JSC HALYK BANK

Consolidated Financial Statements
For the Years Ended 31 December 2010, 2009 and 2008

and Independent Auditors' Report

JSC HALYK BANK

TABLE OF CONTENTS

JSC HALYK BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

The following statement, which should be read in conjunction with independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2010, 2009 and 2008, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the years ended 31 December 2010, 2009 and 2008 were authorized for issue on 9 March 2011 by the Management Board of the Group.

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
9 March 2011	9 March 2011
Almaty, Kazakhstan	Almaty, Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Halyk Bank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 2009 and 2008, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

Deloitte, LLP
State license on auditing
in the Republic of Kazakhstan
Number 0000015, type MFU-2, given by
the Ministry of Finance of Kazakhstan
dated 13 September 2006

9 March 2011
Almaty, Kazakhstan

Nurlan Bekenov
Engagement Partner
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate No. 0082
General Director
Deloitte, LLP

JSC HALYK BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010, 2009 AND 2008
(Millions of Kazakhstani Tenge)

	Notes	31 December 2010	31 December 2009	31 December 2008
ASSETS				
Cash and cash equivalents	6	392,898	480,622	161,088
Obligatory reserves	7	27,284	25,949	30,825
Financial assets at fair value through profit or loss	8, 37	6,051	8,528	14,987
Amounts due from credit institutions	9	20,123	56,101	10,357
Available-for-sale investment securities	10, 37	281,294	200,221	135,801
Investments held to maturity	11, 37	174,419	17,186	8,689
Precious metals		1,665	1,445	34
Loans to customers	12, 37	1,089,273	1,133,235	1,188,280
Property and equipment	13	63,988	63,158	58,023
Assets held-for-sale	14	9,770	8,447	-
Goodwill		3,085	3,190	3,190
Intangible assets		5,834	7,475	6,436
Insurance assets	15	9,274	4,945	4,417
Other assets	16	12,977	12,507	29,222
TOTAL ASSETS		2,097,935	2,023,009	1,651,349
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	17, 37	1,415,755	1,274,069	867,392
Amounts due to credit institutions	18, 37	71,403	172,706	289,608
Financial liabilities at fair value through profit or loss	8	2,910	3,201	6,048
Debt securities issued	19	252,167	263,893	262,991
Provisions	20	3,861	4,433	2,889
Deferred tax liability	21	8,242	6,194	8,854
Insurance liabilities	15	15,664	9,586	8,618
Other liabilities	22	10,049	7,975	13,894
Total liabilities		1,780,051	1,742,057	1,460,294
EQUITY				
Share capital	23	143,695	143,695	65,531
Share premium reserve		1,352	1,317	1,908
Treasury shares		(93)	(103)	(69)
Retained earnings and other reserves		171,744	135,693	123,428
		316,698	280,602	190,798
Non-controlling interest		1,186	350	257
Total equity		317,884	280,952	191,055
TOTAL LIABILITIES AND EQUITY		2,097,935	2,023,009	1,651,349

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

9 March 2011
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

9 March 2011
Almaty, Kazakhstan

The notes on pages 12 to 79 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010 2009 AND 2008
(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	25, 37	178,415	194,005	192,660
Interest expense	25, 37	(86,379)	(103,277)	(100,753)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	25	92,036	90,728	91,907
Impairment charge	20	(48,428)	(83,513)	(60,015)
NET INTEREST INCOME		43,608	7,215	31,892
Fee and commission income	26	35,193	39,714	27,208
Fee and commission expense	26	(5,221)	(4,937)	(3,248)
Fees and commissions, net		29,972	34,777	23,960
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	27, 37	1,741	1,392	(9,650)
Net realized gain from available-for-sale investment securities		591	109	223
Net gain from repurchase of debt securities issued		(236)	1,120	2,439
Net gain on foreign exchange operations	28	7,385	11,440	11,753
Insurance underwriting income	29	11,994	8,803	9,198
Share in net loss of associates	2	(15)	(27)	(35)
Other income		1,912	1,331	2,303
OTHER NON-INTEREST INCOME		23,372	24,168	16,231
Operating expenses	30	(45,283)	(41,728)	(42,758)
(Provisions)/recoveries of provisions	20	628	(1,221)	(987)
Losses incurred from management of pension assets	22	-	-	(7,209)
Insurance claims incurred, net of reinsurance	15	(7,393)	(4,082)	(4,951)
NON-INTEREST EXPENSES		(52,048)	(47,031)	(55,905)
INCOME BEFORE INCOME TAX EXPENSE		44,904	19,129	16,178
Income tax expense	21	(8,688)	(3,253)	(1,624)
NET INCOME		36,216	15,876	14,554
Attributable to:				
Non-controlling interest		273	166	(46)
Preferred shareholders		7,907	2,904	1,411
Common shareholders		28,036	12,806	13,189
		36,216	15,876	14,554
Basic earnings per share (in Kazakhstani Tenge)	31	21.55	10.78	13.19
Diluted earnings per share (in Kazakhstani Tenge)	31	21.55	10.78	12.32

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

9 March 2011
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

9 March 2011
Almaty, Kazakhstan

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JSC HALYK BANK

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(Millions of Kazakhstani Tenge)

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Net income	36,216	15,876	14,554
Other comprehensive income/(loss)			
Gain/(loss) on revaluation of available-for-sale investment securities	4,960	174	(1,713)
Gain transferred to income statement on sale of available-for-sale investment securities	(591)	(109)	(223)
Loss transferred to income statement on impairment of available-for-sale investment securities	481	743	-
Gain/(loss) on revaluation of property and equipment, net of tax	51	(4,133)	22,332
Exchange differences on translation of foreign operations	(307)	1,546	43
Other comprehensive income/(loss) for the year	4,594	(1,779)	20,439
Total comprehensive income for the year	40,810	14,097	34,993
Attributable to:			
Non-controlling interest	265	153	(556)
Preferred shareholders	8,898	2,578	3,435
Common shareholders	31,647	11,366	32,114
	40,810	14,097	34,993

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

9 March 2011
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

9 March 2011
Almaty, Kazakhstan

The notes on pages 12 to 79 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(Millions of Kazakhstani Tenge)

	Notes	Common shares	Share capital Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2009		83,571	46,891	13,233	1,317	(103)	1,667	(976)	18,121	116,881	280,602	350	280,952
Net income		-	-	-	-	-	-	-	-	35,943	35,943	273	36,216
Other comprehensive income/(loss)		-	-	-	-	-	(307)	4,858	51	-	4,602	(8)	4,594
Total comprehensive income/(loss)		-	-	-	-	-	(307)	4,858	51	35,943	40,545	265	40,810
Treasury shares purchased	23	-	-	-	(16)	(8)	-	-	-	-	(24)	-	(24)
Treasury shares sold	23	-	-	-	51	18	-	-	-	-	69	-	69
Dividends – preferred shares		-	-	-	-	-	-	-	-	(4,494)	(4,494)	-	(4,494)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(69)	(69)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets		-	-	-	-	-	-	-	(1,197)	1,197	-	-	-
Changes in non-controlling interest share of net assets		-	-	-	-	-	-	-	-	-	-	640	640
31 December 2010		83,571	46,891	13,233	1,352	(93)	1,360	3,882	16,975	149,527	316,698	1,186	317,884

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

(Millions of Kazakhstani Tenge)

			Share capital										
	Notes	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2008		49,824	2,474	13,233	1,908	(69)	121	(1,797)	22,502	102,602	190,798	257	191,055
Net income		-	-	-	-	-	-	-	-	15,710	15,710	166	15,876
Other comprehensive income/(loss)		-	-	-	-	-	1,546	821	(4,133)	-	(1,766)	(13)	(1,779)
Total comprehensive income/(loss)		-	-	-	-	-	1,546	821	(4,133)	15,710	13,944	153	14,097
Common shares issued	23	33,747	-	-	-	-	-	-	-	-	33,747	-	33,747
Preferred shares issued	23	-	48,019	-	-	-	-	-	-	-	48,019	-	48,019
Treasury shares purchased	23	-	(3,602)	-	(601)	(47)	-	-	-	-	(4,250)	-	(4,250)
Treasury shares sold	23	-	-	-	10	13	-	-	-	-	23	-	23
Dividends – preferred shares		-	-	-	-	-	-	-	-	(1,679)	(1,679)	-	(1,679)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets		-	-	-	-	-	-	-	(248)	248	-	-	-
Changes in non-controlling interest share of net assets		-	-	-	-	-	-	-	-	-	-	(60)	(60)
31 December 2009		83,571	46,891	13,233	1,317	(103)	1,667	(976)	18,121	116,881	280,602	350	280,952

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

(Millions of Kazakhstani Tenge)

