZT 725 million for the year ended 31 December 2010 compared to KZT 648 million for the year ended 31 December 2009. This was due to an increase in the number of payment cards issued, as well as ATM and POS-terminal network expansion.

Business travel expenses increased by 56.6 per cent to KZT 346 million for the year ended 31 December 2010 compared to KZT 221 million for the year ended 31 December 2009. This was due to the increased amount of business trips made by members of the Bank's head office made to other regions. These trips were necessary to monitor the efficiency of the Bank's branch network.

Taxation

As at the date of this Base Prospectus, the corporate income tax rate in Kazakhstan is 20 per cent. Corporate income tax in Kazakhstan was 20 per cent. during 2010 and 2009 and 30 per cent. in 2008. There was a change during 2010 in tax legislation in Kazakhstan in relation to corporate income tax, which is currently set at 20 per cent.

For the year ended 31 December 2010, the Group's income tax expense amounted to KZT 7.4 million compared to KZT 13.1 million for the year ended 31 December 2009. The Group's effective tax rate, determined by dividing income tax expense by operating profit before income tax, equalled 26.3 per cent. for the year ended 31 December 2010 and 38.7 per cent. for the year ended 31 December 2009. The increased tax expense in 2009 resulted from a recalculation of deferred tax liabilities caused by tax rate reductions previously applied by the Government.

Analysis of Financial Results of Operations for the Year Ended 31 December 2009 Compared to the Year Ended 31 December 2008

Net profit

The following table presents the main components of the Group's net profit for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the Year ended 31 December		
	2009	2008	Variation
	(KZT millions)	(Restated)[1]	(%)
Interest income	372,460	380,043	(2.0)
Interest expense	(178,846)	(181,212)	1.3
Net interest income before provision for impairment losses on interest-bearing assets	193,614	198,831	(2.6)
Provision for impairment losses on interest-bearing assets	(192,406)	(148,780)	(29.3)
Net interest income	1,208	50,051	(97.6)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	24,524	(27,515)	189.1
Net (loss)/gain on foreign exchange and precious metals operations	(14,965)	6,028	(348.3)
Fee and commission income	20,731	21,448	(3.3)
Fee and commission expense	(3,540)	(4,302)	17.7
Net realised loss on investments available-for-sale	(1,026)	(2,490)	58.8
Dividends received	186	176	5.7
Other income	34,427	9,294	270.4
Net non-interest income	60,337	2,639	2,186.4
Operating income	61,545	52,690	16.8
Operating expenses	(30,148)	(32,477)	7.2
Profit before other operating provisions and results of associates	31,397	20,213	55.3
Provision for impairment losses on other transactions	(2,511)	(1,096)	(129.1)
Recovery of provision for guarantees and other contingencies	600	856	(29.9)
Gain/(Loss) from sale of associates and share of results of associates	4,372	(3,585)	222.0
Operating profit before income tax	33,858	16,388	106.6
Income tax (expense)/benefit	(13,101)	8,298	(257.9)
Net profit from continuing operations	20,757	24,686	(15.9)
Loss from discontinued operations, net of tax	(1,734)	(4,522)	61.7
Net profit	19,023	20,164	(5.7)
Attributable to:			
Ordinary shareholders of the Parent	17,152	18,406	(6.8)
Preference shareholders of the Parent	2,271	3,399	(33.2)
Non-controlling interest	(400)	(1,641)	75.6
Key ratios			
Return on average shareholders' equity	5.3%	6.0%	–
Return on average assets	0.7%	0.7%	–
Net interest margin	7.8%	7.9%	–

(1) Balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts, in 2010.

Operating profit before income tax for the year ended 31 December 2009 increased by 106.6 per cent. to KZT 33.9 billion as compared to KZT 16.4 billion for the year ended 31 December 2008. This increase was primarily due to an increase in non-interest income of KZT 57.7 billion in 2009 when the Group repaid certain indebtedness and the cancellation of indebtedness under Eurobonds that had been acquired in conjunction with foreclosure proceedings initiated against certain borrowers. In 2009, income tax expense was KZT 13.1 billion, compared to an income tax benefit of KZT 8.3 billion in 2008. Net profit after taxation for 2009 decreased by 5.7 per cent. to KZT 19.0 billion compared to KZT 20.2 billion for 2008. This decrease was mainly due to the increase of 29.3 per cent. in provision for impairment losses on interest-bearing assets and the continuing effects of the global financial crisis.

Interest income

The following table sets out the Group's interest income for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December		
	2009	2008 Restated [1]	Variation
	(KZT millions)		(%)
Interest income on financial assets recorded at amortised cost comprises:			
Interest on loans to customers	359,860	362,448	(0.7)
Interest on loans and advances to banks and other financial institutions	7,236	10,554	(31.4)
Interest on investments held-to-maturity	69	121	(43.0)
Amortisation of discount on loans	815	1,032	(21.0)
Total interest income on financial assets recorded at amortised cost	367,980	374,155	(1.7)
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held-for-trading	3,211	5,345	(39.9)
Total interest income on financial assets at fair value through profit or loss	3,211	5,345	(39.9)
Interest income on investments available-for-sale	1,269	543	133.7
Total interest income	372,460	380,043	(2.0)

(1) Balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts, in 2010.

Interest income for the year ended 31 December 2009 decreased by 2.0 per cent. or KZT 7.6 billion to KZT 372.5 billion as compared to KZT 380.0 billion for the year ended 31 December 2008. This decrease was the result of a corresponding decrease in the average yield on interest-bearing assets from 15.2 per cent. in 2008 compared to 15.1 per cent. in 2009 and a 1.3 per cent. decline in average interest-bearing assets over the same period.

Despite a decrease in the average yield on loans to customers to 13.7 per cent. in 2009 from 15.4 per cent. in 2008, there was only slight decrease of 0.8 per cent. in interest income on loans to customers in 2009 mainly as a result of an 11.2 per cent. increase in the average balance of gross loans to customers.

The following table sets out the average annual yield on loans to customers for the year ended 31 December 2009 and the year ended 31 December 2008:

	2009	2008
	(%) (unaudited)	
KZT loans to customers	13.8	15.4
to corporates	13.8	15.1
to individuals	13.9	16.6
Foreign currency loans to customers	13.6	15.4
to corporates	14.0	15.9
to individuals	11.3	12.9
Total gross loans to customers	13.7	15.4
Total loans to customers after allowance for impairment losses	16.2	16.6

Interest income from loans and advances to banks and other financial institutions decreased by 31.4 per cent. to KZT 7.2 billion in 2009 from KZT 10.6 billion in 2008 as a result of a decrease in the average balances of loans and advances to banks and other financial institutions of 23.7 per cent. in 2009 as well as a decrease in the average yield thereon from 4.3 per cent. in 2008 to 3.8 per cent. in 2009.

The following table sets out the average annual yield on loans and advances to banks and other financial institutions for the year ended 31 December 2009 and the year ended 31 December 2008:

	2009	2008
	(%) (unaudited)	
KZT loans and advances to banks and other financial institutions	8.0	6.6
Foreign currency loans and advances to banks and other financial institutions	5.9	4.6
Total loans and advances to banks and other financial institutions	6.2	4.7
Total loans and advances to banks and other financial institutions after allowance for impairment losses	6.2	4.7

Interest income on debt securities decreased by 24.3 per cent. for the year ended 31 December 2009 to KZT 4.5 billion from KZT 6.0 billion for the year ended 31 December 2008. This was due to 10.6 per cent. decrease in the average balance of the securities portfolio from KZT 66.8 billion for the year ended 31 December 2008 to KZT 59.7 billion for the year ended 31 December 2009 as well as a decrease in the average yield on such securities of 7.6 per cent. for the year ended 31 December 2009 from 9.0 per cent. for the year ended 31 December 2008.

The following table sets out the average annual yield on debt securities for the year ended 31 December 2009 and the year ended 31 December 2008:

	2009	2008
	(%) (unaudited)	
KZT debt securities	8.2	9.1
Foreign currency debt securities	6.9	8.9
Total debt securities	7.6	9.0

Interest expense

The following table sets out the details of the Group's interest expense for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December		
	2009	2008 (Restated)[(1)]	Variation
	(KZT millions)		(%)
Interest on customer accounts	84,436	74,938	12.7
Interest on debt securities issued	60,162	58,808	2.3
Interest on loans and advances from banks and other financial institutions	15,123	27,989	(46.0)
Interest expense on subordinated debt	13,874	10,740	29.2
Interest expense on securitisation programme	2,792	6,250	(55.3)
Preference share dividends	747	598	24.9
Other interest expense	1,712	1,889	(9.4)
Total interest expense on financial liabilities recorded at amortised cost	178,846	181,212	(1.3)

(1) Balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts, in 2010.

Interest expense decreased by 1.3 per cent. (or KZT 2.4 billion) to KZT 178.8 billion in 2009 compared to KZT 181.2 billion in 2008 as a result of a minor decrease in the average balance of interest-bearing liabilities by 0.3 per cent. combined with a decrease in interest rates in 2009 to 7.5 per cent. from 7.6 per cent. in 2008. The average balance of interest-bearing liabilities was KZT 2,376 billion in 2009 compared to KZT 2,384 billion in 2008.

For the year ended 31 December 2009, interest expense on customer accounts represented the largest component of interest expense and increased as a percentage of interest expense to 47.2 per cent. in 2009 from 41.4 per cent. in 2008. This increase was due to an increase in the average balances of customer accounts and a decrease in the average balances of foreign liabilities. In 2009, interest expense on customer accounts increased by 12.7 per cent. as a result of a 20.2 per cent. increase in the average balances of customer accounts along with a slight decrease in the cost thereof for the same period.

The following table sets out the average cost of customer accounts for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December	
	2009	2008
	(unaudited) (%)	
Customer deposits	7.1	7.4
KZT deposits	7.1	7.5
Time deposits (corporate)	8.5	9.1
Time deposits (retail)	12.1	11.0
Demand deposits (corporate)	2.2	1.5
Demand deposits (retail)	0.5	–
Foreign currency deposits	7.0	7.4
Time deposits (corporate)	6.9	7.6
Time deposits (retail)	10.2	9.8
Demand deposits (corporate)	2.0	0.4
Demand deposits (retail)	0.4	–

In 2009 interest expense on debt securities issued increased by KZT 1.4 billion, or by 2.3 per cent., to KZT 60.2 billion from KZT 58.8 billion in 2008, due to an increase of 3.4 per cent. in the average amount of debt securities outstanding in 2009.

Interest expense on subordinated debt increased by 29.2 per cent. or KZT 3.1 billion to KZT 13.9 billion in 2009 from KZT 10.7 billion. On 31 July 2009 and 3 August 2009, respectively, the Bank issued subordinated bonds totaling KZT 965 million which mature in 2019.

Interest expense on loans and advances from banks and other financial institutions decreased by 46.0 per cent. to KZT 15.1 billion in 2009 from KZT 28.0 billion in 2008. This decrease was due to a decrease in the average amount of such liabilities by 38.8 per cent. in 2009, and the average cost thereof from 6.0 per cent. in 2008 to 5.4 per cent. in 2009. In December 2009 the Bank repaid a U.S.$300 million syndicated loan.

The following table sets out the average cost of loans and advances from banks and other financial institutions for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December	
	2009	2008
	(unaudited) (%)	
Correspondent accounts	0.01	0.03
KZT	0.05	0.18
Foreign currency	–	–
Short term interbank loans from banks and other financial institutions	5.5	8.0
KZT	5.3	7.1
Foreign currency	5.5	8.1
Long term loans from banks and other financial institutions	6.1	5.9
KZT	7.0	8.2
Foreign currency	6.1	5.9
Total loans and advances from banks and other financial institutions	5.4	6.0

Net interest income

The following table sets out the details of the Group's net interest income for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December 2009	2008 (Restated)[1]	Variation
	(KZT millions)		(%)
Interest income	372,460	380,043	(2.0)
Interest expense	(178,846)	(181,212)	(1.3)
Net interest income before provision for impairment losses on interest-bearing assets	193,614	198,831	(2.6)
Provision for impairment losses on interest-bearing assets	(192,046)	(148,780)	29.3
Net interest income	1,208	50,051	(97.6)

(1) Balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts, in 2010.

In 2009 net interest income before provision for impairment losses on interest-bearing assets decreased by 2.6 per cent. to KZT 193.6 billion from KZT 198.8 billion in 2008. This decrease was due to a 1.3 per cent. decrease in the average amount of interest-bearing assets and a corresponding decrease in their average yield to 15.1 per cent. in 2009 from 15.2 per cent. in 2008. The average amount of interest-bearing liabilities decreased by 0.3 per cent. and their yield decreased to 7.5 per cent. from 7.6 per cent. in 2008.

In 2009 the net interest margin before provision for impairment losses on interest-bearing assets was 7.8 per cent. as compared to 7.9 per cent. in 2008.

The following table sets out selected financial indicators in relation to net income for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December 2009	2008	Variation
	(KZT millions) (unaudited)		(%)
Average interest-bearing assets	2,471,877	2,504,548	(1.3)
Interest income	372,460	380,043	(2.0)
Net interest income before provision for impairment losses on interest-bearing assets	193,614	198,831	(2.6)
Yield[1]	15.1%	15.2%	
Net interest margin[2]	7.8%	7.9%	
Spread[3]	7.6%	7.6%	

(1) Interest income divided by average interest-bearing assets.

(2) Please see "*Selected Consolidated Financial Data*" for the definition of net interest margin.

(3) Interest rate earned on average interest-bearing assets minus interest rate incurred on average interest-bearing liabilities.

Provision for impairment losses on interest-bearing assets

In line with the Bank's anti-crisis policy it actively increased provisions for impairment losses in 2009.

For the year ended 31 December 2009 the Group recorded an additional provision for impairment losses on interest-bearing assets in the amount of KZT 192.4 billion as compared to KZT 148.8 billion for the year ended 31 December 2008. This represented an increase of 29.3 per cent. for this period.

The following table sets out the provision for impairment losses for the year ended 31 December 2009 and the year ended 31 December 2008:

	For the year ended 31 December 2009	2008	Variation
	(KZT millions)		(%)
Provision for impairment losses on loans to customers	193,463	151,674	27.6
Provision for impairment losses on loans and advances to banks and other financial institutions	(350)	(977)	64.2
Total provision for impairment losses on interest-bearing assets	193,113	150,697	28.1

The increase in provision for impairment losses on interest-bearing assets was due to an increase in provisioning charges due to the deterioration of asset quality. The effective provisioning rate (the allowance for impairment losses on loans to customers to gross loans (principal and accrued interest)) increased to 19.0 per cent. as at 31 December 2009 from 11.9 per cent. as at 31 December 2008.

Net non-interest income

Net non-interest income was KZT 60.3 billion for the year ended 31 December 2009 as compared to KZT 2.6 billion for the year ended 31 December 2008. This increase was mainly due to income of KZT 30.7 billion generated from the buy-back of debt securities and the early redemption of other obligations in 2009. Income from derivatives in 2009 (including the revaluation of currency swaps as a result of the devaluation of the Euro and Pound Sterling against the Tenge) was KZT 26.2 billion compared to a loss of KZT 23.7 billon in 2008. This was largely offset by a corresponding net loss on foreign exchange and precious metals operations of KZT 15.0 billion in 2009 as compared to a gain of KZT 6.0 billion in 2008 (which arose as a result of the devaluation of the Euro and Pound Sterling against the Tenge), including loss on trading operations of KZT 15.2 billion in 2009, compared to a gain of KZT 7.9 billion in 2008.

Fee and commission income decreased by 3.3 per cent. to KZT 20.7 billion for the year ended 31 December 2009 compared to KZT 21.4 billion for the year ended 31 December 2008. This was because of a general decrease in lending activities and a 22.3 per cent. decrease in commissions for letters of credit and guarantees. However, fee income from banking cards increased by 15.9 per cent. during this period.

Fee and commission expense decreased by 17.7 per cent. to KZT 3.5 billion in 2009 from KZT 4.3 billion in 2008. The largest increase in fee and commission expense was attributable to an increase in expenses relating to banking (plastic) card services by 21.4 per cent. and insurance services by 29.8 per cent. At the same time there was large decrease in pension asset management expenses of 93.0 per cent.

Operating expenses

The following table sets out the Group's operating expenses for the year ended 31 December 2009 and for the year ended 31 December 2008:

	For the years ended 31 December 2009	2008 (Restated)[1]	Variation
	(KZT millions)		(%)
Staff costs	14,180	15,677	(9.5)
Depreciation and amortisation	3,643	3,327	9.5
Operating leases	2,600	3,283	(20.8)
Payments to the Individuals' Deposit Insurance Fund	2,160	1,627	32.8
Property and equipment maintenance	1,890	2,146	(11.9)
Taxes, other than income tax	1,127	992	13.6
Advertising costs	886	1,665	(46.8)
Communications	692	749	(7.6)
Bank card services	648	521	24.4
Consulting and audit services	377	353	6.8
Security services	333	435	(23.4)
Vehicle maintenance	266	338	(21.3)
Business trip expenses	221	392	(43.6)
Collection services	153	39	292.3
Training and information services	143	215	(33.5)
Stationery	130	166	(21.7)

	For the years ended 31 December 2009	2008 (Restated)[1]	Variation
	(KZT millions)		(%)
Legal services	98	19	415.8
Mail and courier expenses	92	106	(13.2)
Charity and sponsorship expenses	88	123	(28.5)
Other expenses	421	304	38.5
Total operating expenses	30,148	32,477	(7.2)
Operating expenses/Net interest income before provision for impairment losses	15.6%	16.3%	
Operating expenses/Average assets	1.2%	1.2%	

(1) Balances have been restated to be comparable to 2010 balances due to the disposal of the Bank's subsidiary, LLP Investment Group East Kommerts, in 2010.

Operating expenses decreased by 7.2 per cent. in 2009 to KZT 30.1 billion from KZT 32.5 billion in 2008. This decrease was due to the Group taking measures to tighten and reduce expenses generally. Staff costs decreased by KZT 1.5 billion, lease expenses decreased by KZT 683 million, property and equipment maintenance expenses decreased by KZT 256 million, advertising costs decreased by KZT 779 million and communications expenses decreased by KZT 57 million during this period.

Staff costs constituted 47.0 per cent. and 48.3 per cent., respectively, of operating expenses in 2009 and 2008. Staff costs decreased by 9.5 per cent. in 2009 due to a 6.3 per cent. decrease in the number of staff working in the branch network. The decrease in staff costs was also attributable to a decrease in bonuses as these were limited to reward only employees in the front-office for attracting new clients and increasing SME lending.

Expenses related to depreciation were higher in 2009 compared to 2008, whilst the Bank reduced its property and equipment maintenance expenses by reducing office space and tightening maintenance expenses.

In 2009 as compared to 2008, advertising costs decreased by 46.8 per cent. due to fewer advertising campaigns whilst communication expenses decreased by 7.6 per cent. due to a reduction in communication channels resulting from fewer branches and a decrease in the volume of services used.

There was an increase in certain expenses in 2009 compared to 2008. Payments to the Individuals' Deposit Insurance Fund increased due to an increase in customer deposits. An increase in banking card services expense was caused by growth in the banking card business (including an increase in the quantity of banking cards issued, as well as the expansion of the Bank's network of ATMs and POS-terminals). Collection services expense increased significantly in 2009 due to the continued deterioration in the loan portfolio giving rise to a consequential increase in collection activity.

Taxation

The corporate income tax rate in Kazakhstan in 2009 was 20.0 per cent. Tax expenses were KZT 13.1 billion in 2009, compared to a tax benefit of KZT 8.3 billion in 2008. The Bank's effective tax rate was 38.7 per cent. in 2009 and 50.6 per cent. in 2008. In 2009, the decrease in the effective rate was primarily due to a recalculation of tax allowances that resulted from an announcement by the Kazakhstan tax authorities to maintain the corporate income tax rate at 20 per cent. until 2012. The recalculation value amounted to KZT 4.9 billion. In 2008, the corporate income tax rate was 30.0 per cent.

Financial Condition as at 31 December 2010, 2009 and 2008

Total assets

The following table sets out the Group's assets as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010	% of total	2009	% of total	2008	% of total
	(KZT millions, except percentages)					
Cash and balances with national (central) banks	61,216	2.3	90,533	3.5	90,478	3.5
Precious metals	1,345	0.1	1,209	0.1	317	–
Financial assets at fair value through profit or loss	223,231	8.3	114,203	4.4	58,130	2.2
Loans and advances to banks and other financial institutions	146,331	5.4	148,375	5.7	241,813	9.2
Loans to customers	2,174,760	80.9	2,160,767	83.5	2,144,782	82.0
Investments available-for-sale	16,822	0.6	16,696	0.6	15,056	0.6
Investments held-to-maturity	1,996	0.1	943	–	776	–
Investments in associates	–	–	–	–	1,775	0.1
Goodwill	2,405	0.1	2,405	0.1	2,405	0.1
Property, equipment and intangible assets	31,857	1.2	33,971	1.3	35,465	1.4
Other assets	28,145	1.0	18,771	0.7	23,808	0.9
Total assets	2,688,108	100	2,587,873	100	2,614,805	100

As at 31 December 2010 the Group had total assets of KZT 2,688 billion (U.S.$18,224 million) compared to KZT 2,588 billion (U.S.$17,431 million) as at 31 December 2009 and KZT 2,615 billion (U.S.$21,648 million) as at 31 December 2008.

The Group's total assets increased by 3.9 per cent. or KZT 100.2 billion (U.S.$793 million) in 2010, largely due to an increase in financial assets at fair value through profit or loss and investments held-to-maturity. As at 31 December 2009, total assets have decreased by KZT 26.9 billion, or 1.0 per cent., from KZT 2,615 billion in 2008 to KZT 2,588 billion.

Cash and balances with national (central) banks decreased by 32.4 per cent. or KZT 29.3 billion to KZT 61.2 billion as at 31 December 2010 from KZT 90.5 billion as at 31 December 2009 due to decreased balances with the NBK (as the Bank increased its holdings of liquid securities). Cash and balances with national (central) banks amounted to KZT 90.5 billion as at 31 December 2008. Between 31 December 2008 and 31 December 2009, cash and balances with national (central) banks decreased as the Group sought to repay its foreign liabilities.

In accordance with Kazakhstan legislation, second-tier banks are required to maintain a minimum reserve requirement ("MRR") in the form of cash on hand and funds deposited with the NBK in Tenge and in certain other freely-convertible foreign currencies. The MRR is a percentage of total liabilities, calculated as an average amount over fourteen calendar days. As at 31 December 2010, a cash balance of at least KZT 35.7 billion needed to be maintained with the NBK in order to satisfy the MRR and such funds were restricted in use.

In 2010, loans and advances to banks and other financial institutions decreased slightly to KZT 146.3 billion from KZT 148.4 billion as at 31 December 2009. An increase in loans and advances to banks of 32.7 per cent. or KZT 29.7 billion in 2010 was partially off-set by a decrease in correspondent accounts with other banks of 62.2 per cent. or KZT 29.1 billion and a corresponding decrease in loans under reverse repurchase agreements of 22.8 per cent. or KZT 2.5 billion which resulted from the redistribution of available funds into highly liquid assets. Loans and advances to banks and other financial institutions decreased by 38.6 per cent. or KZT 93.4 billion in 2009 due to decreased deposits with other banks.

The Group's securities portfolio includes financial assets at fair value through profit or loss, investments available-for-sale and investments held-to-maturity. Financial assets at fair value through profit or loss increased to KZT 223.2 billion as at 31 December 2010 compared to KZT 114.2 billion as at 31 December

2009 and KZT 58.1 billion as at 31 December 2008. The growth of KZT 109 billion in 2010 was largely due to the reallocation of temporarily free funds to highly liquid assets, with debt securities growing by 166.1% to KZT 197.2 million as at 31 December 2010 from KZT 74.1 million as at 31 December 2009. The increase in debt securities over this period was largely attributable to an increase in short-term NBK notes held by the Bank, of KZT 59.1 billion, state treasury bonds of the Ministry of Finance of Kazakhstan of KZT 30.3 billion and Eurobonds issued by OECD countries of KZT 16.2 billion. The increase was partially off-set by a 42.5 per cent. decrease (KZT 15.9 billion) in derivative financial instruments which was largely due to a decrease in the fair value of currency swaps of 45.6 per cent. from KZT 37.2 billion as at the end of 2009 to KZT 20.2 billion as at the end of 2010. The increase of KZT 56.1 billion or 96.5 per cent. in financial assets at fair value through profit or loss in 2009 was also attributable to an increase in highly liquid assets, namely short-term NBK notes of KZT 46.2 billion.

Lending remains the Bank's core business with loans to customers (less allowance for impairment losses) constituting a significant share of total assets, equaling 80.9 per cent., 83.5 per cent. and 82.0 per cent., respectively, in 2010, 2009 and 2008. Net loans to customers equaled KZT 2,175 billion (U.S.$14,744 million) as at 31 December 2010, KZT 2,161 billion (U.S.$14,554 million) as at 31 December 2009 and KZT 2,145 billion (U.S.$17,756 million) as at 31 December 2008. In recent years, due to the changed economic environment, the Bank has focused on maintaining its existing customer base by providing short term working capital financing, by financing the completion of construction projects and by offering flexible solutions to problem borrowers to protect the interests of the Bank and its depositors. During 2010 and 2009 the Bank also participated in Government stabilisation programmes through to the utilisation of funding provided by Samruk-Kazyna, the JSC Distressed Assets Fund and DAMU to refinance its corporate customers as well as mortgage and SME loans. The Bank participates in Government stabilisation programmes in the interests of both its corporate and retail borrowers as they receive additional funding at favourable terms.

In 2010, gross corporate loans (excluding loans under reverse repurchase agreements) increased by 5.4 per cent. or KZT 123.6 billion and amounted to KZT 2,435 billion (U.S.$16,511 million) as at 31 December 2010 as compared to KZT 2,312 billion (U.S.$15,571 million) as at 31 December 2009 and KZT 2,002 billion (U.S.$16,578 million) as at 31 December 2008. Retail loans decreased by 12.1 per cent. or KZT 42.7 billion to KZT 311 billion (U.S.$2,108 million) as at 31 December 2010 as compared to KZT 353.7 billion (U.S.$2,383 million) as at the end of 2009 and KZT 397.3 billion (U.S.$3,289 million) as at the end of 2008.

To mitigate the impact of the financial crisis on the Bank's financial condition and to provide for the sustainability of the Group, the major priorities of the Bank include the enhancement of its existing customer base and ensuring adequate asset quality. The Bank's ongoing focus is to improve its risk management systems which will enable it to work more effectively with problem borrowers and customers on an individual basis to find solutions aimed at the recovery of their businesses and, ultimately, to ensure repayment of their loans. The Bank furthermore continues to follow a conservative provisioning policy to create adequate provisions covering expected losses on loans to customers.

As a result of the implementation of these measures, allowance for impairment losses on loans to customers amounted to KZT 572.6 billion (U.S.$3,882 million) as at 31 December 2010 compared to KZT 505.5 billion (U.S.$3,405 million) as at 31 December 2009 and KZT 289.6 billion (U.S.$2,398 million) as at 31 December 2008. The provisioning charge as at 31 December 2010 amounted to KZT 95.6 billion, a decrease of KZT 96.9 billion, or 50.3 per cent., from KZT 192.4 billion as at 31 December 2009. The provisioning charge increased in 2009 by KZT 43.6 billion, or 29.3 per cent., to KZT 192.4 billion from KZT 148.8 billion as at 31 December 2008. The provisioning rate on loans to customers was 20.8 per cent., 19.0 per cent. and 11.9 per cent. as at 31 December 2010, 2009 and 2008, respectively.

As at 31 December 2010, the Group has identified certain corporate customer loans, where there are no cash flows to the Group prior to 2013. These loans are considered impaired by management. In accordance with IAS 39, interest should continue to be accrued on impaired loans, even where there are doubts in relation to collection. The accrued interest income on these loans as at 31 December 2010 amounted to KZT 54.4 billion. Management has established an allowance for loan losses of KZT 54.4 billion against this interest in 2010. While there is currently evidence of impairment, the Group continues to progress work-out strategies on these loans. The Group regularly evaluates probable cash flows and changes to this list of corporate loans.

Property, equipment and intangible assets of the Group as at 31 December 2010 amounted to KZT 31.9 billion (U.S.$216 million) compared to KZT 34.0 billion (U.S.$229 million) as at 31 December 2009 and KZT 35.5 billion (U.S.$294 million) as at 31 December 2008. The decrease in property, equipment and intangible assets of KZT 2.1 billion (U.S.$13 million) in 2010 largely resulted from the partial sale of the Group's new office building. Buildings and other real estate assets of the Group are revalued on a regular basis.

There were no significant changes in the structure of the Group's assets during the periods under consideration. The following table sets out the changes in the assets of the Group in 2010 and 2009:

	31 December 2008	31 December 2009	Change in 2009		31 December 2010	Change in 2010	
	KZT millions	KZT millions	Absolute change, KZT millions	% change	KZT millions	Absolute change, KZT millions	% change
ASSETS:							
Cash and balances with national (central) banks	90,478	90,533	55	0.1	61,216	(29,317)	(32.4)
Precious metals	317	1,209	892	281.4	1,345	136	11.2
Financial assets at fair value through profit or loss	58,130	114,203	56,073	96.5	223,231	109,028	95.5
Loans and advances to banks and other financial institutions	241,813	148,375	(93,438)	38.6	146,331	(2,044)	(1.4)
Loans to customers	2,144,782	2,160,767	15,985	0.7	2,174,760	13,993	0.6
Investments available-for-sale	15,056	16,696	1,640	10.9	16,822	126	0.8
Investments held-to-maturity	776	943	167	21.5	1,996	1,053	111.7
Investments in associates	1,775	–	(1,775)	(100)	–	–	–
Goodwill	2,405	2,405	–	–	2,405	–	–
Property, equipment and intangible assets	35,465	33,971	(1,494)	(4.2)	31,857	(2,114)	(6.2)
Other assets	23,808	18,771	(5,037)	(21.2)	28,145	9,374	49.9
Total assets	2,614,805	2,587,873	(26,932)	(1.0)	2,688,108	100,235	3.9

Cash and balances with national (central) banks, loans and advances to banks and other financial institutions and precious metals as a percentage of total assets decreased to 7.8 per cent. as at 31 December 2010 from 9.3 per cent. and 12.7 per cent. as at 31 December 2009 and 2008, respectively. The decrease resulted from a decrease in balances with the NBK as well as due to the reallocation of the Bank's available funds into highly liquid securities.

Loans to customers constitute the largest share of the Group's total assets, equalling 80.9 per cent. as at 31 December 2010 compared to 83.5 per cent. as at 31 December 2009 and 82.0 per cent. as at 31 December 2008.

The Group's securities portfolio as a percentage of total assets increased to 9.0 per cent. as at the end of 2010 compared to 5.1 per cent. and 2.8 per cent. as at 31 December 2009 and 2008, respectively. This increase in 2010 was largely due to investments of temporarily free liquidity into highly liquid assets, such as short-term notes of the National Bank of Kazakhstan, state treasury bonds of the Ministry of Finance of Kazakhstan and Eurobonds issued by OECD countries. The decrease in 2008 was attributable to the liquidation of certain securities in order to increase liquidity and repay certain foreign liabilities.

Property, equipment and intangible assets as a percentage of the Group's total assets equalled 1.2 per cent. as at 31 December 2010 compared to 1.3 per cent. and 1.4 per cent. as at 31 December 2009 and 2008, respectively.

Total liabilities

The following table sets out the liabilities of the Group as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010	% of total	2009	% of total	2008	% of total
	(KZT millions, except percentages)					
Loans and advances from banks and other financial institutions	147,139	6.5	209,122	9.5	296,391	12.9
Customer accounts	1,506,800	66.3	1,276,464	58.1	979,453	42.6
Financial liabilities at fair value through profit or loss	36,047	1.6	35,991	1.6	54,339	2.4
Debt securities issued	375,199	16.5	463,656	21.1	678,285	29.5
Other borrowed funds	23,943	1.1	31,172	1.4	137,324	6.0
Provisions	10,190	0.4	11,945	0.5	10,276	0.4
Deferred income tax liabilities	30,035	1.3	24,519	1.1	10,205	0.4
Dividends payable	4	0.0	15	0.0	5	0.0
Other liabilities	7,868	0.3	8,990	0.5	16,941	0.7
Subordinated debt	137,137	6.0	136,411	6.2	117,724	5.1
Total liabilities	2,274,362	100	2,198,285	100	2,300,943	100

As at 31 December 2010, the Group's total liabilities increased by 3.5 per cent. to KZT 2,274 billion from KZT 2,198 billion as at 31 December 2009 and KZT 2,301 billion as at 31 December 2008.

Customer accounts increased by KZT 230 billion to KZT 1,507 billion (U.S.$10,216 million) as at 31 December 2010 compared to KZT 1,276 billion as at 31 December 2009 and KZT 979 billion as at 31 December 2008. Corporate deposits constituted 70.0 per cent. of total customer deposits as at 31 December 2010 compared to 74.3 per cent. as at 31 December 2009 and 73.1 per cent. as at 31 December 2008. The Group's deposits are also concentrated with the ten largest depositors constituting 51.1 per cent. of total deposits as at 31 December 2010, 60.8 per cent. as at 31 December 2009 and 57.7 per cent. as at 31 December 2008. See "*Risk Factors – Risks Relating to the Bank – Potential declines in customer deposits, which are an important source of funding for the Bank and which have a high concentration of deposits from state-owned entities, may negatively affect the Bank's funding base*".

Corporate deposits increased by 11.2 per cent. or KZT 106.5 billion (U.S.$764 million) to KZT 1,055 billion (U.S.$7,155 million) as at 31 December 2010 from KZT 948.8 billion (U.S.$6,391 million) as at 31 December 2009 and KZT 715.7 billion (U.S.$5,925 million) as at 31 December 2008. In 2009, the Bank actively participated in Government stabilisation programmes, with Samruk-Kazyna, the JSC Distressed Assets Fund and DAMU having deposited funds with the Bank. As at 31 December 2010, the total amount of funds deposited under these stabilisation programmes amounted to KZT 138.3 billion. In 2010, retail deposits increased by 37.8 per cent. or KZT 123.8 billion (U.S.$854 million) to KZT 451.4 billion (U.S.$3,061 million) from KZT 327.6 billion (U.S.$2,207 million) as at 31 December 2009 and KZT 263.8 billion (U.S.$2,184 million) as at 31 December 2008. The increase in retail deposits in 2010 was partly as a result of the Bank's strategy to target retail depositors and enhance its retail business.

Debt securities issued decreased by 19.1 per cent. to KZT 375.2 billion (U.S.$2,544 million) as at 31 December 2010 from KZT 463.7 billion (U.S.$3,123 million) as at 31 December 2009 and KZT 678.3 billion (U.S.$5,615 million) as at 31 December 2008.

The decrease in debt securities issued, both in 2009 and in 2010, was largely due to the repayment and cancellation of certain Eurobonds previously issued by the Bank. In addition, in 2010, a translation difference of U.S.$88 million in debt securities issued resulted from a significant decrease in the exchange rate of the Euro to the Tenge (from 213.95 as at 31 December 2009 to 196.88 as at 31 December 2010) and the Pound Sterling to the Tenge (from 239.6 as at 31 December 2009 to 228.29 as at 31 December 2010). The Bank repaid the following Eurobonds as scheduled: the SGD100 million Eurobond (U.S.$70 million) in February 2009, the JPY25 billion Eurobond (U.S.$273 million) in July 2009 and the U.S.$500 million Eurobond in November 2009.

Loans and advances from banks and other financial institutions decreased by 29.6 per cent. or KZT 62.0 billion (U.S.$411 million) to KZT 147.1 billion (U.S.$998 million) from KZT 209.1 billion and KZT 296.4 billion as at 31 December 2009 and 2008, respectively. The decrease in loans and advances from banks and other financial institutions in 2010 was largely attributable to scheduled repayments and prepayments of loans from banks and other financial institutions of 29.6 per cent. or KZT 62 billion (U.S.$411 million).

Other borrowed funds decreased by 23.2 per cent. or KZT 7.2 billion (U.S.$48 million) to KZT23.9 billion (U.S.$162 million) as at 31 December 2010 from KZT 31.2 billion (U.S.$210 million) as at 31 December 2009 and KZT 137.3 billion (U.S.$1,137 million) as at 31 December 2008. The decrease in 2010 resulted from the repayment of KZT 2.7 billion under the SME support programme to DAMU. The decrease in other borrowed funds in 2009 resulted from the termination of the Bank's Future Flow Securitisation Programme, which comprised the largest share of other borrowed funds.

Subordinated debt amounted to KZT 137.1 billion (U.S.$930 million) as at 31 December 2010 compared to KZT 136.4 billion (U.S.$919 million) as at 31 December 2009 and KZT 117.7 billion (U.S.$975 million) as at 31 December 2008. On 25 August 2010, the Bank was substituted for Kazkommerts Finance II B.V. as issuer of its subordinated bonds in accordance with the terms and conditions of the bonds. As a result, all of the issuer's liabilities on the bonds have been transferred to the Bank. This transfer does not otherwise affect Bondholders' rights. In the second half of 2009, the Bank issued KZT 10 billion 9 per cent. subordinated notes due 2019 of which KZT 2.5 billion was outstanding as at 31 December 2009. On 1 December 2009, the Bank made a scheduled repayment of KZT 4.4 billion in respect of its 8 per cent. indexed subordinated notes (issued in November 2002 for the total amount of KZT 7.5 billion). The repayment of the principal and accrued interest was made from the Bank's own funds. The increase in subordinated debt in 2008 was primarily due to the issuance in November 2008 of KZT 10 billion 9 per cent. subordinated Notes due 2018.

The following table sets out the changes in the liabilities of the Bank in 2010, 2009 and 2008:

	31 December 2008	31 December 2009	Change in 2009		31 December 2010	Change in 2010	
	KZT millions	KZT millions	Absolute change, KZT millions	% change	KZT millions	Absolute change, KZT millions	% change
LIABILITIES:							
Loans and advances from banks and other financial institutions	296,391	209,122	(87,269)	(29.4)	147,139	(61,983)	(29.6)
Customer accounts	979,453	1,276,464	297,011	30.3	1,506,800	230,336	18.0
Financial liabilities at fair value through profit or loss	54,339	35,991	(18,348)	(33.8)	36,047	56	0.2
Debt securities issued	678,285	463,656	(214,629)	(31.6)	375,199	(88,457)	(19.1)
Other borrowed funds	137,324	31,172	(106,152)	(77.3)	23,943	(7,229)	(23.2)
Provisions	10,276	11,945	1,669	16.2	10,190	(1,755)	(14.7)
Deferred income tax liabilities	10,205	24,519	14,314	140.2	30,035	5,516	22.5
Dividends payable	5	15	10	200.0	4	(11)	(73.3)
Other liabilities	16,941	8,990	(7,951)	(46.9)	7,868	(1,122)	(12.5)
Subordinated debt	117,724	136,411	18,687	15.9	137,137	726	0.5
TOTAL LIABILITIES	2,300,943	2,198,285	(102,658)	(4.5)	2,274,362	76,077	3.5
EQUITY	313,862	389,588	75,726	24.1	413,746	24,158	6.2
TOTAL LIABILITIES AND EQUITY	2,614,805	2,587,873	(26,932)	(1.0)	2,688,108	100,235	3.9

Customer accounts remain one of the largest sources of funding for the Group. As at 31 December 2010, customer accounts as a percentage of total liabilities increased to 66.3 per cent. compared to 58.1 per cent. and 42.6 per cent. as at 31 December 2009 and 2008, respectively. The increase in 2010 was attributable to the inflow of both retail and corporate deposits combined with the repayment of other liabilities of the Bank.

Debt securities issued as a percentage of total liabilities gradually decreased due to both the repayment and cancellation of certain of the Bank's Eurobonds. As a result, as at 31 December 2010, debt securities constituted 16.5 per cent. of total liabilities compared to 21.1 per cent. as at 31 December 2009 and 29.5 per cent. as at 31 December 2008.

Loans and advances from banks and other financial institutions as a percentage of total liabilities decreased in 2010 and comprised 6.5 per cent. of total liabilities as at 31 December 2010 compared to 9.5 per cent. as at 31 December 2009 and 12.9 per cent. as at 31 December 2008.

Other borrowed funds as a percentage of total liabilities decreased in 2010, comprising 1.1 per cent of total liabilities as at 31 December 2010 compared to 1.4 per cent. as at 31 December 2009 and 6.0 per cent. as at 31 December 2008.

Subordinated debt as a percentage of total liabilities did not change materially in 2010. As at 31 December 2010 subordinated debt constituted 6.0 per cent. of total liabilities compared to 6.2 per cent. in 2009 and 5.1 per cent. in 2008.

Equity and capital ratios

Total equity increased by 6.2 per cent. or KZT 24.2 billion (U.S.$181 million) in 2010 to KZT 413.7 billion (U.S.$2.8 billion) as at 31 December 2010 compared to KZT 389.6 billion (U.S.$2.6 billion) as at 31 December 2009 and KZT 313.9 billion (U.S.$2.6 billion) as at 31 December 2008. The increase in 2009 amounted to 24.1 per cent. or KZT 75.7 billion (U.S.$258 million).

Total equity attributable to shareholders of the parent amounted to KZT 412.7 billion (U.S.$2,798 million) as at 31 December 2010 compared to KZT 389.8 billion (U.S.$2,626 million) and KZT 313.6 billion (U.S.$2,596 million) as at 31 December 2008. The 2010 increase of 5.9 per cent. or KZT 22.9 billion (U.S.$172 million) was as a result of the capitalisation of net profit for the year. The increase of 24.3 per cent. or KZT 76.2 billion (U.S.$30 million) in 2009 was due to capitalisation of net profit as well as placement of Shares.

In the first half of 2009, an additional 325,000,000 Shares were authorised for issue and on 14 May 2009 the Bank completed a placement of 204,338,177 Shares. As a result, the share capital of the Bank increased by KZT 44.47 billion (approximately U.S.$296 million). The Shares were placed at U.S.$1.45 per Share or U.S.$2.90 per GDR (with each GDR representing two Shares). Samruk-Kazyna purchased 165,517,241 ordinary shares in the placement. Several major shareholders of the Bank did not take up their rights or participate in the issue. The EBRD, a shareholder in the Bank since 2003, exercised all of its pre-emptive rights and purchased 27,497,588 Shares. The holders of GDRs purchased 9,704,658 Shares through The Bank of New York Mellon. The minority shareholders who exercised pre-emptive rights purchased 1,618,690 ordinary shares. See "*Equity Offerings*" for more detail below.

As at 31 December 2010, the Group's equity capital calculated in accordance with the Basel Accord was KZT 517.8 billion (including Tier I capital of KZT 418.6 billion) compared to KZT 499.8 billion (including Tier I capital of KZT 395.6 billion) as at 31 December 2009 and KZT 433.0 billion (including Tier I capital of KZT 330.8 billion) as at 31 December 2008. As at 31 December 2010, the Group's Tier I capital adequacy ratio and total capital adequacy ratio, each calculated in accordance with the Basel Accord, was 16.2 per cent. and 20.1 per cent. respectively, compared to 15.9 per cent. and 20.1 per cent. as at 31 December 2009, and 13.5 per cent. and 17.7 per cent. as at 31 December 2008. The capital adequacy requirements are set by the Agency of Financial Supervision and are implemented and supervised in accordance with principles, methods and coefficients of the Basel Committee on banking supervision. The Bank was in full compliance with these capital requirements during the periods under consideration.

The following table sets out information on the Group's capital and its consolidated capital adequacy ratios as at 31 December 2010, 2009 and 2008, all calculated in accordance with the Basel Accord, as currently in effect:

	As at 31 December				
	2010	2009	Change	2008	Change
	(KZT millions)				
Composition of regulatory capital[1]:					
Tier 1 capital:					
Share capital (ordinary shares)	7,786	7,787	(1)	5,746	2,041
Share premium reserve	195,024	195,006	18	152,684	42,322
Retained earnings	180,609	161,971	18,638	140,762	21,209
Current income	21,879	19,423	2,456	21,805	(2,382)
Non-controlling interest	1,074	(223)	1,297	278	(501)
Goodwill	(2,405)	(2,405)	–	(2,405)	–
Innovative instruments[2]	14,649	14,085	564	11,965	2,120
Total qualifying tier 1 capital	418,616	395,644	22,972	330,835	64,809
Property and equipment revaluation reserve[3]	5,940	5,040	900	5,905	(865)
Share capital (preferred shares)	1,245	1,244	1	1,244	–
Subordinated debt[4]	92,030	97,871	(5,841)	95,005	2,866
Total qualifying tier 2 capital	99,215	104,155	(4,940)	102,154	2,001
Total capital	517,831	499,799	18,032	432,989	66,810
Tier 1 capital adequacy ratio	16.2%	15.9%	0.3%	13.5%	2.4%
Capital adequacy ratio	20.1%	20.1%	(0.1%)	17.7%	2.4%

(1) According to the principles applied by the Basel Committee.

(2) Innovative instruments represents perpetual bonds.

(3) The line "*Property and equipment revaluation reserve*" includes 55% of investments available-for-sale securities revaluation reserve/(deficit) (in accordance with the Basel standards).

(4) As at 31 December 2010, 2009 and 2008, the Group included in the computation of total capital for capital adequacy purposes, subordinated debt received, which is not to exceed 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

The Bank's capital adequacy ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks and other financial institutions for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The following table sets out information on the Bank's capital and its capital adequacy ratios as at 31 December 2010, 2009 and 2008. All calculations are based on the Bank's statutory financial statements in accordance with the applicable regulations of the FMSA. The information has, therefore, not been prepared in accordance with IFRS.

		As at 31 December		
	FMSA's minimum requirements	2010	2009	2008
		(%, unless otherwise noted)		
Share Capital[1]	Not less than KZT 5 billion[2]	KZT 204.1 billion	KZT 204.1 billion	KZT 159.7 billion
K1-1 – Tier I capital as a percentage to total assets	Not less than 5% (up to 01 July 2009 – K1)	12.3	12.8	11.0
K1-2 – Tier I capital to total risk weighted assets (including on-balance and off-balance sheet assets and liabilities)	Not less than 5% (imposed since 01 July 2009)	11.1	11.0	–
K2 – own capital to total risk weighted assets (including on-balance and off-balance sheet assets and liabilities)	Not less than 10%	15.0	14.9	13.3
K4 – current liquidity ratio	More than 30%	67.5	58.8	Cancelled since 01.07.08, re-introduced on 01.04.09
K4-1 – term liquidity ratio[3]	More than 100%	1054.8	358.0	316.2
K4-2 – term liquidity ratio[4]	More than 90%	414.5	117.2	126.3
K4-3 – term liquidity ratio[5]	More than 80%	224.4	118.2	130.0
K4-4[6] – term currency liquidity ratio	More than 100%	741.5	307.6	479.5
K4-5[7] – term currency liquidity ratio	More than 90%	298.0	112.0	144.4
K4-6[8]- term currency liquidity ratio	More than 80%	168.9	112.7	153.2
K6 – investments to fixed assets and non-financial assets as a percentage of own capital	Not greater than 50%	10.9	8.2	9.9
Maximum net currency position as a percentage of own capital	Not greater than 25%[9]	0.9	8.1	0.3
Maximum open currency position on foreign currencies of countries with "A" or higher sovereign rating assigned by «Standard&Poor's» and in Euro as well as refined precious metals, as a percentage of own capital	Not greater than 12.5%	12.2	11.3	1.4
Maximum open currency position on foreign currencies of countries with sovereign rating below "A" assigned by «Standard&Poor's» as a percentage of own capital	Not greater than 5%	0.35	0.1	0.7
Maximum exposure as a percentage of own capital to any single borrower:				
– related parties	Not greater than 10%	9.4	9.0	8.1
– other borrowers	Not greater than 25%	22.3	21.2	19.1
– on unsecured loans	Not greater than 10%	8.1	7.3	6.9
Maximum aggregate credit exposure to related parties (including on-balance and off-balance sheet exposure) as a percentage of own capital	Not greater than 100%	22.7	16.8	15.2
K7 – maximum limit for short-term liabilities towards non-residents	Not greater than 1	0.025	0.030	0.104
K8 – total liabilities towards non-residents to own capital	Not greater than 2 Not greater than 2.5 up to 01 July 2009	0.430	0.661	1.293
K9 – percentage of total liabilities to non-residents and debt securities to own capital	Not more than 3	1.500	1.796	3.017
Minimum reserve requirements as a percentage of average customer accounts balances plus qualified international borrowings (for the period including the reporting date)	Not less than 1.5 per cent. for internal liabilities			
Not less than 2.5 per cent. for other liabilities		2.6	5.0	4.1
Fund placement into internal assets ratio	Not less than 100%	122	154	172

(1) Under Kazakhstan law, "share capital" means capital which must be provided in order to establish a company or a bank. A bank's share capital may only be formed with cash contributions. The sources of contributions to share capital are subject to certain limitations and specific disclosure requirements.

(2) For newly established banks.

(3) The K4-1 ratio became applicable from 1 July 2008 and is calculated as the average monthly high liquid assets to the average monthly accrued liabilities with a remaining maturity date of up to seven days.

(4) The K4-2 ratio became applicable from 1 July 2008 and is calculated as the average monthly liquid assets with a remaining maturity date of up to one month including high liquid assets to the average monthly accrued liabilities with a remaining maturity date of up to one month.

(5) Before 1 July 2008 K-5, a current liquidity ratio with a required normative of not less than 50 per cent.

(6) The K4-4 ratio became applicable from 1 July 2008 and is calculated as the average monthly highly liquid assets in foreign currency to the average monthly accrued liabilities with a remaining maturity date of up to seven days in the same foreign currency.

(7) The K4-5 ratio became applicable from 1 July 2008 and shall be calculated as the average monthly liquid assets in foreign currency with a remaining maturity date of up to one month including highly liquid assets to the average monthly accrued liabilities with a remaining maturity date of up to one month in the same foreign currency.

(8) Before 1 July 2008 – limit on short-term currency liquidity.

(9) The FMSA's definition of "own capital" is the sum of Tier I capital plus Tier II capital (to the extent it does not exceed Tier I capital) and, since 1 January 2006, Tier III capital (not exceeding 250 per cent. of the portion of Tier I capital aimed to cover market risk) less investments of a bank in equity and in certain subordinated debt. Tier I capital is the sum of share capital plus share premium plus retained earnings plus perpetual financial instruments (not exceeding 15 per cent. of Tier I capital) less intangible assets. Tier II capital is the sum of current profit for the period plus revaluation reserves plus general provisions (to the extent that they do not exceed 1.25 per cent. of risk weighted assets) plus paid perpetual financial instruments which are not included into Tier I capital plus Tier II subordinated debt which is included into own capital (net worth) (but no more than 50 per cent. of Tier I capital).

Funding and liquidity

The Bank continues to implement its strategy to replace foreign funding with domestic funding by increasing and maintaining its corporate deposit base as well as maintaining its market share in retail deposits.

The following table sets out the funding base of the Group as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	KZT millions	% of total	KZT millions	% of total	KZT millions	% of total
Customer accounts	1,506,800	68.8	1,276,464	60.3	979,453	44.4
Debt securities issued	375,199	17.1	463,656	21.9	678,285	30.7
Loans and advances from banks and other financial institutions	147,139	6.7	209,122	9.9	296,391	13.4
Subordinated debt	137,137	6.3	136,411	6.4	117,724	5.3
Other borrowed funds	23,943	1.1	31,172	1.5	137,324	6.2
Total funding base	2,190,218	100	2,116,825	100	2,209,177	100

Customer accounts

As at 31 December 2010 customer accounts amounted to KZT 1,507 billion (U.S.$10,216 million) compared to KZT 1,276 billion (U.S.$8,598 million) as at 31 December 2009 and KZT 979.5 billion (U.S.$8,109 million) as at 31 December 2008.

The growth in customer accounts in 2010 of 18.0 per cent. or KZT 230.3 billion (U.S.$1.6 billion) was attributable to the inflow of both corporate and retail deposits.

Corporate deposits increased by 11.2 per cent. or KZT 106.5 billion (U.S.$764 million) to KZT 1,055 billion (U.S.$7,155 million) as at 31 December 2010, largely due to the inflow of new corporate deposits. The share of corporate deposits as a percentage of total deposits decreased to 70.0 per cent. from 74.3 per cent. in 2009, due to higher growth rates of retail deposits (of 37.8 per cent.) compared to the growth rates of corporate deposits (of 11.2 per cent.).

As at 31 December 2010 the funds of Samruk-Kazyna, DAMU and the JSC Distressed Assets Fund amounted to KZT 152.4 billion. As at 31 December 2010 the total amount of funds deposited under the stabilisation programme of the Government of Kazakhstan by means of deposits from Samruk-Kazyna and JSC Distressed Assets Fund amounted to KZT 138.3 billion, including:

- KZT 37.5 billion for the real economy sector (initially granted and deposited in the Bank KZT 84.0 billion);

- KZT 24.0 billion for refinancing mortgage loans;

- KZT 73.2 billion for the completion of construction projects in Almaty and Astana (initially granted and deposited in the Bank KZT 92.7 billion); and

- KZT 3.6 billion for financing large-scale businesses in the manufacturing sector.

Retail deposits increased by 37.8 per cent. or KZT 123.8 billion (U.S.$854 million) to KZT 451.4 billion (U.S.$3,061 million) as at 31 December 2010. The share of retail deposits in total deposits as a percentage of total deposits increased to 30.0 per cent. from 25.7 per cent. in 2009.

Customers actively use deposit products offered by the Bank. The combination of an experienced management team, an efficient branch network together with advanced banking technologies have enabled the Bank to increase its retail deposit base. The Bank offers different advantages for its depositors, including favourable lending terms and opportunities for utilising banking card services. Retail deposits are covered by insurance, as the Bank participates in the deposit insurance system.

There was an increase both in term and demand deposits in 2010. Term deposits increased by 6.8 per cent. or KZT 65.5 billion (U.S.$486 million) to KZT 1,035 billion as at 31 December 2010, largely due to growth in retail deposits. In 2010, retail term deposits increased by 38.0 per cent., while corporate term deposits decreased by 6.6 per cent. Retail term deposits amounted to KZT 401.1 billion (U.S.$2,719 million) and corporate term deposits amounted to KZT 634.4 billion (U.S.$4,301 million) as at 31 December 2010.

Demand deposits increased by 53.8 per cent. or KZT 164.9 billion (U.S.$1,131 million) to KZT 471.4 billion (U.S.$3,196 million) as at 31 December 2010 largely due to growth in corporate demand deposits (by 56.2 per cent. or KZT 151.4 million (U.S.$1,038 million) to KZT 421 billion (U.S.$2,854 million) as at 31 December 2010. Retail demand deposits increased by 36.4 per cent. or KZT 13.5 billion (U.S.$93 million) to KZT 50.4 billion (U.S.$342 million) in 2010.

The share of term deposits as a percentage of total deposits decreased from 76.0 per cent. in 2009 to 68.7 per cent. in 2010. The decrease was attributable to faster growth rates in demand deposits which grew, as a percentage of total deposits, from 24.0 per cent. of total deposits in 2009 to 31.2 per cent. in 2010.

The growth in customer deposits in 2009 resulted from an increase in deposits under Government stabilisation programmes, which was also a driver of the growth in corporate deposits.

Corporate deposits increased to KZT 948.8 billion (U.S.$6,391 million) as at 31 December 2009. The share of corporate deposits as a percentage of total deposits was 74.3 per cent. in 2009 compared to 73.1 per cent. in 2008.

