Tsesnabank JSC

Consolidated Financial Statements

for the year ended 31 December 2010

Contents

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Independent Auditors' Report

The Board of Directors of Tsesnabank JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Alun Bowen
Managing Partner

KPMG Audit LLC

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

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

8 April 2011

	Note	2010 KZT'000	2009 KZT'000
Interest income	4	21,153,546	17,801,078
Interest expense	4	(13,861,496)	(11,271,834)
Net interest income		**7,292,050**	**6,529,244**
Fee and commission income	5	3,613,202	2,501,474
Fee and commission expense	6	(305,730)	(197,530)
Net fee and commission income		**3,307,472**	**2,303,944**
Net earned insurance premiums		86,055	-
Net (loss)/gain on financial instruments at fair value through profit or loss	7	(184,110)	1,359,576
Loss on sale of held-to-maturity investments		-	(819,795)
Net foreign exchange income	8	601,232	1,123,338
Net gain on available-for-sale financial assets		34	31,630
Dividend income		45,825	39,368
Income from investment in associate		12,467	9,555
Other income		125,236	73,660
Other operating income		**686,739**	**1,817,332**
Impairment losses	9	(2,245,348)	(3,454,556)
Personnel expenses	10	(3,190,365)	(2,835,800)
Other general administrative expenses	11	(5,047,058)	(3,540,239)
Other operating expenses		**(10,482,771)**	**(9,830,595)**
Profit before income tax		**803,490**	**819,925**
Income tax expense	12	(117,536)	(313,768)
Profit for the year		**685,954**	**506,157**
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(208)	(107,884)
- Net change in fair value transferred to profit or loss		(34)	(31,630)
Foreign currency translation differences for foreign operations		(3,450)	91,905
Other comprehensive income for the year, net of income tax		**(3,692)**	**(47,609)**
Total comprehensive income for the year		**682,262**	**458,548**
Basic and diluted earnings per ordinary share (in KZT)	29	44	33

The consolidated financial statements as set out on pages 5 to 72 were approved by the Management Board on 8 April 2011:

Zhaksybek D.A.
Chairman of the Board

Bagautdinova N.M.
Chief Accountant

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

	Note	2010 KZT'000	2009 KZT'000
ASSETS			
Cash and cash equivalents	13	26,557,990	16,292,282
Loans and advances to banks	14	6,846,556	27,805,060
Financial instruments at fair value through profit or loss	15	12,473,694	8,563,410
Available-for-sale financial assets	16	2,541,675	743,941
Loans to customers	17	153,167,536	104,859,760
Held-to-maturity investments	18	10,567,045	4,319,954
Investment in associate	21	167,650	155,183
Investment property	20	1,267,483	1,267,483
Property, equipment and intangible assets	19	7,958,700	4,902,912
Current tax asset		30,935	-
Deferred tax asset	12	43,650	59,155
Other assets	22	4,550,965	6,346,580
Total assets		**226,173,879**	**175,315,720**
LIABILITIES			
Due to the Government of the Republic of Kazakhstan		51,186	90,689
Deposits and balances from banks and other financial institutions	23	11,984,480	14,674,168
Current accounts and deposits from customers	24	176,680,054	119,119,150
Debt securities issued	25	8,805,064	17,687,610
Subordinated debt	26	6,467,424	6,886,279
Other liabilities	27	850,734	1,205,149
Total liabilities		**204,838,942**	**159,663,045**
EQUITY			
Share capital	28	20,500,000	15,500,000
Share premium		1,770	1,770
Revaluation reserve for property and equipment		14,129	15,012
Revaluation reserve for available-for-sale financial assets		(2,259)	(2,017)
Cumulative translation reserve		74,500	77,950
Reserve for general banking risks		2,777,280	2,316,740
Accumulated deficit		(2,030,483)	(2,256,780)
Total equity		**21,334,937**	**15,652,675**
Total liabilities and equity		**226,173,879**	**175,315,720**

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

	2010 KZT'000	2009 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	16,509,879	12,589,903
Interest payments	(14,277,223)	(11,290,061)
Fee and commission receipts	3,613,202	2,501,474
Fee and commission payments	(305,730)	(197,530)
Net receipts/(payments) from financial instruments at fair value through profit or loss	12,763	(26,807)
Net earned premium receipts	86,055	-
Net receipts from foreign exchange	689,487	1,601,942
Dividends received	45,825	39,368
Other income receipts	124,167	71,441
Other general administrative expenses	(7,692,655)	(5,964,704)
(Increase)/decrease in operating assets		
Obligatory reserves	(668,633)	340,162
Loans and advances to banks	21,669,811	(21,389,500)
Financial instruments at fair value through profit or loss	(4,083,745)	(3,050,205)
Loans to customers	(47,014,901)	(16,358,449)
Other assets	(1,079,509)	(2,890,909)
Increase/(decrease) in operating liabilities		
Due to the Government of the Republic of Kazakhstan	(39,503)	(52,490)
Deposits and balances from banks and other financial institutions	(2,735,349)	6,932,314
Current accounts and deposits from customers	57,655,616	38,509,425
Other liabilities	(286,805)	(184,198)
Net cash provided from operating activities before income tax paid	**22,222,752**	**1,181,176**
Income tax paid	(98,714)	(81,605)
Cash flows from operations	**22,124,038**	**1,099,571**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(2,113,168)	(494)
Sale and repayment of available-for-sale financial assets	645,515	2,300,225
Purchases of held-to-maturity investments	(35,601,572)	(16,637,010)
Sales of held-to-maturity investments	-	4,404,356
Redemption of held-to-maturity investments	30,000,000	12,572,208
Purchases of property, equipment and intangible assets	(799,813)	(3,445,409)
Proceeds of sales of property, equipment and intangible assets	8,745	4,653,909
Cash flows (used in)/from investing activities	**(7,860,293)**	**3,847,785**

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

	2010 KZT'000	2009 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of subordinated debt	-	218,579
Repayment of subordinated debt	(385,898)	-
Redemption of debt securities	(8,593,753)	(6,819,326)
Proceeds from issuance of share capital	5,000,000	127,693
Cash flows used in financing activities	**(3,979,651)**	**(6,473,054)**
Net increase/(decrease) in cash and cash equivalents	**10,284,094**	**(1,525,698)**
Effect of changes in exchange rates on cash and cash equivalents	(18,386)	(39,599)
Cash and cash equivalents as at the beginning of the year	16,292,282	17,857,579
Cash and cash equivalents as at the end of the year (Note 13)	**26,557,990**	**16,292,282**

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

KZT'000	Share capital	Share premium	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Cumulative translation reserve	Reserve for general banking risk	Accumulated deficit	Total equity
Balance as at 1 January 2009	15,372,307	1,770	1,714,922	137,497	(13,955)	2,316,740	(4,462,847)	15,066,434
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	506,157	506,157
Other comprehensive income								
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	(107,884)	-	-	-	(107,884)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	(31,630)	-	-	-	(31,630)
Foreign currency translation differences for foreign operations	-	-	-	-	91,905	-	-	91,905
Revaluation of property and equipment, net of income tax	-	-	(1,699,910)	-	-	-	1,699,910	-
Total other comprehensive income	-	-	(1,699,910)	(139,514)	91,905	-	1,699,910	(47,609)
Total comprehensive income for the year	**-**	**-**	**(1,699,910)**	**(139,514)**	**91,905**	**-**	**2,206,067**	**458,548**
Transactions with owners, recorded directly in equity								
Shares issued	127,693	-	-	-	-	-	-	127,693
Balance as at 31 December 2009	**15,500,000**	**1,770**	**15,012**	**(2,017)**	**77,950**	**2,316,740**	**(2,256,780)**	**15,652,675**

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

KZT'000	Share capital	Share premium	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Cumulative translation reserve	Reserve for general banking risk	Accumulated deficit	Total equity
Balance as at 1 January 2010	15,500,000	1,770	15,012	(2,017)	77,950	2,316,740	(2,256,780)	15,652,675
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	685,954	685,954
Other comprehensive income								
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	(208)	-	-	-	(208)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	(34)	-	-	-	(34)
Foreign currency translation differences for foreign operations	-	-	-	-	(3,450)	-	-	(3,450)
Revaluation of property and equipment, net of income tax	-	-	(883)	-	-	-	883	-
Total other comprehensive income	-	-	(883)	(242)	(3,450)	-	883	(3,692)
Total comprehensive income for the year	**-**	**-**	**(883)**	**(242)**	**(3,450)**	**-**	**686,837**	**682,262**
Transactions with owners, recorded directly in equity								
Shares issued	5,000,000	-	-	-	-	-	-	5,000,000
Transfer between reserves	-	-	-	-	-	460,540	(460,540)	-
Balance as at 31 December 2010	**20,500,000**	**1,770**	**14,129**	**(2,259)**	**74,500**	**2,777,280**	**(2,030,483)**	**21,334,937**

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

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Tsesnabank JSC (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was established in the Republic of Kazakhstan as an open joint stock company under the laws of the Republic of Kazakhstan on 17 January 1992. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company on 26 December 2003. The Bank operates based on general license #1.2.74/74/29 for banking operations and activities on securities market granted on 12 October 2009 by the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA"). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the FMSA and the National Bank of the Republic of Kazakhstan (the "NBRK").