	Notes	Common shares	Share capital Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2007		49,824	2,474	13,233	1,952	(66)	78	(371)	278	92,268	159,670	1,355	161,025
Net income		-	-	-	-	-	-	-	-	14,600	14,600	(46)	14,554
Other comprehensive income		-	-	-	-	-	43	(1,426)	22,332	-	20,949	(510)	20,439
Total comprehensive income/(loss)		-	-	-	-	-	43	(1,426)	22,332	14,600	35,549	(556)	34,993
Treasury shares purchased	23	-	-	-	(44)	(3)	-	-	-	-	(47)	-	(47)
Dividends – common shares		-	-	-	-	-	-	-	-	(2,695)	(2,695)	-	(2,695)
Dividends - preferred shares		-	-	-	-	-	-	-	-	(1,679)	(1,679)	-	(1,679)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(119)	(119)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets		-	-	-	-	-	-	-	(108)	108	-	-	-
Changes in non-controlling interest share of net assets		-	-	-	-	-	-	-	-	-	-	(423)	(423)
31 December 2008		49,824	2,474	13,233	1,908	(69)	121	(1,797)	22,502	102,602	190,798	257	191,055

* These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

9 March 2011
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

9 March 2011
Almaty, Kazakhstan

The notes on pages 12 to 79 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(Millions of Kazakhstani Tenge)

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received from financial assets at fair value through profit or loss	43	216	1,978
Interest received from cash equivalents and amounts due from credit institutions	2,319	3,472	8,645
Interest received on available-for-sale investment securities	9,126	4,297	1,960
Interest received on investments held to maturity	916	1,049	-
Interest received from loans to customers	134,909	134,746	138,726
Interest paid on amounts due to customers	(65,034)	(59,060)	(72,854)
Interest paid on amounts due to credit institutions	(4,350)	(11,513)	(12,464)
Interest paid on debt securities issued	(21,846)	(25,013)	(20,547)
Fee and commission received	33,744	39,824	28,418
Fee and commission paid	(5,221)	(4,937)	(3,248)
Insurance underwriting income received	18,225	14,567	15,027
Other income received	15,692	14,197	9,565
Operating expenses paid	(34,718)	(34,744)	(40,124)
Insurance claims paid	(5,426)	(3,453)	(4,384)
Cash flows from operating activities before changes in net operating assets	78,379	73,648	50,698
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves	(1,335)	4,876	56,443
Financial assets at fair value through profit or loss	2,405	8,332	32,700
Amounts due from credit institutions	36,503	(43,398)	(6,739)
Precious metals	183	(1,411)	(31)
Loans to customers	10,514	128,749	(171,599)
Insurance assets	(10,557)	(6,534)	(6,360)
Other assets	626	(1,069)	(4,857)
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss	(291)	(2,996)	(546)
Amounts due to customers	154,796	253,796	(62,061)
Amounts due to credit institutions	(99,509)	(131,307)	42,024
Insurance liabilities	4,116	339	662
Other liabilities	(1,268)	(7,163)	(1,235)
Cash inflow/(outflow) from operating activities before income tax	174,562	275,862	(70,901)
Income tax paid	(2,326)	(3,826)	(10,306)
Net cash inflow/(outflow) from operating activities	172,236	272,036	(81,207)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase and prepayment for property and equipment and intangible assets	(10,245)	(9,155)	(19,104)
Proceeds on sale of property and equipment	96	148	145
Proceeds on sale of available-for-sale investment securities	692,402	217,095	151,819
Purchase of available-for-sale investment securities	(892,443)	(270,522)	(174,879)
Proceeds from redemption of investments held to maturity	169,528	20,377	-
Purchase of investments held to maturity	(199,379)	(21,769)	(6,777)
Net cash outflow from investing activities	(240,041)	(63,826)	(48,796)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds on common shares issued	23	-	33,747	-
Proceeds on preferred shares issued	23	-	48,019	-
Proceeds on sale of treasury shares		69	23	-
Purchase of treasury shares		(24)	(4,250)	(47)
Dividends paid		(4,563)	(1,679)	(4,493)
Proceeds on debt securities issued		-	14,161	64,924
Redemption and repurchase of debt securities issued		(10,000)	(53,224)	(23,122)
Net cash inflow from financing activities		(14,518)	36,797	37,262
Effect of changes in foreign exchange rate on cash and cash equivalents		(5,401)	74,527	(1,416)
Net change in cash and cash equivalents		(87,724)	319,534	(94,157)
CASH AND CASH EQUIVALENTS, beginning of the year	6	480,622	161,088	255,245
CASH AND CASH EQUIVALENTS, end of the year	6	392,898	480,622	161,088

During 2008 in accordance with the amendments issued by the International Accounting Standards Board ("IASB") to International Accounting Standard ("IAS") 39 the Group has reclassified its financial assets at fair value through profit or loss to available-for-sale investment securities and investments held to maturity. Please see Notes 10 and 11 to the consolidated financial statements for detailed disclosure.

During 2010 the Group has reclassified National Bank of Kazakhstan notes with total nominal value of KZT 127,000 million from available-for-sale investment securities to investments held to maturity. The securities had matured during the reporting period.

During 2010 the Group has repossessed collateral with the carrying amount of KZT 4,998 million after the default of certain loans to customers (during 2009 – KZT 4,945 million). Please see Note 14 to the consolidated financial statements for detailed disclosure.

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
9 March 2011	9 March 2011
Almaty, Kazakhstan	Almaty, Kazakhstan

The notes on pages 12 to 79 form an integral part of these consolidated financial statements.

(Millions of Kazakhstani Tenge)

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank (the "Bank") and its subsidiaries (together the "Group") provide retail and corporate banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, and pension asset management and insurance services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under the license No. 10 for carrying out of banking and other operations and activities on the securities market, renewed by the Agency for Regulation and Supervision of Financial Market and Financial Organizations of the Republic of Kazakhstan ("FMSA") on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Fund for Deposits Guarantee.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations and rendering other banking services to its customers. In addition, the Bank acts as the government's agent in channelling various budgetary payments and pensions through its nationwide network.

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank has also sold Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange.

On 15 January 2009, the Group and JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"), an entity controlled by the Kazakhstan Government, signed a series of agreements related to the realization of joint measures towards the support of the economy of the Republic of Kazakhstan within the terms of a stabilization program of the Kazakhstan Government. In accordance with the agreements signed Samruk-Kazyna will not intervene in the operating policies of the Group and its stake in the share capital of the Group will not exceed 25% of the issued common shares of the Group. On 27 March 2009, Samruk-Kazyna acquired 259,064,909 common shares of the Group for a total amount of KZT 26,951 million. On 29 May 2009, Samruk-Kazyna acquired 196,232,499 non-convertible preferred shares of the Group for a total amount of KZT 33,049 million. As at 31 December 2010, Samruk-Kazyna owned a 24.71% stake of voting shares in the Group's share capital. The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2010, 2009 and 2008, the Group was owned by the following shareholders, which own more than 5% of the issued shares of the Group:

	31 December 2010		31 December 2009		31 December 2008	
	Stake in total shares issued*	**Stake in total voting shares****	**Stake in total shares issued***	**Stake in total voting shares****	**Stake in total shares issued***	**Stake in total voting shares****
Timur Kulibayev and Dinara Kulibayeva	41.80%	67.71%	41.80%	67.33%	61.86%	93.33%
Samruk-Kazyna	26.81%	24.71%	26.81%	24.57%	-	-
Others (individually own less than 5%)	31.39%	7.58%	31.39%	8.10%	38.14%	6.67%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

* Total shares issued include common and preferred shares

** GDRs are not included in the calculation of stake in total voting shares since the information on the holders of GDRs is undisclosed and as such GDRs are recognized as non-voting. Holders of GDRs have the option to disclose their information at any time. On disclosure of their information the holders of GDRs have the right to participate in voting.

As at 31 December 2010, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices and 488 cash settlement units (31 December 2009 - 22, 125 and 475, respectively, 31 December 2008 – 22, 125 and 467, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 109 V Abai Avenue, Almaty, 050008, Kazakhstan.

The consolidated financial statements were authorised for issue by the Management Board of the Bank on 9 March 2011.

2. BASIS OF PRESENTATION

Accounting basis

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation as described in the accounting policies below.

The Group had a change in accounting policy during 2009 with regards to the presentation of the consolidated statements of cash flows from indirect to direct method. The direct method is a requirement of the National Bank of the Republic of Kazakhstan for annual periods starting from 1 January 2009. This change is retrospectively applied in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In addition, IAS 1 "Presentation of Financial Statements" requires the presentation of the statement of financial position as at the beginning of the earliest period when a reporting entity applies an accounting policy retrospectively. For the Group, this consolidated statement of financial position would be as at 31 December 2006. However, the retrospective accounting for the change in accounting policy had no impact on the consolidated statement of financial position as at 31 December 2006. Therefore that consolidated statement of financial position has not been presented in these consolidated financial statements.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non–-current) is presented in Note 32.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the consolidated financial statements is KZT.