Deposits from Samruk-Kazyna, DAMU and the JSC Distressed Assets Fund amounted to KZT 175.6 billion (U.S.$1,183 million) as at 31 December 2009 compared to KZT 35.1 billion (U.S.$291 million) as at 31 December 2008. U.S.$15 million in deposits from Samruk-Kazyna is due for repayment at the end of May 2011.

Retail deposits were KZT 327.6 billion (U.S.$2,207 million) as at 31 December 2009 as compared to KZT 263.8 billion (U.S.$2,184 million) as at 31 December 2008. The share of retail deposits as a percentage of total deposits was 25.7 per cent. and 26.9 per cent. as at 31 December 2009 and 2008, respectively. A gradual decrease in the share of retail deposits resulted from growth in the Bank's corporate deposits of the Bank.

Deposits remain a major priority for the Bank's corporate and retail business. The Bank plans to focus on maintaining its existing deposit base with a possible increase in deposits.

Loans and advances from banks and other financial institutions

Loans and advances from banks and other financial institutions as at 31 December 2010 amounted to KZT 147.1 billion (U.S.$998 million), having decreased by 29.6 per cent. or KZT 62 billion (U.S.$411 million) predominantly due to scheduled repayments throughout the period. Loans and advances from banks and other financial institutions as at 31 December 2009 amounted to KZT 209.1 billion (U.S.$1,409 million) as compared to KZT 296.4 billion (U.S.$2,454 million) as at 31 December 2008.

The Bank also acts as a clearing centre for the majority of banks operating in Kazakhstan. These banks have accounts with the Group. Correspondent accounts of other banks and organisations decreased from KZT 2.7 billion as at 31 December 2009 to KZT 1.9 billion as at 31 December 2010 as compared to KZT 14.3 billion as at 31 December 2008.

In December 2006 the Bank signed a syndicated loan for U.S.$1 billion. The loan included two tranches: U.S.$700 million 'tranche A' for one year (repaid on 24 December 2007) and U.S.$300 million 'tranche B' for three years (repaid on 18 December 2009). The deal was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd, ING Bank N. V., Standard Chartered Bank and UniCreditGroup. The purpose of the loan was to finance the international trading operations of the Bank's customers.

The following table sets out loans and advances from banks and other financial institutions for the years ended 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	2009	2008
		(KZT millions)	
Recorded at amortised cost:			
Correspondent accounts of other banks	1,940	2,680	14,267
Correspondent accounts of organisations that serve certain types of banking operations	227	254	386
Loans from banks and other financial institutions, including:			
Syndicated loan from a group of banks with maturity of December 2009 and interest rate of 1.1%	–	–	36,451
Loan with maturity of August 2011	148	314	300
Loan with maturity of June 2014	23,037	32,357	32,952
Loans with other banks and financial establishments	121,760	172,093	193,764
Deposits with banks	1	1,424	8,745
Loans under repurchase agreements	26	–	9,526
	147,139	209,122	296,391

Equity Offerings

In July 1997 the Bank raised U.S.$50 million through an international offering of its Shares in the form of GDRs, which are traded on the London, Istanbul, Frankfurt and Berlin stock exchanges. In December 2001 the Bank raised U.S.$21.2 million through a public offering of 55.6 million Preference Shares in Kazakhstan. In 2004 and 2005 the Bank placed preference shares raising U.S.$18.2 million and U.S.$52.3 million respectively. In 2005 the Bank raised U.S.$33 million through another placement of its Shares. In the second half of 2006 the Bank was the first financial institution in Kazakhstan to conduct an initial public offering of its Shares to institutional investors in the United States and elsewhere through the listing of its GDRs on the London Stock Exchange. A domestic placement of 103.5 million Shares at a price of U.S.$9.25 per Share was completed on 9 January 2007. The domestic placement was the second stage of the public offer. As part of the first stage, several shareholders of the Bank sold 91,495,412 Shares in the form of GDRs and used the sale proceeds to subscribe for new Shares in the domestic placement. The proceeds received by CAIC, Mr. Nurzhan Subkhanberdin and the EBRD exceeded U.S.$845 million. In early 2009, an additional 325,000,000 Shares were registered and authorised for issuance and on 14 May 2009 the Bank completed a placement of 204,338,177 Shares. As a result the share capital of the Bank grew by KZT 44.47 billion (approximately

U.S.$296 million). The Shares were placed at U.S.$1.45 per Share or U.S.$2.90 per GDR (with each GDR representing two Shares). The results of the capital increase were as follows:

- 165,517,241 Shares were purchased by Samruk-Kazyna, which was previously not a shareholder, for KZT 36 billion;
- Several major shareholders of the Bank (including CAIC, Alnair and Mr Subkhanberdin) did not take up their rights or participate in the increase;
- The EBRD, a shareholder in the Bank since 2003, took up all its pre-emptive rights and purchased 27,497,588 Shares;
- 9,704,658 Shares were purchased through The Bank of New York Mellon by holders of GDRs; and
- 1,618,690 Shares were purchased by minority shareholders exercising pre-emptive rights.

Other borrowed funds
Other borrowed funds amounted to KZT 23.9 billion (U.S.$162 million) as at 31 December 2010 compared to KZT 31.2 billion (U.S.$210 million) and KZT 137.3 billion (U.S.$1,137 million) as at 31 December 2009 and 2008, respectively. The decrease by 23.2 per cent. or KZT 7.2 billion (U.S.$48 million) in 2010 resulted from the repayment of the third tranche of funding received from DAMU for the financing and refinancing of SMEs as well as from the scheduled repayment of long-term loans.

Other borrowed funds decreased in 2009 largely due to the termination of the Bank's securitisation programme. In June 2009 the Bank, acting in its capacity as originator, requested that the programme's controlling parties (responsible for future payments, including Ambac Assurance Corporation, MBIA Insurance Corporation, Financial Guaranty Insurance Company, the Asian Development Bank and West LB) terminate the programme. The principal amount of U.S.$850.4 million was fully redeemed on 11 June 2009 with U.S.$99.6 million of the principal having been repaid earlier on 16 March 2009.

Debt securities issued
The Bank has been active in the international capital markets since 1998 and as at 31 December 2010 had KZT 375.2 billion (U.S.$2,544 million) outstanding under Eurobonds compared to KZT 463.7 billion (U.S.$3,123 million) and KZT 678.3 billion (U.S.$5,615 million) as at 31 December 2009 and 2008, respectively. A decrease in debt securities issued in 2010 by 19.1 per cent. or KZT 88.5 billion (U.S.$579 million) was the result of the repurchase and cancellation of the Bank's Eurobonds. Additionally, there was a translation difference resulting from a significant decrease in exchange rates of the Euro and Pound Sterling in 2010.

Debt securities issued also decreased in 2009 largely due to scheduled repayments of the Bank's Eurobonds as well as the repurchase and cancellation thereof.

In April 2003 the Bank issued a U.S.$500 million ten year Eurobond with a 8.5 per cent. coupon and in April 2004, the Bank issued another U.S.$400 million ten year Eurobond with a 7.875 per cent. coupon. In November 2004 the Bank issued a U.S.$500 million five-year Eurobond with a 7.0 per cent. coupon. In November 2005 the Bank issued a U.S.$500 million bond with a ten year maturity and a coupon of 8 per cent. In February 2006, the Bank issued a SGD$100 million three-year bond with a coupon of 4.25 per cent. In March and November of 2006 the Bank placed a five-year Eurobond of EUR300 million with a 5.125 per cent. coupon and a ten year Eurobond of U.S.$500 million with a 7.5 per cent. coupon. In February 2007 the Bank issued a ten-year EUR750 million Eurobond with a 6.785 per cent. coupon. In February 2007, the Bank issued a five-year GBP350 million Eurobond with a 7.625 per cent. coupon. In July 2007 the Bank issued a two-year JPY25 billion Eurobond. In May 2008 the Bank issued a U.S.$230 million Eurobond with a coupon of 12 per cent. due to mature in 2011. The Eurobonds were issued by the Bank's subsidiary, Kazkommerts International B.V. under the Bank's guarantee. On 11 February 2011 the Bank replaced Kazkommerts International B.V. as the issuer for the Eurobonds, which means that all of the issuer's liabilities have been transferred to the Bank, and the guarantee by the Bank is no longer required or effective.

During 2009 the Bank redeemed the following Eurobonds in accordance with their repayment terms: SGD100 million Eurobond (U.S.$70 million) in February 2009; JPY25 billion Eurobond (U.S.$273 million) in July 2009; and U.S.$500 million Eurobond in November 2009.

In 2009 the Bank cancelled its own Eurobonds totalling U.S.$1,226 million (U.S.$496 million, GBP125 million and EUR367 million).

Subordinated debt

The Group's subordinated debt was KZT 137.1 billion (U.S.$930 million) as at 31 December 2010 compared to KZT 136.4 billion (U.S.$919 million) and KZT 117.7 billion (U.S.$975 million) as at 31 December 2009 and 2008, respectively. There were no significant changes in subordinated debt in 2010. In 2009 the changes were insignificant as new placements exceeded scheduled repayments.

In July and August 2009 the Bank conducted two placements of subordinated bonds, both maturing in 2019 with a 9.0 per cent. coupon each. The bonds, totalling KZT 10 billion, were issued under the third tranche of the Bank's first subordinated notes programme of KZT 30 billion. The issue terms envisage multiple placements during the following ten years. As at 31 December 2010 the outstanding subordinated bonds under the third tranche was KZT 3.5 billion.

In December 2009 the Bank made a scheduled repayment of indexed subordinated debt with a coupon of 8.0 per cent. in the amount of KZT 4.4 billion. The debt was issued in November 2002 for a total amount of KZT 7.5 billion.

Liquidity

The following table sets out certain liquidity ratios of the Bank:

	As at 31 December		
	2010	**2009**	**2008**
		%	
Liquid assets/total assets	14.0	10.6	12.3
Liquid assets/total deposits	24.9	21.5	32.7
Liquid assets/liabilities up to one month	65.6	68.4	68.6
Loans to customers, net/total assets	80.9	83.5	82.0
Loans to customers, net/total deposits	144.3	169.3	219.0
Loans to customers, net/total equity	525.6	554.6	683.4

Liquid assets include cash and balances with national (central) banks, precious metals, financial assets at fair value through profit or loss (less derivatives financial instruments), loans and advances to banks (net) up to one month.

Treasury operations

The main objective of the Bank's treasury operations is to efficiently manage liquidity, interest rate and market risks by managing its foreign currency exposure and funding costs in the foreign exchange markets. The Bank's treasury operations largely comprise spot transactions in Tenge and other currencies, transactions in government securities and the utilisation of currency derivatives for hedging purposes.

Financial assets at fair value through profit or loss were KZT 223.2 billion (U.S.$1,513 million) as at 31 December 2010 compared to KZT 114.2 billion (U.S.$769 million) as at 31 December 2009 and KZT 58.1 billion (U.S.$481 million) as at 31 December 2008.

The increase in financial assets at fair value through profit or loss by KZT 109 billion in 2010 was largely due to the reallocation of temporarily free liquidity to highly liquid assets. As a result, short-term NBK notes increased by KZT 59.1 billion, State treasury notes of the Ministry of Finance of Kazakhstan increased by KZT 30.3 billion and holdings of Eurobonds issued by OECD governments increased by KZT 16.2 billion. At the same time, there was a decrease in the Bank's liabilities in respect of derivative financial instruments of 42.5 per cent. or KZT 15.9 billion (U.S.$106 million) due to a decrease in the fair value of currency swaps of 45.6 per cent. from KZT 37.2 billion (U.S.$252 million) as at 31 December 2009 to KZT 20.2 billion (U.S.$136 million) as at 31 December 2010.

In 2009, financial assets at fair value through profit or loss increased, due to investments in short-term NBK notes (an increase of KZT 46.2 billion) and an increase in the fair value of derivative financial instruments.

The following table sets out the Group's financial assets at fair value through profit or loss for the periods indicated:

	As at 31 December		
	2010	2009	2008
	(KZT millions)		
Debt securities	197,188	74,125	32,537
Derivative financial instruments	21,524	37,440	24,317
Equity investments	4,519	2,638	1,276
Total financial assets at fair value through profit or loss	223,231	114,203	58,130

The use of derivative financial instruments allows the Bank to mitigate the impact of changes in interest rates and to control its interest margin. The following table sets out the group's derivative financial instruments for the periods indicated:

	As at 31 December		
	2010	2009	2008
	Net fair value, KZT millions		
Derivative financial instruments			
Foreign exchange contracts:			
Foreign exchange swap	20,228	37,182	21,265
Spot	1,114	–	2
Forward contracts	3	8	1,941
Options	–	–	163
Interest rate contracts:			
Interest rate swap	179	250	946
	21,524	37,440	24,317

Foreign Currency Position

Currency risk is a risk of fluctuations in value of a financial instrument due to a fluctuation of currency exchange rates. The financial position and money flows of the Bank are subject to fluctuations of exchange rates of foreign currencies. The ALMC monitors currency risk by defining the open foreign currency position based on KZT devaluation and other macroeconomic indicators, and it allows the Group to mitigate losses from significant fluctuations of national and foreign currencies. The Treasury Department controls the open foreign currency position daily for the purpose of compliance with regulatory requirements.

The following table sets out the net open foreign currency position of the Group as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	2009	2008
Net long/(short) position (KZT millions)	135,361	129,160	100,437
As a percentage of shareholders' equity (%)	32.7	33.2	32.0
As a percentage of total liabilities (%)	6.0	5.9	4.4

The FMSA (and as from 12 April 2011, the NBK) imposes strict restrictions in respect of the net open foreign currency positions of second tier banks. The Treasury Department monitors net open foreign currency positions on a daily basis and reports to the ALMC at least on a weekly basis.

Derivative Financial Instruments

The Group hedges cash flow on its foreign currency liabilities using cross currency swaps and currently has three cross currency swap agreements outstanding. The original amounts of these agreements were EUR 300 million, EUR 650 million and £350 million. As a consequence of the Bank buying back certain Eurobonds, the amounts of underlying Eurobonds outstanding as at 31 December 2010 had been reduced to

EUR 183.5 million, EUR 392.8 million and £173.9 million, respectively. See "*Risk Factors – Risks Relating to the Bank – The Bank may have significant liabilities under cross currency swaps.*"

As at 31 December 2010, there was a net loss on transactions with derivative financial instruments of KZT 8.2 billion as compared to a net gain of KZT 26.2 billion for the year ended 31 December 2009 and a net loss of KZT 23.0 billion for the year ended 31 December 2008.

As at 31 December 2010, the Group's financial liabilities at fair value through profit or loss were KZT 36.0 billion as compared to KZT 36.0 billion as at 31 December 2009 and KZT 54.3 billion as at 31 December 2008.

Contractual commitments and contingencies

In the normal course, the Group enters into certain financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments include guarantees and letters of credit and they involve varying degrees of credit risk.

As at 31 December 2010, the Group had issued outstanding guarantees and letters of credit in the amount of KZT 93.3 billion as compared to KZT 130.5 billion (U.S.$879 million) as at 31 December 2009 and KZT 147.1 billion (U.S.$1,218 million) as at 31 December 2008.

The decrease in guarantees and letters of credit by 28.5 per cent. or KZT 37.1 billion (U.S.$246 million) during 2010 was mainly the result of the expiration of guarantees denominated in foreign currency by KZT 26 billion (U.S.$174.3 million) and guarantees denominated in Tenge of KZT 5.5 billion (U.S.$34.2 million). As a result of the expiration of the foreign currency guarantees, the share of transactions in Tenge as a percentage of total guarantees and letters of credit increased from 63.2 per cent. to 79.1 per cent. in 2010. Guarantees and letters of credit decreased in 2009 largely due to the decrease in letters of credit denominated in foreign currency. The increase in the volume of guarantees issued from KZT 109.6 billion at 31 December 2008 to KZT 122.1 billion as at 31 December 2009, was mitigated by an even spread of guarantees across the currency portfolio.

A customer may request an open credit debt facility; the suitability of which will depend on the borrower's financial position, credit history and other factors which the Bank will take into account in their decision. If an open credit facility is established it will be uncommitted and the Bank is entitled to suspend the facility or deny the borrower further credit for a number of reasons. As at 31 December 2010, the amount of contingent liability for unused credit facilities was KZT 286.7 billion, as compared to KZT 433.9 billion in 2009 and KZT 502.1 billion in 2008.

The following table sets out the letters of credit and guarantees issued by the Bank as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
		(KZT millions)	
Letters of credit	2,783	8,391	37,570
Tenge	368	265	143
Foreign currency	2,415	8,126	37,427
Guarantees issued	90,557	122,096	109,550
Tenge	71,635	77,173	57,651
Foreign currency	18,922	44,923	51,899
Total	93,340	130,487	147,120
Tenge	72,003	77,438	57,795
Foreign currency	21,337	53,049	89,326

As at 31 December 2010 provision for losses relating to guarantees and contingent liabilities amounted to KZT 3.9 billion (U.S.$26 million) compared to KZT 7.2 billion (U.S.$49 million) as at 31 December 2009 and KZT 6.3 billion (U.S.$52 million) as at 31 December 2008.

The following table sets out the guarantees and letters of credit of the Group by contractual maturity as at 31 December 2010:

	Up to three months	Three to six months	Six months to one year (KZT millions)	One year and over	Total
Guarantees	6,760	3,293	46,455	34,049	90,557
Letters of credit	740	1,439	604	–	2,783
Total	7,500	4,732	47,059	34,049	93,340

The following table sets out the guarantees and letters of credit of the Group by contractual maturity as at 31 December 2009:

	Up to three months	Three to six months	Six months to one year (KZT millions)	One year and over	Total
Guarantees	31,889	6,237	21,209	62,761	122,096
Letters of credit	1,650	4,390	2,351	–	8,391
Total	33,539	10,627	23,560	62,761	130,487

The following table sets out the guarantees and letters of credit of the Group by contractual maturity as at 31 December 2008:

	Up to three months	Three to six months	Six months to one year (KZT millions)	One year and over	Total
Guarantees	23,891	12,853	18,832	53,974	109,550
Letters of credit	11,842	5,140	16,174	4,414	37,570
Total	35,733	17,993	35,006	58,388	147,120

Recent Developments

On 7 February 2011, CAIC and CAIC's 100 per cent. owned subsidiary, JSC "Ak Zhalyn", together owning 882,721 Shares in the Bank (or a 0.11% ownership stake), conducted an internal reorganisation by merging JSC "Ak Zhalyn" with CAIC. The purpose of the reorganisation was to eliminate the chain of underlying shareholdings in the CAIC ownership structure, allowing for greater transparency and structural efficiency. Although CAIC's total share (direct and indirect ownership) in the Bank's equity (of 31.06 per cent.) did not change as a result of the reorganisation, there were certain insignificant changes in the composition of its direct and indirect ownership. These changes involved an increase in its direct ownership in the Bank from 23.72 per cent. to 23.83 per cent. and a decrease in its indirect ownership in the Bank from 7.34 per cent. to 7.23 per cent. The decrease resulted from certain Shares having been transferred from Samruk-Kazyna to CAIC under trust management.

On 8 February 2011, the Bank acquired 139,000 ordinary shares in JSC "Life Insurance Company "Kazkommerts Life" for KZT 139 million. The Bank's Shareholding in JSC "Life Insurance Company "Kazkommerts Life" did not change as a result.

On 23 March 2011, the Bank announced the repayment of its EUR 300 million Eurobond issued in March 2006. The Eurobond was repaid in full on the maturity date which was 23 March 2011.

KZT 15.0 billion in deposit funding from Samruk-Kazyna will become due and payable at the end of May 2011.

SELECTED STATISTICAL AND OTHER INFORMATION

Average Balances

The following table sets out the Bank's average statement of financial position based upon the average of the daily balances of the Bank and its subsidiaries for the years ended 31 December 2010, 2009 and 2008.

	Year ended 31 December					
	2010		2009		2008	
	Average balance (KZT millions)	Average interest rate (%)	Average balance (KZT millions)	Average interest rate (%)	Average balance (KZT millions)	Average interest rate (%)
Assets						
Loans and advances to banks and other financial institutions. net	131,085	4.91	116,352	6.21	219,760	4.73
Loans and advances to banks and other financial institutions:	131,116	4.91	117,070	6.17	220,657	4.71
Tenge	29,985	0.66	13,146	8.01	15,212	6.55
Foreign Currency	101,131	6.17	103,924	5.93	205,445	4.58
Provisions for impairment losses on loans and advances to banks and other financial institutions	(32)	–	(718)	–	(897)	–
Tenge	–	–	–	–	–	–
Foreign Currency	(32)	–	(718)	–	(897)	–
Correspondent account with NBK	(43,227)	–	102,801	–	119,884	–
Tenge	(38,110)	–	28,052	–	27,654	–
Foreign Currency	5,117	–	74,749	–	92,230	–
Financial assets at fair value through profit or loss, investments available-for-sale, investments held-to-maturity and investments in associates	166,642	3.12	59,722	7.62	66,766	9.00
Tenge	139,476	2.68	33,109	8.22	38,506	9.08
Foreign Currency	27,165	5.38	26,613	6.87	28,260	8.89
Loans to Customers, net	1,898,412	14.74	2,223,951	16.22	2,191,267	16.59
Performing loans	1,967,077	14.23	2,354,238	15.32	2,272,840	15.99
Tenge	739,234	14.97	690,030	15.92	862,279	16.17
Foreign Currency	1,227,843	13.78	1,664,208	15.1	1,410,561	15.88
Non-performing and overdue loans	475,071	–	281,798	–	97,820	–
Tenge	217,208	–	104,993	–	46,153	–
Foreign Currency	257,863	–	176,805	–	51,667	–
Loan loss reserves	(543,736)	–	(412,085)	–	(179,393)	–
Tenge	(239,822)	–	(164,239)	–	(95,781)	–
Foreign Currency	(303,914)	–	(247,846)	–	(83,612)	–
Cash	(38,049)	–	41,649	–	36,068	–
Tenge	21,727	–	20,364	–	20,361	–
Foreign Currency	16,323	–	21,285	–	15,707	–
Correspondent accounts with other banks	38,175	0.02	71,852	0.02	26,754	0.58
Tenge	2,806		1,750		2,701	
Foreign Currency	35,369	0.02	70,102	0.02	24,053	0.65
Property, equipment and intangible assets	33,859	–	36,855	–	37,355	–
Tenge	32,279	–	34,649	–	35,196	–
Foreign Currency	1,579	–	2,206	–	2,159	–
Goodwill	2,405	–	2,405	–	2,405	–
Tenge	2,405	–	2,405	–	2,405	–
Foreign Currency	–	–	–	–	–	–
Investments in associates	–	–	420	–	2,689	–
Tenge	–	–	420	–	2,689	–
Foreign Currency	–	–		–		–
Other assets	311,663	–	226,604	–	144,586	–
Tenge	132,986	–	80,033	–	69,446	–
Foreign Currency	178,677	–	146,571	–	75,140	–
Total Assets	2,663,516	10.94	2,882,611	12.92	2,847,534	13.35
Tenge	1,116,394	10.27	844,712	13.45	1,026,821	14.02
Foreign Currency	1,547,122	11.43	2,037,899	12.70	1,820,713	12.97
Liabilities and equity:	**(KZT millions)**	**(%)**	**(KZT millions)**	**(%)**	**(KZT millions)**	**(%)**
Demand deposits	296,606	2.28	250,632	1.86	189,094	0.99
Tenge	223,055	2.47	144,157	1.91	136,390	1.23
Foreign Currency	73,551	1.70	106,475	1.8	52,704	0.37
Term deposits	1,090,439	8.27	917,595	8.69	782,545	9.34
Tenge	519,617	8.56	325,319	9.44	365,316	9.82
Foreign Currency	570,822	8.01	592,276	8.28	417,229	8.92
Correspondent accounts of other banks	14,578	0.04	23,071	0.01	31,797	0.03
Tenge	4,174	0.14	3,857	0.05	5,502	0.18
Foreign Currency	10,403	–	19,214	–	26,295	–
Short-term interbank borrowings	81,741	7.57	99,421	5.5	119,872	8.01
Tenge	1,995	2.73	2,797	5.25	13,357	7.09
Foreign Currency	79,746	7.69	96,624	5.51	106,515	8.12

	Year ended 31 December					
	2010		2009		2008	
	Average balance (KZT millions)	Average interest rate (%)	Average balance (KZT millions)	Average interest rate (%)	Average balance (KZT millions)	Average interest rate (%)
Long-term loans from banks and financial institutions	85,596	2.10	156,286	6.09	303,794	5.9
Tenge	1,046	4.23	1,132	7	4,326	8.24
Foreign Currency	84,551	2.07	155,154	6.09	299,468	5.87
Other borrowed funds	27,246	5.58	89,253	5.19	144,820	5.93
Tenge	16,973	7.66	17,010	7.66	14,278	9.55
Foreign Currency	10,273	2.15	72,243	4.61	130,542	5.53
Debt securities issued	530,173	8.46	840,217	8.80	812,576	8.89
Tenge	36,854	9.17	32,769	9.5	23,524	8.37
Foreign Currency	493,319	8.41	807,447	8.78	789,052	8.91
Other liabilities	137,837	–	146,752	–	120,272	–
Tenge	85,554	–	86,240	–	91,281	–
Foreign Currency	52,283	–	60,512	–	28,991	–
Total liabilities	2,264,216	6.68	2,523,227	7.09	2,504,770	7.21
Tenge	889,269	6.16	613,281	6.21	653,974	6.45
Foreign Currency	1,374,947	7.02	1,909,945	7.38	1,850,796	7.48
Non-controlling Interest	186	–	478	–	7,318	–
Tenge	804	–	477	–	1,858	–
Foreign Currency	(618)	–	1	–	5,460	–
Shareholders' equity and reserves	399,114	–	358,907	–	335,446	–
Tenge	399,114	–	358,907	–	335,446	–
Foreign Currency	–	–	–	–	–	–
Total liabilities	2,663,516	5.68	2,882,611	6.21	2,847,534	6.34
Tenge	1,289,188	4.25	972,664	3.92	991,278	4.26
Foreign Currency	1,374,329	7.03	1,909,946	7.38	1,856,256	7.46
Average exchange rate KZT/U.S.$	147.34		147.59		120.29	

The following table indicates average interest-bearing assets, average assets, interest income, net interest income before provisions for impairment losses, net interest income, yield, margin, spread and return on average assets for the years ended 31 December 2010, 2009 and 2008:

	Year ended 31 December		
	2010	2009	2008
	(KZT millions, except for percentages)		
Average interest-bearing assets	2,234,313	2,471,877	2,504,548
Average assets	2,663,516	2,882,611	2,847,534
Interest income	291,515	372,460	380,043
Net interest income before provision for impairment losses on interest-bearing assets	139,424	193,614	198,831
Net interest income	43,869	1,208	50,051
Net profit	21,988	19,023	20,164
Yield[(1)] (%)	10.6	15.1	15.2
Net interest margin (%)	3.8[(2)]	7.8	7.9
Spread (%)[(3)]	3.5	7.6	7.6
Return on average total assets (%)	0.8	0.7	0.7

(1) The yield for the purpose of calculation of this ratio for the year ended 31 December 2010 was calculated as interest income, adjusted for interest accrued on certain corporate customer loans where there are no cash flows to the Group prior to 2013, divided by average interest-bearing assets. The accrued interest on these loans for the year ended 31 December 2010 amounted to KZT 54.4 million and it was fully provisioned. Yield, which for the year ended 31 December 2010 was 13.1 per cent. means interest income divided by average-interest bearing assets.

(2) Adjusted net interest margin. Adjusted net interest margin means net interest income before provision, adjusted for interest accrued on certain corporate customer loans where there are no cash flows to the Bank prior to 2013, divided by average interest bearing assets. Net interest margin, which for the year ended 31 December 2010 was 6.2 per cent. means net interest income before provision for impairment losses divided by average interest bearing assets.

(3) Spread – Average rate earned on interest-bearing assets minus the average rate paid on interest-bearing liabilities.

Assets

The consolidated assets of the Group as at 31 December 2010 amounted to KZT 2,688 billion compared to KZT 2,588 billion as at 31 December 2009 and KZT 2,615 billion as at 31 December 2008.

The following table sets out the major asset groups of the Group, broken down by currency, as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Cash and balances with national (central) banks	61,216	2.3	90,533	3.5	90,478	3.4
Tenge	44,631	1.7	61,450	2.4	40,444	1.5
Foreign currency	16,585	0.6	29,083	1.1	50,034	1.9
Precious metals	1,345	0.1	1,209	0.1	317	–
Tenge	–	–	–	–	–	–
Foreign currency	1,345	0.1	1,209	0.1	317	–
Financial assets at fair value through profit or loss, investments available-for-sale, investments held-to-maturity, investments in associates	242,049	9.0	131,842	5.1	75,737	2.9
Tenge	176,332	6.5	104,613	4.0	49,883	1.9
Foreign currency	65,717	2.4	27,229	1.1	25,854	1.0
Loans and advances to banks and other financial institutions, net	146,331	5.4	148,375	5.7	241,813	9.3
Loans and advances to banks and other financial institutions, gross	146,467	5.4	148,397	5.7	242,112	9.3
Tenge	9,857	0.4	13,253	0.5	4,499	0.2
Foreign currency	136,474	5.1	135,144	5.2	237,613	9.1
Reserves for Losses on loans to banks	(136)	–	(22)	–	(299)	–
Tenge	(136)	–	–	–	–	–
Foreign currency	–	–	(22)	–	(299)	–
Loans to customers, net	2,174,760	80.9	2,160,767	83.5	2,144,782	82.1
Loans to customers, gross	2,747,210	102.2	2,666,315	103	2,434,100	93.1
Tenge	891,462	33.2	958,195	37	859,575	32.9
Foreign currency	1,283,298	47.8	1,708,120	66	1,574,535	60.2
Allowance for impairment losses	(572,450)	21.3	(505,548)	19.5	(289,328)	11.0
Tenge	(256,278)	9.5	(185,040)	7.1	(134,390)	5.1
Foreign currency	(316,172)	11.8	(320,508)	12.4	(154,938)	5.9
Goodwill	2,405	0.1	2,405	0.1	2,405	0.1
Tenge	2,405	0.1	2,405	0.1	2,405	0.1
Foreign currency	–	–	–	–	–	–
Other assets and property, equipment and intangible assets	60,002	2.2	52,742	2.0	59,273	2.2
Tenge	52,087	1.9	40,921	1.6	45,606	1.7
Foreign currency	7,915	0.3	11,821	0.4	13,667	0.5
Total Assets	2,688,108	100	2,587,873	100	2,614,805	100
Tenge	1,176,774	43.8	995,797	38.5	868,822	33.2
Foreign currency	1,511,334	56.2	1,592,076	61.5	1,746,783	66.8

Liabilities

The following table sets out the major liability groups of the Group, broken down by currency, as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Loans and advances from banks and other financial institutions						
Tenge	1,797	0.1	4,958	0.2	16,512	0.7
Foreign currency	145,342	6.4	204,163	9.3	279,879	12.2
Total	147,139	6.5	209,122	9.5	296,391	12.9
Customer accounts						
Tenge	784,476	34.5	632,542	28.8	443,862	19.3
Foreign currency	722,324	31.8	643,922	29.3	535,591	23.3
Total	1,506,800	66.3	1,276,464	58.1	979,453	42.6
Debt securities issued						
Tenge	2,473	0.1	–	–	–	–
Foreign currency	372,726	16.4	463,656	21.1	678,285	29.5
Total	375,199	16.5	463,656	21.1	678,285	29.5
Other borrowed funds						
Tenge	16,319	0.7	19,097	0.9	9,362	0.4
Foreign currency	7,624	0.3	12,075	0.5	127,962	5.6
Total	23,943	1.1	31,172	1.4	137,324	6.0
Subordinated debt						
Tenge	33,205	1.5	31,736	1.4	38,139	1.7
Foreign currency	103,932	4.6	104,675	4.8	79,585	3.5
Total	137,137	6.0	136,411	6.2	117,724	5.2
Other liabilities(1)						
Tenge	74,282	3.3	68,059	3.1	81,513	3.5
Foreign currency	9,862	0.4	13,401	0.6	10,254	0.4
Total	84,144	3.7	81,460	3.7	91,766	4.0
Total Liabilities						
Tenge	912,552	40.1	756,393	34.4	589,388	25.6
Foreign currency	1,361,810	59.9	1,441,892	65.6	1,711,555	74.4
Total	2,274,362	100	2,198,285	100	2,300,943	100

(1) Other liabilities include financial liabilities at fair value through profit or loss, provisions, dividends payable and deferred income tax liabilities.

Currency Exchange Rate Risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

Although currency risk is measured and controlled by the Group in the framework of market risk control, the Group also considers and measures this risk separately, to decrease it and comply with regulatory requirements. The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which enable the Group to minimise losses from significant currency fluctuations. Similar to liquidity risk management, the Treasury Department manages the open currency positions of the Group using data generated by the Prudentials Monitoring and Credit Reporting Division on a daily basis.

The FMSA (and as from 12 April 2011, the NBK) sets strict limits on open currency positions. This measure also limits currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

The following tables show the Group's exposure to foreign currency exchange rate risk by principal currencies as at 31 December 2010, 2009 and 2008:

	KZT	US Dollars	Euro (KZT millions)	Russian Rubles	Other currencies	Total 31 December 2010
Financial assets:						
Cash and balances with national (central) banks	44,631	7,509	3,355	4,710	1,011	61,216
Precious metals	–	–	–	–	1,345	1,345
Financial assets at fair value through profit or loss	162,170	32,910	9,747	12,994	5,410	223,231
Loans and advances to banks and other financial institutions	9,857	118,233	12,041	3,553	2,647	146,331
Loans to customers	891,462	1,246,378	10,579	26,029	312	2,174,760
Investments available-for-sale	12,671	4,151	–	–	–	16,822
Investments held-to-maturity	1,491	505	–	–	–	1,996
Other financial assets	4,377	1,217	92	1,267	9	6,962
Total financial assets	1,126,659	1,410,903	35,814	48,553	10,734	2,632,663
Financial liabilities:						
Loans and advances from banks and other financial institutions	1,797	140,400	4,777	125	40	147,139
Customer accounts	784,476	635,996	60,435	22,762	3,131	1,506,800
Financial assets at fair value through profit or loss	27,561	8,481	–	5	–	36,047
Debt securities issued	2,473	220,977	118,542	545	32,662	375,199
Other borrowed funds	16,319	7,624	–	–	–	23,943
Dividends payable	–	–	–	–	4	4
Other financial liabilities	5,783	–	5	132	32	5,952
Subordinated debt	33,205	103,932	–	–	–	137,137
Total financial liabilities	871,614	1,117,410	183,759	23,569	35,869	2,232,221
Open position	255,045	293,493	(147,945)	24,984	(25,135)	–

	KZT	US Dollars	Euro (KZT millions)	Russian Rubles	Other currencies	Total 31 December 2009
Financial assets						
Cash and balances with national (central) banks	61,450	7,753	16,345	2,913	2,072	90,533
Precious metals	–	–	–	–	1,209	1,209
Financial assets at fair value through profit or loss	91,413	359	10,647	5,196	6,588	114,203
Loans and advances to banks and other financial institutions	13,253	120,762	6,065	3,943	4,352	148,375
Loans to customers	773,155	1,338,637	10,172	37,770	1,033	2,160,767
Investments available-for-sale	12,262	4,434	–	–	–	16,696
Investments held-to-maturity	938	–	–	–	5	943
Other financial assets	3,138	876	52	5,585	423	10,074
Total financial assets	955,609	1,472,821	43,281	55,407	15,682	2,542,800
Financial liabilities:						
Loans and advances from banks and other financial institutions	4,959	178,337	9,939	15,846	41	209,122
Customer accounts	632,542	549,936	75,772	14,414	3,800	1,276,464
Financial assets at fair value through profit or loss	30,111	5,820	–	60	–	35,991
Debt securities issued	–	269,783	148,576	254	45,043	463,656
Other borrowed funds	19,097	12,075	–	–	–	31,172
Dividends payable	–	–	–	–	15	15
Other financial liabilities	2,363	333	646	634	440	4,416
Subordinated debt	31,736	104,675	–	–	–	136,411
Total financial liabilities	720,808	1,120,959	234,933	31,208	49,339	2,157,247
Open position	234,801	351,862	(191,652)	24,199	(33,657)	–

	KZT	US Dollars	Euro (KZT millions)	Russian Rubles	Other currencies	Total 31 December 2008
Financial assets						
Cash and balances with national (central) banks	40,444	9,627	2,723	3,599	34,085	90,478
Precious metals	–	–	–	–	317	317
Financial assets at fair value through profit or loss	35,299	3,302	9,546	5,510	4,473	58,130
Loans and advances to banks and other financial institutions	4,499	164,905	62,302	4,779	5,328	241,813
Loans to customers	725,185	1,340,347	12,024	66,171	1,055	2,144,782
Investments available-for-sale	12,209	2,847	–	–	–	15,056
Investments held-to-maturity	600	–	–	–	176	776
Other financial assets	7,126	2,447	1,368	5,177	501	16,619
Total financial assets	825,362	1,523,475	87,963	85,236	45,935	2,567,971
Financial liabilities:						
Loans and advances from banks and other financial institutions	16,512	244,090	11,211	23,847	731	296,391
Customer accounts	443,862	481,640	39,467	12,505	1,979	979,453
Financial assets at fair value through profit or loss	52,306	2,033	–	–	–	54,339
Debt securities issued	–	359,271	188,535	22,727	107,752	678,285
Other borrowed funds	9,362	127,962	–	–	–	137,324
Dividends payable	–	–	–	–	5	5
Other financial liabilities	4,438	2,396	8	582	53	7,477
Subordinated debt	38,139	79,585	–	–	–	117,724
Total financial liabilities	564,619	1,296,977	239,221	59,661	110,520	2,270,998
Open currency position	260,743	226,498	(151,258)	25,575	(64,585)	–

Liquidity and Interest Rate Risk

Liquidity risk refers to the risk of the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls liquidity risk by conducting a weekly liquidity gap analysis and taking appropriate steps to reduce liquidity risk. Current liquidity is managed by the Treasury Department by undertaking in the financial markets including by placing funds in liquid securities in accordance with the instructions of the ALMC.

The Group monitors and ensures compliance with numerous regulatory requirements including term liquidity ratios and currency position liquidity limits.

The following tables provide an analysis of financial assets and liabilities as at 31 December 2010, 2009 and 2008, grouped on the basis of the remaining period from the reporting date to the contractual maturity date. The presentation below is based upon the information provided internally to key management personnel of the Group:

	Up to one month	One to three months	Three months to One year	One to five years (KZT millions)	Over five years	Maturity undefined	31 December 2010 Total
Financial assets:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	37,256	18,997	85,580	40,550	34,912	–	217,295
Loans and advances to banks and other financial institutions	94,795	10,184	17,473	23,589	15	–	146,056
Loans to customers	32,128	95,225	568,158	611,068	566,962	–	1,873,541
Debt securities included in investments available-for-sale	–	–	940	4,359	6,157	–	11,456
Investments held-to-maturity	–	–	1	1,007	949	–	1,957
Total interest-bearing assets	164,179	124,406	672,152	680,573	608,995	–	2,250,305
Cash and balance with national (central) banks	58,837	–	–	–	2,379	–	61,216
Precious metals	1,345	–	–	–	–	–	1,345
Equity securities in the financial assets at fair value through profit or loss	–	–	–	–	–	4,519	4,519
Equity securities in the investments available-for-sale	–	–	–	–	–	4,946	4,946
Accrued interest income on interest-bearing assets	50,197	56,372	65,617	131,120	64	–	303,370
Other financial assets	4,800	917	1,225	20	–	–	6,962
Total financial assets	279,358	181,695	738,994	811,713	611,438	9,465	2,632,663
Financial liabilities:							
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	–	–	146,647
Customer accounts	556,953	108,891	479,002	257,491	87,696	–	1,490,033
Debt securities issued	714	36,781	8,557	190,480	127,341	–	363,873
Other borrowed funds	–	95	666	5,042	17,823	–	23,626
Subordinated debt	–	–	–	41,834	86,328	6,703	134,865
Total interest-bearing liabilities	560,392	158,381	547,272	567,108	319,188	6,703	2,159,044
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	–	36,047
Dividends payable	–	–	4	–	–	–	4
Accrued interest expense on interest-bearing liabilities	5,551	11,935	13,019	669	–	–	31,174
Other financial liabilities	5,036	344	269	303	–	–	5,952
Total financial liabilities	573,030	173,134	561,012	596,446	321,896	6,703	2,232,221
Liquidity gap	(293,672)	8,561	177,982	215,267	289,542		
Interest sensitivity gap	(396,213)	(33,975)	124,880	113,465	289,807	–	–
Cumulative interest sensitivity gap as a percentage of total assets	(15.0%)	(16.3%)	(11.6%)	(7.3%)	3.7%	–	–
Contingent liabilities and credit commitments	1,672	5,829	51,791	29,357	4,692	–	–

	Up to one month	One to three months	Three months to One year	One to five years (KZT millions)	Over five years	Maturity undefined	31 December 2009 Total
Financial assets:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	6,076	17,618	32,108	19,574	35,748	–	111,124
Loans and advances to banks and other financial institutions	89,440	531	52,080	5,907	15	–	147,973
Loans to customers	19,363	53,437	534,511	886,195	442,751	–	1,936,257
Debt securities included in investments available-for-sale	3	100	5,453	4,557	853	–	10,966
Investments held-to-maturity	–	194	11	558	150	–	913
Total interest-bearing assets	114,882	71,880	624,163	916,791	479,517	–	2,207,233
Cash and balances with national (central) banks	89,584	–	–	–	949	–	90,533
Precious metals	1,209	–	–	–	–	–	1,209
Equity securities in the financials assets at fair value through profit or loss	–	–	–	–	–	2,638	2,638
Equity securities included to investments available-for-sale	–	–	–	–	–	5,252	5,252
Accrued interest income on interest-bearing assets	47,126	30,219	88,003	60,452	61	–	225,861
Other financial assets	5,958	516	3,145	435	20	–	10,074
Total financial assets	258,759	102,615	715,311	977,678	480,547	7,890	2,542,800
Financial liabilities:							
Loans and advances from banks and other financial institutions	24,656	4,752	42,296	133,463	2,896	–	208,063
Customer accounts	369,466	54,037	458,544	324,501	50,973	–	1,257,521
Debt securities issued	314	684	2,246	248,862	197,304	–	449,410
Other borrowed funds	–	23	674	4,946	25,124	–	30,767
Subordinated debt	–	–	–	14,836	112,524	6,747	134,107
Total interest-bearing liabilities	394,436	59,496	503,760	726,608	388,821	6,747	2,079,868
Financial liabilities at fair value through profit or loss	174	137	594	26,361	8,725	–	35,991
Dividends payable	–	–	15	–	–	–	15
Accrued interest expense on interest-bearing liabilities	6,078	6,278	15,153	560	8,888	–	36,957
Other financial liabilities	769	3,470	100	77	–	–	4,416
Total financial liabilities	401,457	69,381	519,622	753,606	406,434	6,747	2,157,247
Liquidity gap	(142,698)	33,234	195,689	224,072	74,113		
Interest sensitivity gap	(279,554)	12,384	120,403	190,183	90,696	–	–
Cumulative interest sensitivity gap as a percentage of total assets	(11.0%)	(10.5%)	(5.8%)	1.7%	5.3%	–	–
Contingent liabilities and credit commitments	11,508	12,213	52,530	54,095	86	55	–

	Up to one month	One to three months	Three months to One year	One to five years (KZT millions)	Over five years	Maturity undefined	31 December 2008 Total
Financial assets:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	1,127	6,647	26,489	13,592	8,407	–	56,262
Loans and advances to banks and other financial institutions	181,044	14,210	39,658	1,051	4,727	–	240,690
Loans to customers	69,388	94,480	484,754	861,803	536,174	–	2,046,599
Debt securities included in investments available-for-sale	106	–	822	4,292	5,631	–	10,851
Investments held-to-maturity	174	6	2	105	470	–	757
Total interest-bearing assets	251,839	115,343	551,725	880,843	555,409	–	2,355,159
Cash and balances with national (central) banks	90,478	–	–	–	–	–	90,478
Precious metals	317	–	–	–	–	–	317
Equity securities in the financials assets at fair value through profit or loss	–	–	–	–	–	1,276	1,276
Equity securities included to investments available-for-sale	–	–	–	–	–	3,301	3,301
Accrued interest income on interest-bearing assets	30,866	23,345	43,105	3,504	1	–	100,821
Other financial assets	8,828	1,824	4,980	987	–	–	16,619
Total financial assets	382,328	140,512	599,810	885,334	555,411	4,577	2,567,971
Financial liabilities:							
Loans and advances from banks and other financial institutions	75,572	21,388	92,777	93,727	10,689	–	294,153
Customer accounts	382,328	32,790	316,450	229,805	2,722	555,410	964,843
Debt securities issued	487	8,405	90,220	260,093	299,501	–	658,706
Other borrowed funds	2	7,416	8,876	81,475	38,991	–	136,760
Subordinated debt	–	–	3,337	–	95,005	17 454	115,796
Total interest-bearing liabilities	459,137	69,999	511,660	665,100	446,908	17 454	2,170,258
Financial liabilities at fair value through profit or loss	426	229	720	37,524	15,440	–	54,339
Dividends payable	–	5	–	–	–	–	5
Accrued interest expense on interest-bearing liabilities	3,476	15,973	16,312	3,158	–	–	38,919
Other financial liabilities	4,331	1,473	1,664	9	–	–	7,477
Total financial liabilities	467,370	87,679	530,356	705,791	462,348	17,454	2,270,998
Liquidity gap	(85,042)	52,833	69,454	179,543	93,063		
Interest sensitivity gap	(207,298)	45,334	40,065	215,743	108,501	–	–
Cumulative interest sensitivity gap as a percentage of total assets	(8.1%)	(6.3%)	4.7%	3.7%	7.9%	–	–
Contingent liabilities and credit commitments	4,927	30,806	52,999	57,844	490	54	–

Although the maturities of the Group's assets and liabilities give an indication of the Group's sensitivity to interest rate movements, it is an imprecise measure of interest rate risk as it does not take into account the frequency with which the Group is able to reprice its assets and liabilities. However, a positive gap in maturities means that an increase in interest rates would, generally, have a positive effect on net interest income. The Group believes that its sensitivity to interest rate changes is largely dependant upon its ability to reprice loans (including short term loans maturing within one year as well as loans with longer maturities). In addition, a significant percentage of the Group's loan portfolio maturing after one year is funded by fixed-rate long-term funds. However, if the average maturity of the Group's loan portfolio increases without a corresponding increase in the average maturity of its liabilities, the Group will be exposed to increased interest rate risk.

Long term loans to banks and other financial institutions and loans with a maturity of more than one year as a percentage of total assets as at 31 December 2010 equaled 44.7 per cent. compared to 51.6 per cent. and 53.7 per cent. as at 31 December 2009 and 2008, respectively.

The Group is seeking to extend the maturity of its liabilities in line with the maturity of its assets in order to reduce the risk of changes in interest rates. Long term financial liabilities as a percentage of total liabilities equaled 40.7 per cent. as at 31 December 2010 compared to 53.1 per cent. as at 31 December 2009 and 51.5 per cent. as at 31 December 2008.

The Group seeks to match loans and funding sources through its participation in specialised programmes financed by Samruk-Kazyna, DAMU, JSC Distressed Assets Fund, the EBRD and other international financial institutions, and continues to work on increasing the volume and tenor of its term deposits. In addition, the Group believes that loans with a shorter maturity or maturity matching its funding sources provide for stability and flexibility in its liquidity levels. The Group has efficiently managed the maturity of its assets and liabilities since 2003, which has ensured reasonable levels of liquidity.

As at 31 December 2010, financial assets and financial liabilities with a maturity of up to one year amounted to 45.6 per cent. and 58.6 per cent., of total financial assets and total financial liabilities, respectively. As at 31 December 2009, they amounted to 42.3 per cent. and 45.9 per cent., respectively, and as at 31 December 2008, they amounted to 43.7 per cent. and 47.8 per cent., respectively.

As at 31 December 2010, the maturity gap for financial assets and financial liabilities with a maturity of up to one month was negative given the large number of demand deposits that fell due within this period. However, based on past experience, the Bank believes that the likelihood of substantial numbers of customers withdrawing personal accounts and deposits upon maturity is extremely low as these customers typically tend to leave their deposits with the Bank for extended periods.

As at 31 December 2010, the maturity gap for financial assets and financial liabilities with a maturity of up to one year was negative and amounted to KZT 107.1 billion (U.S.$726 million) while, during previous reporting periods, the gap was positive, amounting to KZT 86.2 billion (U.S.$580.8 million) as at 31 December 2009 and KZT37.2 billion (U.S.$308.3 million) as at 31 December 2008.

Securities portfolio

The Group's securities portfolio consists of financial assets at fair value through profit or loss as well as securities available-for-sale and held-to-maturity. As at 31 December 2010 the Group's securities portfolio amounted to KZT 242.0 billion compared to KZT 131.8 billion and KZT 114 billion as at 31 December 2009 and 2008, respectively. The size of the Group's securities portfolio increased mainly due to an increase in financial assets at fair value through profit or loss of KZT 109 billion or 95.5 per cent. in 2010. In 2009, there was an increase of KZT 56.1 billion or 96.5 per cent. The increase in 2010 were primarily attributable to increased holdings of debt securities and in investments in notes issued by the NBK. As at 31 December 2008, the Group's financial assets at fair value through profit or loss amounted to KZT 58.1 billion.

The Group invests funds received from new deposits and repayments of its loan portfolio in highly-liquid assets, mostly in short-term notes denominated in Tenge and issued by the NBK. Holdings in short-term notes issued by the NBK have increased by KZT 59.1 billion (U.S.$402.9 million) and amounted to KZT110.9 billion (U.S.$752.0 million) as at 31 December 2010. As at 31 December 2009 short-term notes issued by the NBK increased by KZT46.2 billion (U.S.$302.6 million) and amounted to KZT 51.8 billion (U.S.$349 million) compared to KZT 5.6 billion (U.S.$46.4 million) as at 31 December 2008.

The following table shows the composition of securities held by the Group as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	2009	2008
		(KZT millions) (unaudited)	
Debt securities	197,188	74,125	32,537
Equity securities	4,519	2,638	1,276
Derivative financial instruments	21,524	37,440	24,317
Financial assets at fair value through profit or loss	223,231	114,203	58,130

Financial assets at fair value through profit or loss consist of financial assets held for trading.

On 10 March 2009, the Bank sold its investments in JSC Ular Umit APF and Pension Assets Management Organisation Zhetysu. The sale proceeds amounted to KZT 4.0 billion. As a result of the sale of these assets, as at 31 December 2010 and as at 31 December 2009 they no longer had any investments in associates.

The following table shows the composition of securities held by the Group and its investments in associates as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	2009	2008
		(KZT millions)	
Financial assets at fair value through profit or loss (including derivative financial instruments)	223,231	114,203	58,130
Investments available-for-sale	16,822	16,696	15,056
Investments held-to-maturity	1,996	943	776
Total	242,049	131,842	73,962
Investments in associate and other companies	–	–	1,775
Goodwill	2,405	2,405	2,405
Total securities portfolio and investments into associate companies and goodwill	244,454	134,247	78,142

The average balance of the securities portfolio held by the Group increased by 179 per cent., to KZT 166.6 billion in 2010 compared to KZT 59.7 billion in 2009 and KZT 66.8 billion in 2008. The average interest rate for the year ended 31 December 2010 was 3.1 per cent. compared to 7.6 per cent. and 9.0 per cent. for the same period in 2009 and 2008, respectively.

The following table shows the average balance of the marketable securities portfolio and the average interest rates for the years ended 31 December 2010, 2009 and 2008:

	Year ended 31 December					
	2010		2009		2008	
	(KZT millions)	(Average interest rate, %)	(KZT millions)	(Average interest rate, %)	(KZT millions)	(Average interest rate, %)
NBK notes	104,397	1.6	3,551	4.3	7,495	6
Bonds of Kazakhstani companies	46,402	6.4	54,670	7.9	57,610	9.5
Medium-term and long-term notes of the Ministry of Finance of the Republic of Kazakhstan and Russian Federation	10,261	4.7	1,462	5.5	1,546	4.9
Eurobonds of foreign governments	5,551	0.8	–	–	2	4.4
Eurobonds of Kazkommerts International B.V.	–	–	–	–	79	8.6
Notes of Local Municipal Bodies	22	6.2	–	–	–	–
Short-term notes of the Ministry of Finance of the Republic of Kazakhstan and Kyrgyz Republic	9	2.9	39	15.0	35	6.7
Total:	166,642	3.1	59,722	7.6	66,767	9

The average balance of the securities portfolio increased by 179.0 per cent. to KZT 166.6 billion for the year ended 31 December 2010 from KZT 59.7 billion for the year ended 31 December 2009, primarily due to a significant increase in the amount of NBK notes held from KZT 3.6 billion as at 31 December 2009 to KZT 104.9 billion as at 31 December 2010. The average interest rate during the year ended 31 December 2010 equalled 3.1 per cent. compared to 7.6 per cent. for the year ended 31 December 2009 and 9.0 per cent. for the year ended 31 December 2008. This resulted from a decrease in average interest rates, especially the average interest rate for the Group's holdings in short-term notes issued by the governments of Kazakhstan and Kyrgyzstan. The average interest rate on the securities portfolio decreased from 15.0 per cent. for the year ended 31 December 2009 to 2.9 per cent. during the year ended 31 December 2010.

In addition, the reclassification of the Group's securities portfolio resulted in changes in the average balance in 2008. In October 2008, the IASB issued amendments to IFRS 39 "Financial instruments: recognition and evaluation" (IFRS 39) which allow reclassification of financial assets available-for-sale in line with certain limitations. According to these amendments, during 2008, the Group reclassified certain debt and equity securities having a total fair value of KZT 10.9 million as at 31 December 2008 as financial assets at fair value through profit and loss as well as investments held-to-maturity to investments available-for-sale.

As at the reclassification date, the total fair value of reclassified debt and equity securities was KZT 14.9 million. The securities portfolio also decreased due to the re-allocation of funds from securities to interbank deposits in certain highly rated European banks in light of the global crisis and the higher volatility in the global securities market.

Maturity profile of Securities Portfolio

The maturity profile of the securities portfolio as at 31 December 2010 indicates that over 59.4 per cent. of the portfolio had maturities of up to one year.

The following table sets forth certain information relating to the maturity of the securities portfolio (excluding accrued interest income on these securities) as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Up to 1 month	37,256	15.5	6,079	4.6	1,407	1.9
From 1 month to 3 months	18,997	7.90	17,912	13.7	6,653	9.2
From 3 months to 1 year	86,521	36.0	37,572	28.7	27,313	37.7
From 1 year to 5 years	45,916	19.1	24,689	18.9	17,989	24.8
Over 5 years	42,018	17.5	36,751	28.1	14,508	20.0
Maturity is not defined(1)	9,465	4.0	7,890	6.0	4,577	6.3
Total	240,173	100	130,893	100	72,447	100

(1) "Maturity is not defined" consists of equity investments.