On 3 January 2007 the Bank established a subsidiary, Tsesna International B.V., which is a special purpose entity intended to raise funds on international capital markets and make these funds available to the Bank. As at 31 December 2010 and 2009, the Bank owned 100% of the share capital of Tsesna International B.V.

In accordance with the resolutions of the FMSA #65 and #66 dated 18 May 2010 the Bank was given a permission to purchase a subsidiary, Subsidiary Company of Tsesnabank Insurance Company Tsesna Garant JSC ("Tsesna Garant"). The primary business activity of Tsesna Garant is insurance of vehicle owners' civil liability, employers' civil liability, property, cargo, vehicle, air, railway and water transport, casualty and other insurance

As at 31 December 2010 the Bank had 19 branches (2009: 18) and 71 sub-branches (2009: 57) from which it conducts business throughout the Republic of Kazakhstan. The registered address of the head office is 29, Pobedy Avenue, Astana, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

The principal subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership % 2010	Ownership % 2009
Tsesna International B.V.	Netherlands	Raising funds on international capital markets and make these funds available to the Bank	100%	100%
Subsidiary Company of Tsesnabank Insurance Company Tsesna Garant JSC	Kazakhstan	Insurance activity	100%	-

At 31 December 2010, Tsesna Corporation JSC owned 63.89% of the outstanding common shares of the Bank (31 December 2009: 84.5%). Other shareholders have less than 5% of the outstanding shares each.

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 17, loan impairment estimates.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into KZT at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into KZT at spot exchange rates at the dates of the transactions.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income in the translation reserve. When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal.

3 Significant accounting policies, continued

(c) Cash and cash equivalents

Cash and cash equivalents include cash, nostro accounts held with the NBRK and other banks, which are free from contractual restrictions, and deposits with original maturity of less than three months. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(d) Financial instruments

(i) Classification

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iv) Fair value measurement principles

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

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

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

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

(v) Gains and losses on subsequent measurement

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Gains and losses on subsequent measurement, continued

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

(vi) Derecognition

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

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

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

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

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

The Group writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

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

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

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

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

(ix) Offsetting

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

(e) Property and equipment

(i) Owned assets

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

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

(ii) Revaluation

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

Management uses independent valuation firms to estimate the fair value of land and buildings. The valuation firms typically use the income approach and the comparable sales approach, or a combination of the two, depending on the availability and reliability of information.

3 Significant accounting policies, continued

(e) Property and equipment, continued

(iii) Depreciation

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

- buildings	10 to 60 years
- computer equipment	5 to 10 years
- motor vehicles	7 years
- other	2 to 20 years

(f) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 3.5years.

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at historical cost.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Management uses independent valuation firms to estimate the fair value of investment property. The valuation firms typically use the income approach and the comparable sales approach, or a combination of the two, depending on the availability and reliability of information.

(h) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

3 Significant accounting policies, continued

(i) Impairment

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(i) Impairment, continued

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

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

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

(iv) Non-financial assets

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

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

3 Significant accounting policies, continued

(j) Provisions

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

(k) Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(l) Share capital

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

(i) Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the statement of comprehensive income. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

3 Significant accounting policies, continued

(l) Share capital, continued

(i) Repurchase of share capital

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

(ii) Dividends

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

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

(m) Taxation

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

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

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

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

(n) Income and expense recognition

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

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

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

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

3 Significant accounting policies, continued

(n) Income and expense recognition, continued

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(o) Segment reporting

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

(p) Comparative information

In the statement of financial position for the year ended 31 December 2009 cash on hand, nostro account with the National Bank of the Republic of Kazakhstan, nostro accounts with other banks with maturities less than three months were presented separately and in the current year they are presented in one line as cash and cash equivalents. In the prior year intangible assets were presented separately in the statement of financial position, while this year they are presented in one line as property, equipment and intangible assets. Furthermore, in the prior year reverse repurchase agreements were presented separately in the statement of financial position, while this year they are presented in one line as loans and advances to banks.

Comparative figures have been reclassified to reflect these changes.

Management has considered the requirement, in the case of changes in classifications to provide three statements of financial position and related notes, and determined that the changes in classifications are not significant.

3 Significant accounting policies, continued

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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

4 Net interest income

	2010 KZT'000	2009 KZT'000
Interest income		
Loans to customers	19,669,501	15,839,372
Held-to-maturity investments	651,278	521,163
Financial instruments at fair value through profit or loss	632,911	738,307
Placements with banks and other financial institutions	127,239	523,660
Available-for-sale financial assets	49,942	131,856
Cash and cash equivalents	22,675	46,720
	21,153,546	**17,801,078**
Interest expense		
Current accounts and deposits from customers	(10,996,541)	(6,946,789)
Deposits and balances from banks	(1,201,074)	(851,950)
Debt securities issued	(1,053,673)	(2,741,110)
Subordinated debt	(561,969)	(650,628)
Amounts payable under repurchase agreements	(45,018)	(76,041)
Due to the Government of the Republic of Kazakhstan	(3,221)	(5,316)
	(13,861,496)	**(11,271,834)**

5 Fee and commission income

	2010 KZT'000	2009 KZT'000
Transfer operations	887,897	714,083
Guarantee and letter of credit issuance fees	753,797	302,949
Cash withdrawal fees	677,505	553,718
Settlement fees	463,448	444,634
Underwriting and corporate finance fees	261,437	88,883
Foreign exchange fees	189,428	160,199
Cash collection fees	22,088	14,672
Other	357,602	222,336
	3,613,202	**2,501,474**

6 Fee and commission expense

	2010 KZT'000	2009 KZT'000
Transfer operations	98,135	62,629
Commission expense on received deposits	91,829	62,936
Client card account maintenance fees	71,563	34,529
Brokerage	26,491	4,955
Net claims incurred	6,486	-
Other	11,226	32,481
	305,730	**197,530**

7 Net (loss)/gain on financial instruments at fair value through profit or loss

	2010 KZT'000	2009 KZT'000
Equity financial instruments	(323,828)	1,165,607
Debt financial instruments	139,718	193,969
	(184,110)	**1,359,576**

8 Net foreign exchange income

	2010 KZT'000	2009 KZT'000
Gain loss on spot transactions and derivatives	689,487	1,601,942
Loss from revaluation of financial assets and liabilities	(88,255)	(478,604)
	601,232	**1,123,338**

9 Impairment losses

	2010 KZT'000	2009 KZT'000
Loans to customers	2,035,469	3,217,301
Held-to-maturity investments	247,493	286,570
Commitments	(67,610)	(70,000)
Other assets	29,996	20,685
	2,245,348	**3,454,556**

10 Personnel expenses

	2010 KZT'000	2009 KZT'000
Employee compensation	2,992,235	2,653,895
Payroll related taxes	198,130	181,905
	3,190,365	**2,835,800**

11 Other general administrative expenses

	2010 KZT'000	2009 KZT'000
Occupancy	2,155,263	1,166,406
Depreciation and amortisation	472,175	550,849
Taxes other than on income	435,467	360,115
Contributions to deposit insurance fund	365,911	353,200
Advertising and marketing	317,588	285,494
Security	181,767	171,865
Transportation	175,810	130,972
Communications and information services	144,513	155,030
Travel expenses	81,339	70,122
Professional services	51,555	116,076
Repairs and maintenance	42,542	40,744
Encashment expenses	33,236	30,618
Charity	18,612	6,690
Stationery and office equipment supplies	18,182	20,173
Insurance tax expense *	6,549	-
Insurance	2,215	15,801
Other	544,334	66,084
	5,047,058	**3,540,239**

*According to Tax Code of the Republic of Kazakhstan insurance companies in the Republic of Kazakhstan are taxed at the rate of 4 % on the amount of gross written premiums recognised during the year less payments made to the Guarantee Fund and premiums paid to reinsurers during the year.

12 Income tax expense

	2010 KZT'000	2009 KZT'000
Current tax expense		
Current year	(102,031)	(150,146)
	(102,031)	**(150,146)**
Deferred tax expense		
Origination and reversal of temporary differences	(7,849)	(93,153)
Under provided deferred tax in prior periods	-	(74,967)
Tax effect of change in tax rates	(7,656)	4,498
Total income tax expense	**(117,536)**	**(313,768)**

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

12 Income tax expense, continued

Reconciliation of effective tax rate:

	2010 KZT'000	%	2009 KZT'000	%
Profit before income tax	**803,490**	**100**	**819,925**	**100**
Income tax at the applicable tax rate	(160,698)	(20)	(163,985)	(20)
Non-taxable income/(non-deductible costs)	50,818	6	(79,314)	(10)
Under provided in prior years	-	-	(74,967)	(9)
Tax effect of change in tax rates	(7,656)	(1)	4,498	1
	(117,536)	**(15)**	**(313,768)**	**(38)**

Deferred tax asset and liability

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

These deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in ten years after the date of origination.