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiaries	Holding, % 31 December 2010	Holding, % 31 December 2009	Holding, % 31 December 2008	Country	Industry
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	100	Netherlands	Issue and placement of Eurobonds, attracting of syndicated loans
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer activities
LLP Halyk Inkassatsiya	100	100	100	Kazakhstan	Cash collection services
JSC Halyk Life	100	100	100	Kazakhstan	Life insurance
JSC Halyk Capital	100	100	100	Kazakhstan	Broker and dealer activities
LLP NBK-Finance	100	100	100	Russia	Broker and dealer activities
JSC Kazakhinstrakh	100	100	99	Kazakhstan	Insurance
JSC Accumulated Pension fund of Halyk Bank	96	99	99	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	100	Russia	Banking
LLP Halyk Dornod	-	-	100	Mongolia	Banking
LLP Halyk NBFO	-	-	100	Mongolia	Broker and dealer activities
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking

Associates

JSC Processing Center, the associate, provides data processing services in Kazakhstan. It is classified within other assets and accounted for under the equity method:

Holding, %	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
As at 31 December 2010 and for the year then ended					
25.14	(15)	78	-	78	1
As at 31 December 2009 and for the year then ended					
25.14	(27)	208	1	207	49
As at 31 December 2008 and for the year then ended					
25.14	(35)	493	11	482	105

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amounts by which the non-controlling interests are adjusted is recognised directly in equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The non-controlling interest is initially measured at the non-controlling proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity and net income attributable to equity holders of the parent and attributable to non-controlling shareholders' interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are classified as at fair value through profit or loss where the financial asset or financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain/(loss) from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the consolidated income statement. Dividends declared are included in "Other income" in the consolidated income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts and premiums are recognized in interest income over the period to maturity using the effective interest method.

If the Group were to sell or reclassify more than an insignificant amount of investments held to maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale investment securities. Furthermore, the Group would be prohibited from classifying any financial asset as investments held to maturity during the following two years.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Repurchase and reverse repurchase agreements and securities lending

The Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within "Net gain/(loss) from financial assets and liabilities at fair value through profit and loss" in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in "Net gain/(loss) from financial assets and liabilities at fair value through profit or loss" in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Group to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future and are customized contracts transacted in the over–the–counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. The Group's currency swaps are mostly gross–settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed–upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed–upon value either on or before the expiration of the option.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (see also Note 32).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. 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 recognized in the consolidated income statement.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take the possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 12 and 32.

Available-for-sale investment securities

If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. In respect of equity instruments classified as available-for-sale, impairment losses previously recognized in the consolidated income statement are not reversed through the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and

- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revaluated amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

	Years
Buildings and constructions	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Assets held for sale

A non-current asset and the liability directly associated with non-current assets are classified as held for sale (“disposal group”) if it is highly probable that the net asset’s carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from assets held for sale. Any subsequent increase in an asset’s fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as of the consolidated statement of financial position date represent the Group's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the consolidated income statement net of any recoveries.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the consolidated income statement. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

Share capital

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Contingencies

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

Trust activities

Assets accepted and liabilities incurred under the trust activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry.

Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as net gain on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2010 was KZT 147.50 to USD 1 (31 December 2009 – KZT 148.46; 31 December 2008 – KZT 120.79).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by FMSA for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated statement of financial position.

Losses and loss adjustments are charged to income statement as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated income statement.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated statements of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported reserve (“IBNR”) for motor hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group’s previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by FMSA. Under this guidance, the IBNR reserve is calculated as using the expected loss ratio for each line of business, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Standards and Interpretations affecting amounts reported in the current period

Amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Disclosures in these consolidated financial statements have been modified to reflect the above clarification, where applicable.
Amendments to IAS 1 "Presentation of Financial Statements" (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. This amendment has no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature.
Amendments to IAS 7 "Statement of Cash Flows" (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 "Intangible Assets" for capitalization as part of an internally generated intangible asset. No changes were necessary as a result of the adoption of this amendment.
Amendments to IFRS 7 "Financial Instruments: Disclosures" (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

New and revised standards and interpretations issued and not yet adopted

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 "Financial Instruments" - On 12 November 2009, the IASB issued IFRS 9 "Financial Instruments" which introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

  The Group anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- The amendments to IFRS 7 titled "Disclosures – Transfers of Financial Assets" increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

  It is not expected that these amendments to IFRS 7 will have a significant effect on the Group's consolidated financial statements.

- IAS 24 "Related Party Disclosures" (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

- The amendments to IAS 32 titled "Classification of Rights Issues" address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

- IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

- IFRS 3 (Revised) "Business Combinations" was issued in January 2008 and would apply to business combinations occurring on or after 1 April 2010. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that a business combination occurs and future reported results. This standard is not likely to have a significant impact on the Group's accounting for business combinations post adoption.

- An amendment to IAS 27 "Consolidated and Separate Financial Statements" was issued in January 2008 and is effective for annual periods beginning on or after 1 July 2009. The amendment requires that when a transaction occurs with non-controlling interests in Group's subsidiaries that do not result in a change in control, the difference between the consideration paid or received and the recorded non-controlling interest should be recognized in equity. In cases where control is lost, any retained interest should be remeasured to fair value with the difference between fair value and the previous carrying value being recognized immediately in the consolidated income statement. It is not expected that the amendment would have impact on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment losses of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future consolidated income statement and its consolidated statement of financial position.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

The Group uses management's judgement to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment losses of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2010 is KZT 253,237 million (31 December 2009: KZT 207,101 million; 31 December 2008: KZT 115,052 million).

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

As at 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. For certain lines of business, IBNR claims form the majority of the claims provision at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by FMSA, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. RECLASSIFICATIONS

As at 31 December 2010, certain lines within the consolidated financial statements for the years ended 31 December 2009 and 2008, have been reclassified to conform to the current period presentation. Management of the Group have reclassified deposit insurance expenses from operating expenses to commission expenses, as they believe this classification better reflects the nature and purpose of these expenses with regard to the Group's operations.

	As previously reported year ended 31 December 2009	**Reclassification**	**As reclassified year ended 31 December 2009**
CONSOLIDATED INCOME STATEMENT			
Fee and commission expense	(2,156)	(2,781)	(4,937)
Fees and commissions, net	37,558	(2,781)	34,777
Operating expenses	(44,509)	2,781	(41,728)
NON-INTEREST EXPENSES	(49,812)	2,781	(47,031)

	As previously reported year ended 31 December 2008	**Reclassification**	**As reclassified year ended 31 December 2008**
CONSOLIDATED INCOME STATEMENT			
Fee and commission expense	(1,681)	(1,567)	(3,248)
Fees and commissions, net	25,527	(1,567)	23,960
Operating expenses	(44,325)	1,567	(42,758)
NON-INTEREST EXPENSES	(57,472)	1,567	(55,905)

CONSOLIDATED STATEMENT OF CASH FLOWS	As previously reported year ended 31 December 2009	Reclassification	As reclassified year ended 31 December 2009
Fee and commission paid	(2,156)	(2,781)	(4,937)
Operating expenses paid	(37,525)	2,781	(34,744)

CONSOLIDATED STATEMENT OF CASH FLOWS	As previously reported year ended 31 December 2008	Reclassification	As reclassified year ended 31 December 2008
Fee and commission paid	(1,681)	(1,567)	(3,248)
Operating expenses paid	(41,691)	1,567	(40,124)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2010	31 December 2009	31 December 2008
Cash on hand	35,468	42,437	23,918
Recorded as loans and receivablesin accordance with IAS 39:			
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	8,281	17,238	1,719
Correspondent accounts with non-OECD based banks	5,978	5,678	6,701
Overnight deposits with OECD based banks	122,539	102,847	1,902
Overnight deposits with non-OECD based banks	46	-	-
Short-term deposits with OECD based banks	144,820	94,540	125,626
Short-term deposits with National Bank of Kazakhstan ("NBK")	72,003	207,058	-
Short-term deposits with non-OECD based banks	2,853	5,459	562
Short-term deposits with Kazakhstan banks	910	5,365	660
	392,898	480,622	161,088

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	0.1%-0.7%	-	0.1%-0.2%	-	0.1%
Overnight deposits with non-OECD based banks	-	6.0%	-	-	-	-
Short-term deposits with OECD based banks	0.6%	0.2%-3.3%	2.0%	0.2%-0.4%	-	0.0%-1.1%
Short-term deposits with NBK	0.5%	-	1.0%	-	-	-
Short-term deposits with non-OECD based bank	-	3.5%	-	5.0%	-	3.1%-11.1%
Short-term deposits with Kazakhstan banks	0.7%	-	1.5%-1.6%	-	11.5%	-

Fair value of assets pledged and carrying amounts of short-term loans, included in short-term deposits with Kazakhstan banks, under reverse repurchase agreements classified as cash and cash equivalents as at 31 December 2010, 2009 and 2008, are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	910	1,003	3,010	3,367	660	666
NBK notes	-	-	2,352	2,475	-	-
	910	1,003	5,362	5,842	660	666

7. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2010	31 December 2009	31 December 2008
Recorded as loans and receivablesin accordance with IAS 39:			
Due from the NBK allocated to obligatory reserves	14,752	25,949	9,159
Cash on hand allocated to obligatory reserves	12,532	-	21,666
	27,284	25,949	30,825

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBK and used for calculation of the minimum reserve requirement. During 2009 and 2008 the NBK has decreased the level of minimum reserve requirements, which resulted in a significant decrease of obligatory reserves.