The Group's Loan Portfolio

Loans, letters of credit and letters of guarantee

The Group offers to its clients a wide range of banking products including loans, trade finance, letters of credit and letters of guarantees. The following table sets out the composition of the Group's loans to customers and contingent liabilities exposure as at 31 December 2010, 2009 and 2008:

	31 December 2008	31 December 2009	Variation for 2009		31 December 2010	Variation for 2010	
	(KZT millions)	(KZT millions)	(KZT millions)	(%)	(KZT millions)	(KZT millions)	(%)
Loans							
Loans to customers	2,399,693	2,665,426	(90,279)	(3.3)	2,746,383	80,957	3.0
Loans under reverse repurchase agreements	34,417	889	(35,911)	(97.6)	827	(62)	(7)
Total Loans to customers, gross	2,434,110	2,666,315	(126,190)	(4.5)	2,747,210	80,895	3.0
Provisions for impairment losses	(289,328)	(505,548)	180,913	55.7	(572,450)	66,902	13.2
Loans to customers, net	2,144,782	2,160,767	(307,103)	(12.4)	2,174,760	13,993	0.7
Contingent liabilities							
Letters of guarantee	109,550	122,096	546	0.4	90,557	(31,539)	(25.8)
Letters of credit	37,570	8,391	(37,907)	(81.9)	2,783	(5,608)	(66.8)
Total contingent liabilities, gross	147,120	130,487	(37,361)	(22.3)	93,340	(37,147)	(28.5)
Provisions for impairment losses	(6,271)	(7,217)	(178)	(2.4)	(3,903)	(3,314)	(45.9)
Total contingent liabilities, net	140,849	123,270	(37,183)	(23.2)	89,438	33,833	(27.5)
Total loans to customers and contingent liabilities, gross	2,581,230	2,796,802	(163,551)	(5.5)	2,840,550	43,748	1.6
Provisions for impairment losses on loans to customers and contingent liabilities	(295,599)	(512,765)	180,735	54.4	(576,353)	63,588	12.4
Total Loans to customers and contingent liabilities, net	2,285,631	2,284,037	(344,286)	(13.1)	2,264,197	(19,839)	(0.9)

During 2010 the net loan portfolio of the Group increased by 0.6 per cent. and as at 31 December 2010 and 2009 amounted to KZT 2,144.8 and 2,160.8 billion respectively compared to KZT 2,144.8 billion as at 31 December 2008. In 2010, total loans and contingent liabilities less allowance for losses decreased by 0.9 per cent. to KZT 2.3 billion as at 31 December 2010 and by 0.1 per cent. KZT 2.3 billion as at 31 December 2009.

Loan portfolio by type

The following table shows a breakdown of the Group's loan portfolio before allowance for impairment losses and loans under reverse repurchase agreements by type of loan as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Construction, maintenance	1,178,987	42.9	1,027,164	38.5	848,411	35.4
Real estate purchase	348,497	12.7	352,223	13.2	261,327	10.9
Working capital finance	209,143	7.6	203,608	7.6	293,773	12.2
Fixed assets purchase	241,698	8.8	274,280	10.3	258,629	10.8
Equity investments in other companies	104,038	3.8	123,326	4.6	127,087	5.3
Trade finance	49,803	1.8	44,827	1.7	30,918	1.3
Other	614,221	22.4	639,998	24.1	579,548	24.1
Total(1)	2,746,387	100	2,665,426	100	2,399,693	100

(1) Total loans to customers before allowances for impairment losses and loans under reverse purchase agreements

Lending to the housing construction sector (16.9 per cent.), the real estate sector (15.1 per cent.), to individuals (10.7 per cent.) and the wholesale and retail trade sectors (11.8 per cent.) formed the largest share of the Group's net loan portfolio and amounted to 54.5 per cent. of the total net loan portfolio as at 31 December 2010.

The following table sets forth certain information as to the structure of the Group's loan portfolio by sector as at 31 December 2010, 2009 and 2008:

	31 December 2010		31 December 2009		31 December 2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Analysis by sector:						
Housing construction	368,093	16.9	311,969	14.4	301,665	14.07
Real estate	327,872	15.1	306,961	14.21	140,901	6.57
Wholesale and retail trade	255,718	11.8	282,509	13.07	333,171	15.53
Individuals	232,690	10.7	274,141	12.69	351,088	16.37
Hospitality business	183,800	8.5	171,795	7.95	135,015	6.30
Commercial real estate construction	160,702	7.4	187,171	8.66	192,869	8.99
Production of other non-metal materials	102,749	4.7	111,920	5.18	93,492	4.36
Investments and finance	95,349	4.4	67,441	3.12	131,866	6.15
Transport and communication	92,830	4.3	106,099	4.91	97,576	4.55
Energy	57,699	2.7	49,992	2.31	73,792	3.44
Industrial and other construction	48,345	2.2	27,889	1.29	30,447	1.42
Food industry	42,481	2.0	60,102	2.78	56,730	2.65
Agriculture	41,699	1.9	24,328	1.13	45,440	2.12
Production of construction materials	18,896	0.9	18,499	0.86	16,073	0.75
Mining and metallurgy	11,809	0.5	15,756	0.73	13,118	0.61
Machinery construction	10,357	0.5	28,826	1.33	39,972	1.86
Medicine	8,099	0.4	6,526	0.30	5,877	0.27
Culture and art	2,996	0.1	402	0.02	2,437	0.11
Other	112,576	5.2	108,441	5.02	83,253	3.88
Total	2,174,760	100	2,160,767	100	2,144,782	100

Loan portfolio by currency
In line with the Group's policy on limiting currency fluctuation risks, foreign-currency loans comprise the major part of the Group's loan portfolio. As at 31 December 2010, U.S. dollar-denominated or indexed loans comprised 57.3 per cent. of the Group's net loan portfolio compared to 61.9 per cent. and 62.5 per cent as at 31 December 2009 and 2008, respectively. The share of Tenge-denominated loans increased to 41.0 per cent. of the Group's portfolio as at 31 December 2010 from 35.8 per cent. as at 31 December 2009 and 33.8 per cent. as at 31 December 2008.

Usually the contractual terms of the Group's loans allow for increases in interest rates or require early repayment in the case of a significant devaluation of the Tenge.

The following table sets out the currency profile of the Group's loan portfolio as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
KZT	891,462	41.0	773,155	35.8	725,185	33.8
U.S.$	1,246,378	57.3	1,338,637	61.9	1,340,347	62.5
EUR	10,579	0.5	10,172	0.5	12,024	0.6
Other	26,341	1.2	38,803	1.8	67,226	3.1
Total	2,174,760	100	2,160,767	100	2,144,782	100

Maturity profile of the loan portfolio
More than half of the Group's loan portfolio comprises loans with a maturity of over one year due to an increased demand for long term financing by customers. The Group's potential exposure to interest rate and credit risk on such longer-term loans is partially off-set by the contractual provisions of such loans which generally allow the Group to require early payment of the loan and/or to revise interest rates, thereby reducing interest rate risk and credit risk.

In 2010 there was an increase in the proportion of loans with a maturity of less than one year to total loans. The proportion of medium and long-term loans (less accrued interest) with a maturity of more than one year decreased to 62.9 per cent. of total loans, compared to 68.6 per cent and 68.3 per cent. in 2009 and 2008, respectively.

The following table sets out the maturity of the Group's loan portfolio (less accrued interest) as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Up to one month	32,128	1.7	19,363	1	69,388	3.4
From one to three months	95,225	5.1	53,437	2.8	94,480	4.6
From three months to one year	568,158	30.3	534,511	27.6	484,754	23.7
From one to five years	611,068	32.6	886,195	45.8	861,803	42.1
Over five years	566,963	30.3	442,751	22.8	536,174	26.2
Total	1,873,541	100	1,936,257	100	2,046,599	100

Collateralisation of the loan portfolio
Loans are secured by various types of collateral, including real estate, guarantees, inventory, government securities, shares and deposits. The collateral is valued conservatively and, if needed, in consultation with independent experts. If collateral declines in value, additional collateral may be requested. As at 31 December 2010 the proportion of unsecured loans increased to 4.0 per cent. of total loans to customers compared to 2.9 per cent. as at 31 December 2009. Unsecured loans comprised 4.2 per cent. of total loans to customers as at 31 December 2008. Short-term loans to reliable clients comprise the majority of unsecured loans.

The following table provides a breakdown of secured and unsecured loans made to customers (excluding repurchase transactions) by the Bank and their share as a percentage of total loans to customers as at 31 December 2010, 2009 and 2008:

	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Secured loans	2,638,243	96.1	2,581,807	96.8	2,289,945	95.4
Loans collateralised by real estate	1,400,720	51.0	1,433,105	53.7	1,004,687	41.9
Loans collateralised by accounts receivable	66,855	2.4	72,551	2.7	91,634	3.8
Loans collateralised by mixed types of collateral	20,772	0.8	38,063	1.4	215,264	9.0
Other guarantees	46,441	1.7	85,687	3.2	190,317	7.9
Loans collateralised by equipment	510,970	18.6	380,087	14.2	293,988	12.3
Loans collateralised by shares of banks and other companies	267,746	9.7	274,163	10.2	264,884	11.0
Loans collateralised by inventories	248,168	9.0	208,907	7.8	73,579	3.1
Loans collateralised by cash or guarantees of Kazakhstan Government	40,581	1.5	27,786	1	62,759	2.6
Loans collateralised by guarantees of financial institutions	159	–	176	–	2,931	0.1
Loans with collateral under the registration process (property, land, shares, guarantees, etc.)	35,830	1.3	61,282	2.3	89,902	3.7
Unsecured loans	108,140	3.9	83,620	3.1	109,748	4.6
Total Loans	2,746,383	100.0	2,665,426	100	2,399,693	100.0

Concentration of the loan portfolio

The Group's total loan portfolio increased by 3.0 per cent. between 31 December 2009 and 31 December 2010 combined with a number of changes in the composition of the loan portfolio. Loans to the housing, commercial and industrial construction sector increased by 5.9 per cent. and constituted a 24.3 per cent. of the total loan portfolio as at 31 December 2010, compared to 23.1 per cent. as at 31 December 2009. Loans to the real estate sector increased by 6.8 per cent. and constituted 15.1 per cent. share of the loan portfolio as at 31 December 2010, compared to 14.2 per cent. as at 31 December 2009. Loans to trade companies decreased by 9.5 per cent., comprising only 11.8 per cent. of the loan portfolio compared to 13.1 per cent. as at the end of 2009. As at 31 December 2010, loans to individuals, including consumer and mortgage lending, decreased by 15.0 per cent. from the end of 2009 and, as a percentage of the Group's loan portfolio, these loans decreased from 12.7 per cent. as at 31 December 2009 to 10.7 per cent. as at 31 December 2010. Loans to the hotel and hospitality sector increased by 7.0 per cent., representing 8.5 per cent. of the loan portfolio as at 31 December 2010 compared to 8.0 per cent. as at 31 December 2009. Loans to transport and communications industries decreased by 12.5 per cent. from 2009 to 2010 and, as a percentage of the loan portfolio, decreased to 4.3 per cent. as at 31 December 2010 from 4.9 per cent. as at the end of 2009.

Loans to the energy sector increased in 2010 and their share in the total loan portfolio increased to 2.7 per cent. compared to 2.3 per cent. in 2009. Loans to the investment and finance sector increased by 41.4 per cent. and constituted 4.4 per cent. of the loan portfolio as at 31 December 2010 compared to 3.1 per cent. as at 31 December 2009.

The total amount lent to companies in the agriculture sector increased by 71.4 per cent. and, as a percentage of the Group's total loan portfolio, increased from 1.1 per cent. as at 31 December 2009 to 1.9 per cent. as at 31 December 2010. Agricultural loans are primarily provided to large integrated companies which are involved in all stages of grain production and processing.

Loans to the food industry decreased from 2.8 per cent. of the total loan portfolio as at 31 December 2009 to 2.0 per cent. as at 31 December 2010, and the total amount of loans to this sector decreased by 29.3 per cent. in 2010, Loans to companies in this sector are principally provided to large conglomerates with potential export capabilities.

As at 31 December 2010 the Group's 20 largest borrowers accounted for 37.8 per cent. of the gross loan portfolio compared to 34.6 per cent. as at 31 December 2009 and 32.2 per cent. as at 31 December 2008.

Non-performing loans

Corporate and SME loans past due more than 30 days and retail loans delinquent for more than 60 days are considered to be non-performing. The Group classifies the entire exposure to a client as past due if such a borrower has at least one delinquent loan.

According to this definition, non-performing loans amounted to 25.4 per cent. as at 31 December 2010 compared to 22.8 per cent. as at 31 December 2009 and 8.1 per cent. as at 31 December 2008.

The following table sets out information as to amounts past due by less than 30 days, between 30 days and 60 days, between 60 and 90 days and for longer as at the dates indicated:

	As at 31 December			
	2010		2009	
Days past due	**Overdue Loans** (KZT millions)	**% of gross loans**	**Overdue Loans** (KZT millions)	**% of gross loans** (KZT millions)
Under 30	55,134	2.0	76,687	2.9
30 – 60	7,343	0.3	20,011	0.8
60 – 90	88,934	3.2	26,518	1.0
More than 90	605,119	22.0	567,872	21.3
Total	756,530	27.5	691,088	26.0

The table below provides a breakdown of non-performing loans by business segment:

	As at 31 December		
	2010	**2009**	**2008**
Corporate lending and SME	25.3	22.6	7.3
Retail lending	26.8	24.4	13.0
Total loan portfolio	25.4	22.8	8.1

Allowance for Impairment Losses

As described in Note 38 to the Annual Financial Statements, the Group classifies its non-homogeneous loans into five different risk categories ("Group 1" through "Group 5" or "Standard", "Substandard", "Watch", "Doubtful" and "Loss"). For the purposes of the following discussion about the performance of the loan book, the Group has allocated the homogeneous book to the "Group 4" or "Doubtful" classification as at 31 December 2010 and 2009 and the "Group 3" or "Watch" classification as at 31 December 2008.

The following table sets out certain information relating to the Bank's provisioning policy for impairment losses on loans to customers (excluding repurchase agreements) as at 31 December 2010, 2009 and 2008:

	As at 31 December								
	2010			2009			2008		
	Total exposure	Effective provisioning rate	Reserves/ Exposure	Total exposure	Total reserves	Effective provisioning rate	Total exposure	Total reserves	Effective provisioning rate
	(KZT millions)		%	(KZT millions) (unaudited)		%	(KZT millions)		%
Group 1, or Standard	207,584	10,109	4.9	321,629	12,663	3.9	471,055	13,084	3
Group 2, or Substandard	593,266	32,480	5.5	633,280	38,123	6	1,100,128	106,394	10
Group 3, or Watch	1,102,773	191,561	17.4	989,882	170,039	17.2	569,244	75,065	13
Group 4, or Doubtful	595,580	197,286	33.1	433,523	140,301	32.4	122,012	33,364	27
Group 5, or Loss	247,180	141,005	57.0	287,112	144,421	50.3	137,253	61,420	45
Total	2,746,383	572,441	20.84	2,665,426	505,549	19	2,399,693	289,328	12.1
Total net of provisions and reverse repurchase agreements	2,173,942			2,159,878			2,110,365		

The effective provisioning rate increased from 19.0 per cent. as at 31 December 2009 to 20.8 per cent. as at 31 December 2010. As at 31 December 2010, total allowances for possible impairment losses on loans to customers increased by KZT 66.9 billion to KZT 572.4 billion compared to KZT 505.5 billion as at 31 December 2009 and KZT 289.3 billion as at 31 December 2008.

"Standard" and "Sub-standard" loans (gross) amounted to KZT 800.9 billion as at 31 December 2010, as compared to KZT 954.9 billion as at 31 December 2009 and KZT 1,571.2 billion as at 31 December 2008.

The share of such loans in the Group's total portfolio equaled 29.2 per cent., 35.8 per cent. and 65.5 per cent. as at 31 December 2010, 2009 and 2008, respectively. "Watch" loans increased by 11.4 per cent. from 31 December 2009 to 31 December 2010 and their share of the total loan portfolio increased to 40.2 per cent. as at 31 December 2010, as compared to 37.1 per cent. as at 31 December 2009 and 23.7 per cent. as at 31 December 2008. "Doubtful" and "Loss" loans increased by KZT 122.1 billion (or 16.9 per cent.) in 2010 and their share of the total loan portfolio increased to 30.7 per cent. as at 31 December 2010, compared to 27.0 per cent. as at 31 December 2009 and 10.8 per cent. as at 31 December 2008.

In 2010, the Group wrote off loans in the aggregate amount of KZT 23.1 million, as compared to KZT 171 million in 2009 and KZT 1.2 billion in 2008.

The following table provides information regarding the Group's allowance for impairment losses as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	2009	2008
		(KZT millions)	
Allowance for impairment losses at the beginning of the period	505,548	289,328	140,363
Discontinued Operations	(3,050)	707	1,917
Additional provisions on purchase of OOO "Investment Company East Capital"	–	–	–
Provisions	95,422	192,756	149,757
Write-off of assets	(23,123)	(171)	(1,172)
Recoveries of assets previously written-off	–	–	–
Exchange rate difference.	(2,347)	22,928	(1537)
Allowance for impairment losses at the end of the period.	572,450	505,548	289,328

The following table shows the allocation of the allowance for impairment losses between legal entities and individuals, both in nominal terms and as a percentage of the gross customer loan portfolio as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	Effective provisioning rate	(KZT millions)	Effective provisioning rate	(KZT millions)	Effective provisioning rate
Legal Entities	494,154	20.3%	425,974	18.4%	243,161	12.1%
Individuals	78,296	25.2%	79,574	22.5%	46,167	11.6%
Total	572,450	20.8%	505,548	18.9%	289,328	12.0%

Contingent Liabilities and Credit Commitments

The following table sets out information relating to the size of the Group's contingent liabilities and credit commitments:

	As at 31 December					
	2010		2009		2008	
	Nominal amount	Risk Weighted amount	Nominal amount	Risk Weighted amount	Nominal amount	Risk Weighted amount
			(KZT millions)			
Contingent liabilities and credit commitments:						
Guarantees issued and similar commitments	90,557	90,557	122,096	122,096	109,550	109,550
Letters of credit and other transactions related to contingent liabilities	2,783	131	8,391	1,040	37,570	6,760
Commitments on loans and unused credit lines	8,992	8,992	9,865	9,865	9,312	9,312
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	44	44	58	58	72	72
Total	102,376	99,724	140,410	133,059	156,504	125,694

Revolving credit facilities are extended to borrowers depending on their financial position, credit history and other factors the Bank considers relevant. As at 31 December 2010, unused credit facilities amounted to KZT 286.7 billion compared to KZT 433.9 billion as at 31 December 2009 and KZT 502.1 billion as at 31 December 2008.

Loans and advances to banks and other financial institutions

Loans and advances to banks and other financial institutions have decreased in 2010 mainly as a result of both scheduled and early repayment of significant liabilities by the Bank. As at 31 December 2010, loans and advances to banks and other financial institutions, decreased by 1.4 per cent. or by KZT 2 billion (U.S.$7.3 million) to KZT 146.3 billion compared to KZT 148.4 billion as at 31 December 2009. In 2009 there was a decrease of loans to banks and other financial institutions by 38.6 per cent. or KZT 93.4 billion (U.S.$0.6 billion.) as compared to KZT 241.8 billion as at 31 December 2008.

The Bank applies a conservative approach when placing funds with other banks and financial institutions. Funds are regularly deposited for a short-term within the internal limits approved by the Bank unless such loans are backed by cash deposits and Government securities.

The majority of loans and advances to banks and other financial institutions, equal to 71.8 per cent., 60.7 per cent. and 80.8 per cent as at 31 December 2010, 2009 and 2008, respectively, were placed for a term of up to three months. Loans and advances to banks and other financial institutions with maturities from three months to one year were equal to 11.9 per cent., 35.2 per cent. and 16.5 per cent. as at 31 December 2010, 2009 and 2008, respectively.

As part of the Bank's liabilities consist of foreign borrowings, the Bank has accumulated available funds, predominantly in U.S. dollars, and as at 31 December 2010, the share of loans and advances to banks in foreign currency was equal to 93.3 per cent. of total loans and advances to banks compared to 6.7 per cent. in Tenge. As at 31 December 2009, the breakdown by currency was 91.1 per cent. compared to 8.9 per cent., and 98.1 per cent. compared to 1.9 per cent. as at 31 December 2008, in favour of U.S. dollars.

During the year ended 31 December 2010, allowance for impairment losses on loans and advances to banks and other financial institutions amounted to KZT 136 million compared to KZT 22 million and KZT 299 million as at 31 December 2009 and 2008, respectively.

The following table shows a breakdown of loans and advances to banks and other financial institutions as at 31 December 2010, 2009 and 2008, by currency:

	As at 31 December		
	2010	**2009**	**2008**
	(KZT millions)	(KZT millions)	(KZT millions)
Correspondent Accounts	17,690	46,828	19,262
KZT	662	295	94
Foreign Currency	17,028	46,533	19,168
Loans and Advances from banks, net	120,370	90,676	222,785
KZT	3,670	5,045	4,340
Foreign Currency	116,700	85,631	218,445
Allowances for impairment losses	(136)	(22)	(299)
Loans to banks under repurchase agreements	8,407	10,893	65
KZT	5,526	7,913	65
Foreign Currency	2,881	2,980	–
Total Loans and advances from banks	146,331	148,375	241,813

Funding

The following table sets out sources of funding of the Group as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		**2009**		**2008**	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Loans and advances from banks and other financial institutions	147,139	6.5%	209,122	9.5%	296,391	12.9%
Customer accounts	1,506,800	66.2%	1,276,464	58.1%	979,453	42.5%
Debt securities issued	375,199	16.5%	463,656	21.1%	678,285	29.5%
Other borrowed funds	23,943	1.1%	31,172	1.4%	137,324	6.0%
Other liabilities	84,144	3.7%	81,460	3.7%	91,766	4.0%
Subordinated Debt	137,137	6.0%	136,411	6.2%	117,724	5.1%
Total liabilities	2,274,362	100%	2,198,285	100%	2,300,943	100%

The Bank has participated in different Government stabilisation programmes implemented by Samruk-Kazyna. As at 31 December 2010, the Group had received KZT 24.0 billion for the refinancing of mortgages, KZT 37.5 billion for the refinancing of corporate clients, KZT 16.3 billion for the financing and refinancing of SMEs, KZT 73.2 billion to complete construction projects and KZT 3.6 billion to refinance businesses in the manufacturing sector.

Financing to entrepreneurs in the manufacturing sector is provided for under the General Agreement between Samruk-Kazyna, JSC Distressed Assets Fund, DAMU and a number of Kazakhstan financial institutions which was entered into in October 2009. The total funds allocated to the programme amount to KZT 5.2 billion.

Under the programme the Bank provides co-financing on a 30/70 basis with KZT 1.56 billion funded by the Bank and KZT 3.64 billion funded by JSC Distressed Assets Fund.

The Group participates in special programmes sponsored by the Government and international institutions, such as the EBRD and the Asian Development Bank and often uses funds provided by Export Development Canada, DEG-Deutsche Investitions MBH, London Forfaiting Company Ltd, Private Export Funding Corporation and Societe Generale Financial Corp to finance the purchase of agricultural equipment.

Customer Accounts

The following table provides a breakdown of term and demand deposits by currency as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
KZT						
Demand deposits	263,908	17.5	168,530	13.2	113,943	11.7
Individuals	39,273	2.6	27,017	2.1	19,326	2
Corporate	224,635	14.9	141,513	11.1	94,617	9.7
Term Deposits	520,568	34.5	464,012	36.3	329,919	33.6
Individuals	168,040	11.2	97,337	7.6	113,978	11.6
Corporate	352,529	23.4	366,675	28.7	215,941	22
Total in KZT	784,476	52.1	632,542	49.5	443,862	45.3
Foreign Currency						
Demand deposits	207,445	13.8	137,967	10.8	42,957	4.4
Individuals	11,104	0.7	9,908	0.8	5,269	0.5
Corporate	196,341	13.0	128,059	10	37,688	3.9
Term Deposits	514,878	34.2	505,955	39.7	492,634	50.3
Individuals	233,011	15.5	193,360	15.2	125,198	12.8
Corporate	281,867	18.7	312,595	24.5	367,436	37.5
Total in Foreign Currency	722,323	47.9	643,922	50.5	535,591	54.7
Total Customer Accounts	1,506,800	100	1,276,464	100	979,453	100

As at 31 December 2010 the deposits (including interest accrued) of the 10 largest depositors accounted for 51.1 per cent. of total deposits, compared to 60.8 per cent. as at 31 December 2009 and 57.7 per cent. as at 31 December 2008. The majority of deposits as at 31 December 2010 were from state owned securities.

Loans and advances from banks and other borrowed funds

The following table sets out the structure of the Group's wholesale funding as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(KZT millions)	(share %)	(KZT millions)	(share %)	(KZT millions)	(share %)
Loans and advances from banks:						
Correspondent accounts	2,167	1.3	2,934	1.2	14,653	3.4
Loans from banks	121,760	71.2	172,093	71.6	193,764	44.7
Deposits of banks	1	–	1,424	0.6	8,745	2
Loans sold under agreements to repurchase	26	–	–	–	9,526	2.2
Loans from international financial institutions	23,185	13.6	32,671	13.6	33,252	7.7
Syndicated loan		–	–	–	36,451	8.4
Total loans and advances from banks	147,139	86.0	209,122	87	296,391	68.4
Due to the Ministry of Finance of the Republic of Kazakhstan and Kyrgyz Republic	19	–	40	–	60	–
Due to DAMU Entrepreneurial Fund	16,300	9.5	19,059	8	2,716	0.6
Due to other institutions	7,624	4.5	12,073	5	134,548	31
Total other borrowed funds	23,943	14.0	31,172	13	137,324	31.6
Total borrowed funds	171,082	100.0	240,294	100	433,715	100

The Group's debt securities decreased to 16.5 per cent. of total liabilities as at 31 December 2010 from 21.1 per cent. as at 31 December 2009 and 29.5 per cent. as at 31 December 2008, mainly due to the cancellation of certain Eurobonds that were subject to buy-backs in 2010 in the amount of KZT 66,765 million (U.S.$453 million). There was also a translation difference which occurred as a result of significant decreases in the exchange rates of the Euro and Pound in 2010. Further, in November 2009, the Group repaid a U.S.$500 million Eurobond which was issued in November 2004. Long-term liabilities decreased to 41.1 per cent. of total financial liabilities as at 31 December 2010, from 53.7 per cent. as at 31 December 2009 and 51.4 per cent. as at 31 December 2008.

The Group has a policy of extending the maturities of its assets in accordance with the maturities of funding raised in the debt capital markets so as to reduce risks related to interest rate changes. Long-term assets (i.e. assets with a maturity of more than one year) decreased by 3.2 per cent. during 2010 and accounted for 54.1 per cent. of total financial assets, as compared to 57.3 per cent. of total financial assets as at 31 December 2009 and 56.1 per cent. as at 31 December 2008. As at 31 December 2010 the asset and liability interest gap was positive in respect of financial assets and liabilities with maturities of over five years, at 7.9 per cent. of financial assets. The positive gap means that an interest rate increase would have a positive effect on net interest income. Where practicable, the Group also links loans to their underlying funding sources through participation in special programmes sponsored by Samruk-Kazyna, the NBK, the Ministry of Finance of Kazakhstan and many international financial institutions. The Group also endeavours to increase and extend the maturities of its retail term deposits and is continuing its efforts to increase the volumes and tenors of its term deposits.

RISK MANAGEMENT POLICIES

Management of risks is fundamental to the Bank's business. The Bank's risk management function consists of:

- Risk identification: The risks to which the Bank is exposed in its daily activities are identified by the risk management system.

- Measuring risks: The Bank measures its exposure to risk using various quantitative and qualitative methodologies, which include risk-based profitability analysis, calculation of possible loss amounts, and the use of specialised models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.

- Risk monitoring: The Bank's policies and procedures determine the processes for mitigating and minimising the risks and establish limits on various types of operations. Such limits are reviewed on a periodic basis set forth in internal documents of the Bank.

- Risk reporting: Risk reporting is performed on lines of business and on a consolidated basis. The information is periodically presented to the management.

The Bank's operations are primarily exposed to the following risks:

CREDIT RISK

The Bank is exposed to credit risk, which is the risk that a counterparty to a financial instrument will fail to fulfil its obligations to the Bank. This covers actual payment defaults as well as losses in value resulting from a decrease in the credit quality of the counterparty.

Risk management and monitoring is performed within the limits set by the Credit Committees and the Board of Directors of the Bank. Risk management coordination is performed by the risk management specialist or the Risk Management Departments. Daily risk management is performed by the Head of the Credit Departments or the Credit Divisions of branches and subsidiaries.

To measure credit risk, the Bank employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on the types of assets (e.g. consumer loans versus corporate term loans), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed work-out groups).

The Bank determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical segments. Limits on the level of credit risk by borrower, by product and by region are approved by the relevant Credit Committee. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the various Credit Committees.

Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Bank applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

Structure of Credit Committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the credit approval and decision making-process and are aimed at the accurate assessment of credit risk and the proper and timely monitoring thereof. Each of the policy frameworks for retail lending and corporate lending establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for the management of distressed loans.

The Bank has centralised decision making in the Head Office over the past several years. In particular, the approval of small entrepreneurship and retail loans in branches and regional offices has been transferred to Decision Making Centers (DMCs) in the Head office. Furthermore, the approval of corporate loans in branches and regional offices has also been transferred to the Head Office.

The Bank currently has the following credit committees:

- Head office committees

  - *Head Office Credit Committee*. This committee is authorised to approve corporate loans of up to the equivalent of U.S.$5 million. The committee also approves retail and small entrepreneurship loans which exceed the thresholds and authority set for DMCs.

  - *Commercial Directorate*. The committee is authorised to approve loans exceeding the equivalent of U.S.$5 million.

  - *Board of Directors*. All loans exceeding 10% of the Group's total assets as well as all transactions with related parties must be approved by the Board of Directors.

- *North Regional Directorate Committee*. The Group has a North Regional Directorate Committee which covers the north regions of Kazakhstan (Astana, Kostanay, Kokshetau and Petropavlovsk). The North directorate has limited authority to grant loans.

- Branch Committees. Each of the Bank's branches has a credit committee. The branches have limited authority to grant loans.

Corporate loan approvals

When considering whether or not to grant a corporate loan, in addition to credit proposals by credit managers, the appropriate committee will also obtain advice and recommendations from the following departments and divisions:

- *Department of Risk Management*. This group within the Head Office provides advice on corporate loans based on their assessment of the borrower's business and/or the project to which the loan relates. Its assessment takes into account a number of industry- and borrower-specific factors, the future cash flows of the potential borrower and anticipated risk-adjusted returns for the Bank. For analytical purposes risk managers use the rating model described below. Furthermore, the Department of Risk Management is involved in monitoring the Bank's loan portfolio and in developing procedures and guidelines with respect to the Bank's lending.

- *Collateral Valuation Department*. The Bank requires collateral for almost all of its loans. According to Kazakhstan legislation, collateral valuation must be performed by independent collateral valuation companies ("NOKs"). The Collateral Valuation Department reviews appraisal reports issued by NOKs and carries out the certification and monitoring of NOKs.

- *Legal Department*. The Bank obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and grant collateral.

- *Security Department*. The Security Department provides information on the assets, the credit history and the reputation of potential borrowers. The Bank provides information concerning new loans to the First Credit Bureau. In addition, the Bank receives information regarding the credit history of new borrowers from the First Credit Bureau. Information received from this organisation is used on an annual basis by the Bank to monitor the credit history of its clients.

Rating model

The Bank has developed an internal rating model, based on principles and methods used by international rating agencies for assessment of credit risk of corporate borrowers. The developed internal rating model is capable of complying with the requirements of the Internal Ratings Based Approach of Basel II. The rating of a corporate borrower is based on an analysis of the financial ratios of such borrower and an analysis of the market and industry sector, in which such borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and such borrower's market share.

The application of the internal rating model results in a standardised approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

Retail and SME loan approvals

Retail loans and small and medium entrepreneurship loans are subject to a standardised approval procedure, carried out by the Decision Making Centres (DMCs) which are part of the Department of Risk Management. DMC processes retail loan applications, while DMC processes applications for loans by small and medium enterprises. In order to approve or decline an application, the DMCs analyse payment ability and creditworthiness of a potential borrower on the basis of standard terms, criteria and procedures set forth by the Bank.

The DMC for retail loans is authorised to approve applications from customers with an obligor exposure of up to the equivalent of U.S.$200,000. The DMC for small and medium enterprises' loans has authority to approve applications from customers with an obligor exposure of up to the equivalent of U.S.$500,000. Applications with larger exposures are referred to one of the relevant credit committees in the Head Office. The DMCs conduct an analysis of the applications exceeding their authority limits, and the relevant credit committee takes their conclusions into account in decision-making.

Scoring models

The standardised approach to evaluate credit risks of a borrower includes the use of scoring models for some types of retail and small entrepreneurship products. The statistical scoring models interpret socio-demographic and financial indicators, behavioural variables and the credit history of borrowers. Each of the parameters inserted into the scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardise and automate the process of decision making and decrease the operating expenses and operational risks of the Bank. Scoring models are assessed on a continual basis for their effectiveness and validity.

Allowance for credit losses

The Bank establishes an allowance for impairment losses on loans and off-balance liabilities under IFRS where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, a loan officer takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower.

OPERATIONAL RISK

The Bank is exposed to operational risk. Operational risk is the risk of losses that may arise as a result of system inefficiencies, break-downs of internal processes, human error or the effect of any external negative factor.

Each structural unit of the Bank is responsible for managing its own operational risks on a daily basis. The Operational Risks Committee presided by the Chairperson of the Bank approves operational risk management ("ORM") policies and makes all major decisions related to ORM. The Internal Control Department monitors ORM generally in the Bank, using the following tools, which comply with the best global banking practices:

- Risk self-assessment – Risk Self-assessment is a structured interactive procedure to identify and evaluate operational risk. Employees from a particular division participate in the process of operational risk evaluation of this division, help to establish control measures and make changes to the Bank's processes and products.

- New processes, products and system assessments – The Operational Risk Assessment Procedure is the procedure whereby operational, legal and reputational risks arising from a proposed new initiative or change are identified and assessed in a structured manner, leading to proposals on risk-mitigating actions and the acceptance of the remaining (residual) risks.

- Operational losses database – The Bank's Operational Loss Database is an internal database that collects and stores information on all operational risk events and losses.

- Key operational risk controls – Key Operational Risk Controls provide an overview of key risks associated with process scopes and establish key controls to mitigate operational risks. As such they are essential to develop operational risk management in the bank. Implementation of Key Operational Risk Controls throughout the Bank is currently in process.

- Key risk indicators – Key Risk Indicators represent a set of measurements used to assess the operational risk profile of a particular area or activity at any given point in time. Implementation of Key Risk Indicators throughout the Bank is currently in process.

The operational risk management tools described above allow the Bank to identify those banking activities that are most vulnerable to operational risks, to evaluate and monitor losses of the Bank arising from operational risk and to set relevant controls. They are also used to develop preventive and detective tools as well as measures for decreasing the level of risk.

Asset and Liability Management Committee

The Group's Asset and Liability Management Committee ("ALMC") seeks to control liquidity, currency, interest rate and market risks. ALMC meetings take place on a weekly basis. During the meetings the ALMC analyses the Bank's exposures using information about maturities, interest margins, cash flows, liquidity and the Bank's net foreign currency positions. The Bank's treasury operations and investment strategies are also planned at ALMC meetings.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not have enough funding at a reasonable price to meet all cash outflows (on and off balance sheet).

The ALMC controls this risk using maturity analysis and determines the Bank's strategy for the next financial period. As part of the contingency funding plan, the Bank also performs liquidity risk stress testing on a quarterly basis, which provides an estimate of cash outflow in case of a liquidity crisis. Based on the results of the stress testing, the ALMC sets a limit on the minimum size of the Liquid Asset Portfolio. Current liquidity is managed by the Treasury Department through investments in money markets and the placement of available funds in liquid securities in line with the ALMC's instructions.

With the purpose of managing liquidity risk, the Bank monitors the future expected cash flows on clients' and banking operations daily, as part of the asset and liability management process.

The Bank maintains compliance with liquidity requirements, such as current and short-term liquidity ratios and foreign exchange liquidity limits, set by the regulatory bodies. In the opinion of management, the restrictive nature of these limits ensures that the Bank maintains appropriate liquidity levels.

CURRENCY RISK

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio. See *"Risk Factors – Risks Relating to the Bank – The Bank may have significant liabilities under cross-currency swaps"* and *"Management's Discussion and Analysis of Results of Operations and Financial Condition – Derivative Financial Instruments"*.

The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which enable the Bank to minimise losses from significant currency fluctuations. Similar to liquidity risk management Treasury Department manages open currency positions of the bank using data generated by the Prudentials Monitoring and Regulatory Reporting Division on a daily basis.

The FMSA and NBK set restrictions on open currency positions, which limits the exposure to currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

INTEREST RATE RISK

Interest rate risk is a risk of possible decline in interest income generated (on and off balance sheet) positions accounted at amortised cost as a result of changes in market interest rates.

The ALMC manages interest rate risk by monitoring and analysing repricing gap and sensitivity reports, as well as interest rate margin reports. This helps the Bank mitigate interest rate risks and maintain a positive interest margin. The Risk Management Department regularly assesses the Bank’s sensitivity to changes in interest rates and its effect on profitability.

The majority of the Bank’s loans are fixed rate agreements. At the same time, the agreements contain clauses enabling the Bank to change interest rates, subject to the current legislation.

In addition, the Bank entered into a number of interest rate swaps in order to hedge the interest rate risk. The Bank monitors its interest rate margin and does not consider itself exposed to significant interest rate risk.

MARKET RISK

The Bank defines market risk as currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios, as well as currency positions.

The Risk Management Department measures the risks and generates treasury position reports, which are presented to the ALMC. The Risk Management Department calculates the VaR to measure the market risk on equity, fixed income and currency positions and breaks it down in individual risk factors (such as currency risk, interest rate risk and equity risk). This enables the Bank to analyse exposure to each risk factor and make further decisions to mitigate a particular exposure. For internal reporting purposes, in addition to the VaR analysis described above, the Bank also performs sensitivity analysis on its currency risk and interest rate exposures.

MANAGEMENT

GENERAL

According to its charter, the Bank must have a Board of Directors, the management body of the Bank, as well as a Management Board, the executive body of the Bank. The General Meeting of Shareholders elects the members of the Board of Directors. The Board of Directors, in turn, elects the members of the Management Board. The Board of Directors represents the interests of Shareholders, is responsible for executing the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. Overall responsibility for the administration of the Bank's activities is vested in the Management Board.

BOARD OF DIRECTORS

The Bank's board of directors (the "Board of Directors") must comprise not less than five and not more than seven persons and is elected by the Shareholders. The members of the Board of Directors elect the chairman from amongst themselves. Members of the Board of Directors serve a term determined by the General Meeting of Shareholders or indefinitely until resignation or removal by a General Meeting of Shareholders. Members of the Board of Directors may be re-elected an unlimited number of times. The powers of the Board of Directors include determining the priority of the Bank's activities and approving the Bank's strategic and operational plans. The Board of Directors also makes decisions with respect to the establishment of branches and representative offices of the Bank, participation in the establishment and activities of other enterprises, concluding large-scale transactions and the adoption of operational budgets and estimates of capital expenditures. The Board of Directors must also approve all transactions with related parties.

The current members of the Board of Directors are as follows:

Nurzhan S. Subkhanberdin (age 46) has served as Chairman of the Board of Directors since September 2002. Prior to that he was Chairman of the Management Board of the Bank, having been appointed to that position in 1993. From 1991 to 1993, he was a First Deputy Chairman of the Bank. Mr. Subkhanberdin graduated from Moscow State University and has a degree in economics from Kazakh State University ("KSU").

Daulet H. Sembaev (age 75) has been Deputy Chairman of the Board of Directors since 2002 and was Chairman of the Board of Directors and Advisor to the Chairman of the Management Board from 1999 to 2002. Mr. Sembaev is a former Chairman of the NBK, President of the Kazakhstan Association of Financiers and a member of Parliament. He has also held other positions with different government bodies and private companies. Mr. Sembaev graduated as an engineer from the Kazakh Mining Institute in 1958.

Nina A. Zhussupova (age 49) has been a member of the Board of Directors since September 2002. Ms. Zhussupova is the Chairman of the Management Board. Since joining the Bank in August 1995, she has served as First Deputy Chairman of the Management Board, Manager of the Accounts Office and Chief Accountant of the Bank. She holds a degree in economics from the Almaty Institute for National Economy ("AINE").

Gail Buyske (age 56) has been a member of the Board of Directors since October 2003. Ms. Buyske acts as an independent Director. Prior to joining the Board, she held the position of Senior Banker with the EBRD. She also worked as a Consultant to the World Bank and as a Vice President of Chase Manhattan Bank. Ms. Buyske holds a doctorate in political science from Columbia University, a master's degree in international relations from Princeton University and a degree in Russian studies from Middlebury College.

Mukhtar S. Yerzhanov (age 61) was elected in 2008 as an independent director. Mr. Yerzhanov has extensive experience in audit and accounting. He is a partner of an audit company, a professor at Kazakh Economics University and Turan University, as well as a Chairman of the Committee on Development of Audit Theory and Practice under the Chamber of Auditors of Kazakhstan. In addition, Mr. Yerzhanov is the President of the Guild of Internal Auditors and Accountants.

Archag Patrick Vosgimorukian (age 38) is the General Director of AMUN Capital Advisors KZ, an affiliate of Alnair. From 2007 to 2008 he worked as Managing Director at Renaissance Capital Central Asia, where he was responsible for investment banking and finance in Central Asia and the Caucasus. Previously, from 2000 to 2007 he was Head of Mergers & Acquisitions in CEE and CIS, ABN AMRO Corporate Finance London Ltd. Prior to that, from 1998 to 2000 he worked as an EMEA TNT (Technology, Media, Telecommunications) Equity Research Analyst for the Middle East and Africa at Societe Generale Securities. In 1994 he graduated with a bachelor degree in International Relations from the American University in Paris; and in 1998 he completed Customer Function-CF30 (Investment Advisor Function-CF21) with the UK Financial Services Authority.

Sergei Shibaev (age 52) has worked as an advisor to several multinational companies, including BP, Mars, Unilever, Hewlett-Packard, Johnson & Johnson and Heinz. He currently acts as Chair of the Audit Committee at RESO-Garantia; Chair of the Audit Committee and Member of the Risks Committee at AK BARS Bank; Chair of the Audit Committee; and Member of the Strategy and Corporate Governance Committee at Centravis (Dnipropetrovsk, Ukraine). During the period 2004-2007 Mr. Shibaev worked as Partner/Deputy Head of the Moscow/CIS Office of Roland Berger Strategy Consultants GmbH. From 1999 to 2000 he was Vice-President and Director at Deloitte & Touche Corporate Finance Inc in Toronto, and from 1998 to 1999 he acted as a Head of Corporate Finance/First Deputy CEO at ING Barings (Moscow). In 1990-1997 Mr. Shibaev worked as Managing Partner and Partner at Coopers & Lybrand in USSR and Russia. He has an MBA from The Henley Management College, UK, a PhD in Economics from MGIMO, Russia, and is a Fellow of the Association of Chartered Certified Accountants (ACCA, UK, 1995), and is ICD.D Certified by the Institute of Corporate Directors (Canada, 2010).

The business address of the members of the Board of Directors is the registered office of the Bank. The registered office of the Bank is 135 zh Gagarin Ave., Almaty 050060, Kazakhstan and its telephone number is +7727 258 5125.

THE MANAGEMENT BOARD

The management board (the "Management Board") must consist of not less than three persons. The Management Board manages the Bank's affairs on a day-to-day basis and its responsibilities include all other matters not reserved to the exclusive competence of the Board of Directors or the General Meeting of Shareholders. Meetings of the Management Board can be convened as necessary.

The current members of the Management Board are as follows:

Nina A. Zhussupova (age 49) is the Chairperson of the Management Board.

Alexander V. Barsukov (age 39) supervises the Bank's Legal Department and has served as a Managing Director of the Bank since January 2005. Mr. Barsukov is a former managing partner at the office of the law firm McGuireWoods' in Kazakhstan. He holds a degree in law from KSU.

Alexander V. Yakushev (age 52) has served as a Managing Director of the Bank since 1999. He is also a Director of the Northern Regional Directorate. He is the former Director of the Bank's Correspondent Relationships with CIS and Baltic States Banks division. Before joining the Bank in 1996, Mr. Yakushev held various positions with Kramds Bank. He graduated from the Gorky Institute of Foreign Languages and AINE.

Beibit T. Apsenbetov (age 44) supervises the Bank's Corporate Banking Department No. 4, CIS and Baltics Department and has served as a Managing Director of the Bank since 2002. Mr. Apsenbetov is a former partner of Deloitte & Touche Kazakhstan. He holds a degree in economics from Leningrad State University and is a chartered accountant in Kazakhstan.

Baurzhan K. Zhumagulov (age 41) supervises one of the Bank's Credit Departments and has served as a Managing Director of the Bank since January 2005. Mr. Zhumagulov is a former Deputy General Director of "Caspian Industrial Financial Group" LLP. He holds a degree in economics from Kazakh Economic University.

Magzhan M. Auezov (age 35) supervises the Bank's Credit Departments, and its Project Finance Departments and has served as a Managing Director of the Bank since 2002. Mr. Auezov is a former Country Head of Loan Products of ABN AMRO Bank Kazakhstan and prior to that was Head of the Trade and Commodity Finance Department at the same bank. He holds a graduate degree in International Banking and Finance from

Columbia University and an undergraduate degree in International Economics from Georgetown University as well as a diploma in International Affairs from KSU.

Andrey I. Timchenko (age 35) supervises the Bank's Retail Business Development Department, Marketing Department and Business and Product Development Department and has served as a Managing Director of the Bank since 2003. Mr. Timchenko is a former tax adviser with Ernst & Young Almaty. He joined the Bank in 1998 and has held a number of positions in the Bank. He has a graduate degree in law from Kazakh State Law University.

Dennis Y. Fedossenko (age 35) supervises the Bank's Treasury Department and has served as a Managing Director of the Bank since 2003. Mr. Fedossenko joined the Bank in 1996 and held a number of positions in the Treasury Department of the Bank. He graduated from the Kazakh State Academy of Management.

Erik Z. Balapanov (age 42) supervises one of the Bank's Credit Departments and has served as a Managing Director of the Bank since 2003. Mr. Balapanov formerly held senior positions in Bank TuranAlem, Almaty Commercial Bank and the Development Bank of Kazakhstan. He graduated from the Kazakhstan Institute of Marketing, which is affiliated with the Kazakh State Academy of Management.

Askarbek R. Nabiyev (age 36) supervises the Bank's Financial Control Department and was appointed as a Managing Director in February 2007. He has been with the Bank for 10 years, initially within the economic analysis division. In 2002, he became the Director of the Financial Control Department. He holds a degree in economics from the Kazakh State Academy of Management.

Adil U. Batyrbekov (age 33) supervises the Bank's Risk Management Department, Department of Internal Control, Collateral Department and Small Business Development Department and was appointed as a Managing Director in February 2007. He has headed the Bank's Risk Management Department since 2004. Prior to joining the Bank, he spent over 6 years as the head of the credit division at ABN AMRO Kazakhstan. He graduated from the Kazakh State Academy of Management as an economist specialising in international affairs, and holds an MBA from the University of Nottingham.

Kulyash B. Erezhepova (age 44) was appointed as a Managing Director in January 2008, and oversees the Bank's administrative issues, such as construction and maintenance of the new branches, logistics and procurement. Ms. Erezhepova holds a degree in Accounting from AINE. She joined Kazkommertsbank in 1994 and has since held a number of positions in the Bank.

Amar T. Hanibal (age 36) was appointed as Managing Director in December 2009 and oversees the Bank's corporate and market risks. Prior to the appointment, he served as a Director of Risk Management Department. He has extensive banking experience in risk management and corporate lending. Since 1999 Mr. Hanibal has held various positions in ABN AMRO in Amsterdam, Chicago and London. He graduated from the European University in Brussels in 1998 with a degree in economics and he received an MBA from Harvard Business School in 2007.

Sergey D. Mokroussov (age 41) was appointed as Managing Director in December 2009 and oversees the Bank's international business. He joined the Bank in 2003, and since then he has held various senior positions in corporate banking including product development and project finance. From July 2008 and up until recently he was an Executive Director supervising business relationships with financial institutions all over the world. Mr. Mokroussov graduated from Pavlodar State University with a degree in economics and management. He received an MBA from Dartmouth College.

The business address of the members of the Management Board is the registered office of the Bank. The registered office of the Bank is 135 zh Gagarin Ave., Almaty 050060, Kazakhstan and its telephone number is +7727 258 5125.

The following table sets out the gross principal amounts of loans outstanding to, and outstanding guarantees issued on behalf of, members of the Board of Directors and Management Board of the Bank as at 31 December 2010:

	Principal amount outstanding (in thousands of KZT)
B.T. Apsenbetov	28,479
E.Zh. Balapanov	5,163
A.V. Barsukov	68,761
A.T. Hanibal	1,339
B.K. Zhumagulov	932
N.S. Subhanberdin	333,350
A.I. Timchenko	28,984
E.N. Shamuratov(1)	84
A.V. Yakushev	1,869
S. D. Mokrousov	1,409
A.U. Batyrbekov	14,080
A.R. Nabiyev	498
N.A. Zhussupova	10,100
K.B. Yerezhepova	10
Total	495,058

(1) Mr E.N. Shamuratov resigned from the Management Board of the Bank in April 2011.

There are no other outstanding loans or guarantees granted by the Bank to any member of the Board of Directors or of the Management Board. All loans to members of the Board of Directors and the Management Board set out above have been approved by the Board of Directors as related party transactions and bear interest at rates from 10 to 17 per cent. per annum.

CORPORATE GOVERNANCE

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Management Code. The Kazakhstan Corporate Management Code is based on existing international best practice in the area of corporate governance and sets out recommendations for applying the principles of corporate governance by Kazakhstan joint-stock companies. The Kazakhstan Corporate Management Code was approved by the Expert Council for Securities Market Matters under the NBK in September 2002. The Bank currently complies with the provisions of the Kazakhstan Corporate Management Code in all material aspects, save as to the composition of its Board of Directors, which the Bank intends to remedy.

The Bank has adopted a Corporate Governance Code which was approved by the Bank's Board of Directors and the General Meeting of Shareholders. The Corporate Governance Code sets out rules which the Bank follows to form, operate and improve the Bank's corporate governance system. The Bank also follows the Code in its operations to ensure a high level of business ethics in relations both within the Bank and with other market players.

The Bank has also adopted a Code of Business Ethics (the "Code") which defines the Bank's mission within a corporate governance framework. The Code was approved by the Board of Directors and an employees' committee. The Code contains guidance on compliance matters, confidentiality, and client and employee relations.

The Bank has already established an Audit Committee and a Nomination and Remuneration Committee. The JSC Law also requires that at least one third of the members of a company's board of directors should be independent. Currently, the Bank's Board of Directors has three independent directors.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

During 2010, the total compensation paid to members of the Management Board was KZT 433 million which included salaries and bonuses and other payments. The Bank does not have any stock option plan or similar plans. No member of the Board of Directors or the Management Board has a contract with the Bank or any of its subsidiaries providing for benefits upon termination of employment.

CONFLICTS OF INTEREST AND OTHER

There are no potential conflicts of interest between any duties of the members of the Board of Directors and the Management Board towards the Bank and their private interests and/or other duties.

No member of the Board of Directors or the Management Board has, in the five years preceding the date of this Base Prospectus:

(a) been convicted in relation to fraudulent offences;

(b) been associated with any bankruptcy, receivership or liquidation in the capacity of a member of any administrative, management or supervisory body; or

(c) been subject to public incrimination or sanctions by statutory or regulatory authorities (including designated professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

RELATED PARTY TRANSACTIONS

The following table sets out the Group's interest income and interest expense with respect to transactions with related parties (comprising entities and natural persons that are shareholders, affiliates or entities under common management or control of the Bank), as well as short-term benefits paid to employees who are related parties, for the years ended 31 December 2010, 2009 and 2008:

	For the year ended 31 December		
	2010	**2009**	**2008**
		(in millions of KZT)	
Interest income	91	204	155
Interest expense	(471)	(354)	(464)
Short-term employee benefits	(1,033)	(730)	(1,221)

As at 31 December 2010 total guarantees issued for related parties amounted to KZT 18 million, as compared to KZT 580 million as at 31 December 2009 and KZT 19 million as at 31 December 2008.

As at 31 December 2010 and as at 31 December 2009, the Group had no investments in associates as compared to KZT 1,775 million as at 31 December 2008.

The following table sets out the total related party transactions of the Group as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
		(in millions of KZT)	
Loans to customers	1,055	1,140	1,525
Allowance for impairment losses	(110)	(114)	(106)
Investments in associates	–	–	1,775
Customer accounts	5,255	7,769	4,661
Commitments on loans and unused credit lines	305	456	304
Guarantees issued and similar commitments	18	580	19

PRINCIPAL SHAREHOLDERS

INTRODUCTION

From late 1994 until November 2006, a majority of the Bank's Shares were owned or controlled by its directors and senior management, although as a result of the Bank's IPO and Initial Rights Offering, the directors and senior management no longer control a majority of the Shares. To the Bank's knowledge, as at the date of this Base Prospectus, the Bank's directors and senior management beneficially owned 33 per cent. of the outstanding Shares. The Bank's Principal Shareholders have the same voting rights per Share as other shareholders.

PRINCIPAL SHAREHOLDERS

The following table sets forth information, to the Bank's knowledge as of the date of this Base Prospectus, with respect to the Principal Shareholders and the beneficial ownership of Shares by:

- each of the Bank's directors and senior managers; and
- all of the Bank's directors and senior management as a group.

Except as indicated, beneficial ownership includes the sole power to vote and to dispose of Shares.

	Shares	(%)[1]
CAIC[2]	185,561,734	23.8
EBRD	76,095,329	9.8
Nurzhan Subkhanberdin (direct ownership)	72,570,672	9.3
Alnair[3]	223,922,790	28.8
Samruk-Kazyna	165,517,241	21.2

(1) As at of the date of this Base Prospectus there are 778,625,062 Shares outstanding of the 779,338,177 originally issued. 713,115 Shares have been repurchased in the open market by the Bank through its subsidiary, Kazkommerts Securities acting as a market-maker on the KASE.

(2) CAIC an entity through which the Bank's directors and senior managers beneficially own Shares. As at the date of this Base Prospectus, CAIC holds 185,561,734 Shares representing 23.8 per cent. of the Shares. 87.2 per cent. of the share capital of CAIC is beneficially owned by Mr. Subkhanberdin, 12.8 per cent. is beneficially owned by Ms. Zhussupova.

(3) Alnair is the beneficial owner of 223,922,790 Shares in the form of GDRs (held through the Bank of New York Mellon as depositary) and Shares. Alnair is beneficially owned by a private investment fund established by Abu Dhabi's Sheikh Takhnun bin Zaid Al Nahayan.

In addition to the Shares, the Bank had 124,775,079 Preference Shares outstanding as at the date of this Base Prospectus. Each Preference Share entitles the holder to a fixed annual dividend of U.S.$0.04. If such dividends are not paid, holders of Preference Shares are granted voting rights until all accrued and payable dividends are paid in full. At the option of the Bank, the Bank may offer to the holders of Preference Shares the option to convert all or some of such shares into Shares of the Bank.