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

2010 KZT'000	**Balance 1 January 2010**	**Recognised in profit or loss**	**Balance 31 December 2010**
Property, equipment and intangible assets	(57,251)	(8,741)	(65,992)
Loans to customers	61,840	4,012	65,852
Other liabilities	54,566	(10,776)	43,790
	59,155	**(15,505)**	**43,650**

2009 KZT'000	**Balance 1 January 2009**	**Recognised in profit or loss**	**Balance 31 December 2009**
Loans to customers	80,464	(18,624)	61,840
Property, equipment and intangible assets	(431,942)	374,691	(57,251)
Debt securities issued	(203,315)	203,315	-
Other liabilities	118,324	(63,758)	54,566
Tax loss carry-forwards	659,246	(659,246)	-
	222,777	**(163,622)**	**59,155**

13 Cash and cash equivalents

	2010 KZT'000	2009 KZT'000
Cash on hand	**5,145,629**	**4,193,953**
Nostro accounts with the NBRK	**16,055,475**	**8,753,777**
Nostro accounts with other banks		
- rated AA- to AA+	31,923	30,627
- rated A- to A+	3,624,652	2,415,852
- rated BBB	733,494	12,563
- rated from BB- to BB+	238,796	1
- rated below B+	340,501	232,053
- not rated	27,148	27,485
Total nostro accounts with other banks	**4,996,514**	**2,718,581**
Cash equivalents		
- Term deposits with other banks		
- rated AA- to AA+	331,875	594,731
- rated A- to A+	28,203	31,240
- rated below B+	294	-
Total term deposits with other banks	**360,372**	**625,971**
Total cash and cash equivalents	**26,557,990**	**16,292,282**

The credit ratings are presented by standards of Fitch's credit ratings agency.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2010 and 2009 the Group has one bank whose balance exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 16,055,475 thousand (2009: KZT 8,753,777 thousand).

14 Loans and advances to banks

	2010 KZT'000	2009 KZT'000
Mandatory reserve with the NBRK	**3,148,170**	**2,479,537**
Loans and deposits		
- rated below BBB+	5	-
- rated below B+	401,076	751,955
- not rated	3,297,305	-
- defaulted	48,130	48,130
Total loans and deposits	**3,746,516**	**800,085**
Reverse repurchase agreements	-	**24,573,568**
Impairment allowance	(48,130)	(48,130)
Net loans and advances to banks	**6,846,556**	**27,805,060**

The credit ratings are presented by standards of Fitch's credit ratings agency.

Overdue or impaired loans and advances to banks comprise loans and advances with banks overdue for more than 360 days of KZT 48,130 thousand (2009: overdue for more than 360 days of KZT 48,130 thousand).

15 Financial instruments at fair value through profit or loss

	2010 KZT'000	2009 KZT'000
Held by the Group		
ASSETS		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	4,980,078	2,342,948
Notes of the NBRK	2,998,425	997,577
- Total government and municipal bonds	**7,978,503**	**3,340,525**
- Corporate bonds		
rated from BBB- to BBB+	376,442	856,121
rated below B+	1,236,683	1,413,932
not rated	1,759,117	1,482,523
- Total corporate bonds	**3,372,242**	**3,752,576**
- Promissory notes		
rated from BBB- to BBB+	366,023	707,462
- Total promissory notes	**366,023**	**707,462**
Equity investments		
Corporate shares	756,503	762,847
Derivative financial instruments		
Foreign currency contract	423	-
	756,926	**762,847**
	12,473,694	**8,563,410**

The credit ratings are presented by standards of Fitch's credit ratings agency.

None of financial assets at fair value through profit or loss are past due.

As at 31 December 2009 the Group had Eurobonds of JSC BankTuranAlem (ISIN XS0269267000), which had overdue interest of KZT 13,371 thousand, due to non-payment by the issuer. On 25 June 2010 the Group sold these Eurobonds without accrued interest, thus at December 31 2010 accrued and overdue interest was KZT 21,441 thousand.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2010 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2010 KZT'000	2009 KZT'000	2010	2009
Buy EUR sell USD				
Less than 3 months	118,128	-	1.33	-

15 Available-for-sale financial assets

	2010 KZT'000	2009 KZT'000
Held by the Group		
Debt instruments		
Government and municipal bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	785,535	727,196
Total government and municipal bonds	**785,535**	**727,196**
Equity instruments		
Corporate shares	1,756,140	16,745
	2,541,675	**743,941**

16 Loans to customers

	2010 KZT'000	2009 KZT'000
Loans to corporate customers		
Loans to large corporates	124,373,537	69,401,096
Loans to small and medium size companies	7,997,655	8,750,897
Total loans to corporate customers	**132,371,192**	**78,151,993**
Loans to retail customers		
Mortgage loans	17,245,722	20,147,866
Consumer loans	12,315,155	12,788,718
Express loans	783,153	1,929,171
Auto loans	392,154	432,234
Credit cards	217,972	192,981
Total loans to retail customers	**30,954,156**	**35,490,970**
Gross loans to customers	**163,325,348**	**113,642,963**
Impairment allowance	(10,157,812)	(8,783,203)
Net loans to customers	**153,167,536**	**104,859,760**

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

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	4,784,390	3,998,813	8,783,203
Net charge/(recovery)	3,267,816	(1,232,347)	2,035,469
Write-offs	(23,407)	(637,453)	(660,860)
Balance at the end of the year	**8,028,799**	**2,129,013**	**10,157,812**

17 Loans to customers, continued

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

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	3,735,873	2,488,132	6,224,005
Net charge	1,371,983	1,845,318	3,217,301
Write-offs	(323,466)	(334,637)	(658,103)
Balance at the end of the year	**4,784,390**	**3,998,813**	**8,783,203**