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2010	31 December 2009	31 December 2008
Financial assets held for trading:			
Derivative financial instruments	4,640	5,179	6,441
Equity securities of Kazakhstan banks	921	1,012	665
Mutual investment funds shares	220	202	-
Securities of foreign countries and organizations	168	602	-
Corporate bonds	102	25	222
Equity securities of Kazakhstan corporations	-	1,508	1,530
Treasury bills of the Ministry of Finance of Kazakhstan	-	-	5,514
Bonds of Kazakhstan banks	-	-	615
	6,051	8,528	14,987
Subject to repurchase agreements	-	-	3,508

Financial liabilities at fair value through profit or loss comprise:

	31 December 2010	31 December 2009	31 December 2008
Financial liabilities held for trading:			
Derivative financial instruments	2,910	3,201	6,048

Interest rates of financial assets at fair value through profit or loss are presented as follows:

	31 December 2010	31 December 2009	31 December 2008
Securities of foreign countries and organizations	5.0%-15.0%	0.7%	-
Corporate bonds	7.0%-18.0%	8.0%	9.6%-18.0%
Treasury bills of the Ministry of Finance of Kazakhstan	-	-	5.6%-6.4%
Bonds of Kazakhstan banks	-	-	13.2%-16.3%

Derivative financial instruments comprise:

	31 December 2010			31 December 2009			31 December 2008		
	Notional amount	Net fair value Asset	Net fair value Liability	Notional amount	Net fair value Asset	Net fair value Liability	Notional amount	Net fair value Asset	Net fair value Liability
Foreign currency contracts									
Forwards	87,403	4,051	2,834	46,104	3,782	3,019	35,576	6,361	5,871
Options	7,620	506	-	6,913	1,322	-	-	-	-
Swaps	21,757	83	76	6,784	75	182	87,638	55	156
Interest rate contracts									
Swaps	-	-	-	-	-	-	1,198	25	21
		4,640	2,910		5,179	3,201		6,441	6,048

As at 31 December 2010, 2009 and 2008, the Group used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data.

9. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2010	31 December 2009	31 December 2008
Recorded as loans and receivables in accordance with IAS 39:			
Term deposits	10,062	49,380	5,764
Deposit pledged as collateral for derivative financial instruments	7,822	6,545	4,228
Loans to Kazakhstan credit institutions	2,241	185	382
	20,125	56,110	10,374
Less - Allowance for loan impairment (Note 20)	(2)	(9)	(17)
	20,123	56,101	10,357

Interest rates and maturity of amounts due from credit institutions are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	4.5%-12.5%	2013	5.5%-8.5%	2010	7.0%-11.1%	2009-2010
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2012	0.1%	2012	0.1%	2012
Loans to Kazakhstan credit institutions	12.0%-17.0%	2015	11.1%	2015	11.1%	2015

10. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2010	31 December 2009	31 December 2008
Treasury bills of the Ministry of Finance of Kazakhstan	173,314	95,956	64,273
Corporate bonds	56,811	5,490	10,659
NBK notes	27,838	84,622	56,375
Bonds of Development Bank of Kazakhstan	6,522	2,514	2,213
Securities of foreign countries and organizations	6,148	7,363	-
Local municipal bonds	4,274	-	-
Bonds of Kazakhstan banks	3,347	1,090	763
Equity securities of Kazakhstan corporations	1,569	1,446	670
Mutual investment funds shares	944	1,307	651
Equity securities of Kazakhstan banks	230	57	-
Treasury bills of the Kyrgyz Republic	186	200	197
Equity securities of foreign corporations	111	176	-
	281,294	200,221	135,801
Subject to repurchase agreements	4,211	87,856	78,077

Interest rates and maturities of available-for-sale investment securities are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	1.5%-9.0%	2011-2025	2.0%-18.7%	2010-2019	2.0%-19.3%	2009-2015
Corporate bonds	6.4%-28.0%	2011-2021	0.2%-19.2%	2010-2021	6.3%-25.9%	2009-2021
NBK notes	1.0%-1.5%	2011	2.0%-3.1%	2010	6.3%-15.5%	2009
Securities of foreign countries and organizations	7.4%-15.0%	2012-2016	7.4%-15.0%	2011-2014	-	-
Bonds of Development Bank of Kazakhstan	5.7%-7.0%	2015-2026	7.0%	2026	7.0%	2026
Local municipal bonds	4.9%	2015	-	-	-	-
Bonds of Kazakhstan banks	7.2%-21.0%	2011-2022	6.1%-15.0%	2010-2016	7.9%-17.4%	2009-2017
Treasury bills of the Kyrgyz Republic	9.0%	2011	3.0%-19.0%	2010	8.6%-20.0%	2009-2010

As at 31 December 2010, 2009 and 2008, the Group used quoted market prices from independent information sources to determine the fair value for all of its available-for-sale investment securities.

On 31 December 2008, the Group reclassified certain debt and equity securities with total fair value of KZT 4,925 million out of financial assets at fair value through profit or loss category into the available-for-sale investment securities. The reclassification was made only for those securities which had a significant decline in volume of transactions in the financial markets as a result of the financial crisis. The Group revised its investment policy in relation to these securities and has the intention and ability to hold these securities for the foreseeable future.

Debt and equity securities which were reclassified are presented in the tables below.

Debt securities	Effective interest rate, %	As at reporting date 31 December 2010 Fair value	As at reclassification date 31 December 2008 Fair value
Bonds of Development Bank of Kazakhstan	7.01%	2,665	2,213
Securities of foreign countries and organizations	9.8%-14.5%	52	1,987
		2,717	4,200

Equity securities	As at reporting date 31 December 2010 Fair value	As at reclassification date 31 December 2008 Fair value
Mutual investment funds shares	342	651
Equity securities of Kazakhstan corporations	56	74
	398	725

Estimated future cash flows the Group expects to recover from debt securities which were reclassified are presented in the table below.

Debt securities	As at reclassification date 31 December 2008
Bonds of Development Bank of Kazakhstan	4,711
Securities of foreign countries and organizations	2,939
	7,650

As the Group made reclassifications as at 31 December 2008, the net loss recognized in the consolidated income statement up to the date of reclassification from the debt and equity securities which were reclassified, is presented in the table below for the year ended 31 December 2008. The net gain/(loss) that would have been recognized in the consolidated income statement if the securities had not been reclassified, is presented in the table below for the years ended 31 December 2010 and 2009.

Debt securities	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Bonds of Development Bank of Kazakhstan	167	(205)	(69)
Securities of foreign countries and organizations	15	300	(939)
	182	95	(1,008)

Equity securities	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Mutual investment funds shares	(117)	332	(436)
Equity securities of Kazakhstan corporations	(1)	(17)	(72)
	(118)	315	(508)

11. INVESTMENTS HELD TO MATURITY

Investments held to maturity securities comprise:

	31 December 2010	31 December 2009	31 December 2008
NBK notes	159,385	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	7,716	4,471	-
Corporate bonds	5,545	449	2,776
Securities of foreign countries and organizations	1,773	10,893	3,682
Notes of National Bank of Georgia	-	1,373	1,220
Bonds of Kazakhstan banks	-	-	1,011
	174,419	17,186	8,689

Interest rates and maturities of investments held to maturity are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
NBK notes	1.0%-1.5%	2011	-	-	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	7.1%-7.8%	2013-2015	5.1%-6.1%	2010	-	-
Corporate bonds	4.8%-20.0%	2011-2017	6.3%-14.0%	2011-2017	6.9%	2016
Securities of foreign countries and organizations	8.2%-16.0%	2011-2012	3.0%-19.0%	2010	3.0%-8.1%	2009
Notes of National Bank of Georgia	-	-	3.0%-8.1%	2010	11.0%-13.0%	2009
Bonds of Kazakhstan banks	-	-	-	-	8.9%	2009

On 31 December 2008, in accordance with the IASB amendments to IAS 39 the Group reclassified certain debt securities with total fair value of KZT 1,912 million out of financial assets at fair value through profit or loss category into investments held to maturity.

The reclassification was made for those securities which had a significant decline in volume of transactions in the financial markets as a result of the financial crisis. The Group revised its investment policy in relation to these securities accordingly.

During the year ended 31 December 2009, the reclassified securities were repaid in full by the issuer before maturity.

12. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2010	31 December 2009	31 December 2008
Recorded as loans and receivables in accordance with IAS 39:			
Originated loans to customers	1,341,140	1,339,191	1,298,985
Overdrafts	1,370	1,145	4,347
	1,342,510	1,340,336	1,303,332
Less – Allowance for loan impairment losses (Note 20)	(253,237)	(207,101)	(115,052)
Loans to customers	1,089,273	1,133,235	1,188,280

As at 31 December 2010, the annual interest rates charged by the Group ranged from 9% to 24% per annum for KZT-denominated loans (31 December 2009 – from 9% to 24%, 31 December 2008 – from 9% to 23%) and from 7% to 17% per annum for US Dollar-denominated loans (31 December 2009 – from 7% to 17%, 31 December 2008 – from 3% to 20%).