In January 2006, the Bank registered with the FMSA a new share issue comprising 200 million Shares and in March 2009, the Bank registered with the FMSA a new share issue comprising 325 million Shares and 50 million Preference Shares.

In November 2006, the Bank's three major shareholders at the time, CAIC, Mr. Nurzhan Subkhanberdin and the EBRD sold 91,429,412 Shares in the form of GDRs on the London Stock Exchange. The GDRs were sold at a price of U.S.$18.50 per GDR, with each Initial GDR representing two of the Bank's Shares. CAIC, Mr. Nurzhan Subkhanberdin and the EBRD committed to use the proceeds from the IPO to subscribe for new Shares offered domestically to the Bank's pre-IPO shareholders in the Initial Rights Offering. Total proceeds to CAIC, Mr. Nurzhan Subkhanberdin and the EBRD exceeded U.S.$845 million. In the second stage of the IPO, the Bank offered 103.5 million Shares to its pre-IPO shareholders. The Bank completed the Initial Rights Offering in January 2007 and raised more than U.S.$957 million (before fees, commissions of investment banks and other expenses paid in connection with the IPO and Initial Rights Offering) in new capital.

SHAREHOLDERS' AGREEMENT WITH THE EBRD

In connection with the EBRD's purchase of Shares in August 2003, the EBRD entered into the Shareholders' Agreement dated 6 June 2003 with the Bank and certain shareholders at the time. In connection with the EBRD's purchase of additional Shares in June 2005, the original shareholders' agreement was replaced by the Shareholders' Agreement dated 24 June 2005 as amended on 7 December 2005. The Shareholders' Agreement provides, amongst other things, that its terms and conditions shall remain in effect for so long as the EBRD holds Shares. The Shareholders' Agreement also provides that:

- as long as the EBRD holds at least five per cent. of all Shares, the EBRD will have the right to nominate one member of the Board of Directors;

- the 2005 Shareholders shall not vote, and shall procure that any of their representatives of the Board of Directors shall not vote, in favour of resolutions to, amongst other things, amend the Bank's charter, change the policy statement of the Bank (which sets forth the basic framework whereby the Bank commits to maintain certain policies, procedures and minimum operational standards in order to achieve its stated strategic objectives), vary, increase or decrease its authorised or issued share capital or the rights attaching to Shares, grant options, warrants or similar rights convertible into Shares, make any distribution, payment or make a return to members of a capital nature, take steps to wind up or dissolve the Bank, make or permit any material change in the Bank's business or sell, lease, transfer, dispose of or acquire a material part of the Bank's assets, in each case without the prior approval of the EBRD;

- the Management Board will consult the EBRD and take due account of its opinion and recommendations with regard to incorporation of any new subsidiary undertaking of the Bank or the acquisition by the Bank of an interest in any shares in the capital of any corporate body;

- the 2005 Shareholders shall have the right to purchase any Shares held by the EBRD in the event the EBRD wishes to dispose of Shares to a third party;

- in the event that the 2005 Shareholders or any of them receive an offer that would result in the 2005 Shareholders holding less than 51 per cent. of all voting shares of the Bank, the 2005 Shareholders shall cause the purchaser to agree to purchase the Shares held by the EBRD;

- the 2005 Shareholders shall not sell or transfer the Shares of Mr. Subkhanberdin or CAIC to any third party without the EBRD's prior written consent;

- the EBRD and the 2005 Shareholders shall have the right to subscribe for newly issued Shares in the Bank in proportion to their existing shareholdings;

- upon a notice served by the EBRD on the Bank, the EBRD shall have the right to convert the Shares held by the EBRD into GDRs or ADRs and the Bank shall immediately take all actions, including any reorganisation of its share capital as may be required, to ensure that such conversion takes place and the EBRD becomes a lawful owner of such GDRs/ADRs, as the case may be; and

- in case of the listing of the Bank's capital on any major stock exchange, the 2005 Shareholders shall ensure (and shall take all actions, execute all necessary documents and seek relevant waivers to ensure) that the EBRD shall have the same rights as the 2005 Shareholders have to dispose of its Shares via such stock exchange. Following any listing of the Shares on any major stock exchange, the EBRD shall be entitled to dispose of its Shares held at the time of such listing becoming effective and the 2005

Shareholders shall be entitled to dispose of a proportion of their Shares held at the time of such listing becoming effective equal to the proportion of the number of Shares disposed of by the EBRD.

The Shareholders' Agreement is governed by the laws of Kazakhstan.

SUBSCRIPTION AGREEMENT WITH THE EBRD

In conjunction with the execution of the Shareholders' Agreement on 24 June 2005, the Bank and the EBRD executed the Subscription Agreement on 24 June 2005 as amended on 7 December 2005, pursuant to which the EBRD agreed to subscribe for 4,328,811 Shares. The Subscription Agreement also provides that:

- while the EBRD owns any Shares, the Bank shall not, unless the EBRD otherwise agrees: (i) issue any shares of any class; (ii) increase its share capital; (iii) change the nominal value of, or the rights attached to, any of its shares of any class; or (iv) take any other action by amendment of its charter or through reorganisation, consolidation, sale of share capital, merger or sale of assets, or otherwise which might result in a dilution of the interest in the Bank represented by the Shares held by the EBRD;

- unless the EBRD otherwise agrees in writing; (i) the Bank shall not make changes, or permit changes to be made, to the nature of its present business or operations and the Bank shall not carry out any business or activity other than banking or financial services business, either directly or through a subsidiary; (ii) the Bank shall not make changes, or permit changes to be made, to its share capital; and (iii) the Bank shall not make changes, or permit changes to be made, to its charter, unless such changes are specifically required to be made under the mandatory provisions of the laws of the Republic of Kazakhstan; and

- unless the EBRD otherwise agrees in writing, (i) the Bank shall not sell, transfer, lease or otherwise dispose of more than a specified percentage of its property or assets (whether in a single transaction or in a series of transactions, related or otherwise) and (ii) the Bank shall not undertake or permit any merger, consolidation or reorganisation.

The Subscription Agreement also contains a number of affirmative and restrictive covenants binding on the Bank unless EBRD otherwise agrees in writing.

The Subscription Agreement is governed by the laws of Kazakhstan.

PUT OPTION AGREEMENT

In addition to the Shareholders' Agreement, the EBRD also entered into a Put Option Agreement dated 6 June 2003 with Mr. Subkhanberdin and Ms. Zhussupova. In accordance with the Put Option Agreement, at any time after 31 August 2009, the EBRD has the right to require that all or part of its Shares be purchased by Mr. Subkhanberdin or, in the event Mr. Subkhanberdin fails to comply with his obligation to purchase such Shares, by Ms. Zhussupova. The price of any such purchase is to be determined in accordance with a formula contained in the Put Option Agreement. In certain limited circumstances, the EBRD may exercise its Put Option earlier, in which case a different formula is used to determine the price.

SAMRUK-KAZYNA

Samruk-Kazyna was established for the purposes of improving the competitiveness and stability of the Kazakhstan economy and alleviating the possible effects of changes in world markets on the economic growth in Kazakhstan. To that end Samruk-Kazyna acquired a 21.2 per cent. holding of the Shares. This investment was made as part of the ongoing implementation of a plan initially announced by the Government of Kazakhstan in a public statement entitled "*On Further Measures to Stabilise the Banking Sector*" dated 28 October 2008. In this statement the Government of Kazakhstan and the FMSA announced a proposal to strengthen the capital of the Bank as part of a broader plan to stabilise the Kazakhstan financial system. On 9 December 2008, the Memorandum of Understanding was entered into by, *inter alios*, Samruk-Kazyna and the Bank for the purpose of co-ordinating efforts to increase the capitalisation of the Bank. Set forth below is a description of the agreements entered into between the Bank and Samruk-Kazyna to implement the Memorandum of Understanding.

Implementation Agreement

On 15 January 2009 Samruk-Kazyna, CAIC, Mr. Subkhanberdin, Alnair and the Bank entered into the Implementation Agreement to implement Samruk-Kazyna's investment in 25 per cent. of the Shares as envisioned by the Memorandum of Understanding.

Pursuant to the terms of the Implementation Agreement, the Bank agreed to offer to its existing shareholders and existing GDR holders the right to purchase New Shares and New GDRs, respectively, on a *pro rata* basis. This Rights Offering was completed on or about 30 April 2009, and in conjunction therewith Samruk-Kazyna acquired 21.2 per cent. of the Bank's Shares. The Significant Shareholders agreed not to subscribe for any rights in the Rights Offering without the written consent of Samruk-Kazyna. Following the offer to existing shareholders and GDR holders, the Bank agreed to re-allocate the unsubscribed-for rights to Samruk-Kazyna and Samruk-Kazyna agreed to subscribe for sufficient rights in order to hold 21.2 per cent. of the Shares after the Rights Offering.

Following the completion of the Rights Offering the parties to the Implementation Agreement agreed to ascertain the capital needs of the Bank and the possibility of the Bank issuing to Samruk-Kazyna convertible securities and/or any other financial instruments.

Following completion of the Rights Offering, the Bank applied the proceeds of the Rights Offering to increase the Bank's capitalisation.

Shareholders' Agreement

In anticipation of Samruk-Kazyna becoming a shareholder of the Bank, the Significant Shareholders, Samruk-Kazyna and the Bank entered into a shareholders' agreement dated 15 January 2009. The Shareholders' Agreement regulates certain aspects of the dealings between the Bank and its shareholders following the completion of the Rights Offering.

Although Samruk-Kazyna is not involved in the day-to-day running of the Bank's business, pursuant to the terms of the Shareholders' Agreement it is represented on the board of directors of the Bank by Mr. Subkhanberdin. Additionally, Samruk-Kazyna's written approval is required for certain credit approvals, voting arrangements and for any declarations of dividends.

Until the expiry of the Option Agreement, the only permitted disposals of Shares are (i) disposals by a Significant Shareholder of all its Shares to any of its affiliates or to any *bona fide* third party, subject to certain conditions, including the written consent of Samruk-Kazyna, (ii) disposals by Samruk-Kazyna of any or all of its Shares to a governmental authority of competent jurisdiction or (iii) disposals pursuant to the terms of the Option Agreement and Share Trust Management Agreement.

Samruk-Kazyna may unilaterally terminate the Share Trust Management Agreement with respect to a defaulting Significant Shareholder if *inter alia*: (i) any Significant Shareholder materially breaches certain provisions of the Shareholders' Agreement, (ii) any Significant Shareholder improperly performs Samruk-Kazyna's voting instructions as provided for by the Share Trust Management Agreement or (iii) a reorganisation, winding-up, initiation of a bankruptcy procedure or change of control of CAIC occurs.

Option Agreement

Samruk-Kazyna is holding its equity stake in the Bank only for a limited period of time and, to this end, Samruk-Kazyna and the Significant Shareholders entered into the Option Agreement pursuant to which the Significant Shareholders have been granted a call option and Samruk-Kazyna has been granted a put option, in respect of all of the Shares acquired by Samruk-Kazyna pursuant to the Rights Offering. The call option and the put option may be exercised at any time between the first anniversary and the fifth anniversary of the completion of the Rights Offering.

Share Trust Management Agreement

In conjunction with the Rights Offering, the Share Trust Management Agreement was entered into by CAIC, Mr. Subkhanberdin and Samruk-Kazyna in order to ensure CAIC and Mr. Subkhanberdin together with the EBRD maintained control of the Bank.

Pursuant to the terms of the Share Trust Management Agreement, Samruk-Kazyna has transferred into trust the number of Shares owned by it necessary for CAIC and Mr. Subkhanberdin, together with the EBRD, to retain the voting rights attached in aggregate to at least 50 per cent. plus 1 Share of the outstanding Shares.

The Significant Shareholders, on their own behalf and solely within the authority granted by the Shareholder Trust Management Agreement, are obliged to hold, use and manage the Shares for the purpose of maintaining the stability of the Bank, strengthening the capital of the Bank, retaining their control of the Bank and in the interests of Samruk-Kazyna Fund and other shareholders of the Bank.

The authority of the Significant Shareholders to use and manage the Shares is exclusively limited by the voting rights attached to the Shares under Kazakhstan Laws and the Charter and exercised by the Significant Shareholders at their discretion, save that the Significant Shareholders may exercise the voting rights attached to the Shares solely in accordance with Samruk-Kazyna Fund's instructions on matters regarding the appointment of directors and matters to be decided by a qualified majority of votes. The Significant Shareholders may not take action to dispose of the Shares, including any encumbrance on the Shares.

THE BANKING SECTOR IN KAZAKHSTAN

INTRODUCTION

Since mid-1994, the Government has adhered to a strict macroeconomic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which have sharply reduced inflation and lowered interest rates.

Kazakhstan has a two-tier banking system with the central bank of Kazakhstan, the NBK, comprising the first tier and all other commercial banks comprising the second tier (with the exception of the DBK, which has a special status and belongs to neither tier). Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the NBK. Between 2004-2011 this licensing role was carried out by the FMSA, and prior to that by the NBK.

The Government, the NBK and the FMSA have undertaken significant structural reforms in the banking sector, aimed at promoting consolidation in the banking sector and improving the overall stability of the system.

Global financial instability and market dislocation have adversely affected the Kazakhstan banking sector, resulting in asset quality deterioration and reduced funding sources for Kazakhstan banks. Statistics published by the FMSA show the considerable asset quality deterioration in 2009, with non-performing loans in the banking sector increasing to 36.5 per cent. as at 1 January 2010 from 8.1 per cent. as at 1 January 2009. In 2009, the banking sector overall showed a net loss of KZT 2,834 billion (by way of comparison, the aggregate financial result for the banking sector as at the end of 2008 was a profit of KZT 10.7 billion) and assets of the banking sector also declined in that period. As of 30 June 2010 the share of bad loans in the Kazakhstan banking sector was 25.25 per cent., and the aggregate financial result for the banking sector for the first six months of 2010 was a loss of KZT 267.7 billion.

The Government has taken a number of steps to support the Kazakhstan banking sector including significant capital injections. The Government's capital injections into the Kazakhstan banking sector are estimated at 6.4 per cent. of Kazakhstan's GDP in 2009, compared, for example, to the United Kingdom and the United States where, according to the IMF, capital injections represented 3.9 per cent. and 2.2 per cent., respectively. The total amount of capital injected into the Kazakhstan banking sector was U.S.$6,777 million as at 1 September 2010. BTA Bank has been the principal beneficiary of the capital injections, with funds injected to acquire equity amounting to KZT 212.1 billion (or U.S.$1.4 billion).

The Government's capital injection into the Bank took place in May 2009 and amounted to KZT 36.0 billion (or U.S.$240.0 million).

The table below shows the amount of funds of the National Fund of the Republic of Kazakhstan allocated to putting into effect the Plan of Joint Actions of the Government, the NBK and the FMSA for the Stabilisation of the Economy and the Financial System for 2009-2010, as of 1 June 2010:

Destination of state support	Allocated	Appropriated* (KZT billions)	% appropriated
(1) Capitalisation of banks	332.1	332.1	100%
(2) Resolving problems on the real estate market, including:	360.0	195.1	54.2%
Mortgage State Finance Programme	120.0	120.0	100.0%
Construction State Finance Programme	240.0	75.1	31.3%
(3) SME State Finance Programme, including:	120.0	120.0	100.0%
through second tier banks	117.0	117.0	100.0%
through the Damu Fund	3.0	3.0	100.0%
(4) Crediting of projects in the real sector of the economy	144.0	144.0	100.0%
(5) Industrial Innovation Programme	120.0	7.7	6.5%
(6) Agricultural State Finance Programme	120.0	120.0	100.0%
(7) Total funds of the National Fund of the Republic of Kazakhstan allocated to putting into effect the Plan of Joint Actions of the Government, the NBK and the FMSA for the Stabilisation of the Economy and the Financial System for 2009-2010 (1+2+3+4+5+6):	1,196.1	1,038.9	86.9%

Destination of state support	Allocated	Appropriated* (KZT billions)	% appropriated
(8) Financial support (exchange of bonds between Samruk-Kazyna and banks that were restructured) from Samruk-Kazyna which upon completion of the restructurings were converted into the shares of BTA Bank and of Alliance Bank, including:	750.0	0.0	0.0%
BTA Bank	645.0	0.0	0.0%
Alliance Bank	105.0	0.0	0.0%
Total state support (7+8), including:	1,946.1	1,038.9	56.5%
Financial sector (1+8)	1,082.1	332.1	30.7%
Total state support as a percentage of GDP for 2009, including:	11.4%	6.1%	
Financial sector	6.4%	2.0%	

Sources: FMSA and data published by banks.

For a discussion of various risks associated with the banking sector and banking regulation in Kazakhstan, see "*Risk Factors – Risks Relating to Operating within the Kazakhstan Banking Sector*".

THE NBK AND THE FMSA

The NBK is the central bank of Kazakhstan and although it is an independent institution, it is subordinate to the President of Kazakhstan. The President has the power, among other things, to appoint (with the approval of the Senate, which is the higher chamber of the Parliament) and remove the NBK's Chairman, to appoint and remove the NBK's Deputy Chairmen upon the proposal of the Chairman, to approve the annual report of the NBK, to approve the concept and design of the national currency, and to request information from the NBK. Mr. Grigoriy Marchenko was appointed as Chairman of the NBK in January 2009. The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Chairman, four other representatives of the NBK, a representative of the President, two representatives of the Government and the chairperson of the FMSA.

Currently, the principal task of the NBK, as central bank and monetary authority is to ensure price stability in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, organise banking settlement systems, conduct currency regulation and control, assist in ensuring stability of the financial system and protect the interests of depositors with commercial banks. Following legislative changes in July 2003, the FMSA was formed and, on 1 January 2004, took over responsibility for most of the supervisory and regulatory functions in the financial sector, which were previously performed by the NBK. These functions have been transferred back to the NBK by the edict of the President of Kazakhstan dated 12 April 2011, "On Further Improvement of the System of State Regulation of the Financial Market of the Republic of Kazakstan". This edict abolished the FMSA and designated the NBK as the successor to the FMSA's obligations. The edict came into force on 12 April 2011.

The FMSA was an independent institution reporting directly to the President. The principal task of the FMSA was to regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds and pension asset management companies, as well as professional participants in the securities market. The FMSA was empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions and to monitor the activities of, to apply sanctions to (where necessary) and to participate in the liquidation of, financial institutions.

The administration of anti-monopoly legislation in Kazakhstan with respect to the banking sector was transferred from the FMSA to the Competition Agency. However, certain issues of anti-monopoly regulation were under the jurisdiction of both the Competition Agency and the FMSA. For example, certain transactions with a value exceeding certain thresholds require the prior consent of the Competition Agency. Such thresholds for the purposes of regulated financial organisations were established jointly by the Competition Agency and the FMSA.

BANKING SUPERVISION

Capital Adequacy

The FMSA refined its capital adequacy and credit exposure standards in September 2005, when it set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions. In November 2005, the regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represented a substantial step towards the implementation of the Basel Accord. In particular, these regulations introduced the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks and included rules for calculating risk with respect to derivatives.

As at 1 July 2009, the FMSA required banks to maintain a K1-1 (Tier 1 capital to total assets) and K1-2 (Tier 1 capital to total assets weighted for risk) capital adequacy ratio of 6.0 per cent. (with the K1-1 ratio increasing to 8.0 per cent. from 1 July 2012 and to 9.0 per cent. from 1 July 2013 and K1-2 ratio increasing to 9.0 per cent. from 1 July 2011), compared with the BIS Guidelines' recommendation of 4.0 per cent. The FMSA's K2 (own capital to total assets weighted for risk) capital adequacy ratio requirement is 12.0 per cent. compared with the BIS Guidelines' recommendation of 8.0 per cent. For banks with a bank holding company or a bank parent company among their shareholders and state-controlled banks, the FMSA's K1-1 (Tier 1 capital to total assets) and K1-2 (Tier 1 capital to total assets weighted for risk) capital adequacy ratio requirement is reduced to 5.0 per cent. of total assets (with the K1-1 (Tier 1 capital to total assets) ratio increasing to 7.0 per cent. from 1 July 2012 and to 8.0 per cent. from 1 July 2013 and K1-2 (Tier 1 capital to total assets weighted for risk) ratio increasing to 8.0 per cent. from 1 July 2011) while the K2 (own capital to total assets weighted for risk ratio) is reduced to 10.0 per cent. of risk weighted assets.

Furthermore, FMSA regulations require a bank which does not have amongst its shareholders a physical person holding at least 10.0 per cent. of such bank's shares to comply with higher capital adequacy ratios. Such ratios are 7.0 per cent. for the K1 1 (Tier 1 capital to total assets) and K1 2 (Tier 1 capital to total assets weighted for risk) ratios (with K1-1 ratio increasing to 9.0 per cent. staring from 1 July 2012 and to 10.0 per cent. starting from 1 July 2013 and with K1-2 ratio increasing to 10 per cent. starting from 1 July 2011) and 14.0 per cent. for the K2 (own capital to total assets weighted for risk) ratio.

In February 2007, to reduce the risks associated with rapid growth in the external debt of Kazakhstan banks, the FMSA introduced amendments to the capital adequacy regulations which imposed limits on foreign borrowings or "external liabilities" which a bank can incur to a multiple of such bank's "own capital" as calculated both including and excluding debt securities issued.

These amendments mean that banks are not permitted to increase borrowings from non-domestic holders (subject to certain exceptions) to a level in excess of certain multiples of regulatory capital. If banks exceed the prescribed ratios they would have to either repay foreign sourced debt or increase their regulatory capital. The ratios that apply to the Bank currently are (i) two times own capital for external liabilities excluding debt securities issued by special purpose subsidiaries of the Bank guaranteed by the Bank (K8 ratio) and (ii) three times own capital for external liabilities including such debt securities issued (K9 ratio).

The FMSA previously monitored compliance with capital adequacy standards (in accordance with international standards set by the Basel Committee), current liquidity ratios, maximum credit exposures to single borrowers and related parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions. Additionally, the FMSA regulated problem asset classification and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and loan loss reserves. These functions have now been transferred to the NBK.

Reserve Requirements

Starting in the second half of 2008, the NBK adopted a number of measures aimed at providing additional liquidity to banks. With effect from 3 March 2009, the minimum level at which second tier banks must maintain reserves has been decreased from 2.0 per cent. to 1.5 per cent. with respect to domestic liabilities and from 3.0 per cent. to 2.5 per cent. with respect to other liabilities.

Deposit Insurance

In December 1999, a self-funded domestic deposit insurance scheme, the KDIF, was established and as at 31 December 2010, 34 commercial banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme (according to the Kazakhstan Deposit Insurance Fund). The insurance coverage is presently limited to personal deposits in any currency up to a maximum amount per customer of KZT 5 million at any given bank. Starting from 1 January 2012, the maximum guaranteed amount is scheduled to be reduced from KZT 5 million to KZT 1 million. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals. It is anticipated that participant banks will be called upon to make further contributions to the scheme as a result of payments made by the scheme to depositors of JSC Valut-Transit Bank as described below in "*The Banking Sector in Kazakhstan – Banking Supervision-Commercial Banks*".

Acquisition of Interests in Kazakhstan Banks

Current legislation requires NBK approval of any acquisition of a shareholding of 10.0 per cent. or more (whether held independently or jointly with another affiliated legal entity) in a Kazakhstan bank. Furthermore, a foreign entity must obtain a credit rating from one of the rating agencies which are recognised by the NBK in order to hold 10.0 per cent. or more of a Kazakhstan bank. The rating of such an entity must be long term and not be less than (i) Kazakhstan's sovereign rating (or equivalent); or (ii) if the entity is a financial institution, "BB-" (by S&P) or the equivalent, *provided that* the country in which the entity is domiciled has a rating of not less than "BB-" (by S&P) or the equivalent and the regulator of that country has an agreement on information exchange with the NBK.

Other Regulations

In addition, in June 2006 the FMSA implemented measures to restrict Kazakhstan banks from having outstanding external short-term financings which exceed a bank's regulatory capital. These measures may limit a bank's ability to extend the maturity of certain short-term facilities causing it to look to longer term financings or customer deposits to replace such short-term facilities. A failure to replace these facilities could lead to an increase in a bank's funding costs, an increase in its liquidity and interest rate risk or both.

To address concerns about currency mismatches and more precisely, to manage banks' liquidity, the FMSA has also tightened requirements regarding open/net currency positions and introduced various limits on currency liquidity.

In December 2006, and with effect from 1 April 2007, the FMSA approved new rules on classification of assets and provisioning. While the principles of classification and provisioning remain largely unchanged, these rules, among others, introduced more stringent requirements regarding the monitoring of credit files, developed a definition of financial soundness with respect to borrowers, provided for a more differentiated approach to various types of borrowers, loans and security and stipulated the right of the FMSA to demand that a bank increases its provisioning ratios.

Commercial Banks

In November 2001, the Government divested its remaining 33.3 per cent. stake in JSC Halyk Bank (formerly known as OJSC Halyk Bank) by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2,100 million. In June 2005, the banking licence granted to JSC Nauryz Bank was terminated by the FMSA and this bank has been in the process of liquidation since November 2005. On 24 December 2005, the FMSA adopted a resolution to suspend the banking licence granted to JSC Industrial Bank of Kazakhstan for six months due to violations of prudential standards. In December 2006, the FMSA revoked the banking licence of JSC Valut-Transit Bank due to the violation of Kazakhstan law, improper performance of contractual obligations and breach of prudential standards. A decision on the mandatory liquidation of JSC Valut-Transit Bank was adopted by the special inter-district economic court of Karaganda on 13 February 2007 and came into effect on 1 March 2007. As at 1 December 2009, the KDIF reported total payments of KZT 15,000 million to the depositors of JSC Valut-Transit Bank and JSC Nauryz Bank and money was returned to more than 67,000 depositors of those banks. As of 7 December 2009 the liquidation commission of JSC Valut-Transit Bank had satisfied claims of the KDIF (a creditor of the third priority) representing 23.6 per cent. of the total amount of indebtedness of the bank in respect of the third group of priority. As of 28 October 2009 the liquidation commission of JSC Nauryz Bank had satisfied claims of the

KDIF (a creditor of the third priority) representing 88 per cent. of the total amount of indebtedness of the bank in respect of the third group of priority.

According to data published by the FMSA, as at 31 December 2010, 33 of the 39 second-tier banks (excluding Zhilstroysberbank) had capital of over KZT 5,000 million and eight banks had a capital of KZT 2,000 million to KZT 5,000 million. Since 1 October 2009, any bank whose own capital (i.e. shareholders' equity) falls below KZT 5,000 million (or KZT 2,000 million for banks registered outside of Astana and Almaty) is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations. Starting from 1 July 2011 the minimum requirements for size of own capital are established at KZT 10 billion for banks, including newly-created banks, KZT 5 billion for residential construction savings banks and KZT 4 billion for banks registered and carrying out a significant part of their operations outside Astana and Almaty.

In 2001, the Government established the DBK to provide medium and long term financing for, and otherwise facilitate, industrial projects in Kazakhstan. The DBK was established with a charter capital of KZT 30,000 million. The DBK has its own legal status which does not fall within either tier of the Kazakhstan banking system. The DBK does not currently accept commercial or retail deposits or provide corporate settlement services. However, the Bank expects that the DBK may become an important competitor in the corporate lending sector. The DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Base Prospectus.

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to operate as a bank in Kazakhstan.

While foreign-owned banks do not currently provide significant domestic competition and are not active in the retail banking sector, the Bank believes that in the long term such banks, some of which may have significantly greater resources and a cheaper funding base than the Bank, will, together with the larger local banks, become the Bank's primary competitors in the corporate banking sector. Foreign banks also bring international experience in servicing customers and target the most attractive corporate customers of Kazakhstan's domestic banks as well as foreign companies operating in Kazakhstan.

According to data published by the FMSA, as at 31 December 2010, there were 19 banks with foreign ownership operating in Kazakhstan, including RBS Kazakhstan, Citibank Kazakhstan and HSBC Bank Kazakhstan. Under relevant Kazakhstan legislation, a bank with foreign participation is defined as a bank with more than one-third direct or indirect foreign ownership. Banks with less than one-third direct or indirect foreign ownership are considered domestic banks. A number of foreign banks have opened representative offices in Kazakhstan, including JPMorgan Chase Bank N.A., Deutsche Bank AG, Commerzbank AG, ING Bank N.V., Landesbank Berlin AG and Société Générale.

According to data published by the FMSA, the total capital of commercial banks increased to KZT 1.3 billion as at 31 December 2010 compared to negative capital of KZT 978 billion as at 1 January 2010 and KZT 1.4 billion as at 1 January 2009. During such period, the total assets of such banks increased to KZT 12.0 billion as at 31 December 2010 from KZT 11.6 billion as at 1 January 2010 (compared to approximately KZT 11.9 billion as at 1 January 2009). Aggregate liabilities decreased to approximately KZT 10.7 billion as at 31 December 2010 from KZT 125 billion as at 1 January 2010 and KZT 10.4 billion as at 1 January 2009. Aggregate net profit amounted to KZT 1.4 million as at 31 December 2010 compared to net loss of KZT 2.8 million as at 31 December 2009.

FINANCIAL STABILITY AND RESTRUCTURING REFORMS

Financial Stability Laws

On 23 October 2008, new legislation relating to the stability of the Kazakhstan financial system was adopted.

Under the new law, in the event of (i) a breach by a bank of capital adequacy or liquidity ratios; or (ii) two or more breaches by a bank in any twelve-month period of any other prudential or other mandatory requirements, the Government may, with the agreement of the NBK, acquire, either directly or through a national management holding company (which is currently Samruk-Kazyna), the authorised shares of any bank in Kazakhstan to the extent necessary (but not less than 10.0 per cent. of the total amount of issued and outstanding shares of such bank, including those to be acquired by the Government or the national management holding company) to improve such bank's financial condition and ensure compliance with prudential or other mandatory requirements. The new law provides that the management and shareholders of an affected bank do not have the right to approve any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre-emptive rights to existing shareholders. Following such an acquisition, the state body authorised to manage state property or the national management holding company is authorised to appoint no more than 30.0 per cent. of the members of the board of directors and the management board of the affected bank.

The main objectives of the new financial system stability law are to improve early detection mechanisms for risks in the financial system, to provide powers to the Government to acquire shares in commercial banks that face financial problems and to improve the overall condition of financial institutions in Kazakhstan. The law also consolidates authority to oversee large and second-tier Kazakhstan banks and provides additional mechanisms for supervising commitments made by banks and other financial institutions.

The Government or the national management holding company must sell the acquired shares within one year of their acquisition to a third party investor or investors by way of direct sale or through the stock exchange. However, this term may be extended if the financial condition of the bank shows no sign of improvement.

On 2 February 2009, the FMSA agreed with the Government on the acquisition of approximately 75.1 per cent. of BTA Bank's shares, which were subsequently acquired by Samruk-Kazyna within the new financial stability measures. Also on 2 February 2009, Alliance Bank announced that its major shareholder had decided to sell 76.0 per cent. of the common shares of Alliance Bank to Samruk-Kazyna, and on the same date Samruk-Kazyna announced that it was considering such purchase. Separately from the acquisition of the common shares of Alliance Bank, Samruk-Kazyna and Alliance Bank signed a deposit agreement for the deposit of KZT 24,000 million with Alliance Bank to support its financial stabilisation and further capitalisation.

The NBK decreased its refinancing rate from 10.5 per cent. to 10.0 per cent. effective from 1 January 2009, and the current refinancing rate is 7.5 per cent. The stated reason for the rate cut was the shortage of liquidity in the market.

These measures proved to be insufficient and both BTA Bank and Alliance Bank defaulted on their debt in April 2009. JSC Astana Finance, a diversified financial services company, defaulted and announced a moratorium on the repayment of its debt in May 2009, and other banks face increasing pressure due to the growing number of non-performing loans. In response to the pressure faced by major banks in Kazakhstan in 2008-2009, Kazakhstan's parliament adopted the Restructuring Law with the twin aims of enabling consensual financial restructurings approved by a majority of creditors and of revising the existing framework for good bank/bad bank reorganisations. See "*The Restructuring Law in Kazakhstan*". The restructuring of Alliance Bank was completed on 23 March 2010, restructuring and/or cancelling over U.S.$4.5 billion of Alliance Bank's financial indebtedness. The restructuring of BTA Bank was completed in August 2010, restructuring and/or cancelling approximately U.S.$16.7 billion of BTA Bank's financial indebtedness.

As at the date of this Base Prospectus, the Kazakhstan banking system remains under stress.

The Restructuring Law in Kazakhstan

Prior to July 2009 when the Restructuring Law was adopted, there was no law in Kazakhstan which would allow for creditor claims to be restructured on a basis involving less than 100 per cent. consent of the affected creditors. Creditors not wishing to participate in a restructuring had the ability to set off their claims against a bank's assets or bring litigation in any jurisdiction where any of these assets are located.

Financial Restructurings

The Restructuring Law introduced a procedure for restructuring the financial indebtedness of a bank in the following general format. The bank decides to restructure its debt and enters into an agreement with the NBK with respect to such restructuring. The bank submits a restructuring plan to the NBK for its consideration. The restructuring plan should describe the process for and period of the restructuring, list the bank's assets and liabilities to be restructured, contain a *pro forma* balance sheet showing the bank's financial condition following the restructuring, and describe the bank's future activities and any limitations on them. The bank applies to the Court to initiate the process described in the restructuring plan. If the Court approves the restructuring process then, with immediate effect, all relevant claims of the bank's creditors are stayed, the bank's property is protected from execution and attachment, and the bank's obligations under agreements for the sale of assets and any financial commitments as either a lender (if the commitment carries any credit risk) or as a borrower, including contingent obligations such as guarantees, may be suspended in whole or in part.

The bank convenes a meeting of its relevant creditors to approve the restructuring plan. If creditors holding at least two-thirds in value of the bank's obligations subject to restructuring vote in favour of the restructuring plan, the restructuring plan is approved. The bank then submits the approved restructuring plan to the NBK to establish its conformity with the restructuring plan originally submitted to the NBK. The restructuring plan is then submitted to the Court for final approval. If the restructuring plan is approved by the Court, it becomes binding on all creditors with claims subject to the restructuring.

Completion of the bank's restructuring will be achieved when the restructuring plan has been carried out to the satisfaction of the Court and the NBK. Upon completion of the restructuring, the relevant liabilities of the bank are cancelled and any claims in relation to them are discharged and replaced by appropriate restructured claims. Completion of the restructuring is confirmed by a decision of the Court upon the NBK's application.

The restructuring process set out in the Restructuring Law is designed to be fair to the affected creditors and should ensure that a restructuring effected under it will be capable of international recognition in countries (such as the United Kingdom and the United States) which have adopted legislation based on the Model Insolvency Law. As at the date of this Base Prospectus, the application of the Restructuring Law has been tested in practice three times, in the restructurings of Alliance Bank, BTA Bank and Temir Bank.

Good Bank/Bad Bank Reorganisations

The second principal feature of the Restructuring Law is the amendment of the existing legislative framework allowing the segregation of the "good" assets and liabilities of a distressed bank and the transfer of them to another bank (or several banks) or to a specialised stabilisation bank. The good bank/bad bank structure could be used in a number of different circumstances. For example:

(i) the process could be initiated by a bank itself if other efforts to restructure itself have failed or if it does not wish or cannot, for whatever reason, achieve a financial restructuring following the process described above;

(ii) if a bank has already been placed in conservation, the reorganisation may be initiated by a temporary manager appointed by the NBK; or

(iii) if a bank's licence has been revoked, the reorganisation may be initiated by a temporary manager appointed by the NBK to manage the bank's assets pending the court-ordered compulsory liquidation taking effect.

Any reorganisation under these new procedures requires the NBK's consent and the consent of depositors and creditors. Depositors and creditors are notified of the proposed reorganisation by an announcement published in Kazakhstan's mass media and any depositor or creditor may object to it by the timely filing of a written objection.

Stabilisation Banks

The Restructuring Law also makes provision for the establishment of stabilisation banks. These could be used as the "good" bank in the reorganisation into a good bank and bad bank of a bank which is in conservation. A stabilisation bank would be a special purpose company established by the NBK on an *ad hoc* basis and would have a special status under the Banking Law and a limited scope of business compared to ordinary commercial banks. Due to its special status and purpose, a stabilisation bank would not be subject to normal capital adequacy and other prudential requirements. Its main role would be to hold "good" assets while the segregation of the "good" and "bad" assets of the distressed bank was in progress. Upon completion of the segregation process, the stabilisation bank would transfer the "good" assets to another bank designated by the NBK, subject to the consent of the depositors and other creditors of the stabilisation bank. The procedures for obtaining this consent would be similar to the procedures for obtaining the depositors' and creditors' consent to the initial transfer of "good" assets from the distressed bank.

The Restructuring Law provides that once the stabilisation bank passes on the assets to an acquiring bank, it may either be liquidated or be sold to an investor, provided the investor can procure a recapitalisation of the stabilisation bank and bring it into compliance with the requirements applicable to ordinary commercial banks because following a sale, the stabilisation bank would lose its special status and become subject to the general banking legislation applicable to an ordinary bank.

As at the date of this Base Prospectus, it is unclear whether a stabilisation bank can be used as a holding vehicle for "good" assets of several distressed banks.

THE NBK'S POWERS UNDER THE BANKING LAW

Under the Banking Law, the NBK may apply a number of compulsory restrictive measures to banks in financial distress or in breach of prudential or other mandatory regulations. Articles 45, 46, 47 and 47-1 of the Banking Law allow the NBK to apply, *inter alia*, the following compulsory measures to second tier banks (commercial banks) in Kazakhstan and their shareholders which are major participants or bank holding companies:

(i) issuing a warning and mandatory written instructions to a bank;

(ii) entering into an agreement with a bank setting out measures to be taken by the bank to remedy any identified breaches, including but not limited to breaches of prudential requirements;

(iii) instituting the NBK special regime in a bank and requiring the bank to develop an action plan to restore such bank's financial condition;

(iv) suspending or revoking a bank's licence for all or certain banking operations;

(v) mandatory purchase of a bank's shares;

(vi) removing the management of a bank;

(vii) forcing a bank to reorganise into a credit partnership;

(viii) forcing a bank into conservation;

(ix) forcing a bank into mandatory liquidation; and

(x) forcing a bank into segregating such bank's "good" assets and liabilities and to mandatorily transfer such assets and liabilities to another bank or a specialised stabilisation bank, following the revocation of the bank's licence or the bank being put into conservation, pursuant to the Restructuring Law.

Where a bank's shareholders include a major participant or a bank holding company, the NBK may require such shareholders to decrease their direct or indirect ownership of the relevant bank to less than 10.0 per cent. of the bank's voting shares in the case of a major participant and less than 25.0 per cent. of the bank's voting shares in the case of a bank holding company shareholder. Such measures can be applied to a bank's shareholder when, for example, a bank is in breach of the FMSA's prudential requirements or the bank's shareholders which are major participants or bank holding companies are in an unstable financial condition which may negatively affect the bank concerned. See "*Risk Factors – Risks Relating to the Restructuring – The Bank may face litigation if the FMSA applies any of its compulsory restrictive measures to the Bank*".

The NBK Special Regime

Article 45.2 of the Banking Law provides for "measures of early response" which the NBK may apply to a bank under certain circumstances. These are discretionary measures that the NBK may take with respect to a bank that is in financial distress. For example, if a bank's liquidity ratio is lower than usual, the NBK may require such bank to develop and deliver to the NBK for approval a plan of action which the bank must undertake to improve its financial stability. If the NBK does not approve the plan, it may apply certain early response measures including replacing the bank's management and restructuring the bank's assets.

Reorganisation into a Credit Partnership

Under Article 47 of the Banking Law, the NBK may require a bank to reorganise into a credit partnership if the bank's capital adequacy ratios fall to a level below 50.0 per cent. of the minimum requirements. Shareholders of a bank being reorganised receive participation interests in a credit partnership in proportion to their shares in the reorganised bank. A credit partnership is not allowed to carry out normal banking activities and is allowed to carry out only certain limited banking operations and services for its participants.

Mandatory Purchase of Shares

The Banking Law provides that the NBK may, with the Government's consent, effect a mandatory purchase of all of a bank's shares (including shares underlying any global depositary receipts) from such bank's shareholders at a price determined by the NBK in the event the bank's own capital (i.e. shareholders' equity) is negative. According to the Banking Law, after such purchase the NBK must transfer the shares to a new investor which can procure an increase of the bank's regulatory capital and restore the bank's normal operations.

Conservation

Conservation is a compulsory measure which may be applied by the NBK to a Kazakhstan second tier bank (i.e. not upon such bank's discretion) when, among other things, such bank is in breach of prudential norms. When a bank is put into conservation, the authority to manage the bank is transferred to a temporary manager appointed by the NBK. The bank put into conservation may carry out its operations in its regular manner, but specific restrictions may be imposed by the NBK (for example suspending contingent liabilities of the bank). Under conservation the bank is granted statutory immunity from the decisions of the Kazakhstan courts and international arbitration awards. This immunity covers decisions and arbitral awards issued prior to the bank entering into conservation as well as those issued after the establishment of the conservation. Enforcement of court orders or arbitral awards against the bank in respect of its indebtedness (whether domestic or international) is not permitted. Accordingly, conservation protects the bank from the enforcement of any domestic or foreign court decisions as well as any arbitral awards in respect of its indebtedness that arose prior to or during the conservation period. There have not been many examples of banks being put into conservation in the Kazakhstan banking sector. Financial institutions that have gone through conservation include Nauryz Bank in 2004 (the successor to Kazagroprombank, which itself went through conservation in 2001) and JSC NP Valut Transit Fund. Both these institutions were unable to improve their financial condition during the conservation period. At present, these institutions are in the process of liquidation.

Bankruptcy Regime

Any creditor has the right to initiate insolvency proceedings against a Kazakhstan entity (including a bank) if the entity has failed to pay its debt within three months after the debt became due and payable, *provided that* the amount owed by the debtor is more than 150 times the monthly calculation index (approximately U.S.$1,437). The court will declare the entity bankrupt if the entity fails to prove its solvency.

However, in respect of banks, it is not the court but the NBK which will determine whether the bank is insolvent. Thus, under the Banking Law, a court cannot declare a bank insolvent unless the NBK consents. The NBK will determine whether the bank is solvent on the basis of its own calculations, taking into account the applicable capital requirements and other factors.

If the NBK advised that the bank was not insolvent, then the bankruptcy proceedings would be effectively terminated and the bank could be put into conservation. If the NBK decided that the bank was indeed insolvent and this decision was confirmed by the court, then the court would have a liquidator appointed by the NBK and there would be a liquidation of the bank's assets in accordance with the order of priority set out under the Banking Law which is as follows:

(i) administrative and legal expenses of bankruptcy;

(ii) payments for tort claims involving harm to life or health;

(iii) payments due to employees as a result of their employment and related social security and mandatory pension payments;

(iv) KDIF's claims related to insured deposits;

(v) claims of individual depositors relating to deposits and transfers, deposits made from pension fund assets and deposits of life insurance companies;

(vi) claims of non-profit organisations;

(vii) claims of legal entities secured by pledges of the bank's property;

(viii) tax liability settlements and repayment of borrowings from the state; and

(ix) unsecured claims of creditors.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Global Notes and the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non applicable provisions), shall be endorsed on the Notes in definitive form. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed or Part A of the relevant Final Terms. Those definitions will be endorsed on the Notes in definitive form. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a trust deed (the "Trust Deed") dated 22 October 2010 between JSC Kazkommertsbank (the "Issuer") and BNY Mellon Corporate Trustee Services Limited (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An agency agreement (the "Agency Agreement") dated 22 October 2010 has been entered into in relation to the Notes between the Issuer, the Trustee, The Bank of New York Mellon as calculation agent (the "Calculation Agent"), principal paying agent (the "Principal Paying Agent" and a "Paying Agent") and transfer agent (a "Transfer Agent"), and The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "Registrar"). Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, "Tranche" means Notes which are identical in all respects.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms or integral multiples thereof, without interest coupons, *provided that* (i) the Specified Denomination(s) shall not be less than €100,000 or its equivalent in other currencies, (ii) with respect to (a) Notes which are not admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive and (b) Notes with a maturity of less than 365 days, a lower Specified Denomination may apply as more fully set out in Part A of the relevant Final Terms and (iii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 or its equivalent in other currencies.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note, a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the person in whose name a Note is registered, "holder" shall be read accordingly and capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. TRANSFERS OF NOTES

(a) **Transfer of Notes**

One or more Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Exercise of Options or Partial Redemption in Respect of Notes**

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.

(c) **Delivery of New Notes**

Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (c), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer Free of Charge**

Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods**

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount or interest amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) or (iii) after any such Note has been called for redemption.

3. STATUS OF THE NOTES

The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.

4. COVENANTS

(a) **Negative Pledge of the Issuer**

So long as any Note remains outstanding the Issuer shall not, and shall not permit any of its Subsidiaries which is a Material Subsidiary to create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Indebtedness for Borrowed Money of the Issuer, any such Subsidiary or any other Person or any Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money unless, at the same time or prior thereto, the Issuer's obligations under the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its sole discretion shall consider to be not materially less beneficial to the interests of the Noteholders.

(b) **Limitations on Certain Transactions**

So long as any Note remains outstanding, the Issuer will not, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.$5,000,000 unless such transaction or series of transactions is or are at a Fair Market Value.

(c) **Limitation on Payment of Dividends**

So long as any Note remains outstanding, the Issuer will not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default (as defined in Condition 10) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default or (ii) at any time when no such Event of Default or event exists, (a) more frequently than once during any calendar year or (b) in an aggregate amount exceeding 50 per cent. of the Issuer's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with International Financial Reporting Standards, for which purpose, the amount of the Issuer's net income shall be determined by reference to its Financial Statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to the payment of (i) any dividends in respect of any preferred shares of the Issuer, which may be issued by the Issuer from time to time or (ii) any dividends in respect of any common shares of the Issuer, which are paid through the issuance of additional common shares.

(d) **Determination of Material Subsidiaries**

A report or certificate of the Auditors (as defined in the Trust Deed) of the Issuer (whether or not addressed to the Trustee and whether or not containing a monetary or other limit on the liability of the Auditors) that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties; and the Trustee shall be entitled to rely upon any such report or certificate prepared by the Auditors and shall not be responsible for any loss occasioned by acting on any such report or certificate, as the case may be.

(e) **Provision of Financial Information**

For so long as any Notes are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or the beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

5. INTEREST AND OTHER CALCULATIONS

(a) **Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified in the Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the Final Terms.

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes**

(i) *Interest Payment Dates*: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(1) the Floating Rate Option is as specified in the Final Terms

(2) the Designated Maturity is a period specified in the Final Terms and

(3) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) **Screen Rate Determination for Floating Rate Notes**
Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(1) if the *Primary* Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page, in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(2) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (1)(I) *applies* and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (1)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(3) if paragraph (2) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation *Agent* determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe (the "Principal Financial Centre") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and interest will accrue by reference to an Index or Formula as specified in the Final Terms.

(c) **Zero Coupon Notes**
Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for payment, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes**
In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the Final Terms.

(e) **Partly Paid Notes**
In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the Final Terms.

(f) **Accrual of Interest**
Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding**

(i) If any Margin or Rate Multiplier is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.

(h) **Calculations**
The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee may apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6. REDEMPTION, PURCHASE AND OPTIONS

(a) **Redemption by Instalments and Final Redemption**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified in the Final Terms) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the Final Terms. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final

Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption**

(i) *Zero Coupon Notes*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the "Amortised Face Amount" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

(c) **Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified in the Final Terms, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if, immediately before giving such notice, the Issuer satisfies the Trustee that (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue of the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee to the effect that the Issuer has or will become obliged to pay such additional amounts and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders.

(d) **Redemption at the Option of the Issuer and Exercise of Issuer's Options**
If Call Option is specified in the Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the Final Terms) redeem, or exercise any Issuer's option (as may be described in the Final Terms) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall specify the nominal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. So long as the Notes are listed on the Official List of the Financial Services Authority and admitted to trading on the regulated market of the London Stock Exchange plc (the "London Stock Exchange") or any other stock exchange and the rules of the relevant stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in London or as specified by such other stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) **Redemption at the Option of Noteholders and Exercise of Noteholders' Options**
If Put Option is specified in the Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out in the Final Terms (which must be exercised on an Option Exercise Date) the holder must deposit the Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes**
Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the Final Terms.

(g) **Purchases**
The Issuer and any of its subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(h) **Cancellation**
All Notes purchased by or on behalf of the Issuer, or any of its subsidiaries may be held, resold or, at the option of the Issuer, surrendered for cancellation by surrendering the Notes to the Registrar and, if so

surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. PAYMENTS

(a) **Payments of Principal and Interest**

(i) Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) on Notes shall be paid to the person shown on the Register at the close of the business day immediately preceding the due date for payment thereof (the "Record Date"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(b) **Payments subject to Laws**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Appointment of Agents**

The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and, in certain circumstances, the Trustee and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, *provided that* the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Paying Agent and a Transfer Agent having specified offices in such cities as may be required by any stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(d) **Calculation Agent and Reference Banks**

The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, within 7 days of the date upon which any such amount is due to be calculated, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

(e) **Non-Business Days**
If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" in the Final Terms and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. TAXATION

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax (collectively "Taxes") unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts to the holder of any Note as will result in receipt by the Noteholder of such amounts as would have been received by them had no such withholding or deduction on account of any such Taxes had been required, except that no additional amounts shall be payable with respect to any Note:

(a) **Other Connection**
to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Republic of Kazakhstan other than the mere holding of, the receipt of payment under, or the enforcement of rights or remedies under, the Notes;

(b) **Presentation more than 30 days after the Relevant Date**
presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day; or

(c) **Payment to Individuals**
where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

As used in these Conditions, "Relevant Date" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, *provided that* payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. EVENTS OF DEFAULT

If any of the following events (each an "Event of Default") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest to the date of such notice:

(a) **Non-Payment**
the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or additional amounts on any of the Notes and such default in respect of interest or additional amounts continues for a period of 10 Business Days; or

(b) **Breach of other Obligations**
the Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or as the case may be, by the Trustee; or

(c) **Cross-Default**
(i) any Indebtedness for Borrowed Money of the Issuer, or any Material Subsidiary (a) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of default by the Issuer or such Material Subsidiary or (b) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (ii) any Indebtedness Guarantee given by the Issuer or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, *provided that* the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.$10,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

(d) **Bankruptcy**
(i) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Material Subsidiary or all or substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or (ii) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent

seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

(e) **Substantial Change in Business**
the Issuer makes or threatens to make any substantial change in the principal nature of its business as conducted by it on the date of issue of the first Tranche of the Notes which is (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

(f) **Maintenance of Business**
the Issuer fails to take any action as is required of it under applicable banking regulations in the Republic of Kazakhstan or otherwise to maintain in effect its banking licence or corporate existence or fails to take any action to maintain any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations which is (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders and such failure is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer; or

(g) **Material Compliance with Applicable Laws**
the Issuer fails to comply in any respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable the Issuer lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or to ensure that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect and the Trustee certifies that such non compliance is, in the sole opinion of the Trustee, materially prejudicial to the interests of Noteholders; or

(h) **Invalidity or Unenforceability**
(i) the validity of the Notes, the Trust Deed, or the Agency Agreement is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement or (iii) all or any of the Issuer's obligations set out in the Notes, the Trust Deed, or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10(h), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders; or

(i) **Government Intervention**
(i) all or any substantial part of the undertaking, assets and revenues of the Issuer, or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10(i), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders.

11. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) **Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified in the Final Terms may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, or (viii) modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution or any resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) **Modification**

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Notes or the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Notes or the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business or any subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed *provided that* such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed or the Notes but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or tax jurisdiction.

14. REPLACEMENT OF NOTES

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. NOTICES

Notices to the Noteholders shall be sent by first class mail of (if posted overseas) by airmail to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, so long as any Notes are listed on a stock exchange, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of such stock exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

18. GOVERNING LAW, JURISDICTION AND ARBITRATION

(a) **Governing law**
The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection therewith, are governed by, and shall be construed in accordance with, English Law.

(b) **Submission to Jurisdiction; Arbitration**
The Issuer has in the Trust Deed (i) agreed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed (including a claim, dispute or difference regarding its existence, termination or validity or regarding any non-contractual obligation arising out of or in connection with the Trust Deed) shall be referred to and finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration as at present in force and as modified by the Trust Deed; (ii) agreed that at any time before the Trustee has nominated an arbitrator to resolve any such claim, dispute or difference, the Trustee may, at its sole option, elect by notice in writing to the Issuer that any such claim, dispute or difference shall instead be heard by the courts of England or by any other court of competent jurisdiction; (iii) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any such claim, dispute or difference; (iv) waived any objection which it might have now or hereafter to the courts of England being nominated as the forum to hear and determine any such claim, dispute or difference and agreed not to claim that any such court is not a convenient or appropriate forum; (v) designated Law Debenture Corporate Services at Fifth Floor, 100 Wood Street, London EC2V 7EX to accept service of any process on its behalf in England; (vi) consented to the enforcement of any judgment; (vii) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (viii) consented generally in respect of any arbitration or proceedings to the giving of any relief or the issue of any process in connection with such arbitration or proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order judgment or award which may be made or given in such arbitration or proceedings.

19. DEFINITIONS

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Agency Agreement" means the agency agreement dated 22 October 2010 between the Issuer and the agents named in it relating to the Programme.

"Business Day" means:

(a) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or

(b) in the case of euro, a day on which the TARGET2 System is operating (a "TARGET Business Day") and/or

(c) in the case of a currency and/or one or more Business Centres (specified in the Final Terms) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"Contracts" means the Trust Deed and the Agency Agreement.

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "Calculation Period"):

(a) if "Actual/365" or "Actual/Actual – ISDA" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)

(b) if "Actual/365 (Fixed)" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365

(c) if "Actual/360" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360

(d) if "30/360", "360/360" or "Bond Basis" is specified in the Final Terms, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month))

(e) if "30E/360" or "Eurobond Basis" is specified in the Final Terms, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month) and

(f) if "Actual/Actual – ICMA" is specified in the Final Terms,

    (i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

    (ii) if the Calculation Period is longer than one Determination Period, the sum of:

        (A) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

        (B) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"Determination Date" means the date specified as such in the Final Terms or, if none is so specified, the Interest Payment Date or if none, the Interest Commencement Date.

"Effective Date" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

"Eurozone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"Event of Default" has the meaning assigned to such term in Condition 10.

"Extraordinary Resolution" has the meaning assigned to such term in the Trust Deed.

"Fair Market Value" of a transaction means the value that would be obtained in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer. A report of the Independent Valuer or certificate of the Issuer of the Fair Market Value of a transaction, shall, in the absence of manifest error, be conclusive and binding on all parties; and the Trustee shall be entitled to rely upon any such report prepared by such Independent Valuer and shall not be responsible for any loss occasioned by acting on any such report or certificate.

"Indebtedness" means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent.

"Indebtedness for Borrowed Money" means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing.

"Indebtedness Guarantee" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness.

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"Interest Amount" means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

"Interest Commencement Date" means the Issue Date or such other date as may be specified in the Final Terms.

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two London Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"Interest Period Date" means each Interest Payment Date unless otherwise specified in the Final Terms.

"ISDA Definitions" means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Final Terms.

"Material Subsidiary" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 10 per cent. of the consolidated gross assets, or, as the case may be consolidated gross revenues of the Issuer and its consolidated Subsidiaries and, for these purposes:

(a) the gross assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent Financial Statements (or, if none, its then most recent management accounts); and

(b) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements.