(a) Credit quality of loans to customers

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	113,992,268	(2,183,536)	111,808,732	1.92
Impaired loans:				
-overdue less than 90 days	6,988,540	(2,046,718)	4,941,822	29.29
- overdue more than 90 days and less than 1 year	366,557	(207.884)	158,673	56.71
- overdue more than 1 year	3,026,172	(1,865,415)	1,160,757	61.64
Total impaired loans	10,381,269	(4,120,017)	6,261,252	39.69
Total loans to large corporates	**124,373,537**	**(6,303,553)**	**118,069,984**	**5.07**
Loans to small and medium size companies				
Loans without individual signs of impairment	5,029,284	(160,360)	4,868,924	3.19
Impaired loans:				
- overdue less than 90 days	954,859	(355,569)	599,290	37.24
- overdue more than 90 days and less than 1 year	439,412	(122,297)	317,115	27.83
- overdue more than 1 year	1,574,100	(1,087,020)	487,080	69.06
Total impaired loans	2,968,371	(1,564,886)	1,403,485	52.72
Total loans to small and medium size companies	**7,997,655**	**(1,725,246)**	**6,272,409**	**21.57**
Total loans to corporate customers	**132,371,192**	**(8,028,799)**	**124,342,393**	**6.07**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	15,414,835	(175,554)	15,239,281	1.14
- overdue less than 30 days	357,021	(69,254)	287,767	19.40
- overdue 30-89 days	415,303	(192,971)	222,332	46.47
- overdue 90-179 days	373,681	(223,700)	149,981	59.86
- overdue more than 180 days	684,882	(445,023)	239,859	64.98
Total mortgage loans	**17,245,722**	**(1,106,502)**	**16,139,220**	**6.42**
Consumer loans				
- not overdue	11,023,543	(100,645)	10,922,898	0.91
- overdue less than 30 days	258,804	(36,887)	221,917	14.25
- overdue 30-89 days	211,516	(88,227)	123,289	41.71
- overdue 90-179 days	283,055	(166,907)	116,148	58.97
- overdue more than 180 days	538,237	(369,137)	169,100	68.58
Total consumer loans	**12,315,155**	**(761,803)**	**11,553,352**	**6.19**
Express loans				
- not overdue	598,472	(4,559)	593,913	0.76
- overdue less than 30 days	6,334	(1,346)	4,988	21.25
- overdue 30-89 days	5,683	(3,933)	1,750	69.21
- overdue 90-179 days	9,509	(9,013)	496	94.78
- overdue more than 180 days	163,155	(163,155)	-	100.00
Total express loans	**783,153**	**(182,006)**	**601,147**	**23.24**
Auto loans				
- not overdue	300,948	(5,039)	295,909	1.67
- overdue less than 30 days	14,101	(2,986)	11,115	21.18
- overdue 30-89 days	1,677	(894)	783	53.31
- overdue 90-179 days	8,433	(7,802)	631	92.52
- overdue more than 180 days	66,995	(61,981)	5,014	92.52
Total auto loans	**392,154**	**(78,702)**	**313,452**	**20.07**
Credit cards				
- not overdue	39,170	-	39,170	-
- overdue less than 30 days	178,802	-	178,802	-
Total credit cards	**217,972**	-	**217,972**	-
Total loans to retail customers	**30,954,156**	**(2,129,013)**	**28,825,143**	**6.88**
Total loans to customers	**163,325,348**	**(10,157,812)**	**153,167,536**	**6.22**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	63,123,844	(735,430)	62,388,414	1.17
Impaired loans:				
- overdue less than 90 days	3,556,762	(1,060,160)	2,496,602	29.81
- overdue more than 90 days and less than 1 year	865,320	(247,147)	618,173	28.56
- overdue more than 1 year	1,855,170	(1,175,834)	679,336	63.38
Total impaired loans	6,277,252	(2,483,141)	3,794,111	39.56
Total loans to large corporates	**69,401,096**	**(3,218,571)**	**66,182,525**	**4.64**
Loans to small and medium size companies				
Loans without individual signs of impairment	5,468,464	(45,332)	5,423,132	0.83
Impaired loans:				
- overdue less than 90 days	1,662,007	(564,499)	1,097,508	33.96
- overdue more than 90 days and less than 1 year	573,179	(202,338)	370,841	35.30
- overdue more than 1 year	1,047,247	(753,650)	293,597	71.96
Total impaired loans	3,282,433	(1,520,487)	1,761,946	46.32
Total loans to small and medium size companies	**8,750,897**	**(1,565,819)**	**7,185,078**	**17.89**
Total loans to corporate customers	**78,151,993**	**(4,784,390)**	**73,367,603**	**6.12**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	17,226,128	(325,308)	16,900,820	1.89
- overdue less than 30 days	331,709	(96,739)	234,970	29.16
- overdue 30-89 days	542,384	(292,984)	249,400	54.02
- overdue 90-179 days	1,637,446	(1,205,593)	431,853	73.63
- overdue more than 180 days	410,199	(317,063)	93,136	77.29
Total mortgage loans	**20,147,866**	**(2,237,687)**	**17,910,179**	**11.11**
Consumer loans				
- not overdue	10,959,455	(164,412)	10,795,043	1.50
- overdue less than 30 days	311,596	(70,928)	240,668	22.76
- overdue 30-89 days	390,536	(202,059)	188,477	51.74
- overdue 90-179 days	749,860	(537,998)	211,862	71.75
- overdue more than 180 days	377,271	(291,612)	85,659	77.30
Total consumer loans	**12,788,718**	**(1,267,009)**	**11,521,709**	**9.91**
Express loans				
- not overdue	1,354,252	(6,838)	1,347,414	0.50
- overdue less than 30 days	20,306	(4,829)	15,477	23.78
- overdue 30-89 days	20,695	(12,528)	8,167	60.54
- overdue 90-179 days	31,374	(23,744)	7,630	75.68
- overdue more than 180 days	502,544	(388,442)	114,102	77.30
Total express loans	**1,929,171**	**(436,381)**	**1,492,790**	**22.62**
Auto loans				
- not overdue	350,670	(2,402)	348,268	0.68
- overdue less than 30 days	6,391	(839)	5,552	13.13
- overdue 30-89 days	8,606	(3,670)	4,936	42.64
- overdue 90-179 days	9,200	(6,483)	2,717	70.47
- overdue more than 180 days	57,367	(44,342)	13,025	77.30
Total auto loans	**432,234**	**(57,736)**	**374,498**	**13.36**
Credit cards				
- not overdue	129,789	-	129,789	-
- overdue less than 30 days	63,192	-	63,192	-
Total credit cards	**192,981**	**-**	**192,981**	**-**
Total loans to retail customers	**35,490,970**	**(3,998,813)**	**31,492,157**	**11.27**
Total loans to customers	**113,642,963**	**(8,783,203)**	**104,859,760**	**7.73**

As at 31 December 2010 included in the loan portfolio are loans to corporate and retail customers that would otherwise be past due or impaired of KZT 7,727,485 thousand and KZT 2,039,940 thousand, respectively (2009: KZT 13,400,685 thousand and KZT 3,917,065 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Restructured loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the restructured terms.

17 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

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

The objective indicators of loan impairment for loans to corporate customers include the following:

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

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

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

- historic annual loss rate of 1.34%
- a discount of between 20% and 60% to the annually appraised value if the property pledged is sold
- a delay of twelve months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2010 would be KZT 1,243,424 thousand lower/higher (2009: KZT 733,676 thousand lower/higher).

(ii) Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- a discount of between 15% and 50% to the annually appraised value if the property pledged is sold
- a delay of twelve months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be KZT 288,251 thousand lower/higher (2009: KZT 314,922 thousand).

17 Loans to customers, continued

(c) Analysis of collateral

(i) Loans to corporate customers

The following table provides the analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December:

	2010 KZT'000	% of loan portfolio	2009 KZT'000	% of loan portfolio
Real estate	77,092,284	62	43,286,886	59
Cash deposits	16,164,511	13	5,869,408	8
Motor vehicles	9,947,391	8	5,135,732	7
Inventory in turnover	8,703,968	7	-	-
Guarantees	6,217,120	5	11,738,816	16
No collateral	1,989,478	2	3,668,380	5
Trading securities	2,984,217	2	2,934,704	4
Other collateral	1,243,424	1	733,677	1
	124,342,393	**100**	**73,367,603**	**100**

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

Impaired or overdue loans to corporate customers with a gross value of KZT 13,212,407 thousand (2009: KZT 8,607,317 thousand) are secured by collateral with a fair value of KZT 13,682,424 thousand (2009: KZT 8,866,348 thousand). For the remaining impaired loans of 137,233 (2009: KZT 952,368 thousand), there is no collateral or it is impractical to determine the fair value of collateral.

During the year ended 31 December 2010 the Group obtained assets with the carrying amount of KZT 144,127 thousand by taking control of collateral securing loans to corporate customers (2009: KZT 148,000 thousand).

(ii) Loans to retail customers

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by a car. Consumer loans are secured by immovable and movable assets. Credit card overdrafts and express loans are not secured.

The Group estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 60% of the mortgage balance. Management believes that it is impractical to estimate the fair value of collateral held in respect of other loans to retail customers.

17 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	2010 KZT'000	2009 KZT'000
Trade	55,284,623	39,283,682
Services	29,656,646	11,370,908
Construction	13,546,845	8,407,081
Finance and insurance	12,468,898	5,603,487
Production	9,408,234	7,257,737
Agriculture	7,895,341	4,401,821
Education	2,428,108	196,644
Transportation	978,651	925,622
Public authority companies	458,266	380,653
Others	245,580	324,358
Total commercial loans	**132,371,192**	**78,151,993**
Loans issued to retail customers		
Mortgage loans	17,245,722	20,147,866
Consumer loans	12,315,155	12,788,718
Express loans	783,153	1,929,171
Auto loans	392,154	432,234
Credit cards	217,972	192,981
Total retail loans	**30,954,156**	**35,490,970**
Total loans issued	**163,325,348**	**113,642,963**
Impairment allowance	(10,157,812)	(8,783,203)
	153,167,536	**104,859,760**

(e) Significant credit exposures

As at 31 December 2010 the Group has 20 borrowers or groups of connected borrowers (2009: 8), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2010 is KZT 75,509,186 thousand (2009: KZT 30,717,575 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 30 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

18 Held-to-maturity investments

	2010 KZT'000	2009 KZT'000
Government and municipal bonds		
- Regional authorities and municipal bonds	8,371,474	1,858,438
Total government and municipal bonds	**8,371,474**	**1,858,438**
Corporate bonds		
- rated below B+	518,020	-
- not rated	2,192,806	2,749,696
Total corporate bonds	**2,710,826**	**2,749,696**
Impairment allowance	(515,255)	(288,180)
Total net corporate bonds	**2,195,571**	**2,461,516**
	10,567,045	**4,319,954**

Analysis of movements in the impairment allowance

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	288,180	-
Effect of foreign currency movement	(20,418)	1,610
Net charge for the year	247,493	286,570
Balance at the end of the year	**515,255**	**288,180**

19 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer software	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2010	214,072	1,178,983	89,965	3,022,914	1,232,280	712,674	6,450,888
Additions	4,950	184,966	573	2,890,179	253,419	310,277	3,644,364
Disposals	(8,925)	(17,576)	-	(80,054)	(58,793)	(49,914)	(215,262)
Transfers	-	(336,553)	-	-	336,553	-	-
Balance at 31 December 2010	**210,097**	**1,009,820**	**90,538**	**5,833,039**	**1,763,459**	**973,037**	**9,879,990**
Depreciation							
Balance at 1 January 2010	18,120	578,577	43,854	-	573,018	334,407	1,547,976
Depreciation for the year	9,569	134,998	12,263	-	228,390	86,955	472,175
Disposals	(605)	(17,124)	-	-	(45,741)	(35,391)	(98,861)
Transfers	-	(155,967)	-	-	155,967	-	-
Balance at 31 December 2010	**27,084**	**540,484**	**56,117**	**-**	**911,634**	**385,971**	**1,921,290**
Carrying amount							
At 31 December 2010	**183,013**	**469,336**	**34,421**	**5,833,039**	**851,825**	**587,066**	**7,958,700**