As at 31 December 2010, the Group had a concentration of loans of KZT 267,072 million from the ten largest borrowers that comprised 20% of the Group's total gross loan portfolio (31 December 2009 – KZT 259,063 million, 19%; 31 December 2008 – KZT 214,295 million, 16%) and 84% of the Group's total equity (31 December 2009 – 92%; 31 December 2008 – 112%). As at 31 December 2010 an allowance for impairment amounting to KZT 49,403 million was made against these loans (31 December 2009 – KZT 25,294 million; 31 December 2008 – KZT 17,205 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2010	31 December 2009	31 December 2008
Loans collateralized by pledge of real estate or rights thereon	688,518	841,051	772,415
Loans collateralized by guarantees	283,278	30,556	13,431
Loans collateralized by cash	48,758	38,479	49,392
Loans collateralized by pledge of agricultural products	31,158	39,012	20,482
Loans collateralized by pledge of vehicles	25,997	28,221	16,106
Loans collateralized by pledge of equipment	18,906	8,091	4,127
Loans collateralized by pledge of corporate shares	18,606	6,158	5,443
Loans collateralized by pledge of inventories	11,100	29,880	17,178
Loans collateralized by mixed types of collateral	202,592	252,258	243,639
Unsecured loans	13,597	66,630	161,119
	1,342,510	1,340,336	1,303,332
Less - allowance for loan impairment losses (Note 20)	(253,237)	(207,101)	(115,052)
Total loans to customers	1,089,273	1,133,235	1,188,280

Loans are made to the following sectors:

	31 December 2010	%	31 December 2009	%	31 December 2008	%
Retail loans:						
- consumer loans	136,271	10%	149,073	11%	188,542	14%
- mortgage loans	133,958	9%	149,442	10%	158,078	12%
	270,229		298,515		346,620	
Wholesale trade	277,222	21%	241,312	18%	231,338	18%
Construction	180,353	13%	190,819	14%	166,788	13%
Services	104,270	8%	94,606	7%	134,499	10%
Real estate	96,724	7%	94,513	7%	65,793	5%
Retail trade	92,185	8%	100,359	8%	106,063	8%
Agriculture	86,460	6%	105,034	8%	73,538	6%
Hotel industry	54,416	4%	52,489	4%	34,595	3%
Metallurgy	44,689	3%	40,768	3%	36,009	3%
Food industry	37,086	3%	31,435	2%	25,285	2%
Transportation	29,688	2%	22,398	2%	21,560	2%
Energy	22,143	2%	11,180	1%	11,072	1%
Oil and gas	10,218	1%	22,601	2%	23,297	2%
Chemical industry	9,805	1%	10,954	1%	9,559	1%
Machinery	7,689	1%	7,305	1%	4,396	0%
Light industry	7,472	1%	3,487	0%	3,916	0%
Mining	5,507	0%	4,474	0%	5,043	0%
Communication	232	0%	702	0%	1,785	0%
Consumer goods and automobile trading	-	0%	-	0%	91	0%
Other	6,122	0%	7,385	1%	2,085	0%
	1,342,510	100%	1,340,336	100%	1,303,332	100%

As at 31 December 2010 the amount of accrued interest on impaired loans comprised KZT 121,752 million (31 December 2009 – KZT 101,860 million; 31 December 2008 – KZT 55,737 million).

13. PROPERTY AND EQUIPMENT

The movements in property and equipment are presented as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2009	42,437	1,591	16,566	15,894	76,488
Additions	1,628	279	1,145	5,681	8,733
Disposals	(1,393)	(287)	(627)	(2,128)	(4,435)
Transfers	4,388	16	698	(5,102)	-
Revaluation	82	-	-	-	82
Impairment	(27)	-	-	-	(27)
Translation differences	(79)	(3)	(13)	(12)	(107)
31 December 2010	47,036	1,596	17,769	14,333	80,734
Accumulated depreciation:					
31 December 2009	215	961	7,864	4,290	13,330
Charge	494	274	2,911	1,696	5,375
Disposals	-	(225)	(574)	(1,103)	(1,902)
Transfers	-	1	224	(225)	-
Write-off at revaluation	(67)	-	-	-	(67)
Translation differences	7	(1)	9	(5)	10
31 December 2010	649	1,010	10,434	4,653	16,746
Net book value:					
31 December 2010	46,387	586	7,335	9,680	63,988

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2008	37,623	1,508	15,868	13,359	68,358
Additions	15,228	148	1,496	5,663	22,535
Disposals	(4,259)	(75)	(875)	(768)	(5,977)
Transfers	2,331	1	49	(2,381)	-
Revaluation	(5,447)	-	-	-	(5,447)
Impairment	(3,189)	-	-	-	(3,189)
Translation differences	150	9	28	21	208
31 December 2009	42,437	1,591	16,566	15,894	76,488
Accumulated depreciation:					
31 December 2008	356	737	5,868	3,374	10,335
Charge	453	280	2,727	1,487	4,947
Disposals	(21)	(59)	(739)	(566)	(1,385)
Transfers	7	-	1	(8)	-
Write-off at revaluation	(584)	-	-	-	(584)
Translation differences	4	3	7	3	17
31 December 2009	215	961	7,864	4,290	13,330
Net book value:					
31 December 2009	42,222	630	8,702	11,604	63,158

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Revalued/initial cost:					
31 December 2007	9,644	1,358	11,905	9,181	32,088
Additions	2,510	231	5,314	5,883	13,938
Disposals	(42)	(76)	(1,331)	(604)	(2,053)
Transfers	1,108	1	5	(1,114)	-
Revaluation	24,933	-	-	-	24,933
Impairment	(428)	-	-	-	(428)
Translation differences	(102)	(6)	(25)	13	(120)
31 December 2008	37,623	1,508	15,868	13,359	68,358
Accumulated depreciation:					
31 December 2007	1,386	519	4,716	2,701	9,322
Charge	322	262	2,432	1,115	4,131
Disposals	(6)	(40)	(1,275)	(435)	(1,756)
Transfers	(2)	-	2	-	-
Write-off at revaluation	(1,340)	-	-	-	(1,340)
Translation differences	(4)	(4)	(7)	(7)	(22)
31 December 2008	356	737	5,868	3,374	10,335
Net book value:					
31 December 2008	37,267	771	10,000	9,985	58,023

The Group revalued its buildings and constructions as of 1 August 2009. The revaluation procedures were performed by an independent appraiser "Real Estate" LLP. The independent appraiser used three approaches to identify fair value of the property and equipment: the income approach with the method of realization as income capitalization, the comparative approach with application of market information, and the cost approach.

The income approach with the method of realization as income capitalization and the comparative approach with application of market information were used to identify the fair value of buildings and constructions in terms of active market for items that were subjects for revaluation. The cost approach was used when there was no active market for items that were subjects for revaluation. The total amount of fair value of buildings and constructions is KZT 24,977 million. The carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 33,289 million.

14. ASSETS HELD-FOR-SALE

During 2010 and 2009 after the default of certain loans to customers, the Group recognized certain collateral at fair value. The type of collateral recognized was land, buildings and constructions. The proceeds of disposal are expected to exceed the carrying value of the assets and accordingly no impairment losses have been recognized on these assets during the years 2010 and 2009. It is intended that the fair value of this collateral will be recovered principally through a sale transaction within one year from the date of classification.

Such collateral is recognized as assets held-for-sale and is subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan has been initiated.

15. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2010	31 December 2009	31 December 2008
Reinsurance premium unearned	2,561	2,163	2,583
Reinsurance amounts recoverable	5,154	1,147	112
	7,715	3,310	2,695
Premiums receivable	1,559	1,635	1,722
Insurance assets	9,274	4,945	4,417

Insurance liabilities comprised the following:

	31 December 2010	31 December 2009	31 December 2008
Gross unearned insurance premium reserve	5,550	5,394	6,057
Reserves for insurance claims	8,982	3,008	1,344
	14,532	8,402	7,401
Payables to reinsurers and agents	1,132	1,184	1,217
Insurance liabilities	15,664	9,586	8,618

Insurance risk – insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations of the Group at the time of underwriting.

Underwriting and pricing risk – the Group manages underwriting and pricing risk through the use of underwriting guidelines which detail the class, nature and type of business that may be accepted; pricing policies by product line and by brand; and centralized control of policy wordings and any subsequent changes.

Claims management risk – the risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experiences staff. These, together with a range of detailed policies and procedures ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk – reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure. Acceptable reinsurers are rated A- or better unless specifically authorized.

Reserving risk – reserving risk relates to both premiums and claims. It is the risk that reserves are assessed incorrectly such that insufficient funds have been remained to pay or handle claims as the amounts fall due. Claims development data provides information on the historical pattern of reserving risk.

Reserves for insurance claims have been established on the basis of information currently available, including potential outstanding loss notifications, and experience with similar claims.