"Page" means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 ("Reuters") and Telerate ("Telerate")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

"Permitted Security Interest" means any Security Interest (i) granted in favour of the Issuer by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entities to the Issuer, (ii) which arise pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer held by financial institutions, (iv) arising in the ordinary course of the Issuer's or a Subsidiary's business and (a) which are necessary in order to enable the Issuer or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Issuer's or such Subsidiary's business or (b) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer's or such Subsidiary's customers, (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, *provided that* any such encumbrance secures only rentals and other amounts payable under such lease, (vi) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Subsidiary), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (vii) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, *provided that* the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest, (viii) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), *provided that* the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property, (ix) created or outstanding upon any property or assets (including current and/or future revenues, accounts receivables and other payments) of the Issuer or any Material Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the primary source of payment of any obligations secured by such property or assets is the proceeds of such property or assets (or where the payment of such obligations is otherwise supported by such property or assets) and where recourse to the Issuer and the Material Subsidiaries in respect of such obligations does not extend to defaults by the obligors in relation to such property or assets, *provided that* the aggregate amount of such obligations so secured pursuant to this Clause (ix) at any one time (measured at the time of initial incurrence) shall not exceed an amount in any currency or currencies equivalent to 15 per cent. of loans to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with International Accounting Standards) and (x) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.$50,000,000 (or its equivalent in other currencies) at that time.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

"Programme" means the U.S.$2,000,000,000 Debt Issuance Programme for the issuance of notes which the Issuer has authorised (or such other limit as agreed from time to time).

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms.

"Reference Banks" means the institutions specified as such in the Final Terms or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe).

"Relevant Financial Centre" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the Final Terms or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

"Relevant Rate" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

"Relevant Time" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition, "local time" means, with respect to Europe as a Relevant Financial Centre, Brussels time.

"Repo" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any for the foregoing and for purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or other derivative, whether issued by any private or public company, any government or agency or instrumentality thereof or any supernational, international or multilateral or organisation.

"Representative Amount" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

"Security Interest" means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person.

"Specified Currency" means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

"Specified Duration" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the Final Terms or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii).

"Subsidiary" means, in relation to any Person (the "first Person") at a given time, any other Person (the "second Person") (i) whose affairs and policies the first Person directly or indirectly controls or (ii) as to whom the first Person owns directly or indirectly more than 50 per cent. of the capital, voting stock or other right of ownership. "Control" as used in this definition, means the power by the first Person to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise.

"TARGET2 System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer System or any successor thereto.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

FORM OF FINAL TERMS

Final Terms dated [ ]

JSC KAZKOMMERTSBANK

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$2,000,000,000
Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 6 May 2011 [and the supplemental Base Prospectus dated [ ]][(1)] which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [*address*] [and] [*website*] and copies may be obtained from [*address*].][(2)]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 6 May 2011 [and the supplemental Base Prospectus dated [ ]][(1)]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the Base Prospectus dated 6 May 2011 [and the supplemental Base Prospectus dated [ ]][(2)], which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated 6 May 2011 [and the supplemental Base Prospectus dated [ ]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 6 May 2011 and [current date] [and the supplemental Base Prospectus dated [ ]]. [The Base Prospectus [and the supplemental Base Prospectus] are available for viewing at [*address*] [and] [*website*] and copies may be obtained from [*address*].][(2)]

[The following alternative language applies if Notes are issued pursuant to Rule 144A.]

THE NOTES REFERRED TO HEREIN THAT ARE REPRESENTED BY A RULE 144A GLOBAL NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144

1 Only include details of a supplemental Base Prospectus in which the Conditions have been amended for the purpose of all future issues under the Programme.

2 Article 14.2 of the Prospectus Directive provides that a Base Prospectus is deemed available to the public when, *inter alia*, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) in an electronic form on the Issuer's website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplemental Base Prospectuses.

THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF NOTES REPRESENTED BY A RULE 144A GLOBAL NOTE.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK; SEE THE SECTION ENTITLED "*RISK FACTORS*" IN THE BASE PROSPECTUS.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]

1.	Issuer:	JSC Kazkommertsbank
2.	(i) Series Number:	
	(ii) Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).	
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount of Notes admitted to trading:	[ ]
	(i) Series:	[ ]
	(ii) Tranche:	[ ]
5.	Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [***insert date***] (*if applicable*)]
6.	(i) Specified Denominations:	[ ] *[Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of S 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).]*
	(ii) Calculation Amount:	[ ]
7.	(i) Issue Date:	[ ]
	(ii) Interest Commencement Date:	[ ]
8.	Maturity Date:	*[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9.	Interest Basis:	[[ ]% Fixed Rate] [[*specify reference rate*] +/–[ ]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)

10. Redemption/Payment Basis[3]:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11. Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Put/Call Options:	[Noteholder Put] [Issuer Call] [(further particulars specified below)]
13. (i) Status of the Notes:	[Senior/[Dated/Perpetual]/Subordinated]
(ii) [Date [Board] approval for issuance of Notes obtained:	[ ] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]*
14. Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i) Rate[(s)] of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii) Interest Payment Date(s):	[ ] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
(iii) Fixed Coupon Amount[(s)]:	[ ] per [ ] in Nominal Amount
(iv) Broken Amount(s):	*[insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
(v) Day Count Fraction (Condition 19):	[30/360/Actual/Actual ([ICMA]/ISDA)/other] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, unless requested otherwise)*
(vi) Determination Dates (Condition 19):	[ ] in each year *(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))*

3 If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
16. Floating Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i) Interest Period(s):	[ ]
(ii) Specified Interest Payment Dates:	[ ]
(iii) First Interest Payment Date:	[ ]
(iv) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(v) Business Centre(s) (Condition 19):	[ ]
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(vii) Interest Period Date(s):	[Not Applicable/specify dates]
(viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[ ]
(ix) Screen Rate Determination (Condition 5(b)(iii)(B):	[ ]
• Relevant Time:	
• Reference Rate:	
• Interest Determination Date(s):	[[ ] [TARGET] Business Days in *[specify city]* for *[specify currency]* prior to [the first day in each Interest Accrual Period/each Interest Payment Date]][ ]
• Primary Source for Floating Rate:	*[Specify "Page" or "Reference Banks"]*
• Reference Banks (if Primary Source is "Reference Banks"):	*[Specify four]*
• Page (if Primary Source is "Page"):	[Page]
• Relevant Financial Centre:	*[The financial centre most closely connected to the Benchmark–specify if not London]*
• Benchmark:	[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
• Representative Amount:	*[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]*

	• Effective Date:	*[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*
	• Specified Duration:	*[Specify period for quotation if not duration of Interest Accrual Period]*
	• Relevant Screen Page:	[ ]
	(x) ISDA Determination (Condition 5(b)(iii)(A):	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
	• ISDA Definitions (if different from those set out in the Conditions):	[ ]
	(xi) Margin(s):	[+/–][ ] per cent. per annum
	(xii) Minimum Rate of Interest:	[ ] per cent. per annum
	(xiii) Maximum Rate of Interest:	[ ] per cent. per annum
	(xiv) Day Count Fraction (Condition 19):	[ ]
	(xv) Rate Multiplier	[ ]
	(xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
17.	Zero Coupon Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) [Amortisation/Accrual] Yield:	[ ] per cent. per annum
	(ii) Reference Price:	[ ]
	(iii) Day Count Fraction (Condition 19):	[ ]
	(iv) Any other formula/basis of determining amount payable:	[ ]
18.	Index-Linked Interest Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula/Other variable:	*[give or annex details]*

	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent):	[ ]
	(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula:	[ ]
	(iv) Determination Date(s):	[ ]
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[ ]
	(vi) Interest or calculation period(s):	[ ]
	(vii) Specified Interest Payment Dates:	[ ]
	(viii) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(ix) Business Centre(s):	[ ]
	(x) Minimum Rate/Amount of Interest:	[ ] per cent. per annum
	(xi) Maximum Rate/Amount of Interest:	[ ] per cent. per annum
	(xii) Day Count Fraction (Condition 19):	[ ]
19.	Dual Currency Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate of Exchange/method of calculating Rate of Exchange:	*[give details]*
	(ii) Party, if any, responsible for calculating the principal and/or interest due:	[ ]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[ ]
	(v) Day Count Fraction (Condition 19):	[ ]

PROVISIONS RELATING TO REDEMPTION

20. Call Option:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[ ] per Note of [ ] specified denomination
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[ ] per Calculation Amount
(b) Maximum Redemption Amount:	[ ] per Calculation Amount
(iv) Option Exercise Date(s):	[ ]
(v) Description of any other Issuer's option:	[ ]
(vi) Notice period[4]	[ ]
21. Put Option	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[ ] per Note of [ ] specified denomination
(iii) Option Exercise Date(s):	[ ]
(iv) Description of any other Noteholder's option:	[ ]
(v) Notice period:	[ ]
22. Final Redemption Amount of each Note[5]	[[ ] per Note of [ ] specified denomination/other/see Appendix]
In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
(i) Index/Formula/variable:	*[give or annex details]*

4 If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.

5 If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

	(ii) Party responsible for calculating the Final Redemption Amount (if not the Agent):	[ ]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index an/or Formula and/or other variable:	[ ]
	(iv) Determination Date(s):	[ ]
	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted [including any market disruption/settlement disruption events]:	[ ]
	(vi) Payment Date:	
	(vii) Maximum Final Redemption Amount:	[ ] per Calculation Amount
	(viii) Maximum Final Redemption Amount:	[ ] per Calculation Amount
23.	Early Redemption Amount:	
	(i) Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or on event of default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[ ]
	(ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)):	[Yes/No]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	[*specify amount of the Regulation S/Rule 144 A Notes*] Global Notes exchangeable for Definitive Notes in the limited circumstances specified in the Global Note
25.	Financial Centre(s) (Condition 7) or other special provisions relating to Payment Dates:	[Not Applicable/*give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(iv) and 18(ix) relate*]

26. Talons for future Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
28. Details relating to Instalment Notes:	[Not Applicable/*give details*]
(i) Instalment Amount(s):	[ ]
(ii) Instalment Date(s):	[ ]
(iii) Minimum Instalment Amount:	[ ]
(iv) Maximum Instalment Amount:	[ ]
29. Redomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [ ] apply]]
30. Consolidation provisions:	[Not Applicable/The provisions [in Condition [ ] apply]
31. Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration should be given as to whether such terms constitute a 'significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

32. (i) If syndicated, names of Managers:	[Not Applicable/*give names*] *(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and entities of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*
(ii) Date of Subscription Agreement:	[ ]
(iii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
33. If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
34. U.S. Selling Restrictions:	[Reg. S Compliance category/TEFRA not applicable]
35. Additional selling restrictions:	[Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the Issuer's U.S.$2,000,000,000 Debt Issuance Programme.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms, [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By: . . . .
Duly authorised

PART B – OTHER INFORMATION

1. LISTING

(i) Listing:	London/other (specify)/None
(ii) Admission to trading:	[Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant market] with effect from [ ]] [Not Applicable.]
(iii) Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings: The Notes to be issued have been rated:

[Insert credit rating agency: [ ]]

[Insert credit rating agency: [ ]]

[Insert credit rating agency: [ ]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[[Insert credit rating agency] is established in the European Union and is registered under Regulation (EU) No 1060/2009 (the "CRA Regulation").]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation").]

[[Insert credit rating agency] is established in the European Union and has applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation") but the rating issued by it is endorsed by [insert endorsing credit rating agency] which is established in the European Union and [is registered under the CRA Regulation] [has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority].]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation") but is certified in accordance with the CRA Regulation.]

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

3. [NOTIFICATION

The [*include name of competent authority in EEA home Member State*] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detaili ng the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

[5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer	[ ]
	(See ["*Use of Proceeds*"] wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
[(ii)] Estimated net proceeds:	[ ]
	(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)
[(iii)] Estimated total expenses:	[ ] [Include breakdown of expenses.]
	*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]**
6. [Fixed Rate Notes only – YIELD	[ ]
Indication of yield	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. [INDEX-LINKED OR OTHER VARIABLE-LINKED NOTES ONLY – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained, including a description of any market disruption or settlement disruption events that affect the underlying. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer does not intend to provide post-issuance information.

8. [DUAL CURRENCY NOTES ONLY – PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

9. OPERATIONAL INFORMATION

ISIN Code (Reg S Notes):	[ ]
ISIN Code (Rule 144A Notes):	[ ]
Common Code (Reg S Notes):	[ ]
Common Code (Rule 144A Notes):	[ ]
Rule 144A Notes CUSIP number:	[ ]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking *Société Anonyme* or DTC and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of Initial Paying Agent(s):	[ ]
Names and addresses of additional Paying Agent(s) (if any):	[ ]

OVERVIEW OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

THE GLOBAL NOTES

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the "distribution compliance period"), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions*". Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "*Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*".

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "Definitive Notes"). The Notes are not issuable in bearer form.

AMENDMENTS TO CONDITIONS

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is an overview of those provisions:

- Payments. Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

- Notices. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes *provided that* for so long as the Notes are listed on the Regulated Market of the London Stock Exchange and the rules of the regulated market of the London Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times).

- Meetings. The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

- Trustee's Powers. In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its account holders with entitlements to such Global Note and may consider such interests as if such account holders were the holders of such Global Note.

- Cancellation. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

- Redemption at the Option of the Issuer. Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

- Redemption at the Option of Noteholders. Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

EXCHANGE FOR DEFINITIVE NOTES

Exchange

Registration of title to Notes initially represented by a Rule 144A Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary and the Registrar has received a notice from the registered holder of a Rule 144A Global Note requesting an exchange of a specified amount of the Rule 144A Global Note for Definitive Notes.

Registration of title to Notes initially represented by a Regulation S Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will only be permitted (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (i.e. common depositary) of the relevant Regulation S Global Note requesting an exchange of the Regulation S Global Note for Definitive Notes.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"Exchange Date" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*."

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

BOOK-ENTRY PROCEDURES FOR THE GLOBAL NOTES

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Book Entry Ownership – Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("Direct Participants") or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants") through organisations which are accountholders therein.

DTC

The Issuer understands that DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

The Issuer understands that DTC will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Exchange for Definitive Notes*", DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

BOOK-ENTRY OWNERSHIP

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading Between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the issue date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant issue date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

Subject to the terms and on the conditions contained in the dealer agreement dated 22 October 2010 (the "Dealer Agreement") between the Issuer and the Dealers, the Notes will be offered from time to time by the Issuer to the Dealers. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

The Issuer has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and their respective affiliates may provide various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders) and for which they will receive customary fees.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell Notes (i) as part of their distribution at any time or and (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of any Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Dealer Agreement provides that the Dealers may directly or through a U.S. broker-dealer affiliate arrange for the offer and re-sale of Notes under the Programme that are designated as Rule 144A eligible under the relevant Final Terms within the United States only to qualified institutional buyers in reliance on Rule 144A.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that non-exempt offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, ISO, fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer, the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Kazakhstan
Each Dealer has represented, warranted and agreed that it will only offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan in compliance with the laws of Kazakhstan.

United Kingdom
Each Dealer has represented, warranted and agreed and each further Dealer will be required to represent, warrant and agree that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended (the "FIEL") and each of the Dealers has undertaken that it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any set of Final Terms and neither the Issuer, nor any other Dealer shall have responsibility therefor.

TAXATION

UNITED STATES FEDERAL INCOME TAXATION

The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note, as appropriate. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organisations, dealers or traders in securities or currencies, holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar, or certain former citizens or long-term residents of the United States. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price.

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in the relevant Final Terms.

For purposes of this summary, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership (or an entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

Investors should consult their own tax advisers with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Notes.

Internal Revenue Service Circular 230 Disclosure.

Pursuant to Internal Revenue Service Circular 230, the Bank hereby informs investors that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

U.S. HOLDERS

Interest

Except as set forth below, interest paid on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "foreign currency"), including any additional amounts, will be includible in a U.S. Holder's gross income as ordinary interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes generally will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute "passive category income" or, in the case of certain U.S. Holders, "general category income" for the purposes of computing any foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws.

Foreign Currency Denominated Interest

Any interest paid in a foreign currency will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest.

Additional rules for Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency are described below under Dual Currency Notes.

Original Issue Discount

U.S. Holders of Notes issued with original issue discount ("OID"), including Zero Coupon Notes, will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of Notes issued with OID (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include OID in income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. However, U.S. Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as "Original Issue Discount Notes." Notice will be given in the relevant Final Terms when the Issuer determines that a particular Note will be an Original Issue Discount Note.

The following discussion does not address the application of the Treasury Regulations addressing OID to, or address the U.S. federal income tax consequences of, an investment in contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments, the relevant Final Terms will describe the material U.S. federal income tax consequences thereof.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described under "Foreign Currency Discount Notes" below.

For U.S. federal income tax purposes, a Note (including a Zero Coupon Note), other than a Note with a term of one year or less (a "Short-term Note"), will be treated as issued as an Original Issue Discount Note if the excess of the Note's stated redemption price at maturity over its issue price equals or exceeds a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The "stated redemption price at maturity" of a Note is the sum of all payments required to be made on such Note other than "qualified States Interest" payments. The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the relevant Final Terms when we determine that a particular Note will bear interest that is not qualified stated interest. In the case of a Note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income as stated principal payments on the Notes are made in proportion to the stated principal amount of the Note. Any amount of *de minimis* OID that has been included in income will be treated as capital gain.

Certain of the Notes may be redeemed prior to their maturity at our option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, *provided that* each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods stated in U.S. dollar amounts.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the applicable Final Terms and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes. Any amount of *de minimus* OID that has not been included in income will be treated as capital gain upon a disposition of a Note.

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. U.S. Holders should consult their own tax advisors about this election.

Short-Term Notes

In the case of Short-term Notes, under the OID regulations, all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a Short-term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short-term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

Foreign Currency Discount Notes

OID for any accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under "Foreign Currency Denominated Interest". Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above in "*Foreign Currency Denominated Interest*."

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a "premium" and will not be required to include OID, if any, in income. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under the U.S. Holder's regular accounting method. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency, and amortisable bond premium will reduce interest income in units of the foreign currency. At the time amortised bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realised measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Under certain circumstances special rules limit the amortisation of premium in the case of convertible debt. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Note.

Sale, Exchange or Retirement

A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with a foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement (less any accrued but unpaid interest, which will be taxable as such) and the tax basis of the Note. The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale.

Gain or loss recognised on the sale or retirement of a Note (other than gain or loss that is attributable to OID, or to changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year. Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Prospective investors should consult their tax advisers as to the foreign tax credit implications of a sale or retirement of Notes.

Sale, Exchange or Retirement of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be ordinary income or loss.

Dual Currency Notes

U.S. Holders of Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency will be subject to special tax accounting rules applicable to “Multi-Currency Debt Securities.” A U.S. Holder generally would be required to apply the “noncontingent bond method” in the Multi-Currency Debt Security’s denomination currency, which for this purpose would be the Multi-Currency Debt Security’s predominant currency as determined by the Issuer. A description of the principal U.S. federal income tax consideration relevant to holders of Dual Currency Notes, including specification of the predominant currency, will be set forth, if required, in the relevant Final Terms.

Index Linked Notes

The tax consequences to a holder of an Index Linked Redemption Note or Index Linked Interest Note will depend on factors including the specific index or indices used to determine payments on such Note and the amount and time of any noncontingent payments on such Note. A description of the principal U.S. federal income tax considerations relevant to holders of such Note will be set forth, if required, in the relevant Final Terms.

Other Notes

A description of the principal U.S. federal income tax considerations relevant to holders of high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set forth, if required, in the relevant Final Terms.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in “reportable transactions” (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale or other disposition of the Notes.

Investment Income Tax

Certain U.S. Holders who are individuals, estates or trusts are required to pay a 3.8 per cent. tax on net investment income, including on capital gains, for taxable years beginning after 31 December 2012.

Non-U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption "*U.S. Backup Withholding Tax and Information Reporting*," payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption "*U.S. Backup Withholding Tax and Information Reporting*," any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on Notes and to proceeds of the sale or redemption of Notes made within the United States, or by a U.S. payor or U.S. middleman, to certain holders of Notes (other than an exempt recipient). The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a United States person, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28 per cent. through 2012.

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of this information reporting rule on their ownership and disposition of the Notes.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

Kazakhstan Taxation

The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments of interest made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisers as to the tax consequences to them of holding or transferring Notes.

Interest

Payments of interest on the Notes to an individual who is not a resident of Kazakhstan for tax purposes or to a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management), nor maintains a permanent establishment in Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will be subject to withholding tax at a rate of 15 per cent. unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime and which appear in a list published from time to time by the Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore, Switzerland and others) will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. unless reduced by an applicable double taxation treaty.

The withholding tax on interest would not apply if the Notes are, as at the date of accrual of interest, listed on the official list of a stock exchange in Kazakhstan (such as the KASE).

Interest payable to residents of Kazakhstan or to non-residents who maintain a permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15 per cent. unless the Notes are, as at the date of accrual of interest, listed on the official list of a stock exchange operating in Kazakhstan.

The Terms and Conditions of the Notes state that all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes.

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15 per cent. If the disposal of the Notes is made to a Kazakhstan Holder and the transferor is registered in a country with a favourable tax regime, as referred to above, gains derived from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20 per cent.

Any gains realised by Non-Kazakhstan Holders in relation to Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan or a foreign stock exchange and sold through open trades on such stock exchanges are not subject to withholding tax. However, the withholding tax on the gains may be reduced or eliminated under an applicable double taxation treaty. Kazakhstan's tax legislation does not specify a mechanism for the collection of any such tax or specify whether the purchaser of Notes in such a situation is treated as a withholding agent.

Any gains derived by Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

However, there therefore is a possibility that gains made by a holder on the sale of a Note otherwise than on an official stock exchange may be subject to Kazakhstan tax or withholding tax and a purchaser may be treated as a withholding agent for such purposes and be liable to account for Kazakhstan withholding tax on the portion of the purchase price representing the gain by the seller of such Note.

European Savings Directive 2003/48/EC

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction (a "paying agent") to or for an individual (or a non-corporate, "residual entity") in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also, a number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transition withholding) in relation to payments made by a "paying agent" within its jurisdiction to or for an individual in a Member State.

Investors should note that the European Commission has proposed amendments (COM (2008) 727) to the EU Savings Directive. These proposed amendments, if implemented, would extend the scope of the EU Savings Directive so as to treat a wider range of income as similar to interest and to bring payments made through a wider range of collective investment undertakings wherever established (including partnerships) within the scope of the EU Savings Directive. The timing of the implementation of these proposed amendments is not yet known nor is its possible application, but it is currently anticipated that any proposed amendments to the EU Savings Directive would not take effect within three years from the date of any formal amendment to that Directive.

CERTAIN ERISA CONSIDERATIONS

Subject to the following discussion the Notes may be acquired by pension, profit -sharing or other employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), individual retirement accounts, Keogh plans and other plans that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") and entities deemed to hold the plan assets of the foregoing (each a "Benefit Plan"). Section 406 of ERISA and Section 4975 of the Code prohibit a Benefit Plan from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of the Benefit Plan. In addition, Title I of ERISA also requires fiduciaries of a Benefit Plan subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents.

The acquisition or holding of Notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer, the Trustee, the Dealers, the Registrar or any of their respective affiliates is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. Certain exemptions from the prohibited transaction rules could be applicable to the purchase and holding of Notes by a Benefit Plan depending on the type and circumstances of the plan fiduciary making the decision to acquire such Notes. Included among these exemptions are: Prohibited Transaction Class Exemption ("PTCE") 96 – 23, regarding transactions effected by "in-house asset managers;" PTCE 95 – 60, regarding investments by insurance company general accounts; PTCE 91 – 38, regarding investments by bank collective investment funds; PTCE 90 – 1, regarding investments by insurance company pooled separate accounts; and PTCE 84 – 14, regarding transactions effected by "qualified professional asset managers." In addition to the administrative class exemptions listed above, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide a statutory class exemption for prohibited transactions between a Benefit Plan and a person or entity that is a party in interest to such Benefit Plan solely by reason of providing services to the Benefit Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Benefit Plan involved in the transaction), *provided that* there is adequate consideration for the transaction. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes and prospective purchasers that are Benefit Plans should consult with their advisors regarding the applicability of any such exemption.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans are not subject to ERISA requirements, or the provisions of Section 4975 of the Code, however, such plans may be subject to substantially similar non-U.S., federal, state or local law restrictions.

By acquiring a Note, each purchaser and transferee will be deemed to represent, warrant and covenant that either (i) it is not acquiring the Note with the assets of a Benefit Plan or any other plan subject to a law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (ii) the acquisition, holding and disposition of the Note will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any other substantially similar applicable law.

A plan fiduciary considering the purchase of Notes should consult its legal advisors regarding whether the assets of the Issuer would be considered plan assets, the possibility of exemptive relief from the prohibited transaction rules and other issues and their potential consequences.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer of any Note.

RULE 144A NOTES

Each purchaser of a beneficial interest in the Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is (A) is a qualified institutional buyer within the meaning of Rule 144A, (B) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (C) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A.

(ii) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set forth below.

(iii) Either (a) it is not acquiring the Notes (or interests therein) with the plan assets of (and for so long as it holds the Notes (or interests therein) will not be or be acting on behalf of) an "employee benefit plan" as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that is subject to Title I of ERISA, a "plan" as defined in Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), that is subject to Section 4975 of the Code, or a church, governmental or non-U.S. plan that is subject to a law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (b) the acquisition, holding and disposition of the Notes (or interests therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any substantially similar applicable law.

(iv) The Rule 144A Global Notes and any Definitive Notes issued in exchange for an interest in a Rule 144A Global Note will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

"THIS NOTE (INCLUDING ANY BENEFICIAL INTEREST HEREIN) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THE NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE."

"EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR AN INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF), AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" AS DEFINED IN SECTION 4975

OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, AN ENTITY DEEMED TO HOLD PLAN ASSETS OF ANY OF THE FOREGOING, OR A CHURCH, GOVERNMENTAL OR NON-U.S. PLAN THAT IS SUBJECT TO A LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (B) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR INTEREST HEREIN) WILL NOT GIVE RISE TO A NONEXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF ANY SUBSTANTIALLY SIMILAR APPLICABLE LAW."

(v) The Issuer, the Bank, the Registrar, the Dealers and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements and if the purchaser is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

REGULATION S NOTES

Each purchaser of a beneficial interest in the Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(4) Either (a) it is not acquiring the Regulation S Notes (or interests therein) with the plan assets of (and for so long as it holds the Regulation S Notes (or interests therein) will not be or be acting on behalf of) an "employee benefit plan" as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that is subject to Title I of ERISA, a "plan" as defined in Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), that is subject to Section 4975 of the Code, or a church, governmental or non-U.S. plan that is subject to a law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (b) the acquisition, holding and disposition of the Regulation S Notes (or interests therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any substantially similar applicable law.

(5) It acknowledges that the Issuer, the Trustee, the Registrar, the Dealer(s) and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer or the Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

GENERAL INFORMATION

(1) The Issuer has obtained or will obtain all necessary consents, approvals and authorisations in Kazakhstan in connection with any Series of Notes. The initial update of the Programme was authorised by a duly adopted resolution of the Board of Directors of the Issuer on 30 September 2010 and the further update of the Programme, on 31 March 2011. Prior to the issue of any Notes under the Programme, a resolution of the Board of Directors of the Issuer will be required. In addition, with respect to each issuance of Notes under the Programme, the Issuer will make an application to the KASE for such Notes to be admitted to the "rated debt securities" section of the official list of the KASE. In order for payments to be made on the Notes exempt of Kazakhstan withholding tax, it will be necessary for the Notes to be admitted to the official list of the KASE. No Notes may be issued without the prior approval of the FMSA.

(2) There has been (i) no significant change in the financial or trading position of the Issuer and its subsidiaries taken as a whole since 31 December 2010 and (ii) no material adverse change in the prospects of the Issuer since 31 December 2010.

(3) The Issuer is not involved and has not been involved during the previous 12 months in any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer and its subsidiaries taken as a whole.

(4) The Issuer has not entered into any material contracts outside the ordinary course of its businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.

(5) Deloitte LLP of 36 Al Farabi Ave., Almaty Financial District, Building "B" 050059 Almaty, Kazakhstan, has audited, and rendered unqualified audit reports on, the consolidated financial statements of the Issuer for the years ended 31 December 2010, 2009 and 2008. The audit report included an emphasis of matters in relation to the items disclosed in Notes 4 and 15 to the Financial Statements. Deloitte LLP has a state licence on auditing of the Republic of Kazakhstan, number 0000015, type MFU-2 given by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006. It is also a member of the chamber of auditors in the Republic of Kazakhstan.

(6) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge at the specified offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the Financial Statements;
- the latest annual report and consolidated audited annual financial statements of the Issuer prepared in accordance with IFRS (published annually); and
- the constitutional documents of the Issuer;

and copies of the following documents will be available for inspection at the specified offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
- each set of Final Terms for Notes that are listed on the Regulated Market; and
- the Agency Agreement.

Each set of Final Terms for Notes that are listed on the Official List and admitted for trading on the Regulated Market will also be published through the London Stock Exchange's Regulatory News Service.

(7) The Issuer does not intend to provide any post issuance information.

(8) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

(9) This Base Prospectus shall be published through the London Stock Exchange's Regulatory News Service.

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Consolidated Financial Statements
For the Years Ended 31 December 2010, 2009 and 2008

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATIONAND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Kazkommertsbank (the "Bank") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2010, 2009 and 2008 the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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

The recent economic downturn and severe liquidity conditions continue to place extreme pressure on the financial markets in particular and the global economy, generally. Governments and central banks have introduced extensive measures both in Kazakhstan and globally in order to redress the capital and liquidity imbalance. The Group has become an active participant in funding measures introduced by the Kazakhstan government, and its future funding and capital plans for 2011 include an element of continued reliance on these measures.

The consolidated financial statements for the years ended 31 December 2010, 2009 and 2008 were authorized for issue on 24 March 2011 by the Management Board of JSC Kazkommertsbank.

On behalf of the Management Board of the Bank:

Zhussupova N.A.	**Shoinbekova G.K.**
Chairman of the Board	**Chief Accountant**
24 March 2011	24 March 2011
Almaty	Almaty

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Kazkommertsbank:

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazkommertsbank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Group 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 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 auditors' 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2010, 2009 and 2008, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion we draw attention to Notes 4 and 15 to these consolidated financial statements. As described in those notes the presentation of the consolidated statements of cash flows have been changed for the years ended 31 December 2009 and 2008.

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice 78586
Australia

Deloitte, LLP

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

Nurlan Bekenov
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate # 0082
dated 13 June 1994
General Director
Deloitte, LLP

0082

24 March 2011
Almaty, Kazakhstan

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Notes	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million) (Restated)*	Year ended 31 December 2008 (KZT million) (Restated)*
Interest income	5, 33	291,515	372,460	380,043
Interest expense	5, 33	(152,091)	(178,846)	(181,212)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		139,424	193,614	198,831
Provision for impairment losses on interest bearing assets	6, 33	(95,555)	(192,406)	(148,780)
NET INTEREST INCOME		43,869	1,208	50,051
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	7	(5,947)	24,524	(27,515)
Net gain/(loss) on foreign exchange and precious metals operations	8	2,562	(14,965)	6,028
Fee and commission income	9	20,974	20,731	21,448
Fee and commission expense	9	(3,779)	(3,540)	(4,302)
Net realized gain/(loss) on investments available-for-sale	10	69	(1,026)	(2,490)
Dividends received		181	186	176
Other income	11	6,530	34,427	9,294
NET NON-INTEREST INCOME		20,590	60,337	2,639
OPERATING INCOME		64,459	61,545	52,690
OPERATING EXPENSES	12, 33	(35,833)	(30,148)	(32,477)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES		28,626	31,397	20,213
Provision for impairment losses on other transactions	6, 33	(3,679)	(2,511)	(1,096)
Recovery of provision for guarantees and other contingencies	6, 33	3,261	600	856
Gain from sale of associates and share of results of associates	33	-	4,372	(3,585)
OPERATING PROFIT BEFORE INCOME TAX		28,208	33,858	16,388
Income tax (expense)/benefit	13	(7,419)	(13,101)	8,298
NET PROFIT FROM CONTINUING OPERATIONS		20,789	20,757	24,686
Profit/(loss) from discontinued operations, net of tax		1,199	(1,734)	(4,522)
NET PROFIT		21,988	19,023	20,164
Attributable to:				
Ordinary shareholders of the Parent		19,494	17,152	18,406
Preference shareholders of the Parent		2,385	2,271	3,399
Non-controlling interest		109	(400)	(1,641)
		21,988	19,023	20,164
EARNINGS PER SHARE				
Basic and diluted (KZT)	14	25.04	24.27	32.01

* The prior year balances have been restated to be comparable to the current year due to the disposal of the subsidiary, LLP Investment Group East Kommerts in 2010.

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

24 March 2011
Almaty

Shoinbekova G.K.
Chief Accountant

24 March 2011
Almaty

The notes on pages 12-108 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
NET PROFIT	21,988	19,023	20,164
Property and equipment:			
Revaluation of property and equipment	771	(1,896)	(362)
	771	(1,896)	(362)
Investments available-for-sale:			
Unrealized gain/(loss) on revaluation of investments available-for-sale	609	1,627	(4,237)
Gain transferred to income statement on sale of investments available-for-sale	(69)	(34)	(82)
Loss transferred to income statement on impairment of investments available-for-sale	-	1,060	2,120
Parent's share from revaluation of associated companies reserves	-	(130)	3
	540	2,523	(2,196)
Cash flow hedges:			
Loss on cash flow hedges	-	(1,992)	(43,397)
Plus: net gain on hedging reserve transferred to earnings	941	14,219	30,000
	941	12,227	(13,397)
Exchange differences on translation of foreign operations	158	2,443	(3,443)
Deferred income tax:			
Deferred income tax recognized on revaluation of property and equipment	(125)	379	72
Deferred income tax recognized on property and equipment due to tax rate changes	-	(401)	1,144
Deferred income tax recognized on (loss)/gain on investments available-for-sale, on cash flow hedges and due to tax rate changes	(133)	(2,935)	3,103
	(258)	(2,957)	4,319
TOTAL COMPREHENSIVE INCOME	24,140	31,363	5,085
Attributable to:			
Ordinary shareholders of the Parent	19,694	27,731	6,321
Preference shareholders of the Parent	3,149	4,133	775
Non-controlling interest	1,297	(501)	(2,011)
TOTAL COMPREHENSIVE INCOME	24,140	31,363	5,085

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

24 March 2011
Almaty

Shoinbekova G.K.
Chief Accountant

24 March 2011
Almaty

The notes on pages 12-108 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2010, 2009 AND 2008

	Notes	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
ASSETS:				
Cash and balances with national (central) banks	15	61,216	90,533	90,478
Precious metals		1,345	1,209	317
Financial assets at fair value through profit or loss	16	223,231	114,203	58,130
Loans and advances to banks and other financial institutions	17	146,331	148,375	241,813
Loans to customers	18, 33	2,174,760	2,160,767	2,144,782
Investments available-for-sale	19	16,822	16,696	15,056
Investments held to maturity	20	1,996	943	776
Investments in associates	33	-	-	1,775
Goodwill	21	2,405	2,405	2,405
Property, equipment and intangible assets	22	31,857	33,971	35,465
Other assets	23	28,145	18,771	23,808
TOTAL ASSETS		2,688,108	2,587,873	2,614,805
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans and advances from banks and other financial institutions	24	147,139	209,122	296,391
Customer accounts	25, 33	1,506,800	1,276,464	979,453
Financial liabilities at fair value through profit or loss	16	36,047	35,991	54,339
Debt securities issued	26	375,199	463,656	678,285
Other borrowed funds	27	23,943	31,172	137,324
Provisions	6	10,190	11,945	10,276
Deferred income tax liabilities	13	30,035	24,519	10,205
Dividends payable		4	15	5
Other liabilities	28	7,868	8,990	16,941
		2,137,225	2,061,874	2,183,219
Subordinated debt	29	137,137	136,411	117,724
Total liabilities		2,274,362	2,198,285	2,300,943
EQUITY:				
Equity attributable to equity holders of the Parent:				
Issued and outstanding share capital	30	9,031	9,031	6,990
Share premium reserve		195,024	195,006	152,684
Property and equipment revaluation reserve		5,508	4,935	6,918
Other reserves		203,109	180,839	146,992
Total equity attributable to equity holders of the Parent		412,672	389,811	313,584
Non-controlling interest		1,074	(223)	278
Total equity		413,746	389,588	313,862
TOTAL LIABILITIES AND EQUITY		2,688,108	2,587,873	2,614,805

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

24 March 2011
Almaty

Shoinbekova G.K.
Chief Accountant

24 March 2011
Almaty

The notes on pages 12-108 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Share capital	Treasury shares	Share premium reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value deficit[1]	Cumulative translation reserve[1]	Hedging reserve[1]	Retained earnings[1]	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2007	7,000	(2)	152,855	6,020	(70)	58	-	140,806	306,667	12,552	319,219
Net profit	-	-	-	-	-	-	-	21,805	21,805	(1,641)	20,164
Loss on revaluation of property and equipment	-	-	-	(362)	-	-	-	-	(362)	-	(362)
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(93)	-	-	-	93	-	-	-
Investments available-for-sale	-	-	-	-	(2,195)	-	-	-	(2,195)	(1)	(2,196)
Cash flow hedges	-	-	-	-	-	-	(13,397)	-	(13,397)	-	(13,397)
Exchange differences on translation of foreign operations	-	-	-	-	-	(3,074)	-	-	(3,074)	(369)	(3,443)
Deferred income tax	-	-	-	1,353	423	-	2,680	(137)	4,319	-	4,319
Total comprehensive income	-	-	-	898	(1,772)	(3,074)	(10,717)	21,761	7,096	(2,011)	5,085
Purchase of treasury shares	-	(14)	(406)	-	-	-	-	-	(420)	-	(420)
Sale of treasury shares	-	6	235	-	-	-	-	-	241	-	241
Change in non-controlling interest due to increase of ownership share	-	-	-	-	-	-	-	-	-	(10,263)	(10,263)
31 December 2008	7,000	(10)	152,684	6,918	(1,842)	(3,016)	(10,717)	162,567	313,584	278	313,862

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Share capital	Treasury shares	Share premium reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve[1]	Cumulative translation reserve[1]	Hedging reserve[1]	Retained earnings[1]	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2008	7,000	(10)	152,684	6,918	(1,842)	(3,016)	(10,717)	162,567	313,584	278	313,862
Net profit	-	-	-	-	-	-	-	19,423	19,423	(400)	19,023
Loss on revaluation of property and equipment	-	-	-	(1,896)	-	-	-	-	(1,896)	-	(1,896)
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(80)	-	-	-	80	-	-	-
Investments available-for-sale	-	-	-	-	2,523	-	-	-	2,523	-	2,523
Cash flow hedges	-	-	-	-	-	-	12,227	-	12,227	-	12,227
Exchange differences on translation of foreign operations	-	-	-	-	-	2,544	-	-	2,544	(101)	2,443
Deferred income tax	-	-	-	(7)	(490)	-	(2,445)	(15)	(2,957)	-	(2,957)
Total comprehensive income	-	-	-	(1,983)	2,033	2,544	9,782	19,488	31,864	(501)	31,363
Increase of share capital - ordinary shares	2,044	-	42,428	-	-	-	-	-	44,472	-	44,472
Purchase of treasury shares	-	(13)	(266)	-	-	-	-	-	(279)	-	(279)
Sale of treasury shares	-	10	160	-	-	-	-	-	170	-	170
31 December 2009	9,044	(13)	195,006	4,935	191	(472)	(935)	182,055	389,811	(223)	389,588

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Share capital	Treasury shares	Share premium reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve[1]	Cumulative translation reserve[1]	Hedging reserve[1]	Retained earnings[1]	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2009	9,044	(13)	195,006	4,935	191	(472)	(935)	182,055	389,811	(223)	389,588
Net profit	-	-	-	-	-	-	-	21,879	21,879	109	21,988
Gain on revaluation of property and equipment	-	-	-	771	-	-	-	-	771		771
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(80)	-	-	-	80	-	-	-
Investments available-for-sale	-	-	-	-	540	-	-	-	540	-	540
Cash flow hedges	-	-	-	-	-	-	941	-	941	-	941
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,030)	-	-	(1,030)	1,188	158
Deferred income tax	-	-	-	(118)	55	-	(188)	(7)	(258)	-	(258)
Total comprehensive income	-	-	-	573	595	(1,030)	753	21,952	22,843	1,297	24,140
Sale of treasury shares	-	-	18	-	-	-	-	-	18	-	18
31 December 2010	9,044	(13)	195,024	5,508	786	(1,502)	(182)	204,007	412,672	1,074	413,746

[1] The amounts included within the Investments available-for-sale fair value (deficit)/reserve, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.

On behalf of the Management Board of the Bank:

Zhussupova N.A.	**Shoinbekova G.K.**
Chairman of the Board	**Chief Accountant**
24 March 2011	24 March 2011
Almaty	Almaty

The notes on pages 12-108 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Notes	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million) (Restated)*	Year ended 31 December 2008 (KZT million) (Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		1,773	2,802	5,701
Interest received on loans and advances to banks and other financial institutions		5,501	7,957	10,076
Interest received from loans to customers		204,235	234,827	332,858
Interest received from investments available-for-sale		788	1,653	370
Interest received from investments held to maturity		46	41	105
Interest paid on loans and advances from banks and other financial institutions		(8,514)	(16,301)	(31,022)
Interest paid on customer accounts		(99,173)	(80,995)	(76,896)
Interest paid on debt securities issued		(39,464)	(72,695)	(66,735)
Interest paid on other borrowed funds		(1,646)	(4,663)	(8,195)
Interest paid on subordinated debt		(7,841)	(5,824)	(4,400)
Fee and commission received		20,798	20,957	22,149
Fee and commission paid		(3,768)	(3,544)	(4,140)
Other income received		6,807	3,795	8,756
Operating expenses paid		(33,679)	(24,456)	(37,393)
Cash inflow from operating activities before changes in operating assets and liabilities		45,863	63,554	151,234
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Funds deposited with National Bank of the Republic of Kazakhstan and cash on hand		(153)	14,228	103,263
Funds deposited with Central Bank of Russian Federation		(1,429)	(771)	2,252
Funds deposited with National Bank of the Kyrgyz Republic		94	(49)	42
Funds deposited with National Bank of Tajikistan		(19)	29	(49)
Precious metals		(137)	(892)	(317)
Financial assets at fair value through profit or loss		(110,380)	(49,372)	100,482
Loans and advances to banks and other financial institutions		10,664	79,632	19,295
Loans to customers		(56,016)	245,123	115,674
Other assets		(11,508)	11,083	(5,884)
Increase/(decrease) in operating liabilities:				
Loans and advances from banks and other financial institutions		(59,560)	(121,917)	(426,163)
Customer accounts		242,124	145,223	80,462
Other liabilities		(2,647)	(10,760)	3,153
Cash inflow from operating activities before taxation		56,896	375,111	143,444
Income tax paid		(102)	(3,851)	(6,516)
Net cash inflow from operating activities		56,794	371,260	136,928

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

	Notes	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million) (Restated)*	Year ended 31 December 2008 (KZT million) (Restated)*
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, equipment and intangible assets		(4,883)	(4,383)	(5,928)
Proceeds on sale of property, equipment and intangible assets		5,015	1,609	134
Dividends received		181	186	176
Proceeds on sale of investments available-for-sale		3,510	2,764	5,074
Purchase of investments available-for-sale		(4,489)	(5,328)	(3,666)
Proceeds on maturity of investments held to maturity		13	173	39
Purchase of investments held to maturity		(1,093)	(525)	(422)
Purchase of investments in associates		-	-	(2,172)
Proceeds on disposal of investments in associates		-	6,147	-
Purchase of subsidiaries, net of cash of entities acquired		-	-	(2,940)
Proceeds on disposal of subsidiary		1,149	-	-
Net cash (outflow)/inflow from investing activities		(597)	643	(9,705)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issue of ordinary shares		-	44,472	-
Purchase of treasury shares		-	(279)	(420)
Proceeds on sale of treasury shares		18	170	241
Proceeds from debt securities issued		2,095	37,570	111,164
Repurchase and repayment of debt securities issued		(71,144)	(404,941)	(173,008)
Proceeds from subordinated debt		1,000	2,530	8,549
Repayment of subordinated debt		-	(3,391)	-
Repayment of other borrowed funds		(7,054)	(140,265)	(12,953)
Dividends paid on preference shares		(741)	(738)	(595)
Net cash outflow from financing activities		(75,826)	(464,872)	(67,022)
Effect of changes in foreign exchange rate on cash and cash equivalents		(944)	5,653	(22)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(20,573)	(87,316)	60,179
CASH AND CASH EQUIVALENTS, beginning of period	15	138,796	226,112	165,933
CASH AND CASH EQUIVALENTS, end of period	15	118,223	138,796	226,112

*Restated as described in Note 4.

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

24 March 2011
Almaty

Shoinbekova G.K.
Chief Accountant

24 March 2011
Almaty

The notes on pages 12-108 form an integral part of these consolidated financial statements.

1. ORGANISATION

Joint Stock Company ("JSC") Kazkommertsbank (the "Bank", or "Kazkommertsbank") is a joint stock bank and operates in the Republic of Kazakhstan since 1990. The Bank's activities are regulated by the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations (the "FMSA") in accordance with the license № 48 dated 27 December 2007 and by the National Bank of the Republic of Kazakhstan (the "NBRK"). The Bank's primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 135Zh, Gagarin str., Almaty 050060, Republic of Kazakhstan.

As at 31 December 2010, 2009 and 2008, the Bank has 23 branches in the Republic of Kazakhstan, and a representative office in London.

Kazkommertsbank is a parent company of the banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Proportion or ownership interest/voting rights 2010	2009	2008	Type of operation
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	100%	Securities market transactions
LLP Processing Company	Republic of Kazakhstan	100%	100%	100%	Payment card processing and other related services
Kazkommerts International B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
JSC OCOPAIM Grantum Asset Management	Republic of Kazakhstan	100%	100%	100%	Investment management of pension assets
LLP Kazkommertsbank RFCA	Republic of Kazakhstan	-	-	100%	Operations with financial instruments on Regional financial centre of Almaty
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	100%	Life insurance
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	100%	Commercial bank
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	95.75%	94.64%	94.64%	Commercial bank
JSC Grantum APF	Republic of Kazakhstan	82.52%	80.01%	80.01%	Pension fund
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	100%	100%	100%	Insurance
LLP Commercial bank Moskommertsbank	Russian Federation	100%	100%	100%	Commercial bank
LLP Investment Group East Kommerts	Russian Federation	-	50%	50%	Securities market transactions

JSC Kazkommerts Securities is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1997. The company's primary business consists of trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of security issuances, allocation and underwriting of securities, and purchase and sale of securities in the capacity of the agent. In connection with the renaming from OJSC to JSC company received license on broker and dealing operations № 0401201207 dated 17 May 2006 and license for investment portfolio management № 0403200439 dated 17 May 2006 issued by the FMSA.

LLP Processing Company is a limited liability partnership and has operated under the laws of the Republic of Kazakhstan since 9 July 2004. The company is registered with the Ministry of Justice of the Republic of Kazakhstan under № 64313-1910-TOO. The Company's primary business is to provide payment and other types of card processing.

Kazkommerts International B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company was registered with the Chamber of Commerce of the Netherlands under the license № 24278506 dated 1 October 1997 for raising funds, including the issuance of bonds and other securities and entering into agreements regarding those activities.

Kazkommerts Finance II B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company was registered with the Chamber of Commerce of the Netherlands under the license № 24317181 dated 13 February 2001 for conducting separate types of banking and other types of operations.

Kazkommerts Capital II B.V. is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands since 11 April 2000. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company has license № 24305284 dated 11 April 2000 issued by the Chamber of Commerce of the Netherlands for conducting operations.

JSC OCOPAIM Grantum Asset Management ("Grantum PAMC") is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1998. The company's primary business is investment management of pension funds. The company has license № 0411200249 dated 26 June 2006 on investment management of pension funds issued by the FMSA, license № 0403200454 dated 26 June 2006 on management of investment portfolio issued by the FMSA, license № 0402200299 dated 26 June 2006 on broker and dealer activity without right to custody activities issued by the FMSA.

JSC Life Insurance Company Kazkommerts Life is a joint stock company and has operated under the laws of the Republic of Kazakhstan. The company's primary business consists of life insurance. The company has a license on life insurance (reinsurance) services № 42-2/1 dated 14 April 2008 issued by the FMSA.

On 29 May 2007, the Board of Directors of the Bank decided to establish a subsidiary bank, CJSC Kazkommertsbank Tajikistan. The Bank received an approval from the FMSA № 93 on 6 September 2007 for the creation of a subsidiary bank in Tajikistan. On 24 January 2008, CJSC Kazkommertsbank Tajikistan received an operating license from the National Bank of Tajikistan for banking operations in both national currency and foreign currencies № 33/1. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees.

JSC Kazkommertsbank Kyrgyzstan is a joint stock bank and has operated under the laws of the Kyrgyz Republic since 1991. The Bank's operations are regulated by the National Bank of the Kyrgyz Republic (the "NBKR") according to license № 010 dated 15 April 2005 for banking operations in national currency and license № 010/1 dated 15 April 2005 for banking operations in foreign currency. The Bank's primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, operations with foreign exchange and derivative instruments, originating loans and guarantees.

JSC Grantum APF is a joint stock company and has operated since 1998 under the laws of the Republic of Kazakhstan. The company's primary business consists of the receipt of pension contributions of depositors and making pension payments to recipients under the laws of the Republic of Kazakhstan. The company operates based on a state license on the receipt of pension contributions and making pension payments № 0000019 dated 20 April 2006, issued by the FMSA.

JSC Insurance Company Kazkommerts-Policy is a joint stock company and operates under laws of the Republic of Kazakhstan since 1996. The company's primary business consists of insurance of property, cargoes, auto insurance, civil liability insurance of vehicle owners, insurance of other civil liabilities and reinsurance. The company has licenses on voluntary insurance services DOS № 13-11/2 dated 13 April 2007 and on obligatory insurance services OS № 13-11/2 dated 13 April 2007 issued by the FMSA.

LLP Commercial Bank Moskommertsbank ("MKB") is a limited liability partnership and operates under the laws of the Russian Federation since 2001. MKB's operations are regulated by the Central Bank of the Russian Federation (the "CBR") in accordance with the license on the banking operations № 3365 dated 20 September 2002 and license on the banking operations with private sector № 3365 dated 16 June 2005. License of the Federal securities commission on broker operations № 177-11190-100000 dated 18 April 2008, license on the depository activity № 177-11200-000100 dated 18 April 2008, license on dealer operations № 177-11192-010000 dated 18 April 2008, license on the trust operations № 177-11196-001000 dated 18 April 2008 and license of stock broker commodity futures and option transactions in the exchange trade № 1283 dated 4 December 2008.

MKB provides a wide spectrum of banking products and services for individuals, corporate clients and financial institutions. The Bank's primary business consists of retail banking, crediting of small and medium business and the corporate sector. At the date of acquisition the estimated fair value of the net assets of MKB approximated their carrying value.

Acquisitions and sales

On 22 April 2008, the Bank acquired 290,000 ordinary shares of JSC Life Insurance Company Kazkommerts-Life for KZT 290 million. The Bank's capital share did not change.

On 28 April 2008, the Bank acquired 53,486 ordinary shares (35%) of JSC Insurance Company Kazkommerts-Policy from the European Bank of Reconstruction and Development for KZT 1,630 million. The Bank's capital share in JSC Insurance Company Kazkommerts-Policy increased to 100% upon acquisition.

An independent appraisal of the fair value of the assets acquired was not needed due to the fact that the fair value of most purchased assets and liabilities being available and easily definable. The fair value of the net assets purchased and the Bank's interest in the definitive net fair value of net assets of JSC Insurance Company Kazkommerts-Policy over the consideration paid, are as follows:

	Book value as at 28 April 2008 (KZT million) (unaudited)	Fair value as at 28 April 2008 (KZT million) (unaudited)
Assets		
Cash and balances with national (central) banks	12	12
Financial assets at fair value through profit or loss	1,495	1,495
Loans and advances to banks	3,487	3,487
Investments available-for-sale	1,362	1,362
Loans under reverse repurchase agreements	1,084	1,084
Property, equipment and intangible assets	171	171
Other assets	2,387	2,387
	9,998	9,998
Liabilities		
Other liabilities	4,755	4,755
	4,755	4,755
Net assets	5,243	5,243
Non-controlling interest		-
Net assets acquired, being 35%		1,835
Purchase consideration		(1,581)
Excess of the Bank's interest in fair value of net assets of JSC Insurance Company Kazkommerts-Policy over cash consideration paid		254
Net cash outflow on acquisition:		
JSC Insurance Company Kazkommerts-Policy purchase intergroup balances elimination		49
Purchase cash outflows:		
Total paid in cash		(1,630)
Cash acquired, being 35%		4
Total		(1,626)

The negative goodwill arose due to a change in the net assets between the date of the pricing and the date the transaction took place.This is due to the purchase consideration for JSC Insurance Company Kazkommerts-Policy being determined as at 31 December 2007, while the transaction was finalized on 28 April 2008. The resulting gain was recorded within other income.

The 35% share of income and revenue of JSC Insurance Company Kazkommerts-Policy from the beginning of the period till the date of acquisition were accounted for as being attributable to non-controlling interest. Prior to the date of acquisition, the Group consolidated JSC Insurance Company Kazkommerts-Policy as it had a controlling interest in JSC Insurance Company Kazkommerts-Policy.

On 19 May 2008, the Bank acquired 480,071 ordinary shares of JSC Grantum Accumulated Pension Fund ("APF") within the parameters of a privileged acquisition program. The amount of the transaction of KZT 480 million comprised 80.01% of total shares placed. The Bank's share in the capital of JSC Grantum APF did not change.

On 27 May 2008, the Bank acquired the remaining share in LLP Commercial Bank Moscommertsbank ("MKB") capital – 47.89%. The transaction amount of KZT 5,484 million brought the Bank's share in the MKB capital to 100% upon acquisition.

An independent appraisal of the fair value of the acquired assets was not needed due to the fact that the present value of most purchased assets and liabilities was available and easily definable. The fair value of the net assets purchased and the Bank's interest in the definitive net fair value of net assets of MKB over the consideration paid are as follows:

	Book value as at 27 May 2008 (KZT million) (unaudited)	Fair value as at 27 May 2008 (KZT million) (unaudited)
Assets		
Cash and balances with national (central) banks	8,731	8,731
Financial assets at fair value through profit or loss	7,071	7,071
Loans and advances to banks	14,947	14,947
Loans to customers	185,354	185,354
Loans under reverse repurchase agreements	13,371	13,371
Property, equipment and intangible assets	2,533	2,533
Other assets	1,687	1,687
	233,694	233,694
Liabilities		
Loans and advances from banks	71,433	71,433
Customer accounts	34,371	34,371
Debt securities issued	86,192	86,192
Subordinated debt	16	16
Derivative financial instruments	1,082	1,082
Other liabilities	1,037	1,037
	194,131	194,131
Net assets	39,563	39,563
Non-controlling interest		-
Net assets acquired, being 47.89%		18,946
Purchase consideration		(16,063)
Excess of the Bank's interest in fair value of net assets of LLP Commercial bank Moscommertsbank over cash consideration paid		2,883
Net cash outflow on acquisition:		
LLP Commercial bank Moscommertsbank purchase intergroup balances elimination		(10,579)
Purchase cash outflows:		
Total paid in cash		(5,484)
Cash acquired, being 47.89%		4,181
Total		(1,303)

The excess of the Bank's interest in the fair value of net assets was credited to "Other income" in the consolidated income statement on the date of acquisition.