19 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer software	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2009	4,833,124	1,092,969	117,276	817,753	1,159,910	381,360	8,402,392
Additions	69,310	41,119	-	3,284,815	73,252	338,667	3,807,163
Disposals	(5,662,850)	(17,998)	(27,311)	(40)	(43,100)	(7,353)	(5,758,652)
Transfer to investment property	-	-	-	(15)	-	-	(15)
Transfers	974,488	62,893	-	(1,079,599)	42,218	-	-
At 31 December 2009	**214,072**	**1,178,983**	**89,965**	**3,022,914**	**1,232,280**	**712,674**	**6,450,888**
Depreciation							
Balance at 1 January 2009	94,602	408,000	43,524	-	430,723	254,124	1,230,973
Depreciation for the year	91,084	184,466	12,644	-	175,067	87,588	550,849
Disposals	(167,566)	(13,889)	(12,314)	-	(32,772)	(7,305)	(233,846)
Balance at 31 December 2009	**18,120**	**578,577**	**43,854**	**-**	**573,018**	**334,407**	**1,547,976**
Carrying amounts							
At 31 December 2009	**195,952**	**600,406**	**46,111**	**3,022,914**	**659,262**	**378,267**	**4,902,912**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2010 (2009: nil).

19 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2010 buildings are revalued based on the results of an independent appraisal performed by Apprais Consult LLC.

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

The carrying value of buildings as at 31 December 2010, if the buildings would not have been revalued, would be KZT165,139 thousand (2009: KZT 180,940 thousand).

At 31 December 2010 the management believes that the carrying values of land and buildings are not significantly different from their fair value.

20 Investment property

	KZT'000 Land
Cost	
At 1 January 2009	1,267,468
Transfer from property and equipment	15
At 31 December 2009	**1,267,483**
Transfer from property and equipment	-
At 31 December 2010	**1,267,483**

Investment property comprises a plot of commercial land located in Almaty, purchased during 2007. The management believes that the carrying value approximates the fair value of the property at 31 December 2010.

21 Investment in associate

	2010 KZT'000	2009 KZT'000
Investment in associate	167,650	155,183

The associate comprises:

Name	Country of Incorporation	Main activity	% Controlled 2010	% Controlled 2009
Tsesna Capital JSC	Republic of Kazakhstan	Broker and dealer services	49%	49%

22 Other assets

	2010 KZT'000	2009 KZT'000
Other receivables	2,722,468	1,171,972
Amount due from local commercial bank	210,035	210,035
Impairment allowance	(312,628)	(312,628)
Total other financial assets	**2,619,875**	**1,069,379**
Prepayments for office buildings	686,935	3,433,351
Prepayments	506,894	1,595,202
Materials and supplies	419,514	311,998
Other	532,885	123,642
Impairment allowance	(215,138)	(186,992)
Total other non-financial assets	**1,931,090**	**5,277,201**
Total other assets	**4,550,965**	**6,346,580**

Analysis of movements in the impairment allowance

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

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	312,628	186,992	499,620
Net charge	-	29,996	29,996
Write-offs	-	(1,850)	(1,850)
Balance at the end of the year	**312,628**	**215,138**	**527,766**

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

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	370,035	110,178	480,213
Net charge	-	20,685	20,685
Write-offs	(57,407)	56,129	(1,278)
Balance at the end of the year	**312,628**	**186,992**	**499,620**

As at 31 December 2010, included in other assets are overdue other debtors of KZT 559,710 thousand (2009: KZT 516,420 thousand), of which KZT 551,633 thousand are overdue for more than 90 days.

23 Deposits and balances from banks and other financial institutions

	2010 KZT'000	2009 KZT'000
Loans and deposits from banks and other financial institutions	11,966,197	14,658,906
Vostro accounts	18,283	15,262
	11,984,480	**14,674,168**

As at 31 December 2010 the Group has one bank (2009: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 9,304,356 thousand (2009: KZT 13,862,554 thousand).

24 Current accounts and deposits from customers

	2010 KZT'000	2009 KZT'000
Current accounts and demand deposits		
- Corporate	45,052,819	33,932,094
- Retail	4,905,046	3,258,704
- Accrued interest	15,712	14,626
Term deposits		
- Corporate	71,385,162	47,977,851
- Retail	54,554,781	33,447,835
- Accrued interest	766,534	488,040
	176,680,054	**119,119,150**

As at 31 December 2010, the Group maintained customer deposit balances of KZT 4,545,839 thousand (2009: KZT 3,563,613 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2010, the Group has 13 customers (2009: 8 customers), whose balances exceed 10% of equity. These balances as at 31 December 2010 are KZT 65,495,853 thousand (2009: KZT 45,280,497 thousand).

25 Debt securities issued

	2010 KZT'000	2009 KZT'000
Nominal	9,800,910	18,518,596
Discount	(1,242,200)	(1,422,339)
Accrued interest	246,354	591,353
	8,805,064	**17,687,610**

The summary of bond issues at 31 December 2010 and 2009 is presented below:

	Issue date	Maturity	Coupon rate	Effective rate	Carrying amount 2010 KZT'000	Carrying amount 2009 KZT'000
KZT denominated bonds of the second issue *	8.08.2005	8.08.2012	9.0%	10.6%	3,016,327	2,977,768
KZT denominated bonds of the fourth issue *	16.06.2006	16.06.2011	8.0%	10.7%	828,567	804,008
KZT denominated bonds of the sixth issue *	14.12.2006	14.12.2015	8.3%	10.8%	2,373,351	2,345,941
KZT denominated bonds of the seventh issue *	11.07.2007	11.07.2027	7.5%	10.9%	2,586,819	2,527,390
USD denominated bonds **	5.02.2007	5.02.2010	9.9%	11.9%	-	9,032,503
					8,805,064	**17,687,610**

* Quoted on Kazakhstan Stock Exchange
** Quoted on London Stock Exchange

During the year ended 31 December 2010, the Group redeemed USD denominated bonds with a carrying amount of KZT 8,423,097 thousand (2009: KZT 4,669,684 thousand) and recorded a gain on redemption of nil (2009: KZT 358,308 thousand).

26 Subordinated debt

	2010 KZT'000	2009 KZT'000
Cumulative non-redeemable preferred shares	2,750,000	2,750,000
Subordinated bonds	2,792,088	2,747,932
Subordinated loans	925,336	1,388,347
	6,467,424	**6,886,279**

As at 31 December 2010 and 2009 subordinated debt comprise bonds and loans from foreign financial institutions and cumulative non-redeemable preferred shares. In case of bankruptcy, the repayment of the subordinated debt would be made after repayment in full of all other liabilities of the Group but before repayment of the preferred shares.

26 Subordinated debt, continued

(a) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% per annum on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Group's residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at their par value of 1,000 KZT.

During the year ended 31 December 2010, the Group accrued dividends on preference shares amounting to KZT 250,000 thousand (31 December 2009: KZT 250,000 thousand).

(b) Subordinated bonds

During 2010 subordinated bonds had a 6.8% coupon and from 28 December 2010 bear an 8.3% coupon and mature in 2014.

(c) Subordinated loans

Creditor	2010 KZT'000	2009 KZT'000	Interest rate	Origination date	Maturity date
Halden Invest and Finance S.A.	925,336	1,005,565	1 month Euro LIBOR plus 4.75%	30.06.2006	30.06.2013
Mansfield Sales Limited	-	145,246	14.0%	28.10.2002	12.04.2010
Ockwell Trade & Investment Corp.	-	237,536	8.0%	21.12.2004	21.12.2010
	925,336	**1,388,347**			

27 Other liabilities

	2010 KZT'000	2009 KZT'000
Dividends payable	1,421	1,421
Sundry creditors	294,172	252,398
Other financial liabilities	98,284	-
Total other financial liabilities	**393,877**	**253,819**
Accrued vacation	178,856	198,847
Other taxes payable	169,369	496,596
Provision for guarantees and letters of credit issued	12,856	57,876
Other non-financial liabilities	95,776	198,011
Total other non-financial liabilities	**456,857**	**951,330**
Total other liabilities	**850,734**	**1,205,149**

28 Share capital and treasury shares

(a) Issued capital and share premium

As at 31 December 2010 and 2009, the authorised share capital comprises 27,500,000 ordinary shares. Issued and outstanding share capital comprises 20,500,000 ordinary shares (2009: 15,500,000). The shares do not have par value. During the year ended 31 December 2010, 5,000,000 ordinary shares (2009: 127,693 shares) were issued at KZT 1,000 per share.