The movements on claims reserves for the years ended 31 December 2010, 2009 and 2008, were as follows:

	2010	2009	2008
Reserves for claims, beginning of the year	3,008	1,344	805
Reserves for claims, reinsurance share, beginning of the year	(1,147)	(112)	(140)
Net reserves for claims, beginning of the year	1,861	1,232	665
Plus claims incurred	7,393	4,082	4,951
Less claims paid	(5,426)	(3,453)	(4,384)
Net reserves for claims, end of year	3,828	1,861	1,232
Reserves for claims, reinsurance share, end of the year	5,154	1,147	112
Reserves for claims, end of the year	8,982	3,008	1,344

The movements on unearned insurance premium reserve for the years ended 31 December 2010, 2009 and 2008, were as follows:

	2010	2009	2008
Gross unearned insurance premium reserve, beginning of the year	5,394	6,057	5,265
Unearned insurance premium reserve, reinsurance share, beginning of the year	(2,163)	(2,583)	(1,934)
Net unearned insurance premium reserve, beginning of the year	3,231	3,474	3,331
Change in unearned insurance premium reserve	156	(663)	792
Change in unearned insurance premium reserve, reinsurance share	(398)	420	(649)
Change in unearned insurance premium reserve, net	(242)	(243)	143
Net unearned insurance premium reserve,end of the year	2,989	3,231	3,474
Unearned insurance premium reserve, reinsurance share, end of the year	2,561	2,163	2,583
Gross unearned insurance premium reserve,end of the year	5,550	5,394	6,057

16. OTHER ASSETS

Other assets comprise:

	31 December 2010	31 December 2009	31 December 2008
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Debtors on banking activities	2,197	1,305	760
Accrued commission for managing pension assets	1,744	416	197
Debtors on non-banking activities	1,226	1,319	1,876
Accrued other commission income	569	448	777
Other	167	171	361
	5,903	3,659	3,971
Less – Allowance for impairment (Note 20)	(772)	(930)	(1,074)
	5,131	2,729	2,897
Other non financial assets:			
Corporate income tax prepaid	3,175	7,426	8,608
Prepayments for property and equipment	2,345	516	14,044
Inventory	1,486	1,042	1,590
Advances for taxes other than income tax	773	543	-
Deferred tax asset (Note 21)	350	247	424
Investments in associates	224	228	272
Other	710	318	1,387
	9,063	10,320	26,325
Less - Allowance for impairment (Note 20)	(1,217)	(542)	-
	12,977	12,507	29,222

17. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2010	31 December 2009	31 December 2008
Recorded at amortized cost:			
Term deposits:			
Legal entities	531,182	556,287	384,832
Individuals	387,510	317,527	258,499
	918,692	873,814	643,331
Current accounts:			
Legal entities	393,696	317,702	151,713
Individuals	103,367	82,553	72,348
	497,063	400,255	224,061
	1,415,755	1,274,069	867,392

As at 31 December 2010, the Group's ten largest groups of related customers accounted for approximately 50% of the total amounts due to customers (31 December 2009 – 52%; 31 December 2008 –50%).

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2010	%	31 December 2009	%	31 December 2008	%
Individuals and entrepreneurs	490,877	35%	400,080	31%	330,847	38%
Oil and gas	329,416	23%	369,987	29%	279,458	32%
Transportation	179,584	13%	72,754	6%	45,024	5%
Wholesale trade	88,061	6%	80,858	6%	50,832	6%
Other consumer services	55,775	4%	85,684	7%	14,044	2%
Insurance and pension funds activity	49,243	3%	11,580	1%	9,540	1%
Metallurgy	43,853	3%	25,853	2%	2,183	0%
Construction	34,209	2%	65,418	5%	42,575	5%
Government	26,854	2%	83,822	7%	1,350	0%
Financial sector	24,568	2%	30,365	4%	51,035	6%
Energy	22,803	2%	20,573	2%	28,440	3%
Communication	15,180	1%	12,737	1%	3,942	0%
Education	10,934	1%	10,281	1%	5,727	1%
Healthcare and social services	6,143	0%	3,137	0%	1,919	0%
Other	38,255	3%	940	0%	476	1%
	1,415,755	100%	1,274,069	100%	867,392	100%

18. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2010	31 December 2009	31 December 2008
Recorded at amortized cost:			
Loans and deposits from Kazakhstan banks	52,159	90,134	96,391
Loans and deposits from OECD based banks	16,422	27,292	191,337
Loans from other financial institutions	1,412	1,933	184
Correspondent accounts	1,185	40,082	1,367
Loans and deposits from non-OECD based banks	225	340	329
Loans from the JSC "Fund for Entrepreneurship Development "DAMU"	-	11,925	-
Overnight deposits	-	1,000	-
	71,403	172,706	289,608

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans and deposits from Kazakhstan banks	4.5%-4.5%	2011	0.5%-8.5%	2010	6.9%-11.0%	2009
Loans and deposits from OECD based banks	1.1%-7.7%	2011-2023	1.1%-7.7%	2010-2023	2.5%-8.4%	2009-2015
Loans from other financial institutions	2.3%-3.1%	2012-2014	2.7%-3.2%	2011-2014	5.3%-6.9%	2010
Loans and deposits from non-OECD based banks	2.7%-3.9%	2013	2.7%	2012	11.0%	2009
Loans from the JSC "Fund for Entrepreneurship Development "DAMU"	-	-	7.7%	2016	-	-
Overnight deposits	-	-	0.5%-1.2%	2010	-	-

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2010, 2009 and 2008, are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
NBK notes	4,211	4,000	58,870	55,935	42,049	39,982
Treasury bills of the Ministry of Finance of Kazakhstan	-	-	28,986	26,160	39,536	36,247
	4,211	4,000	87,856	82,095	81,585	76,229

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

As at 31 December 2010, 2009 and 2008, the Group was in compliance with the covenants of the various debt agreements with other banks and financial institutions.

19. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2010	31 December 2009	31 December 2008
Recorded at amortized cost:			
Subordinated debt securities issued:			
Inflation indexed KZT denominated bonds	14,132	19,120	19,228
Fixed rate KZT denominated bonds	11,725	15,996	16,021
Reverse inflation indexed KZT denominated bonds	8,120	8,947	8,359
Total subordinated debt securities outstanding	33,977	44,063	43,608
Unsubordinated debt securities issued:			
USD denominated bonds	207,701	208,627	200,118
KZT denominated bonds	10,489	11,203	19,265
Total unsubordinated debt securities outstanding	218,190	219,830	219,383
Total debt securities outstanding	252,167	263,893	262,991

The coupon rates and maturities of these debt securities issued follow:

	31 December 2010		31 December 2009		31 December 2008	
	Coupon rate, %	**Maturity, year**	**Coupon rate, %**	**Maturity, year**	**Coupon rate, %**	**Maturity, year**
Subordinated debt securities issued:						
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015	inflation rate plus 1%	2015
Fixed rate KZT denominated bonds	7.5%-13.0%	2014-2019	7.5%-14.0%	2014-2019	7.5%-13.0%	2009-2018
	inflation rate plus 2%	2017	inflation rate plus 2%	2010-2017	inflation rate plus 2%	2010-2018
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
Unsubordinated debt securities issued:						
USD denominated bonds	7.3%-9.3%	2013-2017	7.3%-9.3%	2013-2017	7.3%-9.3%	2009-2017
KZT denominated bonds	12.7%	2012	12.7%	2012	7.2%-7.8%	2009

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Interest on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2010, 2009 and 2008, the Group was in compliance with the covenants of the agreements the Group has with the notes' trustees and holders.

20. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

The movements in the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers	Amounts due from credit institutions	Available-for-sale investment securities	Other assets	Total
31 December 2007	(56,697)	(18)	-	(504)	(57,219)
Additional provisions recognized	(58,268)	1	-	(1,748)	(60,015)
Write-offs	25	-	-	1,372	1,397
Recoveries of write-offs	(112)	-	-	(194)	(306)
31 December 2008	(115,052)	(17)	-	(1,074)	(116,143)
(Additional provisions recognized)/recoveries	(81,776)	11	(743)	(1,005)	(83,513)
Write-offs	300	-	15	547	862
Foreign exchange differences	(10,573)	(3)	(2)	60	(10,518)
31 December 2009	(207,101)	(9)	(730)	(1,472)	(209,312)
(Additional provisions recognized)/recoveries	(47,104)	9	(481)	(852)	(48,428)
Write-offs	87	-	-	296	383
Foreign exchange differences	881	(2)	(1)	39	917
31 December 2010	(253,237)	(2)	(1,212)	(1,989)	(256,440)

Allowances for impairment of assets are deducted from the related assets.

Provision represent provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	2010	2009	2008
At the beginning of the year	(4,433)	(2,889)	(1,885)
Additional provisions recognized	(9,474)	(11,348)	(11,899)
Recovery of provisions	10,102	10,127	10,912
Write-off	-	-	-
Foreign exchange differences	(56)	(323)	(17)
At the end of the year	(3,861)	(4,433)	(2,889)

21. TAXATION

The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC NBK Bank, OJSC Halyk Bank Kyrgyzstan, LLP NBK-Finance and JSC Halyk Bank Georgia are subject to taxation in Kazakhstan. HSBK (Europe) B.V. is subject to income tax in the Netherlands. JSC NBK Bank and LLP NBK-Finance are subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia.

The income tax expense comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Current tax charge	6,743	5,007	812
Deferred tax expense/(benefit) resulting from changes in tax rates	1,751	295	(1,226)
Deferred tax expense/(benefit)	194	(2,049)	2,038
Income tax expense	8,688	3,253	1,624

Kazakhstan legal entities must file individual tax declarations. The tax rate for banks for income other than on state and other qualifying securities was 20% during 2010, 20% during 2009 and 30% during 2008. The tax rate for companies other than banks was also 20% during 2010, 20% during 2009 and 30% during 2008, except for insurance companies which were taxed at 4%. Income on state and other qualifying securities is tax exempt.