Negative goodwill has been recognised on the acquisition of 47.89% of the issued ordinary share capital of MKB due to the investment in MKB being considered a financial rather than strategic investment by the previous shareholders. As such the Bank was solely responsible for the development of MKB, including the enhancement of internal business processes and building brand recognition. In addition, the previous shareholders did not intend to make any additional capital contributions in MKB in light of worsening market conditions. As a result, the Bank acquired the remaining 47.89% of issued ordinary share capital of MKB at a price exceeding the initial investment of the previous shareholders, however, below the current fair value.

On 8 August 2008, the Bank acquired 50,000 ordinary shares of JSC OCOPAIM Grantum Asset Management within the parameters of a privileged acquisition program. The amount of the transaction was KZT 500 million. The Bank's capital share did not change.

On 10 September 2008, the Bank has paid a premium on the existing shares held of Kazkommerts Capital II B.V. by contributing cash of KZT 132 million.

OJSC Kazkommertsbank Kyrgyzstan increased share capital by 20.5% (or KZT 71 million) through the placement of an additional 41,000 ordinary shares. On 24 October 2008, the Bank bought 38,368 shares of this new emission in accordance with its prevailing purchase right for KZT 163 million. The share of the Bank of 93.58% did not change.

On 24 December 2008, the Bank acquired 2,568 ordinary shares of OJSC Kazkommertsbank Kyrgyzstan for KZT 11 million. The share of the Bank increased from 93.58% up to 94.64%.

On 28 January 2009, the Board of Directors of the Bank approved the decision to voluntarily liquidate its subsidiary LLP Kazkommerts RFCA ("Kazkommerts RFCA") and return its license for brokerage and dealership activities issued in favor of Kazkommerts RFCA by authorized governmental bodies. The procedure on voluntary liquidation was conducted in accordance with the requirements of current legislation.

On 10 March 2009, the Bank sold its stake in associates, JSC APF Ular Umit and JSC OCOPAIM Zhetysu, for KZT 5,817 million and KZT 200 million, respectively. The gain on sale of these companies amounted to KZT 4,027 million.

On 25 March 2009, the Bank purchased 900 thousand shares of the new issue of JSC Kazkommerts Securities, within the additional issue on the right of preferential purchase, at the price of placement of KZT 1,000 per share. As a result, the share capital of JSC Kazkommerts Securities increased by KZT 900 million and amounted to KZT 1,475 million. The share of the Bank did not change and amounted to 100%.

On 24 March 2009, the Bank purchased 292 thousand shares of the new issue of JSC Life Insurance Company Kazkommerts Life at the placement price of KZT 1,000 per share. As a result, the share capital of the insurer increased by KZT 292 million and amounted to KZT 1,382 million. The share of the Bank did not change and amounted to 100%.

On 29 September 2009, the Board of Directors of JSC Kazkommertsbank decided to participate in acquisition of shares of the new 7th issue of OJSC Kazkommertsbank Kyrgyzstan ("subsidiary bank") of 66,036 shares with placement price of Kyrgyz soms 500 per share. As a result of the placement, share capital of the subsidiary bank increased by Kyrgyz soms 33,018 thousand. JSC Kazkommertsbank has used its pre-emptive right and acquired 62,500 shares for Kyrgyz soms 31,250 thousand. On 12 March 2010, JSC Kazkommertsbank made payment for placement of shares from dividends received from the subsidiary bank. The ownership share of JSC Kazkommertsbank did not change and amounted to 94.64%.

On 24 December 2009, the Bank purchased 69,000 shares of the new issue of JSC Life Insurance Company Kazkommerts Life ("insurer") at the placement price of KZT 1,000 per share. As a result, the share capital of the insurer increased by KZT 69 million and amounted to KZT 1,451 million. The ownership share of the Bank did not change and amounted to 100%.

On 11 February 2010, at the Extraordinary General Shareholders Meeting of JSC Grantum APF, a decision was taken to increase the charter capital of JSC Grantum APF by issuing 2,200,000 additional common shares. On 2 March 2010, the Board of Directors of JSC Grantum APF approved the price at KZT 1,000 per share. On 6 April 2010, Kazkommertsbank exercised its pre-emptive right and purchased 1,760,260 shares of JSC Grantum APF for KZT 1,760 million. After the completion of the placement, the Board of Directors of JSC Grantum APF made a decision to place the remaining 80,370 common shares at KZT 1,000 per share among unrestricted investors. On 5 May 2010, Kazkommertsbank purchased in full the above-mentioned shares. As a result, Kazkommertsbank increased its stake in JSC Grantum APF from 80.01% to 82.52%.

On 14 May 2010, Kazkommertsbank has acquired ordinary shares of the 7th issue of OJSC Kazkommertsbank Kyrgyzstan, increasing its stake from 94.64% to 95.75% at a price of Kyrgyz soms 1,689,500 (equivalent to KZT 5 million).

On 8 December 2010, the Bank sold its stake in LLP Investment Group East Kommerts for KZT 295 million. Gain on sale amounted to KZT 1,199 million.

The investments of the Bank into the share capital of subsidiaries were made with the purpose of increasing their financial stability and compliance with the prudential and capital adequacy requirements.

Shareholders

As at 31 December 2010, 2009 and 2008, the following shareholders owned the issued ordinary shares of the Bank:

	31 December 2010		**31 December 2009**		**31 December 2008**	
	Number of shares	**Direct ownership,* %**	**Number of shares**	**Direct ownership, * %**	**Number of shares**	**Direct ownership,* %**
JSC Central-Asian Investment Company (“CAIC”)**	184,679,013	23.72	184,679,013	23.72	184,679,013	32.14
European Bank for Reconstruction and Development	76,095,329	9.77	76,095,329	9.77	48,597,741	8.46
Subkhanberdin N.S.	72,570,672	9.32	72,570,672	9.32	72,570,672	12.63
JSC Alnair Capital Holding (“Alnair”)	223,922,790	28.76	222,408,342	28.57	144,625,896	25.17
JSC National Welfare Fund Samruk – Kazyna***	165,517,241	21.26	165,517,241	21.26	-	-
Other shareholders	55,800,316	7.17	57,330,567	7.36	124,141,548	21.6
Total****	**778,585,361**	**100.00**	**778,601,164**	**100.00**	**574,614,870**	**100.00**

Notes:
*These percentage holdings were calculated based on the direct holding of each shareholder in the total number of common shares outstanding.
**For the years 2010 and 2009 total number of shares under CAIC’s control is 241,885,810 common shares (ownership – 31.06%), including 56,324,076 shares received in trust management from JSC National Welfare Fund Samruk-Kazyna and 882,721 shares owned indirectly through JSC Ak-Zhalyn, subsidiary of CAIC.
***As at 31 December 2010, out of total mentioned number of common shares 56,324,076 common shares were passed to trust management to CAIC. As at 31 December 2009, out of total mentioned number of common shares, 56,324,076 common shares were passed to trust management with voting right to CAIC and 50,208,649 shares to JSC Alnair. However, on 28 December 2009, JSC Alnair and JSC National Welfare Fund Samruk-Kazyna cancelled the agreement on trust management of the Bank’s shares with actual cancellation became effective in January 2010
****This number is calculated at each reporting date as the total number of the common shares outstanding minus treasury shares purchased by the Bank’s market-maker based on the requirements of the JSC Kazakhstan Stock Exchange.

During the first half of 2009, 325,000,000 ordinary shares for total amount of KZT 3,250 million were authorized for issue by the shareholders.

On 14 May 2009, the Bank completed the placement of 204,338,177 ordinary shares. As a result of the placement of shares, the Bank’s share capital increased by KZT 44.47 billion (149.82/$1). The new shares were priced at US$ 1.45 per ordinary share and US$ 2.90 per GDR (representing two ordinary shares). Samruk-Kazyna purchased 165,517,241 ordinary shares. Meanwhile, the main shareholders of the Bank, CAIC, Alnair and Mr. Subkhanberdin N.S., opted not to exercise their pre-emptive purchase rights or participate in the increase. The European Bank of Reconstruction and Development (“EBRD”), used its pre-emptive rights and purchased 27,497,588 ordinary shares. The holders of GDRs purchased 9,704,658 ordinary shares via the Bank of New York Mellon in the framework of pre-emptive purchase rights. Non-controlling shareholders purchased 1,618,690 ordinary shares in accordance with their pre-emptive rights.

In January 2010, JSC Alnair Capital Holding acquired additional shares of JSC Kazkommertsbank. As a result of the transaction, Alnair has increased its holding of JSC Kazkommertsbank's common shares to 28.76% and now owns 223,922,790 common shares of the Bank (mainly in form of GDRs). The earlier agreement between Alnair and JSC National Welfare Fund Samruk-Kazyna, in relation to the placement of 6.448% of the Bank's common shares under the trust management of Alnair, has been terminated based on the mutual agreement of both parties. This purchase has not resulted in any changes to the shareholdings structure of other major shareholders – Mr. Subkhanberdin, CAIC, EBRD and Samruk-Kazyna.

Information on major shareholders:

JSC Central-Asian Investment Company ("CAIC") is one of the entities through which the Directors and Management Board members own shares of the Bank. As at 31 December 2010, CAIC held 184,679,013 shares of the Bank (2009: 184,679,013 shares, 2008: 184,679,013 shares). As at 31 December 2010 sole shareholders of CAIC were Subkhanberdin N.S., Chairman of the Board of Directors of the Bank, who owns 87.21% (2009: 87.21%, 2008: 87.21%) and Zhussupova N.A., Chairman of the Management Board of the Bank, who owns 12.79% (2009: 12.79%, 2008: 12.79%). CAIC and Subkhanberdin N.S. act as bank holding company and major shareholder, respectively, on the basis of approval of FMSA. As at 31 December 2010, Subkhanberdin N.S. owns 36.41% (2009: 30.01%, 2008: 40.66%) of the ordinary share capital of the Bank through direct and indirect ownership as a result of his holdings in CAIC, Zhussupova N.A. owns 3.97% (2009: 3.97%, 2008: 4.11%) through indirect ownership.

JSC Alnair Capital Holding ("Alnair") is a company operating under the laws of the Republic of Kazakhstan and is owned by a private investment fund, established by Sheikh Takhnun bin Zaid Al-Nahayan. Alnair has been a shareholder of the Bank since 2008 and together with "Alnair Capital" LLP has the official status of bank holding. Alnair owns shares in the form of GDRs, which are included in the total amount of shares under the nominal holding with the Central Depository.

JSC Samruk-Kazyna National Welfare Fund ("Samruk–Kazyna**")** belongs to the Government of the Republic of Kazakhstan. Samruk–Kazyna took its position in the Bank in 2009 following the Government's decision to protect the rights of the Bank's creditors and support the sustainability of the kazakh banking system**.** Samruk-Kazyna is a shareholder of the Bank for a limited period based on the terms of the agreements signed between Samruk-Kazyna, the Bank and its major shareholders. According to these agreements, Samruk-Kazyna will not participate in the day-to-day management of the Bank. The major shareholders of the Bank have maintained control over the Bank, as Samruk-Kazyna has transferred a portion of its common shares to the trust management of major shareholders CAIC and Alnair. As a result of this agreement, CAIC, EBRD and Mr. Subkhanberdin together have voting rights of 50% plus one common share of the Bank. Due to the refusal of the pre-emptive right for acquisition of shares of the Bank major shareholders were granted an option to repurchase shares of the Bank owned by the Samruk-Kazyna.

EBRD is an international financial institution established in 1991 to support market economies in the countries of Central Europe and Central Asia. It has been a shareholder of the Bank since 2003. EBRD is a large investor in the region, and in addition to allocating its own funds, it attracts significant direct foreign investments. It's shareholders are 61 countries and two intergovernmental organizations.

These consolidated financial statements were authorized for issue by the Management Board of the Bank on 24 March 2011.

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT"), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of property and equipment at revalued amounts according to International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement" and IAS 16 "Property, Plant and Equipment", respectively.

Kazkommertsbank and its subsidiaries (except for subsidiaries in Russia and Tajikistan) maintain their accounting records in accordance with IFRS. Subsidiaries in Russia and Tajikistan maintain their accounting records in accordance with local GAAP and their financial statements are prepared from the local statutory accounting records and adjusted to conform with IFRS.

These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiaries. The preparation of consolidated financial statements in conformity with IFRS 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the Group is the Kazakhstani tenge.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"), and in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates on the date of the transactions;
- Equity items of the foreign entity are translated at exchange rates on the date of the transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of an investment in a foreign entity, related exchange differences are recognized in the consolidated income statement.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The non-controlling interest is initially measured at the minority's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity attributable to equity holders of the parent and net income attributable to non-controlling shareholders' interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the owners of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The difference, between the carrying amount of non-controlling interest and the amount received on its purchase is recognized in equity attributable to the owners of the parent.

Recognition and measurement of financial instruments

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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

Cash and balances with national (central) banks

Cash and balances with national (central) banks include cash on hand and unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, the Central Bank of the Russian Federation, the National Bank of Kyrgyz Republic and the National Bank of Tajikistan with original maturities within 90 days.

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks with original maturities less than 3 months. The minimum reserve deposits required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan, the National Bank of the Kyrgyz Republic and the National Bank of Tajikistan are not included in cash equivalents.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the KZT/USD exchange rate effective on the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange and precious metals operations.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or (3) which are designated by the Group at fair value through profit or loss upon initial recognition.

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period.

The Group enters into derivative financial instruments to manage interest rate, currency and liquidity risks and for trading purposes. These instruments include forwards on foreign currency, interest rate swaps, cross currency swaps and precious metals and securities.

Reclassification of financial assets

On 13 October 2008, IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassification of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements as the Group has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and, due to rare market circumstances as in accordance with the amendments, the Group applied the revised IAS 39 retrospectively from 1 July 2008. Transfers must be made at fair value and this fair value becomes the instruments' new cost or amortized cost. Reclassifications made before 1 November 2008 were backdated to 1 July 2008; subsequent classifications were effective from the date the reclassification was made. The Group has reclassified certain debt and equity securities out of trading instruments category into the available-for-sale category. The carrying values of these assets, the effect of the reclassification on the income statement and the impairment losses relating to these assets are shown in Note 19.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options on foreign currency, precious metals and securities to manage currency, interest rate and liquidity risks and for trading purposes. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Hedge accounting

From 1 January 2008, the Group implemented a hedge accounting policy to designate certain financial instruments as cash flow hedges in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

At inception of the hedge relationship, the Group documents the relationship between hedging instruments and hedged items, along with its risk management objectives and the way in which effectiveness will be assessed at inception and during the period of the hedge. Furthermore, at inception of the hedge and on an ongoing basis, the Group documents whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. If the hedge is not highly effective in offsetting changes in cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Group can expect, and actual results indicate, that changes in the fair value or cash flows of the hedged items are effectively offset by changes in the fair value of the hedging instrument, and actual results are within a range of 80% to 125%.

With cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in consolidated statement of changes in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “Net gain/(loss) on financial assets and liabilities at fair value through profit or loss” line of the consolidated income statement. Amounts deferred in equity are recycled in profit or loss in the same periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship or when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting. On the discontinuance of hedge accounting (except where a forecast transaction is no longer expected to occur), any cumulative unrealized gain or loss recognised in equity is recognised in profit or loss when the hedged cash flow occurs or, if the forecast transaction results in the recognition of a financial asset or financial liability, in the same periods during which the asset or liability affects profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in profit or loss immediately.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest rate method, and are carried net of an allowance for impairment.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and the consideration received under these agreements is recorded as a collateralized deposit received within loans and advances from banks and other financial institutions and customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within loans and advances to banks and other financial institutions and loans to customers.

In the event that assets purchased under reverse repos are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated income statement.

The Group enters into repos and reverse repos agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

As at 31 December 2010, the fair value of securities transferred as collateral under loans under repurchase agreements amounted to KZT 37 million (2009: KZT Nil, 2008: KZT 11,095 million).

As at 31 December 2010, the fair value of securities received as collateral under reverse repurchase agreements amounted to KZT 9,589 million (2009: KZT 12,238 million, 2008: KZT 23,413 million).

Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances to banks and customers are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Impairment losses

Assets carried at amortized cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

Investments available-for-sale

If an available-for-sale asset is impaired, the cumulative loss comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognized in the consolidated income statement.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater than recorded impairment.

Finance 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. A lease classified as finance lease if:

- 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; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled through the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends received on equity investments are included in dividend received in the consolidated income statement.

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

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. These financial assets are recognized net of impairment loss.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has a positive intent and the ability to hold them to maturity. Such securities are carried at amortized cost, using the effective interest rate method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost and adjusted for goodwill and post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

The Bank sold its stake in JSC APF Ular Umit and JSC OCOPAIM Zhetysu, thus financial information of the associates as at and for the years ended 31 December 2010 and 2009 is not presented.

Details of the Group's investments in associates, including summarized financial information of the associates, as at and for the year ended 31 December 2008 are presented below:

Name of associated Company	**Ownership interest**	**Fair value of investments in associates**	**Total assets of associated company**	**Total liabilities of associated company**	**Revenue of associated company**	**Net loss**
		(KZT million)	**(KZT million)**	**(KZT million)**	**(KZT million)**	**(KZT million)**
JSC APF Ular Umit	49.35%	1,775	18,263	14,061	5, 625	(3,880)
JSC OCOPAIM Zhetysu	50.00%	-	1,371	6,971	539	(8,481)

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment loss. The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

(a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities of acquired company and the measurement of the cost of the combination; and

(b) Recognizes immediately in the consolidated income statement any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

Property, equipment and intangible assets

Property and equipment, except for buildings and other real estate and construction, and intangible assets are carried at historical cost less accumulated depreciation and amortization. Buildings and other real estate and construction are carried at market value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

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

Buildings and other real estate	1-10%
Furniture and equipment	4-50%
Intangible assets	15-50%

Leasehold improvements are amortized during 5 years. Expenses related to repairs and renewals are charged when incurred and included in operating expenses of consolidated income statement, unless they qualify for capitalization.

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use, where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by an appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease the in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using one of four methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges;
- The value is determined based on available public information and internet data on sales and purchases of property and real estate.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Taxation

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

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted as of the reporting date.

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes other than income tax, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt are initially recognized at fair value less transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Provisions

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital and share premium reserve

Share capital is recognized at historical cost. Share premium reserve represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium reserve.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Preference shares

Preference shares having a prescribed dividend amount are considered to be compound financial instruments in accordance with the substance of the contractual arrangement and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. On initial recognition the equity component is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. The fair value of the liability component on initial recognition is estimated by discounting expected future cash flows at a market interest rate for a comparable debt instrument. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is measured according to the same principles used for share capital.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the countries in which the Group operates certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the state pension system of the countries in which the Group operates. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed. Interest income, received on assets assessed at fair value, is classified as interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct and incremental costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Underwriting income and expenses

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

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

Losses and loss adjustments are charged to the consolidated income statement as incurred.

Commissions earned on ceded reinsurance contracts are recorded to the consolidated income statement at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

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

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

The reinsurers' share in the provision for losses is calculated in accordance with the reinsurers' share under the reinsurance contracts.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated statements of financial position within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Rates of exchange

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

	31 December 2010	31 December 2009	31 December 2008
KZT/1 US Dollar	147.50	148.46	120.79
KZT/1 Euro	196.88	213.95	170.24
KZT/1 Kyrgyz Som	3.13	3.37	3.06
KZT/1 Russian Rouble	4.83	4.90	4.11

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

The segments are identified on the basis used by the Group's chief operating decision maker to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and loans and advances to banks and other financial institutions and operating expenses other than salaries and other employee benefits. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the domicile of the Company within the Group.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition:

Allowance for impairment losses of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The most significant judgment is applied in assessing impairment levels in real estate loans and construction financing. Current economic and market conditions make historical statistical loss levels less relevant in determining the inherent loss levels in the loan portfolio. Instead, management is required to use recent empirical evidence of impairment or employ analytical tools to estimate future economic value of collateral secured under loans or the expected cash generating ability of borrowers' business. This area of judgment bears significant sensitivity to various risk factors, such as general economic growth, central government involvement, support of local authorities, trends in the housing and commercial real estate markets, and changes in the regulatory environment. The assumptions underlying this judgment are highly subjective.

The level of loan loss provisions at the reporting date is supported by following factors:

- The economic value assessment of collateral under real estate loans. In some cases management used certain assumptions to determine the inherent value of collateral, such as land, based on highest and best use, current observable lease rates and sale prices for commercial and residential real estate. Moreover, the assessment sometimes depends on expectations that local municipal government will continue funding capital expenditure costs for infrastructure development in and around any given real estate project. In certain cases, additional financing as well as investment is factored into determining the value.

- The Bank has formulated a work-out strategy for construction loans, which is currently being implemented, most significantly in Almaty and Astana. In many cases the approach taken by the Bank necessitates close partnership with local municipal authorities, construction subcontractors, suppliers of construction materials, and the availability of construction materials, specialized equipment and labor.

- Incomplete construction projects are more likely to result in past due construction loans. Therefore, the Bank encourages additional investments in incomplete construction projects, which in turn increase an opportunity to generate more cash flows for existing borrowers of the Bank that are involved in ancillary services to the construction sector, such as equipment leasing, construction materials, site management, labor outsourcing, transportation, security, and other services.

Fair value changes in the above factors and assumptions may result in significant adjustment to loan loss provisions and the carrying value of loans to customer. Management seeks to regularly update assumptions and the approach it has taken toward individual borrowers.

The allowances for impairment losses of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The impairment of the loan is identified within credit monitoring, which includes monitoring of payments of the customer and preparation of regular monitoring reports on the customer and his loans every 6 or 12 months, depending on the solvency of the customer. In addition, on a regular basis the credit managers monitor the quality of the loan, financial position and business of the customer, and observe the terms of the loan agreements. For the purpose of provisioning, assessment of impairment losses for corporate loans is performed on an individual basis.

The consumer loans are classified as non-performing or impaired if there is a default on payments of the principal or accrued interest for 60 days or more. For the purpose of provisioning, assessment of impairment losses is made on the collective or portfolio basis.

According to the Group's credit portfolio management policy, if at least one loan of a customer is recognized as impaired based on the above mentioned criteria, the total debt on such a customer is considered impaired, i.e. other performing loans of such customer are also recognized as impaired.

For certain performing loans which are not overdue, the Group classifies them as homogenous and individually assessed watch assets. Homogenous assets are not individually impaired, because there is not enough objective evidence to recognize them as impaired. At the same time, the Group assesses these assets for credit risk and impairment on a collective basis taking into account the general macroeconomic environment as well as industry specific developments. The individually assessed watch assets consist of loans not past due, but there is a possibility that the credit losses may arise in the future due to a possible negative trend in the borrower's financial position or evidence of some unsatisfactory financial results which affect the ability of a borrower to repay. The financial standing of such clients is evidenced and monitored, based on business results, repayment discipline and cash flows.

The Group creates allowance for impairment losses in order to cover credit losses, including losses where the asset is not specifically identified. At least monthly, the provision for impairment losses on interest bearing assets is reviewed by the Chairman of the Board, the Head of Risk Management Department #1, the Chief Financial Officer, and the Chief Accountant. At least quarterly, the provision for impairment losses and overall credit quality is reviewed by the Board of Directors. The amount of provision is reviewed relative to the credit portfolio and current economic conditions. The amount of provision is determined by individual and portfolio-based approaches. As at 31 December 2010, 2009 and 2008, Management deemed the provision for impairment losses to be appropriate and sufficient to absorb losses that are inherent to the portfolio.

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2010 is KZT 572,450 million (2009: is KZT 505,548 million, 2008: KZT 289,328 million).

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price at the close of business on the balance sheet date. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data and the use of discounted cash flow pricing models. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The Group uses quoted market prices from independent information sources, for all its financial assets and liabilities recorded at fair value, with the exception of certain debt securities, which are valued using internal models, and derivative financial instruments, which are valued using a valuation model based on market data.

The Group also considers both the credit risk of its counterparties, as well as its own creditworthiness when estimating the fair value of financial instruments, including derivatives. The Group attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments. The Group generally calculates the credit risk adjustment for derivatives on observable credit data.

Credit risk is measured using dynamic models that calculate the probability and potential future exposure given default. The main inputs used in these models are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads and the correlation between individual issuers' quoted credit derivatives.

The Group also considers its own creditworthiness when determining the fair value of an instrument, including OTC derivative instruments and financial liabilities held at fair value through profit or loss if the Group believes market participants would take that into account when transacting the respective instrument. The approach to measuring the impact of the Group's credit risk on an instrument is done in the same manner as for third party credit risk. The impact of the Group's credit risk is considered when calculating the fair value of an instrument, even when credit risk is not readily observable such as in OTC derivatives contracts. As at 31 December 2010, 2009 and 2008, the impact of credit valuation adjustments in the derivatives portfolio was not material to the Group.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit ratings of the counterparties, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available could have had a material impact on the Group's reported net income.

The table below summarizes the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2010, 2009 and 2008, respectively:

Category as per the consolidated statement of financial position		**Quoted prices in active markets (Level 1)**	**Internal models based on market prices (Level 2)**	**Internal models (unobser-vable inputs) (Level 3)**	**31 December 2010 Total**
Assets:					
Trading assets	Debt securities	197,068	-	120	197,188
	Equity investments	4,519	-	-	4,519
Derivative financial instruments	Foreign exchange and interest rate contracts	-	21,524	-	21,524
Available-for-sale financial assets	Debt securities	11,876	-	-	11,876
	Equity securities	4,946	-	-	4,946
Liabilities:					
Derivative financial instruments	Foreign exchange and interest rate contracts	-	36,047	-	36,047

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Internal models (unobser-vable inputs) (Level 3)	31 December 2009 Total
Assets:					
Trading assets	Debt securities	73,526	-	599	74,125
	Equity investments	2,638	-	-	2,638
Derivative financial instruments	Foreign exchange and interest rate contracts	-	37,440	-	37,440
Available-for-sale financial assets	Debt securities	11,444	-	-	11,444
	Equity securities	-	5,252	-	5,252
Liabilities:					
Derivative financial instruments	Foreign exchange contracts	-	35,991	-	35,991

Category as per the consolidated statement of financial position		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	31 December 2008 Total
Assets:				
Trading assets	Debt securities	32,537	-	32,537
	Equity investments	1,276	-	1,276
Derivative financial instruments	Foreign exchange and interest rate contracts	-	24,317	24,317
Available-for-sale financial assets	Debt securities	11,755	-	11,755
	Equity securities	-	3,301	3,301
Liabilities:				
Derivative financial instruments	Foreign currency contracts	-	54,339	54,339

Reconciliation from the beginning balances to the ending balances in Level 3 of fair value hierarchy for the year ended 31 December 2010 and 31 December 2009 was presented as follows:

	2010 (KZT million)	2009 (KZT million)
Beginning of the year	599	-
Transfer from Level 1 category	-	2,372
Total losses recognized in the consolidated income statement	(479)	(1,773)
End of the year	120	599

Internal models used in estimation of fair value of certain debt instruments are based on discounted future cash flows with/or without consideration of restructuring plan depending on type of debt security. Discount factors are estimated using yield curve which in turn is formed by constructing risk-free curve for a given currency of debt instrument adding a risk premium. The risk premium value is measured in basis points and reflects an issuer's credit risk determined using a robust scoring model. This internal model does not take directly into consideration available market information related to prices. However, on a regular basis its outcomes are compared with prices of similar instruments or quoted prices of certain debt instruments, which the Management does not consider reliable due to low trading volumes, thus, a minimal number of those values are used to determine fair value of the debt instrument. Reasonable possible changes in the key assumptions were used. Based on changing the key assumptions, management determined that changing these assumptions did not cause the fair value of those debt instruments to change significantly.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgment; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. A difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

The carrying amount of goodwill as at 31 December 2010 is KZT 2,405 million (2009: KZT 2,405 million, 2008: KZT 2,405 million).

Standards and Interpretations affecting amounts reported in the current period

Amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Disclosures in these consolidated financial statements have been modified to reflect the above clarification, where applicable.
Amendments to IAS 1 "Presentation of Financial Statements" (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. This amendment has no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature.
Amendments to IAS 7 "Statement of Cash Flows" (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 "Intangible Assets" for capitalization as part of an internally generated intangible asset. No changes were necessary as a result of the adoption of this amendment.
Amendments to IFRS 7 "Financial Instruments: Disclosures" (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

New and revised standards and interpretations issued and not yet adopted

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

- IFRS 9 "Financial Instruments" - On 12 November 2009, the IASB issued IFRS 9 "Financial Instruments" which introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

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

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

- It is not expected that these amendments to IFRS 7 will have a significant effect on the Group's consolidated financial statements.

- IAS 24 "Related Party Disclosures" (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

- The amendments to IAS 32 titled "Classification of Rights Issues" address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

- IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

4. RESTATEMENTS

1) In 2010 the Group determined that the currency risk sensitivity analysis had included a clerical error when presented in the consolidated financial statements for the year ended 31 December 2009. The effect of the adjustment made to the consolidated financial statements for the year ended 31 December 2009 to correct the error is as follows:

	As previously reported 31 December 2009 (KZT million)					
	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss	(26,950)	26,899	22,360	(22,360)	2,925	(2,925)

	As per restated report 31 December 2009 (KZT million)					
	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss	149	(200)	3,104	(3,104)	2,925	(2,925)

2) In 2010 the Group determined that the consolidated statement of cash flows had included a clerical error in the consolidated financial statements for the year ended 31 December 2009. The effect of the adjustment made to the consolidated financial statements for the year ended 31 December 2009 to correct the error is as follows:

	Amount (KZT million)	**As per previous report year ended 31 December 2009 (KZT million)**	**As per restated report year ended 31 December 2009 (KZT million)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	9,803	(14,186)	(4,383)
Proceeds on sale of property, equipment and intangible assets	(9,803)	11,412	1,609

3) The Group has revised its accounting policy in relation to cash and cash equivalents. The Group has re-assessed its operations as the direct effects of the global financial crisis recede. During that re-assessment the Group identified the need to change the presentation of its cash and cash equivalents to be more comparable with other Kazakhstan banks. Previously the Group, when calculating minimum reserve deposits in Kazakhstan, had used balances on cash accounts and correspondent accounts of the NBRK, defined by the NBRK for the purposes of Minimum Reserve Requirement ("MRR") calculation. In accordance with the revised accounting policy the Group is calculating the MRR for the purposes of these consolidated financial statements as a percentage of average balances of deposits and international borrowings for two weeks: one week before and one week after the reporting date. Additionally the Group had previously excluded amounts due from banks in non-OECD countries from cash and cash equivalents. However, as the Group does not have any history of restrictions on the use of such funds, it has decided to amend its policy to include these amounts. The change in accounting policy has been applied retrospectively to the earliest reported period and the effect on previously reported cash flow statements.

The effect of the adjustments made to cash and cash equivalents as at 31 December 2009 and 2008 is as follows:

Note 15	**Amount (KZT million)**	**As per previous report (KZT million)**	**As per restated report (KZT million)**
Reclassifying due from banks to cash and cash equivalents (maturity less than 3 months)		**31 December 2009**	**31 December 2009**
Loans and advances to banks in Organization for Economic Co-operations and Development ("OECD") countries with original maturities less than 3 months	77,611	77,611	-
Loans and advances to banks with original maturities less than 3 months	84,976	-	84,976
Less funds deposited with the National Bank of the Republic of Kazakhstan ("NBRK") and cash on hand	48,865	(84,405)	(35,540)
Reclassifying due from banks to cash and cash equivalents (maturity less than 3 months)		**31 December 2008**	**31 December 2008**
Loans and advances to banks in Organization for Economic Co-operations and Development ("OECD") countries with original maturities less than 3 months	164,025	164,025	-
Loans and advances to banks with original maturities less than 3 months	185,784	-	185,784
Less funds deposited with the National Bank of the Republic of Kazakhstan ("NBRK") and cash on hand	35,359	(85,127)	(49,768)

Adjustments due to the change in accounting policy and reclassifications had the following effects on the consolidated statement of cash flows for the year ended 31 December 2009:

	Amount (KZT million)	As per previous report year ended 31 December 2009 (KZT million)	As per restated report year ended 31 December 2009 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Funds deposited with National Bank of the Republic of Kazakhstan and cash on hand	13,506	722	14,228
Loans and advances to banks and other financial institutions	(14,394)	94,026	79,632
NET DECREASE IN CASH AND CASH EQUIVALENTS	(888)	(86,428)	(87,316)
CASH AND CASH EQUIVALENTS, beginning of year	57,118	168,994	226,112
CASH AND CASH EQUIVALENTS, end of year	56,230	82,566	138,796

Adjustments due to the change in accounting policy and reclassifications had the following effects on the consolidated statement of cash flows for the year ended 31 December 2008:

	Amount (KZT million)	As per previous report year ended 31 December 2008 (KZT million)	As per restated report year ended 31 December 2008 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Funds deposited with National Bank of the Republic of Kazakhstan and cash on hand	28,173	75,090	103,263
Loans and advances to banks and other financial institutions	7,358	11,937	19,295
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,531	24,648	60,179
CASH AND CASH EQUIVALENTS, beginning of year	21,587	144,346	165,933
CASH AND CASH EQUIVALENTS, end of year	57,118	168,994	226,112

5. NET INTEREST INCOME

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million) (Revised)*	Year ended 31 December 2008 (KZT million) (Revised)*
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on homogenous and individually assessed watch assets	197,504	249,535	290,023
- interest income on individually impaired financial assets	64,532	69,784	21,557
- interest income on unimpaired financial assets	24,338	48,661	62,575
Interest income on financial assets at fair value through profit or loss	4,407	3,211	5,345
Interest income on investments available-for-sale	734	1,269	543
Total interest income	291,515	372,460	380,043
Interest income on financial assets recorded at amortized cost comprises:			
Interest on loans to customers	279,394	359,860	362,448
Interest on loans and advances to banks and other financial institutions	6,447	7,236	10,554
Interest on investments held to maturity	56	69	121
Amortization of discount on loans	477	815	1,032
Total interest income on financial assets recorded at amortized cost	286,374	367,980	374,155
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held-for-trading	4,407	3,211	5,345
Total interest income on financial assets at fair value through profit or loss	4,407	3,211	5,345
Interest income on investments available-for-sale	734	1,269	543
Total interest income	291,515	372,460	380,043
Interest expense comprises:			
Interest on financial liabilities recorded at amortized cost	152,091	178,846	181,212
Total interest expense	152,091	178,846	181,212
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest on customer accounts	96,997	84,436	74,938
Interest on debt securities issued	31,313	60,162	58,808
Interest on loans and advances from banks and other financial institutions	7,947	15,123	27,989
Interest expense on subordinated debt	13,544	13,874	10,740
Interest expense on securitization program	-	2,792	6,250
Preference share dividends	731	747	598
Other interest expense	1,559	1,712	1,889
Total interest expense on financial liabilities recorded at amortized cost	152,091	178,846	181,212
Net interest income before provision for impairment losses on interest bearing assets	139,424	193,614	198,831

* The classification of interest income has been revised so that the disclosure in prior years is aligned to the current basis the Group applies to defining watch assets, unimpaired assets, and impaired assets.

Individually assessed watch assets represent loans with some minor indicators of deterioration in credit quality not yet resulting in the impairment of the loan. Such indicators may include minor breaches of loan covenants, and/or some factors leading to the deterioration of the financial position of the borrower, which are not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools in comparison with unimpaired assets.

The Group classifies corporate loans as non-performing and accordingly impaired if there is a default on payment of the principal or accrued interest for 30 days or more.

During 2010, the Group has actively participated in economic stimulus programs of the Kazakhstan Government, which allowed borrowers to benefit from lower interest rates on their borrowings. Refinancing has allowed many customers to significantly reduce their debt service burden as interest rates were decreased to a range of 9% to 12.5%, depending on the type of the customer and the refinancing program. As a result of the refinancing, a portion of the loans, previously included in the collectively assessed for impairment category have been reclassified as unimpaired.

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks and other financial institutions (KZT million) (Note 17)	Loans to customers (KZT million) (Note 18)	Investments available-for-sale (KZT million)	Total (KZT million)
31 December 2007	1,276	140,363	-	141,639
Additional provision recognized on discontinued operations	-	1,917	-	1,917
(Recovery of provision)/additional provision recognized	(977)	149,757	-	148,780
Write-off of assets	-	(1,172)	-	(1,172)
Foreign exchange differences	-	(1,537)	-	(1,537)
31 December 2008	299	289,328	-	289,627
Additional provision recognized on discontinued operations	-	707	-	707
(Recovery of provision)/additional provision recognized	(350)	192,756	-	192,406
Write-off of assets	-	(171)	-	(171)
Foreign exchange differences	73	22,928	-	23,001
31 December 2009	22	505,548	-	505,570
Discontinued operations	-	(3,050)	-	(3,050)
Additional provision recognized	115	95,422	18	95,555
Write-off of assets	-	(23,123)	-	(23,123)
Foreign exchange differences	(1)	(2,347)	-	(2,348)
31 December 2010	136	572,450	18	572,604

As at 31 December 2010, the Group has identified certain corporate customer loans, where under the contractual terms of the loan agreements there are no cash flows to the Group prior to 2013. These loans are considered impaired by management. In accordance with IAS 39, interest should continue to be accrued on impaired loans, even where there are doubts in relation to its collection. The accrued interest income on these loans for the year ended 31 December 2010 amounted to KZT 54,398 million. Management has established an allowance for loan losses of KZT 54,398 million against this interest. Had this interest not been accrued, the net interest income before provision for impairment losses on interest bearing assets for the year ended 31 December 2010 would have been KZT 85,026 million and the provision for impairment losses on interest bearing assets would have been KZT 41,157 million. While there is currently evidence of impairment, the Group continues to progress work out strategies on these loans. The Group regularly evaluates probability of cash flows and introduces respective changes to the list of these corporate loans.

Total provisions for impairment losses on insurance provision and guarantees and other off-balance sheet contingencies comprise:

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Insurance provisions	6,287	4,728	4,005
Provisions on guarantees and other contingencies	3,903	7,217	6,271
	10,190	11,945	10,276

The movements in insurance provisions, allowances for impairment losses on other transactions and allowances on guarantees and other off-balance sheet contingencies were as follows:

	Insurance provisions (KZT million)	Other assets (KZT million) (Note 23)	Guarantees and other off-balance sheet contingencies (KZT million) (Note 31)	Total (KZT million)
31 December 2007	3,422	323	7,216	10,961
Additional provision recognized on discontinued operations	-	1,622	-	1,622
Additional provision recognized	583	513	-	1,096
Recovery	-	-	(856)	(856)
Write-off of assets	-	(249)	-	(249)
Exchange difference	-	94	(89)	5
31 December 2008	4,005	2,303	6,271	12,579
Recovery of provision on discontinued operations	-	(1,039)	-	(1,039)
Additional provision recognized	723	1,788	-	2,511
Recovery	-	-	(600)	(600)
Write-off of assets	-	(673)	-	(673)
Exchange difference	-	377	1,546	1,923
31 December 2009	4,728	2,756	7,217	14,701
Discontinued operations	-	(841)	-	(841)
Additional provision recognized	1,559	2,120	-	3,679
Recovery	-	-	(3,261)	(3,261)
Write-off of assets	-	(12)	-	(12)
Exchange difference	-	10	(53)	(43)
31 December 2010	6,287	4,033	3,903	14,223

Insurance provisions comprised:

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Annuity insurance	2,738	1,520	498
Property	1,095	664	934
Accidents	908	297	272
Civil liability for owners of vehicles	567	115	510
Vehicles	290	330	468
Civil liability for damage	164	929	853
Freight	94	110	95
Life insurance	90	54	38
Insurance of environmental risk	82	40	43
Railway transport	16	10	13
Financial loss insurance	3	11	28
Other	240	648	253
	6,287	4,728	4,005

Other insurance provisions include provisions for insurance of private lawyers, auditors and audit organizations, medical, air and marine transport and others.

7. NET (LOSS)/GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Net (loss)/gain on financial assets and liabilities held-for-trading	(5,947)	24,524	(27,515)
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(5,947)	24,524	(27,515)
Net (loss)/gain on operations with financial assets and liabilities held-for-trading comprise:			
Realized gain/(loss) on trading operations	1,793	1,661	(72)
Unrealized gain/(loss) on fair value adjustment of financial assets held for trading	484	(4,064)	(4,212)
Hedge ineffectiveness	-	730	(186)
Net (loss)/gain on operations with derivative financial instruments	(8,224)	26,197	(23,045)
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(5,947)	24,524	(27,515)

8. NET GAIN/(LOSS) ON FOREIGN EXCHANGE AND PRECIOUS METALS OPERATIONS

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Dealing, net	4,460	(15,175)	7,887
Translation differences, net	(1,898)	210	(1,859)
	2,562	(14,965)	6,028

Translation differences for the year ended 31 December 2010 amounted to KZT 1,898 million (2009: gain of KZT 210 million, 2008: loss of KZT 1,859 million). This result arises on the revaluation of assets and liabilities denominated in non-functional currencies such as the USD, Japanese Yen, Euro, Pound and Singapore dollar.

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Fee and commission income:			
Plastic cards operations	5,394	4,251	3,668
Cash operations	4,885	4,575	4,985
Settlements	3,402	2,973	3,006
Documentary operations	2,875	3,668	4,723
Investment fees on administered pension funds	2,219	2,689	2,067
Foreign exchange and securities operations	1,449	1,801	2,049
Encashment operations	312	281	284
Other	438	493	666
Total fee and commission income	20,974	20,731	21,448
Fee and commission expense:			
Plastic cards services	1,862	1,578	1,300
Insurance activity	1,154	1,190	917
Foreign exchange and securities operations	290	249	235
Correspondent bank services	169	147	160
The NBRK computation center services	130	110	92
Documentary operations	47	41	84
Investment expenses on administered pension funds	15	86	1,231
Other	112	139	283
Total fee and commission expense	3,779	3,540	4,302

10. NET REALIZED GAIN/(LOSS) ON INVESTMENTS AVAILABLE-FOR-SALE

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Realized gain/(loss) from investments available-for-sale	69	34	(370)
Loss from impairment of investments available-for-sale	-	(1,060)	(2,120)
	69	(1,026)	(2,490)

11. OTHER INCOME

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Insurance income	5,547	4,586	4,349
Positive/(negative) revaluation of foreclosed assets held for sale	515	(1,207)	-
Income from repurchase of own debt securities and early redemption of other obligations	180	30,727	902
Income from sale of property, equipment and intangible assets	82	18	17
Fines and penalties received	1	68	57
Bargain purchase gain on acquisition of stake in subsidiaries	-	-	3,137
Other	205	235	832
	6,530	34,427	9,294

For the year ended 31 December 2010, the Bank purchased Eurobonds issued by Kazkommerts International B.V. and its own Eurobonds in the amounted to KZT 66,765 million (USD 453 million). The Bank purchased these bonds in two ways. By purchasing them on the open market, and by customers, which own Eurobonds of the Bank and Kazkommerts International B.V. transferring their rights to the Bank in exchange for their loan repayment. As a result of this operation the Bank received a gain on debt repayment in the amount of KZT 180 million which is included in other income in the consolidated income statement.

For the year ended 31 December 2009, the Bank foreclosed loans to customers in the amount of KZT 162,938 million (USD 1,097 million) for Eurobonds issued by its subsidiary Kazkommerts International B.V. recorded at book value of KZT 168,256 million (USD 1,133 million) which resulted in a gain on redemption of own debt of KZT 5,318 million. In addition, the Bank purchased from the market Eurobonds issued by Kazkommerts International B.V. with book value of KZT 73,203 million (equivalent of USD 493 million) which resulted in a gain on extinguishment of KZT 23,378 million. On 1 April 2009 the Bank purchased KZT 19,187 million (USD 127 million) in aggregate principal amount of Securitization Notes through tender offer held since 23 March 2009 till 30 March 2009. The price of purchase was USD 920 per USD 1,000 in principal amount of Notes, which resulted in a gain of KZT 2,031 million.

For the year ended 31 December 2008, the Bank purchased Eurobonds issued by Kazkommerts International B.V. in the amount of KZT 7,680 million (USD 64 million). As a result of this operation the Bank received a gain on debt repayment in the amount of KZT 902 million which is included in Other income in the consolidated income statement.

12. OPERATING EXPENSES

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Staff costs	17,709	14,180	15,677
Depreciation and amortization	3,481	3,643	3,327
Payments to the Individuals' Deposit Insurance Fund	3,103	2,160	1,627
Operating leases	2,386	2,600	3,283
Property and equipment maintenance	2,085	1,890	2,146
Taxes, other than income tax	1,319	1,127	992
Advertising costs	1,183	886	1,665
Communications	753	692	749
Bank cards services	725	648	521
Consulting and audit services	396	377	353
Business trip expenses	346	221	392
Vehicle maintenance	329	266	338
Security services	299	333	435
Collection services	284	153	39
Charity and sponsorship expenses	248	88	123
Training and information services	201	143	215
Stationery	125	130	166
Mail and courier expenses	99	92	106
Legal services	34	98	19
Other expenses	728	421	304
	35,833	30,148	32,477

13. INCOME TAX

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010, 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax effect of temporary differences as at 31 December 2010, 2009 and 2008:

	31 December 2010 (KZT millions)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Deferred income tax assets:			
Unrealised loss on trading securities and derivatives	2,603	2,967	6,082
Provision on guarantees and letters of credit	492	836	-
Unrealised loss on revaluation of financial instruments treated as cash flow hedges	46	234	2,680
Realized loss on securities	-	676	1,030
Bonuses accrued	794	478	649
Investments in associates	-	238	-
Unamortized deferred loan fees	58	81	132
Losses on sale of investments in associates	421	-	-
Deferred tax losses	170	1,198	240
Total deferred income tax assets	4,584	6,708	10,813
Deferred income tax liabilities:			
Allowance for losses on loans and advances to banks and customers	32,681	29,294	19,144
Property, equipment and intangible assets and accumulated depreciation	1,922	1,807	1,498
Provision on guarantees and letters of credit	-	-	264
Investments in associates	-	2	108
Unrealised gain on trading securities and derivatives	8	124	4
Other liabilities	8	-	-
Total deferred income tax liabilities	34,619	31,227	21,018
Net deferred income tax liabilities	30,035	24,519	10,205

Relationships between tax expenses and accounting profit for the years ended 31 December 2010, 2009 and 2008 are explained as follows:

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Profit before income tax	29,357	31,786	11,474
Tax at the statutory tax rate (20% for 2010 and 2009 and 30% for 2008)	5,871	6,357	3,442
Tax effect of permanent differences:			
- tax exempt income	(1,446)	(168)	(1,687)
- non-deductible expense	2,944	1,402	3,714
Recalculation of net deferred liability expenses due to tax rate changes	-	4,892	(14,267)
Adjustments to prior year provisions for income tax	-	280	108
Income tax expense/(benefit)	7,369	12,763	(8,690)
Current income tax expense	2,768	1,406	7,282
Deferred income tax expense/(benefit)	4,601	11,357	(15,972)
Income tax expense/(benefit)	7,369	12,763	(8,690)
Income tax expense/(benefit) from continued operations	7,419	13,101	(8,298)
Income tax benefit from discontinued operations	(50)	(338)	(392)
Income tax expense/(benefit)	7,369	12,763	(8,690)

Corporate income tax rate in the Republic of Kazakhstan was 20% during 2010 and 2009 and 30% during 2008.

There was a change during 2010 in tax legislation in Kazakhstan in relation to corporate income tax, which is set at 20%.

	2010 (KZT million)	2009 (KZT million)	2008 (KZT million)
Deferred income tax liabilities			
1 January	24,519	10,205	30,496
Increase/(decrease) of deferred tax liability due to tax rate changes	-	4,892	(14,267)
Increase/(decrease) of deferred tax liability	4,601	6,465	(1,705)
Effect of disposal of discontinued operations	663	-	-
Change in hedging reserve	188	2,445	(2,680)
Increase/(decrease) of deferred tax expenses through the equity due to tax rate changes	-	453	(1,144)
Change in available-for-sale reserve	(54)	438	(423)
Change in deferred tax liability from revaluation of property and equipment	118	(379)	(72)
31 December	30,035	24,519	10,205

14. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

As described in Note 30, dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December 2010 (KZT million)	Year ended 31 December 2009 (KZT million)	Year ended 31 December 2008 (KZT million)
Basic and diluted earnings per share			
Net profit for the year attributable to equity holders of the Parent	21,879	19,423	21,805
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	(2,385)	(2,271)	(3,399)
Net profit for the year attributable to ordinary shareholders	19,494	17,152	18,406
Weighted average number of ordinary shares for basic and diluted earnings per share	778,595,809	706,725,587	574,861,869
Earnings per share – basic and diluted (KZT)	25.04	24.27	32.01

The Group is not presenting the earnings per share for discontinued operations because its impacts in total EPS are not material.

The book value per share for each type of shares as at 31 December 2010, 2009 and 2008 is as follows:

	31 December 2010			31 December 2009			31 December 2008		
Type of shares	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT	Outstanding shares	Net asset value (KZT million)	Book value per share, KZT
Ordinary shares	778,585,361	405,783	521.18	778,601,164	381,353	489.79	574,614,870	305,713	532.03
Preferred shares	124,514,944	13,034	104.68	124,452,984	13,059	104.93	124,356,443	11,800	94.89
		418,817			394,412			317,513	

Number of outstanding ordinary and preferred shares is calculated net of the treasury shares.

According to amendments enacted to the KASE Listing Rules effective from 25 August 2010, listed companies are required to present book value per share (ordinary and preferred) in their financial statements. The Management of the Group believes that the book value per share is calculated in accordance with the methodology in the KASE Listing Rules.

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Cash on hand	38,243	35,073	35,879
Balances with national (central) banks	22,973	55,460	54,599
	61,216	90,533	90,478

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2010 (KZT million)	31 December 2009 (KZT million) (Restated)*	31 December 2008 (KZT million) (Restated)*
Cash and balances with national (central) banks	61,216	90,533	90,478
Loans and advances to banks with original maturities less than 3 months	95,227	84,976	185,784
Less funds deposited with the National Bank of the Republic of Kazakhstan ("NBRK") and cash on hand	(35,693)	(35,540)	(49,768)
Less funds deposited with the Central Bank of Russian Federation ("CBR")	(2,378)	(949)	(178)
Less funds deposited with the National Bank of the Kyrgyz Republic ("NBKR")	(110)	(204)	(155)
Less funds deposited deposit with the National Bank of Tajikistan	(39)	(20)	(49)
	118,223	138,796	226,112

* Restated as described in Note 4.

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Debt securities	197,188	74,125	32,537
Derivative financial instruments	21,524	37,440	24,317
Equity investments	4,519	2,638	1,276
Total financial assets at fair value through profit or loss	223,231	114,203	58,130

The financial assets at fair value through profit or loss relate entirely to financial assets held for trading.

	31 December 2010		31 December 2009		31 December 2008	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:						
Short-term NBRK notes	-	110,913	-	51,822	-	5,609
State treasury bonds of the Ministry of Finance of Republic of Kazakhstan	8.75	36,084	4.05-8.90	5,738	4.50-8.75	1,765
Eurobonds of OECD countries	0.38-4.75	16,184	-	-	-	-
Bonds of Russian companies	6.21-14.75	11,069	7.29-16.50	2,891	7.28-13.80	3,078
Bonds of Kazakhstani companies	6.25-11.00	8,916	5.69-11.00	7,837	8.00-19.20	12,356
Bonds of Russian banks	6.48-9.00	3,943	15.00-16.00	1,905	7.34-9.90	1,828
Eurobonds of Kazakhstani companies	6.25-11.75	3,778	-	-	-	-
Bonds of local executive bodies of the Russian Federation	7.70-9.00	2,167	6.73-8.20	218	7.26-8.70	378
Eurobonds of Kazakhstani banks	7.25-9.25	1,428	3.148-8.00	591	7.875-8.125	2,089
Bonds of international financial organizations	5.05-7.75	919	4.847-7.75	1,385	6.50-15.715	2,920
Bonds of Kazakhstani banks	7.50-9.70	833	7.50-10.90	1,440	6.00-12.00	2,390
Bonds of Eurasian Bank of Development	7.38	649	-	-	-	-
Bonds of federal loan of the Ministry of Finance of the Russian Federation	8.00	155	8.00	154	9.00	124
Bonds of Development Bank of Kazakhstan	6.50	150	6.50	144	-	-
		197,188		74,125		32,537

As at 31 December 2010, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data, and certain debt securities, which are valued using valuation models not based on observable market data. The Group applied a valuation model to certain debt securities of local issuers which have undergone a restructuring of its liabilities (JSC Alliance Bank, JSC BTA Bank, JSC BTA Ipoteka and JSC Azia Auto) as the use of quoted prices in an active market was not available. As at 31 December 2010, total carrying value of these debt securities amounted to KZT 120 million (2009: KZT 599 million) (total nominal value of KZT 1,476 million (2009: KZT 6,451 million)) and unrealized loss on fair value adjustment of debt securities recognized during 2010 amounted to KZT 479 million (2009: KZT 1,773 million).

	Ownership share %	31 December 2010 (KZT million)	Ownership share %	31 December 2009 (KZT million)	Ownership share %	31 December 2008 (KZT million)
Equity investments:						
GDRs of Kazakhstani banks	0.002-0.25	2,310	0.20	1,609	0.64	610
GDRs of Kazakhstani companies	0.00001-0.08	1,052	0.0006	31	0.0006	8
GDRs of Russian bank	0.014	723	0.072	546	0.103	214
Shares of Kazakhstani companies	0.12	267	0.124-0.158	265	0.001-0.293	162
Shares of Russian companies	0.0001	88	0.006-0.619	29	0.0001-2.00	108
GDRs of Russian companies	0.00002-0.0018	45	0.0001-2.468	67	0.0001-0.01	30
Shares of foreign company	0.0002	34	0.0003	27	0.0003-5.93	45
ADRs of Russian company	-	-	0.014	58	0.003	12
Shares of Kazakhstani bank	-	-	0.006	6	0.025	75
Shares of Russian bank	-	-	-	-	0.00001	12
		4,519		2,638		1,276

As at 31 December 2010, financial assets at fair value through profit or loss included accrued interest income on debt securities of KZT 1,417 million (2009: KZT 441 million, 2008: KZT 592 million).

As at 31 December 2010 and 2009, there were no financial assets pledged under repurchase agreements. As at 31 December 2008, financial assets at fair value through profit or loss included state treasury bonds of the Ministry of Finance of the Republic of Kazakhstan, bonds of Kazakhstani companies, pledged under repurchase agreements with other banks and customers of fair value of KZT 9,860 million. All of the repurchase agreements open as at 31 December 2008 were settled by January 2009.