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

Holders of non-redeemable cumulative preference shares receive a minimum cumulative dividend of 10% per annum on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears.

(b) Dividends

In accordance with Kazakhstan legislation distributable reserves are limited to the balance of retained earnings as recorded in the statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. As at 31 December 2010 the Group had profit for the year of KZT 685,954 thousand (2009: KZT 506,157 thousand).

29 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share as at 31 December 2010 is based on the profit attributable to ordinary shareholders of KZT 685,954 thousand (2009: KZT 506,157 thousand), and a weighted average number of ordinary shares outstanding of 15,623,288 (2009: 15,489,855) calculated as follows:

	2010	2009
Net profit attributable to ordinary shareholders, in thousand of KZT	685,954	506,157
Issued ordinary shares at the beginning of the year	15,500,000	15,372,307
Effect of shares issued during the year	123,288	117,548
Weighted average number of ordinary shares for the year ended 31 December	**15,623,288**	**15,489,855**
Basic earnings per share, in KZT	44	33

The Group does not have any potentially dilutive securities.

30 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

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

The Group also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

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

Interest rate gap analysis

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

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Financial instruments at fair value through profit or loss	2,998,002	2,999,220	385,579	3,718,531	1,249,413	11,350,745
Available-for-sale financial assets	-	-	208,607	215,435	361,493	785,535
Loans and advances to banks	3,407,687	1,917,286	1,521,583	-	-	6,846,556
Loans to customers	15,424,583	5,545,426	32,158,542	68,826,391	31,212,594	153,167,536
Held-to-maturity investments	-	-	4,153,283	4,148,338	2,265,424	10,567,045
	21,830,272	**10,461,932**	**38,427,594**	**76,908,695**	**35,088,924**	**182,717,417**
LIABILITIES						
Deposits and balances from banks	281,976	1,584,978	1,770,009	8,093,670	253,847	11,984,480
Current accounts and deposits from customers	13,652,561	14,624,066	40,106,148	62,094,821	5,214,602	135,692,198
Subordinated debt	-	-	927,363	2,790,061	-	3,717,424
Debt securities issued	123,399	107,250	838,444	5,272,551	2,463,420	8,805,064
	14,057,936	**16,316,294**	**43,641,964**	**78,251,103**	**7,931,869**	**160,199,166**
	7,772,336	**(5,854,362)**	**(5,214,370)**	**(1,342,408)**	**27,157,055**	**22,518,251**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2009						
ASSETS						
Financial instruments at fair value through profit or loss	-	1,310,610	880,057	3,678,825	1,223,609	7,093,101
Available-for-sale financial assets	-	-	314,181	413,015	-	727,196
Loans and advances to banks	27,595,060	-	210,000	-	-	27,805,060
Loans to customers	10,094,286	6,191,098	14,933,235	34,719,745	38,921,396	104,859,760
Held-to-maturity investments	-	-	-	4,287,458	32,496	4,319,954
	37,689,346	**7,501,708**	**16,337,473**	**43,099,043**	**40,177,501**	**144,805,071**
LIABILITIES						
Deposits and balances from banks	228,640	309,379	5,327,216	7,702,160	1,106,773	14,674,168
Current accounts and deposits from customers	16,411,574	5,955,965	23,860,955	40,853,109	5,615,733	92,697,336
Subordinated debt	-	-	1,390,008	2,746,271	-	4,136,279
Debt securities issued	123,399	9,139,753	13,920	3,668,698	4,741,840	17,687,610
	16,763,613	**15,405,097**	**30,592,099**	**54,970,238**	**11,464,346**	**129,195,393**
	20,925,733	**(7,903,389)**	**(14,254,626)**	**(11,871,195)**	**28,713,155**	**15,609,678**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

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

	2010 Average effective interest rate, %			2009 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Nostro accounts with banks	0.03	0.01	0.01	0.02	0.02	0.01
Financial instruments at fair value through profit or loss	3.2	4.9	5.6	4.1-11	7.5	5.1-8.3
Available-for-sale financial assets	5.7	-	-	4.1-6.3	-	-
Loans and advances to banks	10.5	3.2	-	7.8	-	-
Loans to customers	15.4	16.0	16.5	15.5	17.5	13.7
Held-to-maturity investments	6.9	7.8	6.3	4.1	7.8	6.3
Interest bearing liabilities						
Deposits and balances from banks						
- Vostro accounts	7.5	-	-	-	-	-
- Term deposits	10.5	3.2	8.5	8.4	4.6	4.4
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.0	0.2	0.1	0.6	0.2	0.1
- Term deposits	9.5	7.9	7.8	10.6	8.9	8.0
Subordinated debt	7.45	-	EuroLIBOR +4.75	10.1	8.0	EuroLIBOR +4.75
Debt securities issued	8.1	2.2	-	8.4	9.8	-

Interest rate sensitivity analysis

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

	2010		2009	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	(2,359)	(2,359)	(36,922)	(36,922)
100 bp parallel rise	2,359	2,359	36,922	36,922

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

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

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	138,787	144,166	126,675	135,380
100 bp parallel rise	(138,787)	(144,166)	(126,675)	(135,380)

(ii) Currency risk

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

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

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

	KZT KZT'000	EUR KZT'000	USD KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	10,728,719	4,314,045	10,347,751	1,157,486	9,989	26,557,990
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	10,930,107	337,600	1,061,330	-	144,234	12,473,271
Available-for-sale financial assets	1,066,675	-	1,475,000	-	-	2,541,675
Loans and advances to banks	4,330,460	-	2,516,091	5	-	6,846,556
Loans to customers	133,122,003	809,516	19,236,017	-	-	153,167,536
Held-to-maturity investments	10,211,836	262,391	92,818	-	-	10,567,045
Other financial assets	2,359,040	28,599	169,965	62,271	-	2,619,875
Total assets	**172,748,840**	**5,752,151**	**34,898,972**	**1,219,762**	**154,223**	**214,773,948**
LIABILITIES						
Due to the Government of the Republic of Kazakhstan	51,186	-	-	-	-	51,186
Deposits and balances from banks	10,557,522	145,868	273,312	1,007,778	-	11,984,480
Current accounts and deposits from customers	137,456,202	4,635,248	34,411,053	177,253	298	176,680,054
Subordinated debt	5,542,088	925,336	-	-	-	6,467,424
Debt securities issued	8,805,064	-	-	-	-	8,805,064
Other financial liabilities	384,137	53	9,555	80	52	393,877
Total liabilities	**162,796,199**	**5,706,505**	**34,693,920**	**1,185,111**	**350**	**204,382,085**
Effect of derivatives	-	118,128	(117,705)	-	-	423
Net position as at 31 December 2010	**9,952,641**	**163,774**	**87,347**	**34,651**	**153,873**	**10,392,286**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	EUR KZT'000	USD KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	3,084,664	3,220,177	9,806,460	163,803	17,178	16,292,282
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	6,532,103	645,588	1,385,719	-	-	8,563,410
Available-for-sale financial assets	743,941	-	-	-	-	743,941
Loans and advances to banks	27,263,275	-	541,785	-	-	27,805,060
Loans to customers	81,264,200	3,009,486	20,586,074	-	-	104,859,760
Held-to-maturity investments	4,056,200	201,485	62,269	-	-	4,319,954
Other financial assets	1,059,917	-	-	9,462	-	1,069,379
Total assets	**124,004,300**	**7,076,736**	**32,382,307**	**173,265**	**17,178**	**163,653,786**
LIABILITIES						
Due to the Government of the Republic of Kazakhstan	90,689	-	-	-	-	90,689
Deposits and balances from banks	13,851,331	234,602	583,240	4,995	-	14,674,168
Current accounts and deposits from customers	90,192,907	5,867,826	22,977,361	68,760	12,296	119,119,150
Subordinated debt	5,643,178	1,005,565	237,536	-	-	6,886,279
Debt securities issued	8,655,107	-	9,032,503	-	-	17,687,610
Other financial liabilities	208,643	30,343	14,799	34	-	253,819
Total liabilities	**118,641,855**	**7,138,336**	**32,845,439**	**73,789**	**12,296**	**158,711,715**
Net position as at 31 December 2009	**5,362,445**	**(61,600)**	**(463,132)**	**99,476**	**4,882**	**4,942,071**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% appreciation of USD against KZT	6,988	6,988	(37,051)	(37,051)
10% appreciation of EUR against KZT	13,102	13,102	(4,928)	(4,928)
10% appreciation of RUB against KZT	2,772	2,772	7,958	7,958

A strengthening of the KZT against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

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

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 10% change in all securities prices is as follows:

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	112,253	287,867	146,810	148,485
10% decrease in securities prices	(112,253)	(287,867)	(146,810)	(148,485)

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)

30 Risk management, continued

(c) Credit risk, continued

- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. Before approval of independent transactions by the Credit Committee, they are reviewed by the Legal and Collateral Departments on the basis of the risk specification. The Credit Committee reviews the loan credit application on the basis of documents submitted by the Loan, Risk, Legal and Collateral Departments.