During 2008 there was a change in tax legislation in Kazakhstan in relation to corporate income tax, which is set at 20% for the financial year ending 31 December 2009, 17.5% for the financial year ending 31 December 2010 and 15% for financial years ending 31 December 2011 and thereafter.

There was a further change during 2009 in tax legislation in Kazakhstan in relation to corporate income tax, which is set at 20% for financial years ending 31 December 2009, 2010 and 2011, 17.5% for the financial year ending 31 December 2012 and 15% for financial years ending 31 December 2013 and thereafter.

At the end of 2010 there was a further change in Kazakhstan tax legislation in relation to corporate income tax, which was set at 20% for financial years ending 31 December 2010 and thereafter.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Income before income tax expense	44,904	19,129	16,178
Statutory tax rate	20%	20%	30%
Income tax expense at the statutory rate	8,981	3,826	4,853
Deferred tax expense/(benefit) resulting from changes in tax rates	1,751	295	(1,226)
Correction of income tax expense for prior periods	564	-	-
Tax-exempt interest income and other related income on state and other qualifying securities	(1,952)	(1,114)	(2,502)
Tax-exempt income on dividends	(1,247)	(247)	(257)
Income of subsidiaries taxed at different rates	(473)	(380)	(565)
Tax-exempt interest income on financial lease	(198)	(353)	(351)
Change in unrecognized tax assets	-	333	1,353
Non-deductible expenditures:			
- bonuses	480	-	-
- general and administrative expenses	161	461	129
- other provisions	137	201	227
- withholding tax on interest	1	8	100
- charity	18	5	30
- interest on deposits to non-residents	-	-	26
Other	465	218	(193)
Income tax expense	8,688	3,253	1,624

During 2008 the Group recognized a loss on certain financial assets and liabilities at fair value through profit or loss in the amount of KZT 4,510 million, which can only be utilized against future realized gains on certain financial assets and liabilities within 3 years. This loss is not expected to be utilized by the Group within the allowed period, and as such a corresponding deferred tax asset has not been recognized.

Deferred tax assets and liabilities comprise:

	31 December 2010	**31 December 2009**	**31 December 2008**
Tax effect of deductible temporary differences:			
Bonuses accrued	674	6	18
Fair value of derivatives	585	585	1,051
Vacation pay accrual	231	198	182
Insurance premium reserves	152	162	170
Provisions, different rates	11	76	62
Losses carried forward	-	333	143
Deferred tax asset	1,653	1,360	1,626
Tax effect of taxable temporary differences:			
Loans to customers, allowance for impairment losses	(4,514)	(3,304)	(5,042)
Property and equipment, accrued depreciation	(4,103)	(3,530)	(4,041)
Fair value of derivatives	(928)	(473)	(971)
Taxes	-	-	(2)
Deferred tax liability	(9,545)	(7,307)	(10,056)

The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2010	**31 December 2009**	**31 December 2008**
Deferred tax asset (Note 16)	350	247	424
Deferred tax liability	(8,242)	(6,194)	(8,854)
Net deferred tax liability	(7,892)	(5,947)	(8,430)

Kazakhstan and other countries where the Group operates currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Movements in net deferred tax liability:

	2010	2009	2008
Net deferred tax liability at the beginning of the year	5,947	8,430	3,677
Deferred tax expense/(benefit) resulting from change in tax rates	1,751	295	(1,226)
Deferred tax expense/(benefit)	194	(2,049)	2,038
(Credited)/debited directly to equity at the date of property and equipment revaluation	-	(729)	3,941
Net deferred tax liability at the end of the year	7,892	5,947	8,430

22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2010	31 December 2009	31 December 2008
Other financial liabilities:			
Creditors on non-banking activities	359	997	967
Payable for general and administrative expenses	301	437	600
Creditors on bank activities	201	351	94
Amounts due to customers of pension funds	-	-	7,209
Other	148	87	88
	1,009	1,872	8,958
Other non financial liabilities:			
Salary payable	4,628	1,149	1,332
Taxes payable other than income tax	2,681	3,789	2,579
Other prepayments received	1,558	1,158	1,017
Current income tax payable	173	7	8
	10,049	7,975	13,894

JSC Accumulated Pension fund of Halyk Bank (the "Pension Fund Management Company) receives two types of fees – 15% for management of pension assets based on the income earned or loss incurred on the pension assets during the year and 0.05% earned monthly based on total net assets under management.

At the end of 2008 due to a significant fall in the market quotations of securities the pension assets portfolio incurred significant unrealized losses, which resulted in recognition of negative income. The Group has recovered those losses in subsequent periods.

23. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2010, 2009 and 2008, were as follows:

31 December 2010

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(6,904,953)	1,301,511,007
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(23,972,034)	285,887,396
Convertible preferred	80,225,222	-	80,225,222	(295,021)	79,930,201

31 December 2009

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(7,899,791)	1,300,516,169
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(23,970,179)	285,889,251
Convertible preferred	80,225,222	-	80,225,222	(294,821)	79,930,401

31 December 2008

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	1,129,016,660	(145,000,000)	984,016,660	(4,585,603)	979,431,057
Non-convertible preferred	24,742,000	-	24,742,000	(199,321)	24,542,679
Convertible preferred	80,225,222	-	80,225,222	(113,677)	80,111,545

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2007	979,759,488	24,686,763	80,192,612	49,758	2,474	13,233
Purchase of treasury shares	(328,431)	(144,084)	(81,067)	(3)	-	-
31 December 2008	979,431,057	24,542,679	80,111,545	49,755	2,474	13,233
Capital contributions	324,399,300	285,117,430	-	33,747	48,019	-
Purchase of treasury shares	(4,663,879)	(24,023,569)	(181,344)	(47)	(3,602)	-
Sale of treasury shares	1,349,691	252,711	200	13	-	-
31 December 2009	1,300,516,169	285,889,251	79,930,401	83,468	46,891	13,233
Purchase of treasury shares	(769,463)	(32,964)	(200)	(8)	-	-
Sale of treasury shares	1,764,301	31,109	-	18	-	-
31 December 2010	1,301,511,007	285,887,396	79,930,201	83,478	46,891	13,233

At 31 December 2010, the Group held 6,904,953 of the Group's common shares as treasury shares at KZT 93 million (31 December 2009 – 7,899,791 at KZT 103 million; 31 December 2008 - 4,585,603 at KZT 69 million).

Common shares

Each common share is entitled to one vote and dividends.

Preferred shares

In accordance with IAS 32 "Financial Instruments: Presentation", both the non-convertible and convertible preferred shares (together, the "Preferred Shares") are classified as compound instruments. On a return of capital on liquidation, the assets of the Group available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Group pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the preference shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on preference shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the share prospectus and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation as published by the NBK plus one per cent, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation as published by the NBK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders. The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the share prospectus. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

24. COMMITMENTS AND CONTINGENCIES

Financial Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	31 December 2010	31 December 2009	31 December 2008
Guarantees issued	108,346	64,845	32,337
Commercial letters of credit	27,876	20,356	18,760
Commitments to extend credit	14,925	16,723	23,489
Financial commitments and contingencies	151,147	101,924	74,586
Less: cash collateral against letters of credit	(313)	(3,518)	(1,197)
Less: provisions (Note 20)	(3,861)	(4,433)	(2,889)
Financial commitments and contingencies, net	146,973	93,973	70,500

Guarantees issued included above represent financial guarantees where payment is not probable as at the respective reporting date, and therefore have not been recorded in the consolidated statement of financial position. As at 31 December 2010, the ten largest guarantees accounted for 82% of the Group's total financial guarantees (31 December 2009 – 78%; 31 December 2008 – 72%) and represented 28% of the Group's total equity (31 December 2009 – 18%; December 2008 – 12%).

As at 31 December 2010, the ten largest letters of credit accounted for 97% of the Group's total commercial letters of credit (31 December 2009 – 76%; December 2008 – 83%) and represented 9% of the Group's total equity (31 December 2009 – 5%; December 2008 – 8%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Trust Activities

In the normal course of its business, the Group enters into agreements with customers to manage the customers' assets with limited decision making rights and in accordance with specific criteria established by the customers. The Group may only be liable for losses or actions aimed at appropriation of the customers' funds if such funds or securities are not returned to the customer. The maximum potential financial risk of the Group on any date is equal to the volume of the customers' funds, net of any unrealized income/loss on the client's position. The balance of the customers' funds under the management of the Group, as at 31 December 2010 is KZT 712 billion (31 December 2009 – KZT 560 billion; December 2008 – KZT 405 billion).

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstan's economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Kazakhstan's financial and capital markets in 2008 and 2009 has receded and Kazakhstan's economy returned to growth in 2010. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or decline in grain, oil and gas prices could slow or disrupt Kazakhstan's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Banks-correspondents of the Group did not decrease the limits on the Group and did not otherwise change the terms of cooperation with the Group, which would became less advantageous for the Group.