	31 December 2010 Nominal value	31 December 2010 Fair value (KZT million) Assets	31 December 2010 Fair value (KZT million) Liabilities	31 December 2009 Nominal value	31 December 2009 Fair value (KZT million) Assets	31 December 2009 Fair value (KZT million) Liabilities	31 December 2008 Nominal value	31 December 2008 Fair value (KZT million) Assets	31 December 2008 Fair value (KZT million) Liabilities
Derivative financial instruments:									
Foreign exchange contracts:									
Foreign exchange swap	338,379	20,228	(23,470)	303,891	37,182	(24,011)	305,917	21,265	(34,648)
Spot	5,012	1,114	(1,112)	4,684	-	-	18,563	2	(8)
Forward contracts	4,216	3	(1)	1,041	8	(4)	112,221	1,941	(4,135)
Options	-	-	-	-	-	-	23,227	163	-
Interest rate contracts:									
Interest rate swap	98,819	179	(11,464)	111,743	250	(11,976)	124,591	946	(15,548)
Securities purchase/sale contracts:									
Securities swap	-	-	-	-	-	-	-	-	-
		21,524	(36,047)		37,440	(35,991)		24,317	(54,339)

Included in the above are derivatives held and classified for hedging purposes as follows:

	31 December 2010			31 December 2009			31 December 2008		
	Nominal value	Net fair value (KZT million)		Nominal value	Net fair value (KZT million)		Nominal value	Net fair value (KZT million)	
Cash flow hedging:		**Assets**	**Liabilities**		**Assets**	**Liabilities**		**Assets**	**Liabilities**
Interest rate swap	-	-	-	2,524	11	(105)	14,132	43	(1,618)
Foreign exchange swap	-	-	-	-	-	-	191,476	11,952	(32,216)
		-	-		11	(105)		11,995	(33,834)

The Group's cash flow hedges were related to exposure to variability in the anticipated future cash flows on its financial liabilities.

To hedge against the variability in the cash flows on financial liabilities due to the floating interest rate risk, the Group used interest rate swap contracts to exchange the floating rates for fixed rates. As such, the Group converted its floating rate debt repayments to fixed rate debt repayments and minimizes the effect of change in interest rates on its future cash flows. The cash flow related to the hedging relationship will occur over the life of the debt securities instruments which are being hedged. The Group de-designated some hedge relationship in 2009 and the rest of them in 2010. Accordingly, changes in fair values of these instruments since the de-designation of the hedging relationships have been recognized in the consolidated income statement.

To hedge the foreign exchange risk on financial liabilities the Group uses cross-currency swap contracts to convert, partially or in-full, its repayments on foreign currency denominated liabilities to the functional currency of the subsidiary which issues these liabilities. The cash flows related to the hedging relationships will occur over the life of the debt securities instruments which are being hedged. The Group de-designated some hedge relationships in 2009 and the rest of them in 2010. Accordingly, changes in fair value of these instruments since the de-designation of the hedging relationships have been recognized in the consolidated income statement.

As at 31 December 2010, the fair value of assets and liabilities arising from the derivative financial instruments classified as hedging instruments is KZT Nil (2009: KZT 11 million and KZT 105 million; 2008: KZT 11,995 million and KZT 33,834 million).

For the year ended 31 December 2010, gain from hedge ineffectiveness recognized in net gain/(loss) on financial assets and liabilities at fair value through profit or loss was KZT Nil (for the year ended 31 December 2009: KZT 730 million; for the year ended 31 December 2008: KZT (186) million).

As at 31 December 2010, the aggregate amount of unrealized gain/(losses) under foreign exchange swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 1,428 million (2009: KZT 975 million, 2008: KZT (11,034) million). It is being recycled to profit or loss over the periods up to February 2017, in line with the previously hedged cash flows relating to these contracts.

As at 31 December 2010, the aggregate amount of unrealized losses under interest rate swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 1,658 million (2009: KZT 2,144 million; 2008: KZT 2,363 million). It is being recycled to profit or loss over the periods up to January 2018, in line with the previously hedged cash flows relating to these contracts.

17. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Recorded as loans and receivables:			
Loans and advances to banks	120,370	90,676	222,785
Correspondent accounts with other banks	17,690	46,828	19,262
Loans under reverse repurchase agreements	8,407	10,893	65
	146,467	148,397	242,112
Less allowance for impairment losses	(136)	(22)	(299)
	146,331	148,375	241,813

Movements in allowances for impairment losses on loans and advances to banks and other financial institutions for the years ended 31 December 2010, 2009 and 2008 are disclosed in Note 6.

As at 31 December 2010, loans and advances to banks and other financial institutions included accrued interest of KZT 275 million (2009: KZT 402 million, 2008: KZT 1,123 million).

As at 31 December 2010, 2009 and 2008, the Group had no loans and advances to banks and other financial institutions, which individually exceeded 10% of the Group's equity. As at 31 December 2010, the maximum exposure to any individual bank amounted to KZT 24,161 million (2009: KZT 33,434 million, 2008: KZT 39,651 million).

As at 31 December 2010 the maximum credit risk exposure on loans and advances to banks and other financial institutions amounted to KZT 146,331 million (2009: KZT 148,375 million, 2008: KZT 241,813 million).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2010, 2009 and 2008 comprised:

	31 December 2010 (KZT million)		31 December 2009 (KZT million)		31 December 2008 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Notes of National Bank of the Republic of Kazakhstan	5,263	5,000	-	-	-	-
Bonds of the executive bodies and subjects of the Russian Federation	1,549	1,256	495	421	-	-
Bonds of the Russian banks	1,024	901	1,313	1,134	-	-
Bonds of the Russian companies	844	724	812	981	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	54	500	8,725	7,913	39	65
Shares of Kazakhstani companies	37	26	-	-	-	-
Bonds of the Ministry of Finance of the Russian Federation	-	-	494	444	-	-
	8,771	8,407	11,839	10,893	39	65

In addition, as at 31 December 2010, the Bank maintained deposits of KZT 403 million included in loans and advances to banks as collateral for credit cards operations (2009: KZT 2,036 million). As at 31 December 2008, the Bank placed deposits with JP Morgan Chase Bank and Morgan Stanley totaling KZT 4,723 million to guarantee certain letters of credit and derivative operations closed during 2009.

18. LOANS TO CUSTOMERS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Recorded as loans and receivables:			
Originated loans	2,739,966	2,658,772	2,392,218
Net investments in finance lease	6,417	6,654	7,475
Loans under reverse repurchase agreements	827	889	34,417
	2,747,210	2,666,315	2,434,110
Less allowance for impairment losses	(572,450)	(505,548)	(289,328)
	2,174,760	2,160,767	2,144,782

As at 31 December 2010, accrued interest income included in loans to customers amounted to KZT 301,219 million (2009: KZT 224,510 million, 2008: KZT 98,183 million).

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2010, 2009 and 2008 are disclosed in Note 6.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Analysis by type of collateral:			
Loans collateralized by real estate	1,093,333	1,167,069	914,265
Loans collateralized by equipment	401,473	309,245	266,345
Loans collateralized by inventories	226,045	181,694	67,717
Loans collateralized by shares of the banks and other companies	220,857	208,693	249,811
Loans collateralized by accounts receivable	57,804	61,264	83,884
Loans collateralized by guarantees of enterprises	37,958	81,507	175,352
Loans collateralized by cash or Kazakhstani Government guarantees	24,896	23,563	58,231
Loans with collateral under the registration process (property, land, shares, guarantees, etc.)	20,496	49,503	77,973
Loans collateralized by mixed types of collateral	3,755	14,725	122,956
Loans collateralized by securities	818	889	34,417
Loans collateralized by guarantees of financial institutions	143	171	2,701
Unsecured loans	87,182	62,444	91,130
	2,174,760	2,160,767	2,144,782

Mixed collateral consists of multiple types of collateral including real estate, guarantees and inventories. Loans are classified as being collateralized by mixed collateral where it is impractical to split this collateral into the categories disclosed above.

In addition to the collateral disclosed above, as at 31 December 2010, the Bank has own bonds and Eurobonds (previously issued by its subsidiary Kazkommerts Finance II B.V) with a nominal value of KZT 12,547 million (USD 85 million) (2009: KZT 15,087 million (USD 102 million), 2008: KZT Nil)) as collateral for certain loans.

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Analysis by sector:			
Housing construction	368,093	311,969	301,665
Real estate	327,872	306,961	140,901
Wholesale and retail trade	255,718	282,509	333,171
Individuals	232,690	274,141	351,088
Hospitality business	183,800	171,795	135,015
Commercial real estate construction	160,702	187,171	192,869
Production of other non-metal materials	102,749	111,920	93,492
Investments and finance	95,349	67,441	131,866
Transport and communication	92,830	106,099	97,576
Energy	57,699	49,992	73,792
Industrial and other construction	48,345	27,889	30,447
Food industry	42,481	60,102	56,730
Agriculture	41,699	24,328	45,440
Production of construction materials	18,896	18,499	16,073
Mining and metallurgy	11,809	15,756	13,118
Machinery construction	10,357	28,826	39,972
Medicine	8,099	6,526	5,877
Culture and art	2,996	402	2,437
Other	112,576	108,441	83,253
	2,174,760	2,160,767	2,144,782

During the years ended 31 December 2010, 2009 and 2008, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2010, 2009 and 2008, such assets in amount of KZT 16,517 million (2009: KZT 2,479 million, 2008: KZT 1,620 million) are included in other assets line of the consolidated statement of financial position. These assets are represented mostly by real estate the majority of which will be realized through auctions.

Loans to individuals comprise the following products:

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Mortgage loans	144,264	183,016	197,663
Consumer loans	73,105	59,724	100,830
Car loans	5,348	8,951	13,584
Business loans	2,760	15,279	25,390
Other	7,213	7,171	13,621
	232,690	274,141	351,088

As at 31 December 2010, 2009 and 2008, the Group granted loans to the borrowers, shown below, respectively, which individually exceeded 10% of the Group's equity. Although loans to borrowers disclosed in 2008 and 2009 may continue to be outstanding in 2009 and 2010, only those borrowers which exceed 10% of equity are disclosed below.

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
JSC Visor Investment Solutions	80,247	70,674	58,455
Holding Vek ZhSK	74,621	66,404	50,660
JSC Holding Build Investment	61,444	-	44,097
LLP AFD Development	56,144	-	-
LLP Capital Tower	54,146	61,806	-
LLP GAS Corporation	-	72,875	64,835
Holding Airport Almaty	-	51,007	-
JSC NGSK Kazstroiservice	-	-	47,343
Group LLP CP Retail Almaty	-	-	46,593
	326,602	322,766	311,983

As at 31 December 2010, significant part of loans 84.42% (2009: 82.42%, 2008: 80.43%) of the total portfolio is granted to companies operating on the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

As at 31 December 2010, maximum credit risk exposure on loans to customers amounted to KZT 2,174,760 million (2009: KZT 2,160,767 million, 2008: KZT 2,144,782 million).

As at 31 December 2010, maximum credit risk exposure on loan commitments and overdrafts extended by the Group to its customers amounted to KZT 8,992 million (2009: KZT 9,865 million, 2008: KZT 9,312 million).

As at 31 December 2010, 2009 and 2008, the fair value of collateral and carrying value of loans under reverse repurchase agreements comprised:

	31 December 2010 (KZT million)		31 December 2009 (KZT million)		31 December 2008 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Promissory notes of Russian companies	461	461	-	-	-	-
Bonds of Kazakhstani companies	357	366	34	342	1,711	1,981
Notes of the National Bank of the Republic of Kazakhstan	-	-	338	483	-	-
Shares of Kazakhstani banks	-	-	21	58	139	498
Shares of Kazakhstani companies	-	-	6	6	11,189	19,803
ADR of Kazakhstani companies	-	-	-	-	1,642	4,338
Shares of Russian companies	-	-	-	-	4,165	3,800
Bonds of Russian companies	-	-	-	-	3,543	2,983
Shares of Russian banks	-	-	-	-	519	446
Bonds of Kazakhstani banks	-	-	-	-	290	383
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	176	185
	818	827	399	889	23,374	34,417
Less allowance for impairment losses	-	(9)	-	-	-	-
Total securities purchased under reverse repurchase agreements	818	818	399	889	23,374	34,417

The components of net investment in finance lease as at 31 December 2010, 2009 and 2008 are as follows:

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Minimum lease payments	6,941	8,359	9,739
Less: unearned finance income	(524)	(1,705)	(2,264)
Net investment in finance lease	6,417	6,654	7,475
Current portion	3,126	2,778	2,310
Long-term portion	3,291	3,876	5,165
Net investment in finance lease	6,417	6,654	7,475

The value of future minimum lease payments received from the customer under finance lease as of 31 December 2010, 2009 and 2008 comprised:

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Not later than one year	2,731	2,985	3,393
From one year to five years	2,897	3,864	1,015
More than 5 years	1,313	1,510	5,331
Total value of future minimum lease payments	6,941	8,359	9,739

19. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Debt securities	11,876	11,444	11,755
Equity securities	4,946	5,252	3,301
	16,822	16,696	15,056

	Nominal interest rate %	31 December 2010 (KZT million)	Nominal interest rate %	31 December 2009 (KZT million)	Nominal interest rate %	31 December 2008 (KZT million)
Debt securities:						
Bonds of Kazakhstani companies	0-18.59	6,346	6.10-18.59	6,194	6.50-19.20	7,258
State treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	0-10.10	4,974	0.50-10.10	4,345	3.35-17.94	2,882
Bonds of Kazakhstani banks	3.70-10.50	556	7.90-10.90	766	8.50-12.00	1,615
Short-term notes of the NBRK	-	-	-	139	-	-
		11,876		11,444		11,755

	Ownership share %	31 December 2010 (KZT million)	Ownership share %	31 December 2009 (KZT million)	Ownership share %	31 December 2008 (KZT million)
Equity securities:						
GDR of Kazakhstani companies	0.180	2,242	0.040	2,798	0.263	1,687
ADR of Kazakhstani companies	0.650	1,262	3.230	1,154	0.646	930
Shares of Kazakhstani companies	0.030-0.120	701	0.006-0.119	718	0.029-0.078	311
GDR of Russian banks	0.009	492	0.066	348	0.070	136
GDR of Kazakhstani banks	0.017	155	0.020	134	0.057-0.080	93
Shares of Kazakhstani banks	0.000007-0.014	94	0.008-0.014	100	0.020-0.042	142
Shares of Kazakhstan stock exchange	-	-	-	-	1.330	2
		4,946		5,252		3,301

As at 31 December 2010, interest income on debt securities amounting to KZT 438 million (2009: KZT 478 million, 2008: KZT 904 million), was accrued and included in investments available-for-sale.

As at 31 December 2010 and 2009, there were no investments available-for-sale pledged under reverse repurchase agreements. As at 31 December 2008, investments available-for-sale included bonds of Kazakhstani banks, pledged under repurchase agreements with other banks with fair value of KZT 1,235 million. All of the repurchase agreements open as at 31 December 2008 were settled by January 2009.

As at 31 December 2010, the Management of the Group believes certain equity securities to be impaired and loss transferred to the consolidated income statement on impairment of shares of Kazakhstani banks, JSC Kazakhtelecom and on GDRs of Russian banks amounted to KZT Nil (2009: KZT 1,060 million, 2008: KZT 2,120 million). This amount is recognized in the line "Net realized loss on investments available-for-sale" of the consolidated income statement.

In October 2008, the International Accounting Standards Board issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") to permit the reclassification of financial assets out of the held-for-trading and available-for-sale categories, subject to certain restrictions. In accordance with these amendments, during 2008, the Group reclassified certain debt and equity securities with total fair value as at 31 December 2009 of KZT 11,083 million (2008: KZT 10,886 million) from the held-for-trading category of financial assets at fair value through profit or loss into investments available-for-sale. Total fair value of debt and equity securities reclassified amounted to KZT 14,896 million as at the reclassification date.

The reclassifications were made for those securities which have had a significant decline in volume of transactions in the financial markets as a result of the financial crisis. In the current situation the Group has revised its investment strategy and has the intention and ability to hold those securities for the foreseeable future. Those debt and equity securities which were reclassified are presented in the tables below. Reclassifications implemented before 1 November 2008 have been backdated to 1 July 2008, 1 August 2008, 1 September 2008 and 1 November 2008, as permitted by the revision to IAS 39.

	On reclassification			31 December 2010		31 December 2009		31 December 2008	
	Effective interest rate %	Fair value	Estimated cash flows expected to be recovered	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Debt securities:		(KZT million)		(KZT million)		(KZT million)		(KZT million)	
Bonds of Kazakhstani companies	17.6453	6,419	6,456	5,514	5,562	5,514	5,622	5,514	6,182
Bonds of Kazakhstani banks	5.5054	1,556	1,846	-	-	304	307	1,504	1,405
Total debt securities		7,975	8,302	5,514	5,562	5,818	5,929	7,018	7,587

	Fair value on reclassification	31 December 2010		31 December 2009		31 December 2008	
		Par value	Fair value	Par value	Fair value	Par value	Fair value
Equity securities:	(KZT million)	(KZT million)		(KZT million)		(KZT million)	
GDR of Kazakhstani companies	3,232	2,112	2,242	2,125	2,798	2,474	1,687
ADR of Kazakhstani companies	2,201	905	1,262	911	1,154	741	930
Shares of Kazakhstani companies	621	1,067	594	1,067	681	790	311
GDR of Kazakhstani banks	484	178	155	179	134	519	93
Shares of Kazakhstani banks	286	380	22	380	39	369	142
GDR of Russian banks	97	825	492	830	348	675	136
Total equity securities	6,921	5,467	4,767	5,492	5,154	5,568	3,299

	As at and for the year ended 31 December 2010			
	After reclassification			Amount that would have been recognized had reclassification not occurred
	Interest income/other income	Impairment losses	Movements in available-for-sale revaluation reserves	Income from FVTLP
	(KZT million)		(KZT million)	
Debt securities:				
Bonds of Kazakhstani companies	488	-	(60)	(60)
Bonds of Kazakhstani banks	18	-	(307)	(307)
Total debt securities	506	-	(367)	(367)
Equity securities:				
GDR of Kazakhstani companies	-	-	(556)	(556)
ADR of Kazakhstani companies	-	-	108	108
Shares of Kazakhstani companies	-	-	(87)	(87)
GDR of Kazakhstani banks	-	-	21	21
Shares of Kazakhstani banks	-	-	(17)	(17)
GDR of Russian banks	-	-	144	144
Total equity securities	-	-	(387)	(387)
	506	-	(754)	(754)

	As at and for the year ended 31 December 2009			
	After reclassification			Amount that would have been recognized had reclassification not occurred
	Interest income/other income	Impairment losses	Movements in available-for-sale revaluation reserves	Income from FVTLP
	(KZT million)		(KZT million)	
Debt securities:				
Bonds of Kazakhstani companies	714	-	(560)	(560)
Bonds of Kazakhstani banks	114	-	(1,098)	(1,098)
Total debt securities	828	-	(1,658)	(1,658)
Equity securities:				
GDR of Kazakhstani companies	-	-	1,111	1,111
ADR of Kazakhstani companies	-	(605)	224	(381)
Shares of Kazakhstani companies	-	(306)	370	64
GDR of Kazakhstani banks	-	(39)	41	2
Shares of Kazakhstani banks	-	(90)	(103)	(193)
GDR of Russian banks	-	(20)	212	192
Total equity securities	-	(1,060)	1,855	795
	828	(1,060)	197	(863)

	As at and for the year ended 31 December 2008			
	After reclassification			Amount that would have been recognized had reclassification not occurred
	Interest income/other income	Impairment losses	Movements in available-for-sale revaluation reserves	Income from FVTLP
	(KZT million)		(KZT million)	
Debt securities:				
Bonds of Kazakhstani companies	854	-	(237)	(237)
Bonds of Kazakhstani banks	45	-	(151)	(151)
Total debt securities	899	-	(388)	(388)
Equity securities:				
GDR of Kazakhstani companies	-	-	(1,545)	(1,545)
ADR of Kazakhstani companies	-	(1,277)	(1,271)	(2,548)
Shares of Kazakhstani companies	-	(214)	(310)	(524)
GDR of Kazakhstani banks	-	(392)	(391)	(783)
Shares of Kazakhstani banks	-	(237)	(144)	(381)
GDR of Russian banks	-	-	39	39
Total equity securities	-	(2,120)	(3,622)	(5,742)
	899	(2,120)	(4,010)	(6,130)

20. INVESTMENTS HELD TO MATURITY

	31 December 2010		31 December 2009		31 December 2008	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:						
Discount bonds of National companies Kazmunaigaz	0-7.00	754	-	-	-	-
Eurobonds of HSBK Europe BV	9.25	366	9.25	337	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	6.75	238	6.75	234	6.75	229
Eurobonds JP Morgan Chase Bank	6.69	154	-	-	-	-
Eurobonds of National company Kazmunaigaz	11.75	139	-	-	-	-
Bonds of JSC Halyk Bank	6.00-7.90	110	6.00-9.20	110	6.00-7.75	109
Bonds of JSC BankCenterCredit	8.70-10.00	95	8.90-10.00	116	8.50-10.00	117
Bonds of JSC ATF Bank	9.20-11.00	91	10.90-11.00	91	8.50-11.00	92
Bonds of JSC Batys Transit	7.80	48	9.20	49	19.20	52
Bonds of JSC KazexportAstik	8.70	1	6.80	1	11.00	1
Bonds of the Ministry of Finance of the Kyrgyz Republic	-	-	4.04-11.65	5	19.16-19.21	2
Notes of the National Bank of Kyrgyz Republic	-	-	-	-	15.20-16.40	174
		1,996		943		776

As at 31 December 2010, interest income on debt securities amounting to KZT 39 million (2009: KZT 30 million, 2008: KZT 19 million) was accrued and included in investments held to maturity.

21. GOODWILL

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows.

Companies that generate cash flows:	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
JSC Grantum APF	1,281	1,281	1,281
JSC OCOPAIM Grantum Asset Management	1,124	1,124	1,124
	2,405	2,405	2,405

As at 31 December 2010, 2009 and 2008, there was no evidence that the goodwill that arose on the acquisition of JSC Grantum APF and JSC OCOPAIM Grantum Asset Management has been impaired.

As at 31 December 2010, the Group has conducted a reassessment of goodwill attributable to Grantum APF and Grantum AM. For the estimations of cash flows, the Group used the following assumptions:

- The economy is cyclical;
- Equity market volatility;
- Conservative investment strategy;
- Stable customer base (high salary customers);
- Favorable population indicators (expanding younger population); and
- Cross-selling opportunities.

The Bank used forecasted cash flows for revenues and expenses of Grantum APF and Grantum AM for the next 4 years based on the budgets; the revenues and expenses were segregated by sources of inflows/outflows (e.g. commission income/expense, general and administrative expenses). Estimation was made using the discounted cash flows method. Calculations used discounted rates of 15.40% (2009: 15.94%, 2008: 19.35%). Based on the results of internal estimation of goodwill the recoverable value of shares exceeds the acquisition cost. As such, the Management of the Bank believes that there is no impairment of goodwill. Moreover, a sensitivity analysis allowing for reasonable possible changes in the key assumptions used, on which Management has based its determination of the recoverable amounts, did not cause the carrying amount of goodwill to exceed its recoverable amount.

22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate (KZT million)	Furniture and equipment (KZT million)	Intangible assets (KZT million)	Construction in progress (KZT million)	Other equipment (KZT million)	Total (KZT million)
At primary/revalued cost:						
31 December 2007	13,998	15,716	3,149	8,235	1,607	42,705
Additions	765	1,953	392	1,960	858	5,928
Transfers	-	(354)	-	-	354	-
Revaluation decrease	(778)	-	-	-	-	(778)
Disposals	(51)	(879)	(15)	-	(239)	(1,184)
Net foreign currency exchange differences	(85)	(285)	(58)	-	(140)	(568)
31 December 2008	13,849	16,151	3,468	10,195	2,440	46,103
Additions	64	1,624	556	2,108	31	4,383
Transfers	11,891	-	-	(11,891)	-	-
Revaluation decrease	(2,352)	-	-	-	-	(2,352)
Disposals	(178)	(801)	(390)	-	(239)	(1,608)
Net foreign currency exchange differences	83	236	58	-	141	518
31 December 2009	23,357	17,210	3,692	412	2,373	47,044
Additions	2,458	2,393	322	(374)	84	4,883
Transfers	-	-	-	-	-	-
Revaluation increase	142	-	-	-	-	142
Disposals	(3,377)	(1,110)	(18)	-	(510)	(5,015)
Net foreign currency exchange differences	(6)	(122)	(57)	-	(18)	(203)
31 December 2010	22,574	18,371	3,939	38	1,929	46,851
Accumulated depreciation:						
31 December 2007	134	6,655	1,245	-	412	8,446
Charge for the year	182	2,323	418	-	456	3,379
Transfers	-	(225)	-	-	225	-
Disposals	(37)	(735)	(12)	-	(212)	(996)
Net foreign currency exchange differences	(6)	(135)	(20)	-	(30)	(191)
31 December 2008	273	7,883	1,631	-	851	10,638
Charge for the year	143	2,361	506	-	662	3,672
Transfers	-	(56)	-	-	56	-
Disposals	(177)	(649)	(390)	-	(219)	(1,435)
Net foreign currency exchange differences	6	105	23	-	64	198
31 December 2009	245	9,644	1,770	-	1,414	13,073
Charge for the year	261	2,167	577	-	477	3,482
Transfers	(15)	70	-	-	(56)	(1)
Disposals	(100)	(979)	(18)	-	(343)	(1,440)
Net foreign currency exchange differences	(1)	(88)	(22)	-	(9)	(120)
31 December 2010	390	10,814	2,307	-	1,483	14,994
Net book value:						
31 December 2010	22,184	7,557	1,632	38	446	31,857
31 December 2009	23,112	7,566	1,922	412	959	33,971
31 December 2008	13,576	8,268	1,837	10,195	1,589	35,465

As at 31 December 2010, property, equipment and intangible assets of the Group included fully depreciated and amortized assets on initial cost amounting to KZT 6,342 million (2009: KZT 3,620 million, 2008: KZT 3,176 million), of which KZT 5,389 million pertain to the Bank (2009: KZT 3,217 million, 2008: KZT 3,009 million).

Buildings and other real estate are revalued on a regular cyclical basis, with the last valuation being conducted on 22 September 2010 (2009: 20 August 2009, 2008: 7 May 2008). The valuation was conducted by a local independent appraisal company and for determining of the final value on these dates, the Group used observable prices in an active market for the properties. These prices are obtained through publications and current market data, and are adjusted based on characteristics of the valued property.

The carrying value of the buildings as at 31 December 2010 amounted to KZT 21,184 million (2009: 23,112 million, 2008: KZT 13,135 million). If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value as at 31 December 2010 would be KZT 13,361 million (2009: 15,632 million, 2008: KZT 3,278 million).

Intangible assets include software, patents and licenses.

23. OTHER ASSETS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Receivables on other transactions	7,935	10,249	13,463
Insurance agreement accounts receivable	1,901	1,598	4,733
Accrued commission	1,159	983	726
	10,995	12,830	18,922
Less allowance for impairment losses	(4,033)	(2,756)	(2,303)
Total other financial assets recognized as loans and receivables in accordance with IAS 39	6,962	10,074	16,619
Non-current assets held for sale	16,517	2,479	1,620
Tax settlements, other than income tax	2,597	1,692	2,278
Prepaid expenses	1,574	2,554	3,030
Income tax receivable	495	1,972	237
Inventory	-	-	24
Total other non-financial assets	21,183	8,697	7,189
	28,145	18,771	23,808

During the years ended 31 December 2010, 2009 and 2008, the Group received non-financial assets by taking possession of collateral it held as security. For the year ended 31 December 2010, the amount of loss from sale of non-current assets amounted to KZT Nil (2009: KZT 41 million, 2008: KZT 12 million). The non-current assets are included in the retail banking segment in Note 34. Loss from revaluation of such non-financial assets amounted to KZT Nil (2009: KZT 1,207 million, 2008: KZT Nil).

Movements in allowances for impairment losses for the years ended 31 December 2010, 2009 and 2008 are disclosed in Note 6.

24. LOANS AND ADVANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Recorded at amortized cost:			
Correspondent accounts of other banks	1,940	2,680	14,267
Correspondent accounts of organizations that serve certain types of banking operations	227	254	386
Loans from banks and other financial institutions, including:			
Syndicated loan from a group of banks with maturity of December 2009 and interest rate of 1.1%	-	-	36,451
Loan with maturity of August 2011	148	314	300
Loan with maturity of June 2014	23,037	32,357	32,952
Loans with other banks and financial establishments	121,760	172,093	193,764
Deposits with banks	1	1,424	8,745
Loans under repurchase agreements	26	-	9,526
	147,139	209,122	296,391

As at 31 December 2010, accrued interest expense included in loans and advances from banks and other financial institutions amounted to KZT 492 million (2009: KZT 1,059 million, 2008: KZT 2,238 million).

As at 31 December 2010, loans with other banks and financial institutions for KZT 116,985 million (96% of total loans with other banks and financial establishments) (2009: KZT 162,264 million or 94% of total loans with other banks and financial establishments, 2008: KZT 173,203 million or 89% of total loans with other banks and financial establishments) consisted of 9 (2009: 14, 2008: 23) banks and financial institutions of such countries as Great Britain, Austria, Russia, Luxemburg, Kazakhstan, Germany, Switzerland and China. Maturities of these loans range from 48 days to 52 months (2009: 13 days to 97 months, 2008: 5 days to 97 months). Interest rates on loans with other banks and financial establishments varied from 1.33% to 9.75% (2009: 0.72% to 11.84%, 2008: from 0.05% to 15%).

As at 31 December 2010, included in loans and advances to banks and other financial institutions are loans under repurchase agreements of KZT 26 million (2009: KZT Nil, 2008: KZT 9,526 million and maturity in January 2009).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2010, 2009 and 2008 are presented as follows:

	31 December 2010 (KZT million)		31 December 2009 (KZT million)		31 December 2008 (KZT million)	
	Fair value of collateral	Carriyng value of loans	Fair value of collateral	Carriyng value of loans	Fair value of collateral	Carriyng value of loans
Shares of Kazakhstani companies	37	26	-	-	-	-
Notes of the National Bank of the Republic of Kazakhstan	-	-	-	-	4,209	4,000
Bonds of Kazakhstani companies	-	-	-	-	4,359	3,611
Bonds of Kazakhstani banks	-	-	-	-	1,235	1,000
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	553	500
Bonds of Russian banks	-	-	-	-	467	415
	37	26	-	-	10,823	9,526

During 2010 the Group simultaneously placed with and received short-term funds from banks in different currencies for a total amount of KZT 15,339 million (2009: KZT 29,408 million, 2008: KZT 96,962 million).

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In accordance with the terms of certain of those loans, the Group is also required to obtain the approval of the lender before distributing any dividends to the common shareholders except for dividends to be reinvested for ordinary shares. Furthermore, certain of the Group's outstanding financing agreements include covenants restricting the capability of the Group to create the right of pledge on its assets. The Group's failure to observe obligations on these covenants can lead to cross reduction in the maturity and a chain of defaults on the terms of other financial agreements of the Group.

As at 31 December 2010, 2009 and 2008, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

25. CUSTOMER ACCOUNTS

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Recorded at amortized cost:			
Time deposits	893,814	799,880	789,780
Demand deposits	459,480	299,926	153,967
JSC National Welfare Fund "Samruk-Kazyna", JSC Entrepreneurship Development Fund "Damu" and JSC Stress Assets Fund	152,383	175,583	35,110
Metallic accounts in precious metals	1,123	1,075	300
Loans under repurchase agreements	-	-	296
	1,506,800	1,276,464	979,453

As at 31 December 2010, customer accounts included accrued interest expense of KZT 16,767 million (2009: KZT 18,943 million, 2008: KZT 14,610 million).

As at 31 December 2010, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 3,711 million (2009: KZT 5,438 million, 2008: KZT 4,736 million).

As at 31 December 2010, total amount of funds deposited under the stabilization program of the Government of Kazakhstan by means of deposits from JSC National Welfare Fund "Samruk-Kazyna" and JSC Stress Assets Fund amounted to KZT 138,314 million, including:

- KZT 37,500 million for crediting real economy sector (initially granted and deposited in the Bank KZT 84,000 million);
- KZT 24,000 million for refinancing mortgage loans;
- KZT 73,174 million for completion of construction projects in Almaty and Astana (initially granted and deposited in the Bank KZT 92,698 million); and
- KZT 3,640 million for financing large-scale businesses in manufacturing sector.

As at 31 December 2010, the customer accounts of KZT 769,594 million or 51.07% (2009: KZT 774,868 million or 60.8%, 2008: KZT 565,565 million or 57.74%), were due to 10 customers, which represents significant concentration. The Management of the Group believes that in the event of withdrawal of funds, the Group would be given sufficient notice as to realize its liquid assets to enable repayment.

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Analysis by sector:			
Individuals	451,428	327,622	263,771
Chemical and petrochemical industry	289,085	356,415	393,550
Investments and finance	130,164	92,916	105,169
Public authorities	120,650	147,447	271
Transport and communication	107,617	48,533	27,644
Distribution of electricity, gas and water	104,791	116,402	45,386
Individual services	72,220	48,513	30,249
Wholesale and retail trade	54,606	43,688	46,667
Construction	46,524	35,360	24,711
Education	31,854	19,002	10,800
Agriculture	28,831	11,019	13,895
Mining and metallurgy	21,179	7,655	6,090
Public organizations and unions	21,130	1,516	519
Health care	6,114	6,450	2,856
Hotel business	2,563	2,805	1,145
Real estate	2,242	890	606
Food industry	1,333	545	570
Machinery construction	1,187	900	939
Metallic accounts in precious metals	1,123	1,075	300
Culture and art	972	706	770
Light industry	378	580	1,168
Energy	-	-	1
Other	10,809	6,425	2,376
	1,506,800	1,276,464	979,453

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2010, 2009 and 2008 are presented as follows:

	31 December 2010 (KZT million)		31 December 2009 (KZT million)		31 December 2008 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	176	185
Bonds of Kazakhstani companies	-	-	-	-	7	30
Shares of Russian companies	-	-	-	-	29	29
Shares of Kazakhstani banks	-	-	-	-	35	27
Shares of Russian banks	-	-	-	-	25	25
Total securities sold under repurchase agreements	-	-	-	-	272	296

26. DEBT SECURITIES ISSUED

	Currency	Maturity date	Annual coupon rate %	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Recorded at amortized cost:						
Eurobonds of JSC Kazkommertsbank (previously Kazkommerts International B.V.):						
Issued in July 2007 at the price of 100%	JPY	July 2009	2.56	-	-	33,500
Tranche A issued in November 2004 at the price of 98.967%	USD	November 2009	7.00	-	-	36,797
Issued in March, 2006 at the price of 99.993%	EUR	March 2011	5.125	35,741	50,840	49,965
Issued in May 2008 at the price of 100%	USD	May 2011	12.00	5,739	34,146	27,782
Issued in February 2007 at the price of 99.962%	GBP	February 2012	7.625	30,632	42,190	61,124
Issued in April 2003 at the price of 97.548%	USD	April 2013	8.50	51,625	51,893	40,471
Issued in April 2004 at the price of 99.15%	USD	April 2014	7.875	36,183	38,335	46,397
Issued in November 2005 at the price of 98.32%	USD	November 2015	8.00	40,363	45,350	60,395
Issued in November 2006 at the price of 98.282%	USD	November 2016	7.50	50,250	52,878	60,395
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.875	77,283	90,158	127,680
Other Eurobonds	USD	December 2012 - April 2013	8.50-12.85	26,330	32,497	59,743
				354,146	438,287	604,249
(Less)/including:						
Discount on debt securities issued				(2,361)	(3,162)	(3,951)
Accrued interest on debt securities issued				10,850	13,588	18,239
Total issued Eurobonds of JSC Kazkommertsbank (previously Kazkommerts International B.V)				362,635	448,713	618,537
Debt securities issued of JSC Kazkommertsbank at price 102.21%-104.48%		April 2016	9.00	2,329	-	-
Accrued interest expenses on debt securities issued of JSC Kazkommertsbank				47	-	-
Premium on debt securities issued of JSC Kazkommertsbank				97	-	-
Issued promissory notes of LLP Moscommertsbank at the price of 88.00-100.00%		June 2013	7.00-15.00	2,642	6,124	50,342
Accrued interest expense on issued promissory notes of LLP Moscommertsbank				419	647	1,326
Issued bonds of Moscow Stars B.V. at the price of 99.00%		February 2022	1.983-5.483	7,020	8,161	8,066
Accrued interest on bonds of Moscow Stars B.V.				10	11	14
				375,199	463,656	678,285

As at 31 December 2010 accrued interest expense included in debt securities issued amounted to KZT 11,326 million (2009: KZT 14,246 million, 2008: KZT 19,579 million).

On 11 February 2010, the Bank replaced Kazkommerts International B.V. as a Eurobonds issuer. As a result, the Bank's guarantee is no longer effective and all of the issuer's liabilities on the Eurobonds have been transferred to the Bank. The issuer has been substituted in accordance with the terms and conditions of the Eurobonds; and this transfer has no effect on the bondholders' rights.

On 18 July 2007, Eurobonds were issued by Moscow Stars B.V. with a maturity of February 2022, the first coupon payment was due on 16 August 2007 and subsequent coupon is to be paid on the 15th of each month. Moscow Stars B.V. is the special purpose vehicle created for securitization of mortgage loans, and it is consolidated into the financial statement of MKB in accordance with SIC 12 "Consolidation – Special Purpose Entities".

On 3 November 2009, the Bank redeemed the issue of Eurobonds placed in November 2004 of KZT 75,425 million (USD 500 million). The issuer of bonds was Kazkommerts International B.V. Full scheduled redemption of the issue was made through own funds of the Bank. Previously, the Bank has partially repurchased Eurobonds of this issue.

During 2010 the Bank acquired bonds issued by Kazkommerts International B.V. and its own bonds for total amount of KZT 66,765 million (USD 453 million) (2009: KZT 168,256 million (USD 1,133 million), 2008: KZT 7,680 million (USD 64 million)).

The Group is obligated to comply with financial covenants in relation to the debt securities disclosed above. These covenants include stipulated capital ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants in the years ended 31 December 2010, 2009 and 2008.

27. OTHER BORROWED FUNDS

	Currency	**Maturity**	**31 December 2010 (KZT million)**	**31 December 2009 (KZT million)**	**31 December 2008 (KZT million)**
Funding by JSC Entrepreneurship Development Fund "Damu"*	KZT	February 2016	16,300	19,059	2,716
Societe Generale Financial Corp	USD	September 2017	3,549	4,656	4,704
Private Export Funding Corporation	USD	April 2017	1,788	1,798	1,572
London Forfaiting Company LTD	USD	June 2012	1,475	1,485	-
DEG-Deutsche Investitions MBH	USD	November 2011	642	1,291	5,471
Deere Credit	USD	May 2013	170	275	311
Funding by the Ministry of Finance of the Republic of Kazakhstan and by the Ministry of Finance of Kyrgyz Republic	KZT	September 2011	19	38	58
Funding of agricultural equipment purchasing by Export Development Canada	USD	March 2011	-	316	432
NLB InterFinanz AG	USD	August 2010	-	2,252	1,849
Funding by the Ministry of Finance of Kyrgyz Republic	USD	July 2015	-	2	2
Moore's Creek	KZT	February 2009	-	-	6,588
Kazkommerts DPR Company	USD	March 2017	-	-	111,436
Intesa Soditic Trade Finance LTD	USD	August 2009	-	-	246
Cargill Financial Services Int, USA	USD	March 2009	-	-	1,939
			23,943	31,172	137,324

* JSC Entrepreneurship Development Fund "Damu" is a subsidiary of JSC National Welfare Fund "Samruk-Kazyna".

As at 31 December 2010, accrued interest expense included in other borrowed funds amounted to KZT 317 million (2009: 405 million, 2008: KZT 564 million).

On 7 June, 2006 the Bank, in the framework of the future payment inflow securitization program, allocated additional series of bonds 2006A and 2006B, insured by the specialized financial companies AMBAC and FGIC. The sum of the given bonds amounted to KZT 11,999 million (USD 100 million) each, with a maturity of 7 years, a three year grace period of the principal debt and an interest rate of 3-month LIBOR plus 0.25 %.

On 12 April 2007, the Bank, in the framework of the future payment inflow securitization program, allocated three additional series of bonds: 2007A in the amount of KZT 18,363 million (USD 150 million), 2007B in the amount of KZT 30,605 million (USD 250 million) and 2007C in the amount of KZT 12,242 million (USD 100 million). The bonds were issued with a maturity of 10 years, a three year grace period of the principal debt and floating interest rates. The insurers were specialized financial companies FGIC (2007A series), MBIA (2007B series) and ADB (2007C series). The interest rate on each series is 3-month LIBOR plus the following spreads: 2007A plus 0.20%, 2007B plus 0.20% and 2007C plus 0.16%.

On 11 June 2009 Kazkommertsbank, acting in its capacity as originator, requested the securitization of future payments programme's controlling parties (Ambac Assurance Corporation, MBIA Insurance Corporation, Financial Guaranty Insurance Company, the Asian Development Bank and WestLB) to terminate the programme. As a result of this termination, the programme's issuer, Kazkommerts DPR Company ("SPC") optionally redeemed all of its outstanding notes issued under the programme. The principal amount of KZT 127,892 million on 11 June 2009 (equivalent of USD 850.4 million) and KZT 14,965 million on 16 March 2009 (USD 99.6 million).

The Group is obligated to comply with financial covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2010, 2009 and 2008.

28. OTHER LIABILITIES

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Other financial liabilities:			
Payable to employees	4,206	2,514	2,714
Settlements on other transactions	919	1,212	941
Accounts payable on re-insurers	783	674	3,464
Accrued commission expense	44	16	358
	5,952	4,416	7,477
Other non-financial liabilities			
Taxes payable	1,755	4,037	8,648
Advances received	161	537	816
	7,868	8,990	16,941

29. SUBORDINATED DEBT

	Currency	Maturity date (year)	Interest rate %	31 December 2010 (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)
Subordinated debt (previously Kazkommerts Finance II B.V.)	USD	2017	8.50	36,883	37,097	30,175
Subordinated bonds	KZT	2015 - 2019	7.70 – 9.00	33,108	31,736	29,291
Subordinated debt (previously Kazkommerts Finance II B.V.)	USD	2016	8.625	30,515	30,709	24,975
Subordinated debt of Citigroup GMD AG & Co	USD	2014	8.19	15,083	15,200	12,310
Perpetual bonds of Kazkommerts Finance II B.V.	USD	-	9.20	14,845	14,922	12,125
Debt component of preference shares	USD	-	-	6,703	6,747	5,490
Indexed subordinated bonds	KZT	-	-	-	-	3,358
				137,137	136,411	117,724

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

As at 31 December 2010, accrued interest expenses included in subordinated debt amounted to KZT 2,272 million (2009: KZT 2,304 million, 2008: KZT 1,928 million).

On 25 August 2010, the Bank replaced Kazkommerts Finance II B.V. as a subordinated bonds issuer. As a result, all of the issuer's liabilities on the bonds have been transferred to the Bank. The issuer has been substituted in accordance with the terms and conditions of the subordinated bonds; and this transfer has no effect on the bondholders' rights.

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2010, 2009 and 2008.

30. SHARE CAPITAL

As at 31 December 2010, authorized share capital consisted of 1,100,000,000 (2009: 1,100,000,000, 2008: 575,000,000) ordinary shares and 175,000,000 (2009: 175,000,000, 2008: 125,000,000) preference shares.

As at 31 December 2010, the Group's share capital comprised the following:

	Authorized share capital (KZT million)	**Authorized but not issued share capital (KZT million)**	**Repurchased share capital (KZT million)**	**Issued share capital (KZT million)**
Ordinary shares	11,000	(3,206)	(8)	7,786
Preferred shares	1,750	(500)	(5)	1,245
	12,750	(3,706)	(13)	9,031

As at 31 December 2009, the Group's share capital comprised the following:

	Authorized share capital (KZT million)	**Authorized but not issued share capital (KZT million)**	**Repurchased share capital (KZT million)**	**Issued share capital (KZT million)**
Ordinary shares	11,000	(3,206)	(7)	7,787
Preferred shares	1,750	(500)	(6)	1,244
	12,750	(3,706)	(13)	9,031

As at 31 December 2008, the Group's share capital comprised the following:

	Authorized share capital (KZT million)	**Authorized but not issued share capital (KZT million)**	**Repurchased share capital (KZT million)**	**Issued share capital (KZT million)**
Ordinary shares	7,750	(2,000)	(4)	5,746
Preferred shares	1,250	-	(6)	1,244
	9,000	(2,000)	(10)	6,990

During first half of 2009, 325,000,000 ordinary shares were authorized for issue by the shareholders of the Group. As at 31 December 2010, 320,661,823 ordinary shares remain unpaid (2009: 320,661,823 ordinary shares, 2008: 200,000,000 ordinary shares).

The preference shares carry no voting rights, unless preference dividends are not paid, but rank ahead of the ordinary shares in the event of liquidation of the Bank. The annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. According to Kazakhstan legislation on Joint Stock Companies, additional dividend payments on the preference shares cannot be less than the dividends paid on common shares. These shares are not redeemable.

During 2010, dividends declared on preference shares amounted to KZT 731 million (2009: KZT 747 million, 2008: KZT 598 million). In 2010, 2009 and 2008 dividends on ordinary shares of the Bank have not been declared.

The table below provides a reconciliation of the number of shares outstanding as of 31 December 2010, 2009 and 2008:

	Preference shares Number of shares	**Ordinary shares Number of shares**
31 December 2007	124,921,727	574,849,821
Repurchase of treasury shares	(565,284)	(234,951)
31 December 2008	124,356,443	574,614,870
Issue of shares	-	204,338,177
Sale/(repurchase) of treasury shares	96,541	(351,883)
31 December 2009	124,452,984	778,601,164
Issue of shares	-	-
Sale/(repurchase) of treasury shares	61,960	(15,803)
31 December 2010	124,514,944	778,585,361

As at 31 December 2010, the number of ordinary shares held as treasury shares is 752,815 (2009: 737,013, 2008: 385,130).

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

The Group's profit distributable among shareholders is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the regulations of the Republic of Kazakhstan that provide for the creation of a reserve for these purposes of not less than 2% from classified assets recorded in its statutory accounts as defined by and in accordance with local legislative requirements. Retained earnings include these non-distributable reserves which are kept as a reserve fund.

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and credit commitments, in the event of non-performance or in the event of impairment by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2010, provision for losses on guarantees and contingent liabilities amounted to KZT 3,903 million (2009: KZT 7,217 million, 2008: KZT 6,271 million).

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

As at 31 December 2010, the credit risk on contingent liabilities and credit commitments was covered by collateral of KZT 23,383 million (2009: KZT 48,958 million, 2008: KZT 68,213 million). The collateral includes real estate, deposits and various other financial and non-financial assets.

As at 31 December 2010, 2009 and 2008, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2010		31 December 2009		31 December 2008	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
	(KZT million)		(KZT million)		(KZT million)	
Contingent liabilities and credit commitments:						
Guarantees issued and similar commitments	90,557	90,557	122,096	122,096	109,550	109,550
Letters of credit and other transaction related to contingent obligations	2,783	131	8,391	1,040	37,570	6,760
Commitments on loans and unused credit lines	8,992	8,992	9,865	9,865	9,312	9,312
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	44	44	58	58	72	72
	102,376	99,724	140,410	133,059	156,504	125,694

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 December 2010, the amount of contingent liabilities on such unused credit lines equals KZT 286,654 million (2009: KZT 433,903 million, 2008: KZT 502,123 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case: the borrower violates the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

Capital commitments

As at 31 December 2010, capital commitments amounted to KZT 959 million (2009: KZT 2,272 million, 2008: KZT 1,960 million).

Operating lease commitments

There were no material operating lease commitments outstanding as at 31 December 2010, 2009 and 2008.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited rights on decision making with clients for the management of assets in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the customer's funds plus/minus any unrealized income/loss on the customer's position. The management believes that the potential financial risk on securities held on behalf of the customers is not inherent to the Group.

The Group also provides depositary services to its customers. As at 31 December 2010, 2009 and 2008 the Group had customer securities in its nominal holder accounts totaling:

- on broker and dealer operations 79,856,360 deals totaling KZT 19,505 million (2009: 4,973,334,166 deals totaling KZT 44,744 million, 2008: 17,699,975,814 deals totaling KZT 93,102 million).
- on custodial operations 16,001,612,206 deals totaling KZT 171,133 million (2009: 5,218,591,161 deals totaling KZT 59,061 million, 2008: 7,881,879,257 deals totaling KZT 1,969,480 million).

Legal proceedings

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

Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstan economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Kazakhstan's financial and capital markets in 2008 and 2009 has receded. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Kazakhstani economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Kazakhstan is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2010, 2009 and 2008 was 7.8%, 6.2%, and 9.5%, respectively).

Because Kazakhstan produces and exports large volumes of oil and gas, Kazakhstan's economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2010, 2009 and 2008.

32. SUBSEQUENT EVENTS

On February 2011, CAIC and CAIC's 100% owned subsidiary, JSC "Ak Zhalyn" together owning 882,721 ordinary shares of the Bank (ownership - 0.11%), conducted a reorganization by means of joining JSC "Ak Zhalyn" to CAIC. As a result of the reorganization CAIC's share in the Bank's equity changed insignificantly: direct ownership increased from 23.72% to 23.83%, indirect ownership decreased from 7.34% to 7.23% (shares were transferred from Samruk-Kazyna to CAIC under trust management). Total share (direct and indirect) of CAIC in the Bank's equity did not change and amounted to 31.06% out of total number of issued shares.

On 8 February 2011, the Bank acquired 139,000 of ordinary shares JSC "Life Insurance Company "Kazkommerts Life" for KZT 139 million. The share of the Bank in JSC "Life Insurance Company "Kazkommerts Life" equity did not change.

On 23 March 2011, the Bank has announced the repayment of its Eurobond issued in March 2006 for the original amount of EUR 300 million. The Eurobond was repaid in full on the date of its maturity from the Bank's own funds.

33. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2010 (KZT million)		31 December 2009 (KZT million)		31 December 2008 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	1,055	2,747,210	1,140	2,666,315	1,525	2,434,110
- entities with joint control or significant influence over the entity	-		-		3	
- key management personnel of the entity or its parent	1,055		1,138		1,522	
- other related parties	-		2		-	
Allowance for impairment losses	110	(572,450)	114	(505,548)	106	(289,328)
- key management personnel of the entity or its parent	110		114		106	
Investments in associates	-	-	-		1,775	1,775
- to associates	-		-		1,775	
Customer accounts	5,255	1,506,800	7,769	1,276,464	4,661	979,453
- parent company	1,402		1,287		1,124	
- entities with joint control or significant influence over the entity	327		106		53	
- associates	-		-		29	
- key management personnel of the entity or its parent	3,474		3,966		3,443	
- other related parties	52		2,410		12	
Commitments on loans and unused credit lines	305	8,992	456	9,865	304	9,312
- key management personnel of the entity or its parent	305		453		304	
- other related parties	-		3		-	
Guarantees issued and similar commitments	18	90,557	580	122,096	19	109,550
- key management personnel of the entity or its parent	18		8		19	
- other related parties	-		572		-	

Included in the consolidated income statement for the years ended 31 December 2010, 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010 (KZT million)		Year ended 31 December 2009 (KZT million)		Year ended 31 December 2008 (KZT million)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	91	291,515	204	372,460	155	380,043
Interest expense	(471)	(152,091)	(354)	(178,846)	(464)	(181,212)
Operating expenses	(1,033)	(35,833)	(730)	(30,148)	(1,221)	(32,477)
Short-term employee benefits	(1,033)	(17,709)	(730)	(14,180)	(1,221)	(15,677)
Recovery/(Provision) for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	8	(95,973)	(11)	(194,317)	(47)	(149,020)
Share of results of associates	-		345	4,372	(3,585)	(3,585)

Key management personnel compensation for the years ended 31 December 2010, 2009 and 2008 is represented by short-term employee benefits.

As at 31 December 2010, 2009 and 2008, the Group does not pledge any assets in connection with guarantees issued to management.

34. SEGMENT REPORTING

Business segments

The Group is managed and reported on the basis of four main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, documentary credits, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice.
- Other – representing insurance operations and other activities.

Retail Banking offers a range of personal banking, savings and mortgage products and services. Corporate Banking offers business banking services principally to small and mid sized companies and commercial loans to larger Corporate & Commercial customers. Investment Banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities, Group Capital and shared services.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments, if any, have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the financial position, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is excessive. Hence the Group presents operating segments on the basis of three main products.

Segment information about these businesses is presented below.

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	For the year ended 31 December 2010 (KZT million)
External interest income	32,970	246,812	11,023	710	-	-	291,515
Internal interest income	45,736	59,893	177,375	-	-	(283,004)	-
External interest expenses	(37,974)	(58,802)	(55,315)	-	-	-	(152,091)
Internal interest expenses	(18,848)	(165,600)	(98,556)	-	-	283,004	-
Net interest income before provision for impairment losses on interest bearing assets	21,884	82,303	34,527	710	-	-	139,424
Provisions for impairment losses on interest bearing assets	(172)	(95,212)	(171)	-	-	-	(95,555)
NET INTEREST INCOME	21,712	(12,909)	34,356	710	-	-	43,869
Net loss on financial assets and liabilities at fair value though profit or loss	-	-	(6,259)	312	-	-	(5,947)
Net gain on foreign exchange and precious metals operations	686	88	1,775	13	-	-	2,562
Fee and commission income	8,821	9,640	2,513	-	-	-	20,974
Fee and commission expense	(1,172)	(917)	(441)	(1,249)	-	-	(3,779)
Net realized gain on investments available-for-sale	-	-	64	5	-	-	69
Dividends received	-	-	166	15	-	-	181
Other income	6	272	704	5,548	-	-	6,530
NET NON-INTEREST INCOME	8,341	9,083	(1,478)	4,644	-	-	20,590
OPERATING INCOME	30,053	(3,826)	32,878	5,354	-	-	64,459
OPERATING EXPENSES	(17,515)	(13,367)	(2,437)	(2,514)	-	-	(35,833)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	12,538	(17,193)	30,441	2,840	-	-	28,626
Provision for impairment losses on other transactions	-	(1,905)	21	(1,795)	-	-	(3,679)
Recovery of provision for guarantees and other contingencies	-	3,261	-	-	-	-	3,261
OPERATING PROFIT BEFORE INCOME TAX	12,538	(15,837)	30,462	1,045	-	-	28,208

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	For the year ended 31 December 2009 (KZT million)
External interest income	48,762	312,053	10,841	804	-	-	372,460
Internal interest income	35,869	49,674	177,786	-	-	(263,329)	-
External interest expenses	(29,818)	(55,849)	(93,179)	-	-	-	(178,846)
Internal interest expenses	(24,810)	(181,752)	(56,767)	-	-	263,329	-
Net interest income before provision for impairment losses on interest bearing assets	30,003	124,126	38,681	804	-	-	193,614
Provisions for impairment losses on interest bearing assets	(22,793)	(171,411)	1,798	-	-	-	(192,406)
NET INTEREST INCOME	7,210	(47,285)	40,479	804	-	-	1,208
Net gain on financial assets and liabilities at fair value though profit or loss	-	-	24,758	(234)	-	-	24,524
Net loss on foreign exchange and precious metals operations	1,563	538	(17,265)	(5)	204	-	(14,965)
Fee and commission income	7,513	10,214	3,004	-	-	-	20,731
Fee and commission expense	(801)	(1,103)	(305)	(1,320)	(11)	-	(3,540)
Net realized loss on investments available-for-sale	-	-	(1,079)	53	-	-	(1,026)
Dividends received	-	-	171	15	-	-	186
Other income	58	225	29,331	4,764	49	-	34,427
NET NON-INTEREST INCOME	8,333	9,874	38,615	3,273	242	-	60,337
OPERATING INCOME	15,543	(37,411)	79,094	4,077	242	-	61,545
OPERATING EXPENSES	(15,999)	(10,017)	(2,290)	(1,748)	(94)	-	(30,148)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	(456)	(47,428)	76,804	2,329	148	-	31,397
Provision for impairmen losses on other transactions	-	(1,334)	(495)	(682)	-	-	(2,511)
Recovery of provision for guarantees and other contingencies	-	600	-	-	-	-	600
Gain from sale of associates	-	-	4,372	-	-	-	4,372
OPERATING PROFIT BEFORE INCOME TAX	(456)	(48,162)	80,681	1,647	148	-	33,858

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	For the year ended 31 December 2008 (KZT million)
External interest income	62,031	299,421	17,711	880	-	-	380,043
Internal interest income	34,666	50,144	148,840	-	62,909	(296,559)	-
External interest expenses	(29,066)	(43,308)	(108,838)	-	-	-	(181,212)
Internal interest expenses	(34,804)	(149,849)	(49,749)	-	(62,157)	296,559	-
Net interest income before provision for impairment losses on interest bearing assets	32,827	156,408	7,964	880	752	-	198,831
Provisions for impairment losses on interest bearing assets	(20,962)	(128,966)	1,148	-	-	-	(148,780)
NET INTEREST INCOME	11,865	27,442	9,112	880	752	-	50,051
Net loss on financial assets and liabilities at fair value though profit or loss	-	-	(27,330)	(185)	-	-	(27,515)
Net gain on foreign exchange and precious metals operations	528	16	5,478	34	(28)	-	6,028
Fee and commission income	7,141	11,155	3,152	-	-	-	21,448
Fee and commission expense	(1,124)	(723)	(1,318)	(1,001)	(136)	-	(4,302)
Net realized loss on investments available-for-sale	-	-	(2,272)	(218)	-	-	(2,490)
Dividends received	-	-	158	18	-	-	176
Other income	11	416	4,294	4,543	30	-	9,294
NET NON-INTEREST INCOME	6,556	10,864	(17,838)	3,191	(134)	-	2,639
OPERATING INCOME	18,421	38,306	(8,726)	4,071	618	-	52,690
OPERATING EXPENSES	(16,054)	(12,686)	(1,909)	(1,766)	(62)	-	(32,477)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	2,367	25,620	(10,635)	2,305	556	-	20,213
Provision for impairment losses on other transactions	-	(424)	1	(673)	-	-	(1,096)
Recovery of provision for guarantees and other contingencies	-	856	-	-	-	-	856
Share of results of associates	-	-	(3,585)	-	-	-	(3,585)
OPERATING PROFIT BEFORE INCOME TAX	2,367	26,052	(14,219)	1,632	556	-	16,388

Geographical segments

Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2010, 2009 and 2008.