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

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

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

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

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

	2010 KZT'000	2009 KZT'000
ASSETS		
Cash and cash equivalents	21,412,361	12,098,329
Financial instruments at fair value through profit or loss	12,473,271	8,563,410
Available-for-sale financial assets	785,535	727,196
Loans and advances to banks	6,846,556	27,805,060
Loans to customers	153,167,536	104,859,760
Held-to-maturity investments	10,567,045	4,319,954
Other financial assets	2,619,875	1,069,379
Total maximum exposure	**207,872,179**	**159,443,088**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 32.

As at 31 December 2010 the Group has no debtors or groups of connected debtors (2009: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

30 Risk management, continued

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

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

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1to 5 years	More than 5 years	No maturity	Total gross amount outflow/(inflow)	Carrying amount
Liabilities								
Due to the government of the Republic of Kazakhstan	-	-	20,480	32,093	-	-	52,573	51,186
Deposits and balances from banks and other financial institutions	283,231	1,606,137	1,840,898	9,822,478	321,624	-	13,874,368	11,984,480
Current accounts and deposits from customers	54,735,136	14,700,119	40,731,866	67,261,622	5,756,974	-	183,185,717	176,680,054
Debt securities issued	123,968	108,733	873,218	6,438,839	3,144,556	-	10,689,314	8,805,064
Subordinated debt	-	-	265,471	4,772,428	-	2,500,000	7,537,899	6,467,424
Other financial liabilities	755,127	455	95,152	-	-	-	850,734	850,734
Total liabilities	**55,897,462**	**16,415,444**	**43,827,085**	**88,327,460**	**9,223,154**	**2,500,000**	**216,190,605**	**204,838,942**
Credit related commitments	**30,227,909**	-	-	-	-	-	**30,227,909**	**30,227,909**

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow/(inflow)	Carrying amount
Liabilities								
Due to the Government of the Republic of Kazakhstan	927	1,853	8,340	101,460	-	-	112,580	90,689
Deposits and balances from banks and other financial institutions	228,643	500,892	6,451,677	10,292,247	-	-	17,473,459	14,674,168
Current accounts and deposits from customers	42,833,388	6,391,604	25,257,303	47,167,420	-	-	121,649,715	119,119,150
Debt securities issued	130,658	9,209,214	632,338	-	16,005,475	-	25,977,685	17,687,610
Subordinated debt	7,626	15,012	955,887	-	6,259,492	2,500,000	9,738,017	6,886,279
Other financial liabilities	1,185,095	20,054	-	-	-	-	1,205,149	1,205,149
Total liabilities	**44,386,337**	**16,138,629**	**33,305,545**	**57,561,127**	**22,264,967**	**2,500,000**	**176,156,605**	**159,663,045**
Credit related commitments	**27,549,125**	-	-	-	-	-	**27,549,125**	**27,549,125**

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

In accordance with Kazakhstan legislation, term deposits can be withdrawn at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as folliows:

- from 1 to 3 months: KZT 14,624,066 thousand (2009: KZT 5,955,965 thousand)
- from 3 to 12 months: KZT 40,106,148 thousand (2009: KZT 23,860,955 thousand)
- more than 1 year: KZT 67,309,423 thousand (2009: KZT 46,468,842 thousand).

30 Risk management, continued

(d) Liquidity risk, continued

The gross nominal inflow/(outflow) disclosed in the tables represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

30 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	26,557,990	-	-	-	-	-	-	26,557,990
Financial instruments at fair value through profit or loss	2,998,425	2,999,220	385,579	3,718,531	1,237,108	1,122,526	12,305	12,473,694
Available-for-sale financial assets	-	-	208,607	215,435	361,493	1,756,140	-	2,541,675
Loans and advances to banks	3,407,687	1,917,286	1,521,583	-	-	-	-	6,846,556
Loans to customers	15,424,583	5,545,426	32,158,542	68,826,391	24,233,955	-	6,978,639	153,167,536
Held-to-maturity investments	-	-	4,153,283	4,148,338	2,199,057	-	66,367	10,567,045
Investments in associate	-	-	-	-	-	167,650	-	167,650
Current tax asset	-	-	-	-	-	30,935	-	30,935
Investment property	-	-	-	-	-	1,267,483	-	1,267,483
Property, equipment and intangible assets	-	-	-	-	-	7,958,700	-	7,958,700
Deferred tax asset	-	-	-	-	-	43,650	-	43,650
Other assets	4,074,788	-	7,421	-	-	423,027	45,729	4,550,965
Total assets	**52,463,473**	**10,461,932**	**38,435,015**	**76,908,695**	**28,031,613**	**12,770,111**	**7,103,040**	**226,173,879**
Non-derivative liabilities								
Due to the government of RK	-	-	20,328	30,858	-	-	-	51,186
Deposits and balances from banks	281,976	1,584,978	1,770,009	8,093,670	253,847	-	-	11,984,480
Current accounts and deposits from customers	54,640,417	14,624,066	40,106,148	62,094,821	5,214,602	-	-	176,680,054
Subordinated debt	-	-	252,027	3,715,397	-	2,500,000	-	6,467,424
Debt securities issued	123,399	107,250	838,444	5,272,551	2,463,420	-	-	8,805,064
Other liabilities	755,127	455	95,152	-	-	-	-	850,734
Total liabilities	**55,800,919**	**16,316,749**	**43,082,108**	**79,207,297**	**7,931,869**	**2,500,000**	**-**	**204,838,942**
Net position	**(3,337,446)**	**(5,854,817)**	**(4,647,093)**	**(2,298,602)**	**20,099,744**	**10,270,111**	**7,103,040**	**21,334,937**

30 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	16,292,282	-	-	-	-	-	-	16,292,282
Financial instruments at fair value through profit or loss	-	1,310,610	880,057	3,678,825	1,210,237	1,470,309	13,372	8,563,410
Available-for-sale financial assets	-	-	314,181	413,015	-	16,745	-	743,941
Loans and advances to banks	27,595,060	-	210,000	-	-	-	-	27,805,060
Loans to customers	10,094,286	6,191,098	14,933,235	34,719,745	36,073,313	-	2,848,083	104,859,760
Held-to-maturity investments	-	-	-	4,287,458	-	-	32,496	4,319,954
Investments in associate	-	-	-	-	-	155,183	-	155,183
Investment property	-	-	-	-	-	1,267,483	-	1,267,483
Property, equipment and intangible assets	-	-	-	-	-	4,902,912	-	4,902,912
Deferred tax asset	-	-	-	-	-	59,155	-	59,155
Other assets	2,159,121	221,596	3,521,578	-	-	311,998	132,287	6,346,580
Total assets	**56,140,749**	**7,723,304**	**19,859,051**	**43,099,043**	**37,283,550**	**8,183,785**	**3,026,238**	**175,315,720**
Non-derivative liabilities								
Due to the Government of the RK	-	-	-	90,689	-	-	-	90,689
Deposits and balances from banks	228,640	309,379	5,327,216	7,702,160	1,106,773	-	-	14,674,168
Current accounts and deposits from customers	42,833,388	5,955,965	23,860,955	40,853,109	5,615,733	-	-	119,119,150
Subordinated debt			634,443	3,751,836		2,500,000		6,886,279
Debt securities issued	123,399	9,139,753	13,920	3,668,698	4,741,840	-	-	17,687,610
Other liabilities	1,185,095	20,054	-	-	-	-	-	1,205,149
Total liabilities	**44,370,522**	**15,425,151**	**29,836,534**	**56,066,492**	**11,464,346**	**2,500,000**	-	**159,663,045**
Net position	**11,770,227**	**(7,701,847)**	**(9,977,483)**	**(12,967,449)**	**25,819,204**	**5,683,785**	**3,026,238**	**15,652,675**

31 Capital management

The FMSA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSA banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2010, this minimum level of tier 1 capital to total assets is 5% (2009: 5%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 10% (2009: 10%). The Bank was in compliance with the statutory capital ratios during the years ended 31 December 2010 and 2009.

The following table shows the composition of the capital position calculated in accordance with the requirements of the FMSA, as at 31 December:

	2010 KZT'000	2009 KZT'000
Tier 1 capital		
Share capital	23,000,000	18,000,000
Share premium	1,770	1,770
Cumulative translation reserve	2,777,280	2,316,740
Intangible assets	(78,576)	(45,537)
Accumulated deficit	(2,848,771)	(4,016,921)
Total tier 1 capital	**22,851,703**	**16,256,052**
Tier 2 capital		
Profit for the year	610,829	1,722,988
Asset revaluation reserve	29,907	12,995
Subordinated debt (unamortized portion)	2,787,250	3,627,279
Total tier 2 capital	**3,427,986**	**5,363,262**
Total capital	**26,279,689**	**21,619,314**
Total assets	**227,132,420**	**176,092,323**
Risk-weighted assets		
Credit risk	200,951,473	202,804,017
Operational risk	4,332,843	2,190,599
Market risk	9,149,340	9,439,040
Total risk weighted assets	**214,433,656**	**214,433,656**
Total capital expressed as a percentage of risk-weighted assets		
Tier 1 capital to total assets	**10%**	**9%**
Total capital to risk-weighted assets, contingent liabilities, operational and market risks	**12%**	**13%**
Tier 1 capital to risk-weighted assets, contingent liabilities, operational and market risks	**11%**	**10%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised exposures, with some adjustments to reflect the more contingent nature of the potential losses.

32 Commitments

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

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

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

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

	2010 KZT'000	2009 KZT'000
Contracted amount		
Loan and credit line commitments	18,404,731	18,549,783
Guarantees	11,357,388	8,382,236
Letters of credit	381,255	481,898
Credit card commitments	84,535	135,208
	30,227,909	**27,549,125**

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

33 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2010 KZT'000	2009 KZT'000
Less than 1 year	2,322,665	1,893,627
Between 1 and 5 years	122,786	92,446
	2,445,451	**1,986,073**

33 Operating leases, continued

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

During the current year KZT 2,155,263 thousand was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases (2009: KZT 1,166,406 thousand).

34 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

35 Related party transactions

(a) Control relationships

The party with ultimate control over the Group is Mr. Jaxybekov A.R., who has transferred effective control to Mrs. Jaxybekova L.I. under a trust management agreement. No publicly available financial statements are produced by the Group's ultimate controlling party. The Group's parent Tsesna Corporation JSC (the "Parent company") produces publicly available financial statements.

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

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2010 KZT'000	2009 KZT'000
Members of the Board of Directors	8,566	10,799
Members of the Management Board	111,759	92,654
	120,325	103,453

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2010 KZT'000	Average interest rate, %	2009 KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	127,784	10.87%	133,703	11.54%
Current accounts and deposits from customers	433,352	10.24%	1,322,171	10.39%

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2010 KZT'000	2009 KZT'000
Profit or loss		
Interest income	9,150	12,596
Interest expense	37,141	84,104

35 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include the Parent company, the associate company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows.

	Parent company		Other subsidiaries of the parent company		Associates		Other		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position									
ASSETS									
Investment in associate	-	-	-	-	155,183	-	-	-	155,183
Loans to customers									
In Tenge:									
Principal balance	-	-	149,768	14.33%	-	-	8,503,464	14.1%	8,653,232
Allowance for impairment	-	-	-	-	-	-	(145,224)	-	(145,224)
In USD:									
Principal balance	-	-	-	-	-	-	4,400	14.0	4,400
Allowance for impairment	-	-	-	-	-	-	(54)	-	(54)
Other assets			184,321	-	56,913	-	43,636	-	284,870
IABILITIES									
Current accounts and deposits from client									
In Tenge	477,205	9.1	148,236	3,34%	1,015	-	1,337,510	10.23	1,963,966
In USD	177,224	6.9	-	-	-	-	651,176	8.3	828,400
Items not recognised in the consolidated statement of financial position									
Guarantees given	-		-		-		1,001,344		1,001,344
Guarantees received	110,866		-		-		-		110,866
Contingent liabilities	-		37,118		-		140,591		177,709
Consolidated statement of comprehensive income									
Interest income	141,008		26,347		-		1,217,757		1,385,112
Interest expense	94,055		12,393		2,264		179,813		288,525
Fee and commission income	1,250		10,888		570		32,650		45,358
Income from investments into associate companies	-		-		12,467		-		12,467
Other general and administrative expenses	770,719		97,432		22,835		-		890,986

35 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent company		Other subsidiaries of the parent company		Associates		Other		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position									
ASSETS									
Investments in associate	-	-	-	-	145,628	-	-	-	145,628
Loans to customers									
In Tenge:									
Principal balance	1,220,321	17.0	208,945	15.46	-	-	7,371,364	15.60	8,800,630
Allowance for impairment	-	-	-	-	-	-	(158,419)	-	(158,419)
In USD:									
Principal balance	-	-	-	-	-	-	217,200	16.99	217,200
Allowance for impairment	-	-	-	-	-	-	(286)	-	(286)
Other assets	-	-	183,570	-	57,728	-	9,350	-	250,648
LIABILITIES									
Current accounts and deposits from client									
- In Tenge	23,811	7.2	129,876	-	508	-	239,584	11.44	393,779
- In USD	195,331	9.3	243	-	-	-	200,105	8.9	395,679
Items not recognised in the consolidated statement of financial position									
Guarantees given	-		-		-		782,627		782,627
Guarantees received	595,618		-		-		1,627,672		2,223,290
Contingent liabilities	52,100		8,004		-		156,492		216,596
Consolidated statement of comprehensive income									
Interest income	194,674		26,218		-		868,036		1,088,928
Interest expense	77,003		3,716		1,297		19,845		101,861
Fee and commission income	5,200		11,551		422		-		17,173
Other general and administrative expenses	709,554		58,295		2,966		-		770,815
Income from investments into assiciate companies	-		-		9,555		-		9,555

36 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	26,557,990	-	-	26,557,990	26,557,990
Financial instruments at fair value through profit or loss	12,473,694	-	-	-	-	12,473,694	12,473,694
Available-for-sale financial assets	-	-	-	2,541,675	-	2,541,675	2,541,675
Loans and advances to banks	-	-	6,846,556	-	-	6,846,556	6,846,556
Loans customers:	-	-	153,167,536	-	-	153,167,536	158,132,736
Held-to-maturity investments:							
Government and municipal bonds	-	8,371,474	-	-	-	8,371,474	8,264,692
Corporate bonds	-	2,195,571	-	-	-	2,195,571	1,389,027
Other financial assets	-	-	-	-	2,619,875	2,619,875	2,619,875
	12,473,694	**10,567,045**	**186,572,082**	**2,541,675**	**2,619,875**	**214,774,371**	**218,826,245**
Due to the Government of the Republic of Kazakhstan	-	-	-	-	51,186	51,186	51,186
Deposits and balances from banks	-	-	-	-	11,984,480	11,984,480	11,984,480
Current accounts and deposits from customers	-	-	-	-	176,680,054	176,680,054	197,693,716
Subordinated debt	-	-	-	-	6,467,424	6,467,424	5,923,417
Debt securities issued	-	-	-	-	8,805,064	8,805,064	8,805,064
Other financial liabilities	-	-	-	-	393,877	393,877	393,877
	-	**-**	**-**	**-**	**204,382,085**	**204,382,085**	**224,851,740**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

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

KZT '000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	16,292,282	-	-	16,292,282	16,292,282
Financial instruments at fair value through profit or loss	8,563,410	-	-	-	-	8,563,410	8,563,410
Available-for-sale financial assets	-	-	-	743,941	-	743,941	743,941
Loans and advances to banks	-	-	27,805,060	-	-	27,805,060	27,805,060
Loans customers:	-	-	104,859,760	-	-	104,859,760	99,960,432
Held-to-maturity investments:	-	-	-	-	-		
Government and municipal bonds	-	1,858,438	-	-	-	1,858,438	1,844,089
Corporate bonds	-	2,461,516	-	-	-	2,461,516	2,228,402
Other financial assets	-	-	-	-	1,069,379	1,069,379	1,069,379
	8,563,410	**4,319,954**	**148,957,102**	**743,941**	1,069,379	**163,653,786**	**158,506,995**
Due to the Government of the Republic of Kazakhstan	-	-	-	-	90,689	90,689	90,689
Deposits and balances from banks	-	-	-	-	14,674,168	14,674,168	14,674,168
Current accounts and deposits from customers	-	-	-	-	119,119,150	119,119,150	168,756,657
Subordinated debt	-	-	-	-	6,886,279	6,886,279	6,307,040
Debt securities issued	-	-	-	-	17,687,610	17,687,610	17,687,610
Other financial liabilities	-	-	-	-	253,819	253,819	253,819
	-	-	-	-	**158,711,715**	**158,711,715**	**207,769,983**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

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

(b) Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered as less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss	510,256	11,963,438	12,473,694
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	785,535	785,535
- Equity investments	-	281,140	281,140
	510,256	**13,030,113**	**13,540,369**

36 Financial assets and liabilities: fa continued

(b) Fair value hierarchy, continued

Securities, which are listed on the Kazakh market as at 31 December 2010, are classifie

The table below analyses financial instrumen the level in the fair value hierarchy into whic

KZT'000	
Financial instruments at fair value through profit loss	[illegible]
Available-for-sale financial assets	
- Debt and other fixed income instruments	[illegible]
- Equity investments	[illegible]
	[illegible]

Securities, which are listed on the Kazakh market as at 31 December 2009, are classifie