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	Other non-OECD Countries (KZT million)	For the year ended 31 December 2010 Total (KZT million)
Interest income	275,681	15,646	188	-	291,515
Interest expense	(133,177)	(9,162)	(9,752)	-	(152,091)
Provision for impairment losses on interest bearing assets	(96,760)	1,205	-	-	(95,555)
Net loss on financial assets and liabilities at fair value through profit or loss	(5,857)	(90)	-	-	(5,947)
Net gain on foreign exchange and precious metals operations	2,088	499	(25)	-	2,562
Fee and commission income	20,359	615	-	-	20,974
Fee and commission expense	(3,662)	(116)	(1)	-	(3,779)
Net realized gain on investments available-for-sale	69	-	-	-	69
Dividends received	181	-	-	-	181
Other income	5,966	564	-	-	6,530
OPERATING INCOME	64,888	9,161	(9,590)	-	64,459

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	Other non-OECD Countries (KZT million)	For the year ended 31 December 2009 Total (KZT million)
Interest income	347,202	24,701	557	-	372,460
Interest expense	(97,989)	(12,878)	(67,979)	-	(178,846)
Provision for impairment losses on interest bearing assets	(189,567)	(2,839)	-	-	(192,406)
Net gain on financial assets and liabilities at fair value through profit or loss	23,498	1,026	-	-	24,524
Net loss on foreign exchange and precious metals operations	(15,943)	774	204	-	(14,965)
Fee and commission income	20,016	715	-	-	20,731
Fee and commission expense	(3,354)	(185)	(1)	-	(3,540)
Net realized loss on investments available-for-sale	(1,028)	2	-	-	(1,026)
Dividends received	186	-	-	-	186
Other income	35,553	(1,126)	-	-	34,427
OPERATING INCOME	118,574	10,190	(67,219)	-	61,545

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	Other non-OECD Countries (KZT million)	For the year ended 31 December 2008 Total (KZT million)
Interest income	352,601	26,060	1,182	200	380,043
Interest expense	(165,814)	(14,891)	(507)	-	(181,212)
Provision for impairment losses on interest bearing assets	(144,935)	(3,845)	-	-	(148,780)
Net loss on financial assets and liabilities at fair value through profit or loss	(25,677)	(1,838)	-	-	(27,515)
Net gain on foreign exchange and precious metals operations	33,947	232	(28,151)	-	6,028
Fee and commission income	20,227	1,213	-	8	21,448
Fee and commission expense	(3,775)	(391)	(136)	-	(4,302)
Net realized loss on investments available-for-sale	(2,549)	59	-	-	(2,490)
Dividends received	176	-	-	-	176
Other income	8,374	25	895	-	9,294
OPERATING INCOME	72,575	6,624	(26,717)	208	52,690

External operating income has been allocated based on domicile of the company within the Group.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value:

Loans and advances to and from banks and other financial institutions and other borrowed funds – for assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt of Kazkommerts Finance II B.V.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Group are presented below:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(KZT million)		(KZT million)		(KZT million)	
Financial assets:						
Loans and advances to banks and other financial institutions	146,331	144,960	148,375	149,321	241,813	241,650
Loans to customers	2,174,760	2,123,515	2,160,767	2,033,690	2,144,782	2,109,144
Financial liabilities:						
Loans and advances from banks and financial institutions	147,139	139,022	209,122	179,422	296,391	260,911
Debt securities issued	375,199	353,548	463,656	402,996	678,285	432,778
Other borrowed funds	23,943	20,496	31,172	22,488	137,324	86,402
Subordinated debt	137,137	136,827	136,411	113,289	117,724	109,331

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and balances with national (central) banks, investments held to maturity, other financial assets and other financial liabilities and customer accounts approximates fair value due to the short-term nature of such financial instruments. The carrying amount of customer accounts approximates fair value as interest rates charged to customers closely approximate market interest rates.

36. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

Capital adequacy requirements are set by the FMSA and controlled using the principles, methods and factors identified by the Basel Committee on Banking Supervision.

	31 December 2010 (KZT million)	31 December 2009 (KZT million)	Change (KZT million)	31 December 2009 (KZT million)	31 December 2008 (KZT million)	Change (KZT million)	31 December 2008 (KZT million)	31 December 2007 (KZT million)	Change (KZT million)
Composition of regulatory capital[a]:									
Tier 1 capital:									
Share capital (ordinary shares)	7,786	7,787	(1)	7,787	5,746	2,041	5,746	5,749	(3)
Share premium reserve	195,024	195,006	18	195,006	152,684	42,322	152,684	152,855	(171)
Retained earnings	180,609	161,971	18,638	161,971	140,762	21,209	140,762	84,843	55,919
Current income	21,879	19,423	2,456	19,423	21,805	(2,382)	21,805	55,963	(34,158)
Non-controlling interest	1,074	(223)	1,297	(223)	278	(501)	278	12,552	(12,274)
Goodwill	(2,405)	(2,405)	-	(2,405)	(2,405)	-	(2,405)	(2,405)	-
Innovative instrument[c]	14,649	14,085	564	14,085	11,965	2,120	11,965	11,900	65
Total qualifying tier 1 capital	418,616	395,644	22,972	395,644	330,835	64,809	330,835	321,457	9,378
Property and equipment revaluation reserve[d]	5,940	5,040	900	5,040	5,905	(865)	5,905	5,981	(76)
Share capital (preferred shares)	1,245	1,244	1	1,244	1,244	-	1,244	1,249	(5)
Subordinated debt[b]	92,030	97,871	(5,841)	97,871	95,005	2,866	95,005	86,617	8,388
Total qualifying tier 2 capital	99,215	104,155	(4,940)	104,155	102,154	2,001	102,154	93,847	8,307
Total capital	517,831	499,799	18,032	499,799	432,989	66,810	432,989	415,304	17,685
Ratio of tier 1 capital adequacy	16.23%	15.94%	0.29%	15.94%	13.53%	2.41%	13.53%	11.72%	1.81%
Capital adequacy ratio	20.08%	20.14%	(0.06%)	20.14%	17.70%	2.44%	17.70%	15.15%	2.55%

[a] According to the principles applied by Basel Committee

[b] As at 31 December 2010, 2009 and 2008, the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, which is not to exceed 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

[c] Innovative instruments represents perpetual bonds.

[d] The line "Property and equipment revaluation reserve" includes 55% of investments available-for-sale securities revaluation reserve/(deficit) (in accordance with the Basel standards).

During the years ended 31 December 2010, 2009 and 2008, the Group complied with all set capital requirements.

The capital adequacy ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks and other financial institutions for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated and perpetual debt disclosed in Note 29, and equity comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board of the Bank reviews its capital structure on quarterly basis. Based on the recommendations of the Management Board by making decisions on the Board of Directors or shareholders meeting, the Group balances its overall capital structure through new share issues, issues of new debt or the redemption of existing debt, and the payment of dividends.

The Group's overall capital risk management policy remains unchanged in comparison with 2009 and 2008.

38. RISK MANAGEMENT POLICIES

Management of risks is fundamental to the Group's business. The risk management functions include:

- Risk identification: The risks, which the Group is exposed to in its daily activities, are identified by the risk management system.
- Measuring risks: The Group measures the risks using various quantitative and qualitative methodologies, which include risk based profitability analysis, calculation of possible loss amounts, and utilization of specialized models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.
- Risk monitoring: Group's policies and procedures determine the processes for mitigating and minimizing the risks and establish limits on various types of operations. Such limits are reviewed on a periodic basis set forth in internal documents of the Group.
- Risk reporting: Risk reporting is performed on a line of business and on a consolidated basis. This information is periodically presented to the management.

The main risks inherent to the Group's operations are those related to:

- Credit risk
- Interest rate risk
- Liquidity risk
- Market risk
- Currency risk

Credit risk

The Group is exposed to credit risk which is the risk that counterparty to a financial instrument will fail to fulfill its obligation to the Group. This covers actual payment defaults as well as losses in value resulting from a decrease in credit quality of the counterparty.

Risk management and monitoring is performed within set procedures and limits by the Credit Committees and the Management of the Group. Risk management coordination is performed by the risk management specialist or Risk Management Departments. Daily risk management is performed by the Head of the Credit Departments or Credit Divisions of branches and subsidiaries.

To measure credit risk, the Group employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate term loan), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed workout groups).

The Group determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product, by industry sector and by region are approved by the Credit Committees. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committees.

Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Group applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

Structure of credit committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are aimed at accurate assessment of credit risk and its proper and timely monitoring. The policy frameworks (separate for retail lending and corporate lending) establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for management of distressed loans.

The Group has been centralizing decision making in the Head Office over the past several years. In particular, authorities of branches and regional directorates on approval of small entrepreneurship and retail loans have been transferred to Decision Making Centers (“DMCs”) in the Head office. Furthermore, most of branch and regional directorate authorities on corporate loan approvals have also been transferred to the Head Office of the Bank.

The Group currently has the following credit committees:

- Head office committees.
    - *Head Office Credit Committee.* This committee is authorized to approve corporate loans of up to equivalent of USD 5 million. The committee also approves retail and small entrepreneurship loans which exceed the thresholds and authorities set for DMCs.
    - *Commercial Directorate.* There are eight members of the committee, including the Chair person of the Group, who presides, and seven Managing Directors. The committee is authorized to approve loans exceeding equivalent of USD 5 million.
    - *Board of Directors.* All loans exceeding 10% of the Group's total assets as well as all transactions with related parties have to be approved by the Board of Directors.
- North Regional Directorate Committee. The Group has North Regional Directorate Committee, covering the north regions of Kazakhstan (Astana, Kostanay, Kokshetau and Petropavlovsk). The north directorate has limited authorities to grant loans.
- Branch Committees. Each of the Group's branches has a credit committee. The branches have limited authorities to grant loans.

Corporate loans

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of Risk Management Department №1, Collateral Valuation, Legal and Security Departments.

- Risk Management Department №1. The analytic group within the Head Office, which provides advice on commercial loans based on their assessment of the borrower's business and/or the project, to which the loan relates. Their assessment takes into account a number of industry and borrower specific factors, future cash flows of the potential borrower and anticipated risk-adjusted returns for the Group. For the purpose of the analysis, risk managers utilize the rating model described below. Furthermore, the Department of Risk Management №1 is involved in the Group's loan portfolio monitoring and in the development of procedures and guidelines with respect to the Group's lending.
- Collateral Valuation Department. The Group requires collateral for almost all of its loans. According to Kazakh legislation, collateral valuation should be performed by independent collateral valuation companies ("NOKs"). Collateral Valuation Department reviews appraisal reports issued by NOKs and carries out certification and monitoring of NOKs.
- Legal Department. The Group obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and collateral agreement.
- Security Department. The Security Department provides information on assets, credit history and reputation of potential borrowers. A central credit bureau has recently been established in Kazakhstan and this should improve the quality of information on the credit history of potential borrowers.

Retail and small entrepreneurship loans

Loans to retail and small entrepreneurship loans are subject to a standardized approval procedure. The Group has established two new divisions in the Risk Management Department №2, the Decision Making Centers ("DMCs"). One DMC processes retail loan applications, while the second unit makes decisions on small entrepreneurship loans. In order to approve or decline an application, the DMCs analyze payment ability and creditworthiness of a potential borrower on the basis of standard terms, criteria and procedures set forth by the Group.

The DMC on retail is authorized to approve applications from customers with one obligor exposure of up to equivalent of USD 200,000. The DMC on small entrepreneurship has authorities to approve applications from customers with one obligor exposure of up to equivalent of USD 500,000. Applications with larger exposures are referred to one of the relevant credit committees in the Head Office. The DMCs conduct analysis of the applications exceeding their authority limits, and the relevant credit committee takes their conclusions into account in decision making.

Allowance for credit losses

The Group establishes an allowance for impairment losses on loans and off-balance liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, a loan officer takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower.

Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks of certain financial assets and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and commitments. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 31.

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2010 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	223,231	-	223,231	-	223,231
Loans and advances to banks and other financial institutions	146,331	-	146,331	-	146,331
Loans to customers	2,174,760	(18,576)	2,156,184	(1,124,117)	1,032,067
Investments available-for-sale	16,822	-	16,822	-	16,822
Investments held to maturity	1,996	-	1,996	-	1,996
Other financial assets	6,962	-	6,962	-	6,962
Contingent liabilities and other credit commitments	102,376	(4,810)	97,566	(18,527)	79,039

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2009 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	114,203	-	114,203	-	114,203
Loans and advances to banks and other financial institutions	148,375	-	148,375	-	148,375
Loans to customers	2,160,767	(5,312)	2,155,455	(1,070,859)	1,084,596
Investments available-for-sale	16,696	-	16,696	-	16,696
Investments held to maturity	943	-	943	-	943
Other financial assets	10,074	-	10,074	-	10,074
Contingent liabilities and other credit commitments	140,410	(5,372)	135,038	(43,586)	91,452

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2008 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	58,130	-	58,130	-	58,130
Loans and advances to banks and other financial institutions	241,813	-	241,813	(5,783)	236,030
Loans to customers	2,144,782	(19,390)	2,125,392	(1,471,267)	654,125
Investments available-for-sale	15,056	-	15,056	-	15,056
Investments held to maturity	776	-	776	-	776
Other financial assets	16,619	-	16,619	-	16,619
Contingent liabilities and other credit commitments	156,504	(5,046)	151,458	(63,167)	88,291

[1] A description of the collateral presented on loans to customers is included in Note 18.

As at 31 December 2010, loans and advances to banks and other financial institutions also include loans under reverse repurchase agreements in amount of KZT 8,407 million (2009: KZT 10,893 million, 2008: KZT 65 million).

As at 31 December 2010, loans to customers include loans under reverse repurchase agreements in amount of KZT 818 million (2009: KZT 889 million, 2008: KZT 34,417 million).

As at 31 December 2010, financial assets at fair value through profit or loss and investments available-for-sale also include securities collateralized under repurchase agreements with total fair value of KZT Nil and KZT Nil, respectively (2009: KZT Nil and KZT Nil, respectively, 2008: KZT 9,860 million and KZT 1,235 million, respectively).

Credit ratings

Financial assets are graded according to the current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as a speculative grade.

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

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2010 Total (KZT million)
Financial assets at fair value through profit or loss	15,831	7,042	291	164,367	13,774	21,926	223,231
Loans and advances to banks and other financial institutions	-	40,478	36,813	30,460	3,761	34,819	146,331
Loans to customers	-	-	-	-	3,506	2,171,254	2,174,760
Investments available-for-sale	-	-	-	5,837	5,015	5,970	16,822
Investments held to maturity	-	154	-	1,132	661	49	1,996
Other financial assets	-	114	2	314	948	5,584	6,962

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2009 Total (KZT million)
Financial assets at fair value through profit or loss	-	11,102	146	59,789	6,506	36,660	114,203
Loans and advances to banks and other financial institutions	-	50,409	17,380	28,436	7,818	44,332	148,375
Loans to customers	-	-	-	483	4,614	2,155,670	2,160,767
Investments available-for-sale	-	-	-	5,373	5,268	6,055	16,696
Investments held to maturity	-	-	-	285	266	392	943
Other financial assets	-	-	-	-	-	10,074	10,074

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2008 Total (KZT million)
Financial assets at fair value through profit or loss	1,788	11,278	1,807	9,596	11,652	22,009	58,130
Loans and advances to banks and other financial institutions	-	57,754	106,466	747	25,595	51,251	241,813
Loans to customers	-	-	-	-	4,873	2,139,909	2,144,782
Investments available-for-sale	-	-	-	3,289	4,942	6,825	15,056
Investments held to maturity	-	-	-	230	317	229	776
Other financial assets	-	-	-	-	-	16,619	16,619

Since not all counterparties of the Group have credit ratings from international rating agencies, the Group has developed its own methodologies allowing it to assign internal credit ratings. Such methodologies include a rating model for corporate borrowers and scoring models for retail banking clients and small and medium enterprises ("SME"). The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

Loans to customer are classified by the responsible departments on the basis of internal assessment and other analytical procedures. Taking into account past experience, in December 2010 there was an improvement of the assessment methodology of probability of default of the loans based on a deeper analysis of the financial position of the borrower and future cash flows. As a result of this improvement, added to this analysis were qualitative and quantitative factors of the borrowers, such as operational efficiency, liquidity, capital adequacy ratios, cash flows and debt servicing ratios, quality of the management, risk of the industry, presence of facts of misapplication of funds and the customers' credit history.

At present, the Bank uses classification of loans to customers as follows:

Homogeneous loans: Loans to customers with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults and other factors). Collective assessment is performed on loans that were determined not to be individually significant.

Group 1: The borrower makes interest and principal payments without delay and in full. The borrower is clearly able to repay both the loan principal and interest and the borrower's high financial efficiency is expected to continue.

Group 2: The borrower makes interest and principal payments without delay and in full. The borrower is currently in a stable financial position, however, a possible negative trend may arise.

Group 3: The borrower makes interest and principal payments without delay and in full. There is evidence of some unsatisfactory financial results which may affect the ability of the borrower to repay in the future.

Group 4: The borrower makes interest and principal payments with delays and/or not in full. There is evidence of a significant number of unsatisfactory financial results which will affect the ability of the borrower to repay.

Group 5: The borrower is unable to make interest and principal payments without delays and in full. Financial efficiency is questionable and there is low probability of a full repayment in the future.

	31 December 2010	**31 December 2009**	**31 December 2008**
Homogeneous loans	114,401	133,615	158,114
Group 1	196,778	308,175	456,728
Group 2	560,786	595,156	993,734
Group 3	911,211	817,484	337,356
Group 4	284,612	162,781	88,648
Group 5	106,154	142,667	75,785
	2,173,942	2,159,878	2,110,365
Reverse repurchase agreements	818	889	34,417
Loans to customers	2,174,760	2,160,767	2,144,782

Impairment of financial assets

The following table details the carrying value of assets that are impaired:

	Neither past due nor impaired	Financial assets that have been assessed individually for impairment	Homogenous and individually assessed watch assets	31 December 2010 Total
Financial assets at fair value through profit or loss	223,111	120	-	223,231
Loans and advances to banks and other financial institutions	144,741	-	1,590	146,331
Loans to customers	191,175	473,550	1,510,035	2,174,760
Investments available-for-sale	16,822	-	-	16,822
Investments held to maturity	1,996	-	-	1,996
Other financial assets	6,962	-	-	6,962

	Neither past due nor impaired	Financial assets that have been assessed individually for impairment	Homogenous and individually assessed watch assets	31 December 2009 Total
Financial assets at fair value through profit or loss	113,604	599	-	114,203
Loans and advances to banks and other financial institutions	148,373	-	2	148,375
Loans to customers	309,855	440,013	1,410,899	2,160,767
Investments available-for-sale	16,696	-	-	16,696
Investments held to maturity	943	-	-	943
Other financial assets	10,074	-	-	10,074

	Neither past due nor impaired	Financial assets that have been assessed individually for impairment	Homogenous and individually assessed watch assets	31 December 2008 Total
Financial assets at fair value through profit or loss	58,130	-	-	58,130
Loans and advances to banks and other financial institutions	236,368	-	5,445	241,813
Loans to customers	492,388	122,395	1,529,999	2,144,782
Investments available-for-sale	13,772	1,284	-	15,056
Investments held to maturity	776	-	-	776
Other financial assets	16,619	-	-	16,619

As at 31 December 2010, the carrying value of assets that are overdue, but not impaired is KZT 1,738 million (2009: KZT 5,722 million, 2008: KZT 4,409 million) and they are overdue for less than 3-month period.

Geographical concentration

The relevant Credit Committees exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. The Group sets country limits for all countries with ratings below A- according to the Standard and Poor's classification.

The Management of the Group considers the main segment to be the Republic of Kazakhstan.

The geographical concentration of financial assets and financial liabilities is set out in tables below:

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Other non-OECD countries (KZT million)	31 December 2010 Total (KZT million)
FINANCIAL ASSETS:					
Cash and balances with national (central) banks	54,693	6,503	20	-	61,216
Precious metals	-	-	1,345	-	1,345
Financial assets at fair value through profit or loss	157,537	14,968	50,726	-	223,231
Loans and advances to banks and other financial institutions	10,694	9,055	126,582	-	146,331
Loans to customers	1,835,714	177,055	36,042	125,949	2,174,760
Investments available-for-sale	16,330	492	-	-	16,822
Investments held to maturity	1,842	-	154	-	1,996
Other financial assets	5,136	1,613	209	4	6,962
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	2,081,946	209,686	215,078	125,953	2,632,663
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	558	1,560	139,987	5,034	147,139
Customer accounts	1,450,156	38,769	10,781	7,094	1,506,800
Financial liabilities at fair value through profit or loss	37	5	36,005	-	36,047
Debt securities issued	1,717	2,975	370,427	80	375,199
Other borrowed funds	16,472	-	7,471	-	23,943
Dividends payable	-	4	-	-	4
Other financial liabilities	5,691	178	83	-	5,952
Subordinated debt	39,700	-	97,437	-	137,137
TOTAL FINANCIAL LIABILITIES	1,514,331	43,491	662,191	12,208	2,232,221
NET POSITION	567,615	166,195	(447,113)	113,745	

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Other non-OECD countries (KZT million)	31 December 2009 Total (KZT million)
FINANCIAL ASSETS:					
Cash and balances with national (central) banks	84,566	5,951	16	-	90,533
Precious metals	-	-	1,209	-	1,209
Financial assets at fair value through profit or loss	69,232	5,868	39,061	42	114,203
Loans and advances to banks and other financial institutions	14,886	4,218	128,480	791	148,375
Loans to customers	1,780,993	201,871	36,304	141,599	2,160,767
Investments available-for-sale	16,348	348	-	-	16,696
Investments held to maturity	938	5	-	-	943
Other financial assets	2,388	6,729	769	188	10,074
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	1,969,351	224,990	205,839	142,620	2,542,800
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	16,976	9,179	177,137	5,830	209,122
Customer accounts	1,240,089	17,814	10,880	7,681	1,276,464
Financial liabilities at fair value through profit or loss	11	60	35,920	-	35,991
Debt securities issued	-	1,385	462,197	74	463,656
Other borrowed funds	19,097	2	12,073	-	31,172
Dividends payable	-	15	-	-	15
Other financial liabilities	3,354	355	256	451	4,416
Subordinated debt	47,493	-	88,918	-	136,411
TOTAL FINANCIAL LIABILITIES	1,327,020	28,810	787,381	14,036	2,157,247
NET POSITION	642,331	196,180	(581,542)	128,584	

	Kazakhstan	CIS	OECD countries	Other non-OECD countries	31 December 2008 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
FINANCIAL ASSETS:					
Cash and balances with national (central) banks	73,457	5,324	11,697	-	90,478
Precious metals	-	-	317	-	317
Financial assets at fair value through profit or loss	24,815	5,848	27,096	371	58,130
Loans and advances to banks and other financial institutions	5,769	32,767	203,277	-	241,813
Loans to customers	1,725,020	243,648	28,626	147,488	2,144,782
Investments available-for-sale	14,920	136	-	-	15,056
Investments held to maturity	600	176	-	-	776
Other financial assets	8,760	4,698	2,981	180	16,619
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	1,853,341	292,597	273,994	148,039	2,567,971
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	84,197	15,063	189,981	7,150	296,391
Customer accounts	938,376	19,589	16,591	4,897	979,453
Financial liabilities at fair value through profit or loss	149	-	53,868	322	54,339
Debt securities issued	365	51,555	626,251	114	678,285
Other borrowed funds	3,420	2	133,902	-	137,324
Dividends payable	-	5	-	-	5
Other financial liabilities	6,917	475	82	3	7,477
Subordinated debt	38,318	-	79,406	-	117,724
TOTAL FINANCIAL LIABILITIES	1,071,742	86,689	1,100,081	12,486	2,270,998
NET POSITION	781,599	205,908	(826,087)	135,553	

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Main credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Asset and Liability Management Risks

Effective assets and liabilities management is fundamental to the Bank, which allows the Bank to offer competitive products in the market while maintaining the risk and profitability balance on the level creating additional value for shareholders.

The following are defined by the bank as key areas within asset and liability management:

- Structural risk management: structural interest rate and currency risks;
- Liquidity risk management;
- Market risk management in trading portfolio;
- Capital management.

The Group's Assets and Liabilities Management Committee (the "ALMC") is responsible for managing risks the bank is exposed to while managing assets and liabilities.

ALMC is responsible of making strategic and operational decisions with respect of managing asset and liabilities with purpose of:

- Maintaining and further increasing net income while keeping risk exposure at an acceptable level;
- Ensuring continuity of the bank operations.

In order to fulfill the objectives set above, short meetings of the ALMC take place on a weekly basis while extended meetings are organized monthly. Operational asset and liability management questions including trading portfolio performance and liquidity management are considered at the weekly meetings. At the monthly meetings ALMC discusses more strategic questions including balance sheet structure management. Various reports are presented to ALMC's attention including but not limiting to trading portfolio reports, open currency positions, liquidity gaps, cash flows, stress tests, etc. ALMC is lead by the chairperson of the bank and includes nine permanent members: the Chairman of the Board, seven Managing Directors and head of the Treasury Department.

Structural interest rate risk

In 2009 as a result of a Asset and Liability Management ("ALM") and Market Risk Management ("MRM") consultancy project the Group adopted a new approach to define and manage overall interest rate risk of the Group. The approach implies distinguishing interest rate risk in trading portfolio from structural interest rate risk since they impact capital and profit and loss differently. These two subtypes of the risk are now measured and managed separately. This section covers structural interest rate risk. Interest rate risk in trading portfolio is measured and managed by the bank as a part of market risks.

Structural interest rate risk is a risk of possible decline in interest income generated on balance and off-balance sheet positions accounted at amortized cost as a result of changes in market interest rates. Thus managing structural interest rate risk implies managing exposure of the Bank's net interest income and hence capital to market interest rate changes with the purpose of limiting and controlling possible income reductions or losses and ensuring optimal and stable interest income inflow.

To manage structural interest rate risk ALMC monitors and analyzes re-pricing gap and earnings at risk as well as interest rate margins. This helps the Group mitigate exposure to the structural interest rate risk and maintain positive interest rate margin. The Risk Management Department monitors financial activity of the Group regularly assessing its exposure to changes in interest rates and income impact of the changes.

As for the moment most of the loans extended by the Group are at fixed rate agreements. At the same time the loan agreements allow the Group to change the interest rate thus allowing the Group to decrease interest rate risks.

The following table presents an analysis of interest rate risk. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2010			**31 December 2009**			**31 December 2008**		
	% in KZT	**% in USD**	**% in other currencies**	**% in KZT**	**% in USD**	**% in other currencies**	**% in KZT**	**% in USD**	**% in other currencies**
ASSETS:									
Financial assets at fair value through profit or loss	2.53	3.16	9.47	3.50	1.91	12.61	8.62	6.31	8.96
Loans and advances to banks and other financial institutions	0.35	3.99	0.84	0.56	4.01	1.91	11.01	2.83	2.21
Loans to customers	12.38	11.79	11.80	13.86	13.70	11.59	15.94	15.19	15.22
Investments available-for-sale and held to maturity	5.32	1.05	-	7.34	-	7.37	13.45	0.87	15.54
LIABILITIES:									
Loans and advances from banks and other financial institutions	1.15	4.97	5.33	3.49	5.10	7.76	7.81	5.73	9.73
Customer accounts	5.38	4.72	6.92	5.91	6.95	6.81	7.29	6.89	8.04
Debt securities issued	9.00	8.36	6.59	-	8.71	6.72	-	8.26	6.76
Other borrowed funds	7.66	1.31	-	7.66	1.88	-	7.49	3.00	-
Subordinated debt	6.94	8.61	-	7.52	8.47	-	7.69	8.45	-

The Group uses derivative financial instruments to mitigate the interest rate risk and control the interest rate margin by types of products. Management monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of change in interest rates and related cash flow interest rate risk.

Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group's sensitivity to changes in market interest rates and their influence on the Group's profitability. If necessary, the Risk Management Department suggests decreasing the relevant risk levels to the ALMC of the Group.

During 2009 the Group had changed its risk management policy in relation to interest rate risk sensitivity analysis and methods of calculation. From the beginning of 2009 in calculating and analyzing sensitivity of net profit of the Group to structural interest rate risk, the Group applies the earnings at risk ratio (EaR). EaR is based on interest rate gap and measures the potential fluctuations in earnings over a given time interval under normal market conditions and based on the following assumptions:

- the period when possible losses are incurred, is one year. One year is viewed as a period, within which the Group may raise new funding or restructure its assets and liabilities with a purpose of returning and keeping its risks level within its risk appetite;
- EaR is calculated based on the assumption that each interest rate gap will be reassessed at a new interest rate.

As at the reporting date, in calculating EaR, as reasonably possible, the Group applied the range of interest rate fluctuations in 200 bp across the yield curve.

The following table presents the sensitivity of the Group's consolidated income statement to the above changes to interest rates, in which all other parameters are assumed to be constant:

Earnings at risk (EaR)	**31 December 2010 (KZT million)**
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	1,982
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	(1,982)

Earnings at risk (EaR)	**31 December 2009 (KZT million)**
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	3,694
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	(3,694)

At the reporting date, the Group's equity is not sensitive to interest rate fluctuations, since the interest rate swaps became ineffective in 2009 and, accordingly, changes in fair value of these instruments are recognized in the consolidated income statement.

During 2008, the Group used two interest rate variation ranges as reasonable in relation to the sensitivity of its financial instruments: 10 basis points ("bp") for those in USD and 100 bp for those in other currencies, as opposed to the previous year when the Group applied 100 bp to yield curves in all currencies.

During 2008, sensitivity of the consolidated income statement represented fluctuations of interest income due to changes in interest rates for the period of one year, estimated on the basis of interest-bearing instruments of the trading portfolio, and assets and liabilities with floating interest rates.

The following table presents the sensitivity of the Group's consolidated income statement to the above changes in interest rates, in which all other parameters apart from interest rates are assumed to be constant.

	31 December 2008 (KZT million)			
	US dollar		Other currencies	
	+10 bp	-10 bp	+100 bp	-100 bp
Assets:				
Financial assets at fair value through profit or loss:				
Bonds	(3)	3	(571)	596
Derivative financial instruments	332	(335)	-	-
Instruments with floating rates:				
Loans and advances to banks	24	(24)	-	-
Loans to customers	-	-	52	(52)
Investments held-to-maturity:				
Instruments with floating rates	-	-	3	(3)
Liabilities:				
Instruments with floating rates:	(266)	266	(94)	94
Loans and advances from banks	(50)	50	(335)	335
Net effect on profit before tax	37	(40)	(945)	970

Possible losses from a change in the interest rate within the range, provided all other parameters remained fixed, amount to less than 1% of the Group's consolidated capital, which was considered as permissible and did not require a further change in the Group's strategy and policy. It should be noted that in 2008 the interest rate sensitivity decreased as a result of significant reduction of the volumes of floating rate liabilities and securities portfolio. In addition, due to considerable increase of yield to maturity (as a result of greatly widened credit spreads) prices of most financial instruments in the Group's portfolio fell. Hedging using interest rate swaps had also helped reduce the volatility of the Group's profit resulting from interest rate movements.

The sensitivity of capital to feasible variations in interest rates at 31 December 2008 has been provided in the following table:

	31 December 2008 (KZT million)			
	US dollar		Other currencies	
	+10 bp	-10 bp	+100 bp	-100 bp
Assets				
Investments available-for-sale:				
Bonds	-	-	(73)	77
Derivative financial instruments	117	(118)	-	-
Net effect on profit before tax	37	(40)	(945)	970
Change in equity	154	(158)	(1,018)	1,047

The possible changes in capital due to applied shifts in interest rates were less than 1% of the Group's equity, which was considered acceptable by the Group. Since hedging began, the effective part of the revaluation of swap transactions has had an effect on capital provisions as at 31 December 2008 due to a movement in interest rates. The sensitivity analysis does not take into account the tax effect on equity.

The management of the Group periodically monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of fluctuations in interest rates and the corresponding risk of changes in cash flows.

The Group considers the above sensitivity to structural interest rate risk as reasonable.

Liquidity risk

Liquidity risk is the risk that the Bank will not have enough funding at reasonable price to meet all cash outflows (on- and off-balance sheet).

ALMC controls these types of risks by means of weekly liquidity gap analysis and taking appropriate decisions to reduce liquidity risk. Current liquidity is managed by the Treasury Department through the deals in the money markets, with placement of available funds in liquid securities in line with instructions of ALMC.

The Group maintains the compliance to regulatory requirements, including term liquidity ratios and foreign exchange liquidity. The Group considers these requirements to be strict, and, as such, this measure guarantees maintaining appropriate liquidity level.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the contractual maturity date. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2010 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	37,256	18,997	85,580	40,550	34,912	-	217,295
Loans and advances to banks and other financial institutions	94,795	10,184	17,473	23,589	15	-	146,056
Loans to customers	32,128	95,225	568,158	611,068	566,962	-	1,873,541
Debt securities included in investments available-for-sale	-	-	940	4,359	6,157	-	11,456
Investments held to maturity	-	-	1	1,007	949	-	1,957
Total interest bearing assets	164,179	124,406	672,152	680,573	608,995	-	2,250,305
Cash and balances with national (central) banks	58,837	-	-	-	2,379	-	61,216
Precious metals	1,345	-	-	-	-	-	1,345
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	4,519	4,519
Equity securities in the investments available-for-sale	-	-	-	-	-	4,946	4,946
Accrued interest income on interest-bearing assets	50,197	56,372	65,617	131,120	64	-	303,370
Other financial assets	4,800	917	1,225	20	-	-	6,962
TOTAL FINANCIAL ASSETS	279,358	181,695	738,994	811,713	611,438	9,465	2,632,663
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	-	-	146,647
Customer accounts	556,953	108,891	479,002	257,491	87,696	-	1,490,033
Debt securities issued	714	36,781	8,557	190,480	127,341	-	363,873
Other borrowed funds	-	95	666	5,042	17,823	-	23,626
Subordinated debt	-	-	-	41,834	86,328	6,703	134,865
Total interest bearing liabilities	560,392	158,381	547,272	567,108	319,188	6,703	2,159,044
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	-	36,047
Dividends payable	-	-	4	-	-	-	4
Accrued interest expense on interest-bearing liabilities	5,551	11,935	13,019	669	-	-	31,174
Other financial liabilities	5,036	344	269	303	-	-	5,952
TOTALFINANCIAL LIABILITIES	573,030	173,134	561,012	596,446	321,896	6,703	2,232,221
Liquidity gap	(293,672)	8,561	177,982	215,267	289,542		
Interest sensitivity gap	(396,213)	(33,975)	124,880	113,465	289,807		
Cumulative interest sensitivity gap	(396,213)	(430,188)	(305,308)	(191,843)	97,964		
Cumulative interest sensitivity gap as a percentage of total assets	(15.0%)	(16.3%)	(11.6%)	(7.3%)	3.7%		
Contingent liabilities and credit commitments	1,672	5,829	51,791	29,357	4,692	-	

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2009 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	6,076	17,618	32,108	19,574	35,748	-	111,124
Loans and advances to banks and other financial institutions	89,440	531	52,080	5,907	15	-	147,973
Loans to customers	19,363	53,437	534,511	886,195	442,751	-	1,936,257
Debt securities included in investments available-for-sale	3	100	5,453	4,557	853	-	10,966
Investments held to maturity	-	194	11	558	150	-	913
Total interest bearing assets	114,882	71,880	624,163	916,791	479,517	-	2,207,233
Cash and balances with national (central) banks	89,584	-	-	-	949	-	90,533
Precious metals	1,209	-	-	-	-	-	1,209
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	2,638	2,638
Equity securities in the investments available-for-sale	-	-	-	-	-	5,252	5,252
Accrued interest income on interest-bearing assets	47,126	30,219	88,003	60,452	61	-	225,861
Other financial assets	5,958	516	3,145	435	20	-	10,074
TOTAL FINANCIAL ASSETS	258,759	102,615	715,311	977,678	480,547	7,890	2,542,800
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	24,656	4,752	42,296	133,463	2,896	-	208,063
Customer accounts	369,466	54,037	458,544	324,501	50,973	-	1,257,521
Debt securities issued	314	684	2,246	248,862	197,304	-	449,410
Other borrowed funds	-	23	674	4,946	25,124	-	30,767
Subordinated debt	-	-	-	14,836	112,524	6,747	134,107
Total interest bearing liabilities	394,436	59,496	503,760	726,608	388,821	6,747	2,079,868
Financial liabilities at fair value through profit or loss	174	137	594	26,361	8,725	-	35,991
Dividends payable	-	-	15	-	-	-	15
Accrued interest expense on interest-bearing liabilities	6,078	6,278	15,153	560	8,888	-	36,957
Other financial liabilities	769	3,470	100	77	-	-	4,416
TOTALFINANCIAL LIABILITIES	401,457	69,381	519,622	753,606	406,434	6,747	2,157,247
Liquidity gap	(142,698)	33,234	195,689	224,072	74,113		
Interest sensitivity gap	(279,554)	12,384	120,403	190,183	90,696		
Cumulative interest sensitivity gap	(279,554)	(267,170)	(146,767)	43,416	134,112		
Cumulative interest sensitivity gap as a percentage of total assets	(11.0%)	(10.5%)	(5.8%)	1.7%	5.3%		
Contingent liabilities and credit commitments	11,508	12,213	52,530	54,095	86	55	

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2008 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	1,127	6,647	26,489	13,592	8,407	-	56,262
Loans and advances to banks and other financial institutions	181,044	14,210	39,658	1,051	4,727	-	240,690
Loans to customers	69,388	94,480	484,754	861,803	536,174	-	2,046,599
Debt securities included in investments available-for-sale	106	-	822	4,292	5,631	-	10,851
Investments held to maturity	174	6	2	105	470	-	757
Total interest bearing assets	251,839	115,343	551,725	880,843	555,409	-	2,355,159
Cash and balances with national (central) banks	90,478	-	-	-	-	-	90,478
Precious metals	317	-	-	-	-	-	317
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	1,276	1,276
Equity securities in the investments available-for-sale	-	-	-	-	-	3,301	3,301
Accrued interest income on interest-bearing assets	30,866	23,345	43,105	3,504	1	-	100,821
Other financial assets	8,828	1,824	4,980	987	-	-	16,619
TOTAL FINANCIAL ASSETS	382,328	140,512	599,810	885,334	555,410	4,577	2,567,971
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	75,572	21,388	92,777	93,727	10,689	-	294,153
Customer accounts	383,076	32,790	316,450	229,805	2,722	-	964,843
Debt securities issued	487	8,405	90,220	260,093	299,501	-	658,706
Other borrowed funds	2	7,416	8,876	81,475	38,991	-	136,760
Subordinated debt	-	-	3,337	-	95,005	17,454	115,796
Total interest bearing liabilities	459,137	69,999	511,660	665,100	446,908	17,454	2,170,258
Financial liabilities at fair value through profit or loss	426	229	720	37,524	15,440	-	54,339
Dividends payable	-	5	-	-	-	-	5
Accrued interest expense on interest-bearing liabilities	3,476	15,973	16,312	3,158	-	-	38,919
Other financial liabilities	4,331	1,473	1,664	9	-	-	7,477
TOTAL FINANCIAL LIABILITIES	467,370	87,679	530,356	705,791	462,348	17,454	2,270,998
Liquidity gap	(85,042)	52,833	69,454	179,543	93,062		
Interest sensitivity gap	(207,298)	45,344	40,065	215,743	108,501		
Cumulative interest sensitivity gap	(207,298)	(161,954)	(121,889)	93,854	202,355		
Cumulative interest sensitivity gap as a percentage of total assets	(8.1%)	(6.3%)	(4.7%)	3.7%	7.9%		
Contingent liabilities and credit commitments	4,927	30,806	52,999	57,844	490	54	

Based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over. The Group is aware of the importance of maintaining the stability of these deposits. In order to achieve this it is essential that the Group ensures depositor confidence in the Group's liquidity, by continuing to position itself as the depositor of choice in local markets and a leading financial institution in both the Republic of Kazakhstan and abroad.

A further analysis of the liquidity is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities, which indicates the total remaining contractual payments, including interest payments,, which are not recognized in the consolidated statement of financial position under the effective interest rate method.

	Up to 1 month (KZT million)	**1 month to 3 months (KZT million)**	**3 months to 1 year (KZT million)**	**1 year to 5 years (KZT million)**	**Over 5 years (KZT million)**	**Maturity undefined (KZT million)**	**31 December 2010 Total (KZT million)**
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	2,725	12,614	59,047	72,261	-	-	146,647
Customer accounts	556,953	108,891	479,002	257,491	87,696	-	1,490,033
Debt securities issued	714	36,781	8,557	190,480	127,341	-	363,873
Other borrowed funds	-	95	666	5,042	17,823	-	23,626
Subordinated debt	-	-	-	41,834	86,328	6,703	134,865
Total interest bearing financial liabilities	560,392	158,381	547,272	567,108	319,188	6,703	2,159,044
Financial liabilities at fair value through profit or loss	2,051	2,474	448	28,366	2,708	-	36,047
Accrued interest expense on interest-bearing liabilities	12,538	33,909	95,871	166,545	66,494	-	375,357
Other financial liabilities	5,036	344	269	303	-	-	5,952
Contingent liabilities and other credit commitments	1,672	5,829	51,791	29,357	4,692	-	93,341
TOTAL FINANCIAL LIABILITIES	581,689	200,937	695,651	791,679	393,082	6,703	2,669,741

	Up to 1 month (KZT million)	**1 month to 3 months (KZT million)**	**3 months to 1 year (KZT million)**	**1 year to 5 years (KZT million)**	**Over 5 years (KZT million)**	**Maturity undefined (KZT million)**	**31 December 2009 Total (KZT million)**
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	24,656	4,752	42,296	133,463	2,896	-	208,063
Customer accounts	369,466	54,037	458,544	324,501	50,973	-	1,257,521
Debt securities issued	314	684	2,246	248,862	197,304	-	449,410
Other borrowed funds	-	23	674	4,946	25,124	-	30,767
Subordinated debt	-	-	-	14,836	112,524	6,747	134,107
Total interest bearing financial liabilities	394,436	59,496	503,760	726,608	388,821	6,747	2,079,868
Financial liabilities at fair value through profit or loss	174	137	594	26,361	8,725	-	35,991
Accrued interest expense on interest-bearing liabilities	9,755	18,726	84,826	141,193	72,859	-	327,359
Other financial liabilities	769	3,470	100	77	-	-	4,416
Contingent liabilities and other credit commitments	11,508	12,213	52,530	54,095	86	55	130,487
TOTAL FINANCIAL LIABILITIES	416,642	94,042	641,810	948,334	470,491	6,802	2,578,121

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2008 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	75,572	21,388	92,777	93,727	10,689	-	294,153
Customer accounts	383,076	32,790	316,450	229,805	2,722	-	964,843
Debt securities issued	487	8,405	90,220	260,093	299,501	-	658,706
Other borrowed funds	2	7,416	8,876	81,475	38,991	-	136,760
Subordinated debt	-	-	3,337	-	95,005	17,454	115,796
Total interest bearing financial liabilities	459,137	69,999	511,660	665,100	446,908	17,454	2,170,258
Financial liabilities at fair value through profit or loss	426	229	720	37,524	15,440	-	54,339
Accrued interest expense on interest-bearing liabilities	56,233	76,215	190,354	489,600	195,914	333	1,008,649
Other financial liabilities	4,331	1,473	1,664	9	-	-	7,477
Contingent liabilities and other credit commitments	4,927	30,806	52,999	57,844	490	54	147,120
TOTAL FINANCIAL LIABILITIES	525,054	178,722	757,397	1,250,077	658,752	17,841	3,387,843

Market risk

The Group defines market risk as currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios, as well as currency positions.

The Risk Management Department measures the risks and generates treasury position reports, which are presented to the ALMC of the Group. Risk Management Department calculates VaR to measure the market risk on equity, fixed income and currency positions and breaks it down to individual risk factors (currency risk, interest rate risk, equity risk etc.). This allows the Group to analyze exposure to each risk factor and make further decisions to mitigate a particular exposure. For internal reporting purposes, in addition to VAR analysis discussed above, the Bank also performs sensitivity analysis on its currency risk and interest rate exposures. This sensitivity analysis is presented in these financial statements.

Currency risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which give the Group an opportunity to minimize losses from significant currency fluctuations. Similar to liquidity risk management, the Treasury Department manages open currency positions of the Group using data generated by the Prudentials Monitoring and Credit Reporting Division on a daily basis.

The FMSA sets strict limits on open currency positions. This measure also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

As at 31 December 2010 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2010 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	44,631	7,509	3,355	4,710	1,011	61,216
Precious metals	-	-	-	-	1,345	1,345
Financial assets at fair value through profit or loss	162,170	32,910	9,747	12,994	5,410	223,231
Loans and advances to banks and other financial institutions	9,857	118,233	12,041	3,553	2,647	146,331
Loans to customers	891,462	1,246,378	10,579	26,029	312	2,174,760
Investments available-for-sale	12,671	4,151	-	-	-	16,822
Investments held to maturity	1,491	505	-	-	-	1,996
Other financial assets	4,377	1,217	92	1,267	9	6,962
TOTAL FINANCIAL ASSETS	1,126,659	1,410,903	35,814	48,553	10,734	2,632,663
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	1,797	140,400	4,777	125	40	147,139
Customer accounts	784,476	635,996	60,435	22,762	3,131	1,506,800
Financial liabilities at fair value through profit or loss	27,561	8,481	-	5	-	36,047
Debt securities issued	2,473	220,977	118,542	545	32,662	375,199
Other borrowed funds	16,319	7,624	-	-	-	23,943
Dividends payable	-	-	-	-	4	4
Other financial liabilities	5,783	-	5	132	32	5,952
Subordinated debt	33,205	103,932	-	-	-	137,137
TOTAL FINANCIAL LIABILITIES	871,614	1,117,410	183,759	23,569	35,869	2,232,221
OPEN POSITION	255,045	293,493	(147,945)	24,984	(25,135)	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2010:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2010 Total (KZT million)
Accounts payable on spot and derivative contracts	(23,889)	(288,827)	(26,943)	(3,851)	(4,097)	(347,607)
Accounts receivable on spot and derivative contracts	25,508	50,651	177,645	1,423	79,911	335,138
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	1,619	(238,176)	150,702	(2,428)	75,814	

As at 31 December 2009 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2009 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	61,450	7,753	16,345	2,913	2,072	90,533
Precious metals	-	-	-	-	1,209	1,209
Financial assets at fair value through profit or loss	91,413	359	10,647	5,196	6,588	114,203
Loans and advances to banks and other financial institutions	13,253	120,762	6,065	3,943	4,352	148,375
Loans to customers	773,155	1,338,637	10,172	37,770	1,033	2,160,767
Investments available-for-sale	12,262	4,434	-	-	-	16,696
Investments held to maturity	938	-	-	-	5	943
Other financial assets	3,138	876	52	5,585	423	10,074
TOTAL FINANCIAL ASSETS	955,609	1,472,821	43,281	55,407	15,682	2,542,800
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	4,959	178,337	9,939	15,846	41	209,122
Customer accounts	632,542	549,936	75,772	14,414	3,800	1,276,464
Financial liabilities at fair value through profit or loss	30,111	5,820	-	60	-	35,991
Debt securities issued	-	269,783	148,576	254	45,043	463,656
Other borrowed funds	19,097	12,075	-	-	-	31,172
Dividends payable	-	-	-	-	15	15
Other financial liabilities	2,363	333	646	634	440	4,416
Subordinated debt	31,736	104,675	-	-	-	136,411
TOTAL FINANCIAL LIABILITIES	720,808	1,120,959	234,933	31,208	49,339	2,157,247
OPEN POSITION	234,801	351,862	(191,652)	24,199	(33,657)	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2009:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2009 Total (KZT million)
Accounts payable on spot and derivative contracts	(892)	(304,125)	-	(4,599)	-	(309,616)
Accounts receivable on spot and derivative contracts	28,017	5,463	192,555	5,053	83,860	314,948
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	27,125	(298,662)	192,555	454	83,860	

As at 31 December 2008 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2008 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	40,444	9,627	2,723	3,599	34,085	90,478
Precious metals	-	-	-	-	317	317
Financial assets at fair value through profit or loss	35,299	3,302	9,546	5,510	4,473	58,130
Loans and advances to banks and other financial institutions	4,499	164,905	62,302	4,779	5,328	241,813
Loans to customers	725,185	1,340,347	12,024	66,171	1,055	2,144,782
Investments available-for-sale	12,209	2,847	-	-	-	15,056
Investments held to maturity	600	-	-	-	176	776
Other financial assets	7,126	2,447	1,368	5,177	501	16,619
TOTAL FINANCIAL ASSETS	825,362	1,523,475	87,963	85,236	45,935	2,567,971
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	16,512	244,090	11,211	23,847	731	296,391
Customer accounts	443,862	481,640	39,467	12,505	1,979	979,453
Financial liabilities at fair value through profit or loss	52,306	2,033	-	-	-	54,339
Debt securities issued	-	359,271	188,535	22,727	107,752	678,285
Other borrowed funds	9,362	127,962	-	-	-	137,324
Dividends payable	-	-	-	-	5	5
Other financial liabilities	4,438	2,396	8	582	53	7,477
Subordinated debt	38,139	79,585	-	-	-	117,724
TOTAL FINANCIAL LIABILITIES	564,619	1,296,977	239,221	59,661	110,520	2,270,998
OPEN POSITION	260,743	226,498	(151,258)	25,575	(64,585)	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2008:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2008 Total (KZT million)
Accounts payable on spot and derivative contracts	(120,432)	(294,254)	(16,143)	-	(5,872)	(436,701)
Accounts receivable on spot and derivative contracts	50,780	135,391	168,951	1,644	75,401	432,167
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(69,652)	(158,863)	152,808	1,644	69,529	

Currency risk sensitivity analysis

The Group estimates the possible effect of a 10% fluctuation in foreign currency rates on the consolidated income statement and consolidated equity based on the sensitivity analysis of the internally prepared open currency position report, which includes derivative financial instruments.

The analysis is based on the calculation of the impact of possible fluctuations in US dollar, Euro and Russian Ruble currency rates on the consolidated income statements and consolidated equity. This is due to the fact that as at 31 December 2010 these were the main currencies in which the Group had open positions. A 10% fluctuation is determined as a “reasonably possible change in the risk variable” by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated income statement and consolidated equity of such fluctuations.

31 December 2010 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on profit or loss	4,761	(4,571)	3,428	(3,428)	2,750	(2,750)
Impact on equity	-	-	-	-	-	-

31 December 2009 (KZT million) (Restated)*

	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on profit or loss	149	(200)	3,104	(3,104)	2,925	(2,925)
Impact on equity	-	-	-	-	-	-

* Restated as described under Restatement in Note 4.

31 December 2008 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB	
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on profit or loss	8,583	(8,525)	445	(445)	3,069	(3,069)
Impact on equity	(3,356)	3,442	3,489	(3,489)	-	-

The table shows the possible effect on the Group’s consolidated profit and equity if one of the above foreign currencies strengthens or weakens by 10% at the current date to all other currencies represented in the Group’s consolidated statement of financial position. In the event of the strengthening or devaluation of the tenge, open positions on all foreign currencies could have an impact on profit, while the value of the cross-currency swaps is not as sensitive to movements in the tenge exchange rate. Thus, at a 25% tenge devaluation at the reporting date the positive effect on the consolidated income statement of the Group would be KZT 38,380 million (2009: KZT 32,098 million, 2008: KZT 24,004 million) and at a 35% tenge devaluation it would amount to KZT 53,732 million (2009: KZT 44,936 million, 2008: KZT 33,657 million). The breakdown of these tenge devaluation effects are given in the following table:

31 December 2010 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB		KZT/Other		Total	
	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%
Impact on profit or loss	18,121	25,369	664	929	6,874	9,624	12,721	17,810	38,380	53,732

31 December 2009 (KZT million)

	KZT/USD		KZT/EUR		KZT/RUB		KZT/Other		Total	
	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%
Impact on profit or loss	12,052	16,872	162	227	7,313	10,238	12,571	17,599	32,098	44,936

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger impacts should not be extrapolated from these results.

	31 December 2008 (KZT million)									
	KZT/USD		KZT/EUR		KZT/RUB		KZT/Other		Total	
	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%
Impact on profit or loss	14,764	20,720	300	420	7,672	10,741	1,268	1,776	24,004	33,657

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary depending on any actual market movements, since the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In instances where there are significant or unexpected changes in market conditions, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the risk factors may be different from those shown above.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with a fair degree of certainty; and the assumption that all interest rates move in an identical fashion.

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