25. NET INTEREST INCOME

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on impaired assets	161,585	181,775	173,468
- interest income on unimpaired assets	2,829	4,515	8,799
Interest income on available-for-sale investment securities	13,965	7,578	8,802
Interest income on financial assets recorded at fair value through profit or loss	36	137	1,591
Total interest income	178,415	194,005	192,660
Interest income on loans to customers	159,597	178,524	173,402
Interest income on amounts due from credit institutions and cash and cash equivalents	2,845	4,514	8,865
Interest income on investments held-to-maturity	1,972	3,252	-
Total interest income on financial assets recorded at amortized cost	164,414	186,290	182,267
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held-for-trading	36	137	1,591
Total interest income on financial assets at fair value through profit or loss	36	137	1,591
Interest income on available-for-sale investment securities	13,965	7,578	8,802
Total interest income	178,415	194,005	192,660
Interest expense comprises:			
Interest expense on financial liabilities recorded at amortized cost	(86,379)	(103,277)	(100,753)
Total interest expense	(86,379)	(103,277)	(100,753)
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest expense on amounts due to customers	(60,584)	(66,869)	(66,878)
Interest expense on debt securities issued	(22,055)	(27,237)	(21,278)
Interest expense on amounts due to credit institutions	(3,740)	(9,171)	(12,597)
Total interest expense on financial liabilities recorded at amortized cost	(86,379)	(103,277)	(100,753)
Net interest income before impairment charge	92,036	90,728	91,907

26. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Bank transfers	10,177	8,756	8,959
Pension fund and asset management	10,067	16,103	4,642
Plastic cards maintenance	3,336	3,172	2,386
Cash operations	3,229	3,046	3,598
Customers' pension payments	2,522	2,093	1,710
Letters of credit and guarantees issued	2,252	1,904	1,887
Maintenance of customer accounts	1,890	3,340	2,407
Utilities payments	383	335	308
Other	1,337	965	1,311
	35,193	39,714	27,208

Fee and commission expense comprised the following:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Deposit insurance	(2,975)	(2,781)	(1,567)
Plastic cards	(705)	(769)	(731)
Commission paid to collectors	(823)	(591)	(223)
Bank transfers	(209)	(170)	(126)
Foreign currency operations	(171)	(127)	(140)
Other	(338)	(499)	(461)
	(5,221)	(4,937)	(3,248)

27. NET GAIN/(LOSS) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Net gain/(loss) on operations with financial assets and liabilities classified as held for trading:			
Gain/(loss) on trading operations	1,773	(411)	(7,370)
Net (loss)/gain on fair value adjustment	(32)	1,803	(2,280)
Total net gain/(loss) on operations with financial assets and liabilities classified as held for trading	1,741	1,392	(9,650)

28. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	7,211	10,971	7,262
Translation differences, net	174	469	4,491
Total net gain on foreign exchange operations	7,385	11,440	11,753

29. INSURANCE UNDERWRITING INCOME

Insurance underwriting income comprised:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Insurance premiums written, gross	18,149	14,480	14,937
Change in unearned insurance premiums, net	242	243	(143)
Ceded reinsurance share	(6,397)	(5,920)	(5,596)
	11,994	8,803	9,198

30. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Salaries and other employee benefits	22,647	18,684	20,484
Depreciation and amortization expenses	6,648	5,979	5,040
Taxes other than income tax	1,972	1,831	2,254
Repair and maintenance	1,440	1,917	2,780
Security	1,407	1,334	1,079
Communication	1,165	1,220	1,328
Write-off of property and equipment and intangible assets	1,085	-	-
Rent	1,022	1,508	1,772
Insurance agents fees	785	1,217	1,190
Stationery and office supplies	765	617	397
Advertisement	662	548	1,500
Information services	593	954	591
Business trip expenses	533	421	657
Professional services	431	310	815
Transportation	399	377	455
Charity	100	56	100
Impairment of property and equipment	91	3,189	485
Social events	74	25	123
Hospitality expenses	64	48	66
Other	3,400	1,493	1,642
	45,283	41,728	42,758

31. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 23, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	35,943	15,710	14,600
Less: Additional dividends that would be paid on full distribution of profit to the preferred shareholders	(3,413)	(1,225)	-
Less: Dividends paid on preferred shares	(4,494)	(1,679)	(1,679)
Earnings attributable to preferred shareholders	(7,907)	(2,904)	(1,679)
Earnings attributable to common shareholders	28,036	12,806	12,921
Weighted average number of common shares for the purposes of basic earnings per share	1,301,070,197	1,188,091,004	979,722,276
Basic earnings per share (Tenge)	21.55	10.78	13.19
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	28,036	12,806	12,921
Add: Dividends paid on convertible preferred shares	-	-	1,284
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders	-	-	-
Less: Amounts payable to convertible preferred shareholders upon conversion	-	-	(1,148)
Earnings used in the calculation of total diluted earnings per share	28,036	12,806	13,057
Weighted average number of common shares for the purposes of basic earnings per share	1,301,070,197	1,188,091,004	979,722,276
Shares deemed to be issued:			
Weighted average number of common shares that would be issued for the convertible preferred shares	-	-	80,165,873
Weighted average number of common shares for the purposes of diluted earnings per share	1,301,070,197	1,188,091,004	1,059,888,149
Diluted earnings per share (Tenge)*	21.55	10.78	12.32

*For the years ended 31 December 2010 and 2009, the convertible preferred shares were not included in the computation of diluted earnings per share as their effect was anti-dilutive.

On 8 November 2010, KASE has enacted new rules for listed companies that require presentation of book value of one share in the financial statements of the listed companies.

The book value of one share per each class of shares as at 31 December 2010, 2009 and 2008, is as follows.

		31 December 2010	
Class of shares	**Outstanding shares**	**Equity**	**Book value of one share, in KZT**
Common	1,301,511,007	250,689	192.61
Non-convertible preferred	285,887,396	48,128	168.35
Convertible preferred	79,930,201	13,233	165.56
		312,050	

		31 December 2009	
Class of shares	**Outstanding shares**	**Equity**	**Book value of one share, in KZT**
Common	1,300,516,169	212,116	163.10
Non-convertible preferred	285,889,251	48,128	168.34
Convertible preferred	79,930,401	13,233	165.56
		273,477	

Class of shares	Outstanding shares	31 December 2008 Equity	Book value of one share, in KZT
Common	979,431,057	167,675	171.20
Non-convertible preferred	24,542,679	3,711	151.21
Convertible preferred	80,111,545	13,233	165.18
		184,619	

The amount of equity attributable to non-convertible preferred shares is calculated as the sum of non-convertible shares carrying amount and the share premium reserve attributable to non-convertible preferred shares. The amount of equity attributable to convertible preferred shares is calculated as carrying amount of convertible shares. The amount of equity attributable to common shares is calculated as the difference between the total equity, total net book value of intangible assets, and the amounts attributable to preferred shares.

The management of the Group believes that it fully complies with the requirement of KASE as at the reporting date.

During 2010 the Group paid dividends equal to KZT nil for one common share and KZT 11.52 for one preferred share (during 2009 – KZT nil and KZT 16.00, during 2008 – KZT 2.75 and KZT 16.00, respectively).

32. FINANCIAL RISK MANAGEMENT

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These procedures are performed, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (e.g. borrower's limits approved) are reviewed and approved by respective division of the Risk Management Department. Daily risk management is performed by the Branch Credit Divisions of the Bank.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved quarterly and by region are approved annually by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by Management board. The exposure to any one borrower including banks and brokers, covering on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee. However a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a monthly basis with preparation of management reports.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated statement of financial position, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 24). The collateral pledged was determined based on its fair value and limited to the outstanding balance of each loan.

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**31 December 2010 Net exposure after offset and collateral**
Cash and cash equivalents*	357,430	-	357,430	910	356,520
Financial assets at fair value through profit or loss	6,051	-	6,051	3,611	2,440
Amounts due from credit institutions	20,123	-	20,123	-	20,123
Available-for-sale investment securities	281,294	-	281,294	-	281,294
Investments held to maturity	174,419	-	174,419	-	174,419
Loans to customers	1,089,273	-	1,089,273	1,075,676	13,597
Other financial assets	5,131	-	5,131	-	5,131
Total financial assets	1,933,721	-	1,933,721	1,080,197	853,524
Commitments and contingencies	147,286	-	147,286	313	146,973

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**31 December 2009 Net exposure after offset and collateral**
Cash and cash equivalents*	438,185	-	438,185	5,362	432,823
Financial assets at fair value through profit or loss	8,528	-	8,528	3,750	4,778
Amounts due from credit institutions	56,101	-	56,101	-	56,101
Available-for-sale investment securities	200,221	-	200,221	-	200,221
Investments held to maturity	17,186	-	17,186	-	17,186
Loans to customers	1,133,235	-	1,133,235	1,066,605	66,630
Other financial assets	2,729	-	2,729	-	2,729
Total financial assets	1,856,185	-	1,856,185	1,075,717	780,468
Commitments and contingencies	97,491	-	97,491	3,518	93,973

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2008 Net exposure after offset and collateral
Cash and cash equivalents*	137,170	-	137,170	660	136,510
Financial assets at fair value through profit or loss	14,987	-	14,987	1,688	13,299
Amounts due from credit institutions	10,357	-	10,357	-	10,357
Available-for-sale investment securities	135,801	-	135,801	-	135,801
Investments held to maturity	8,689	-	8,689	-	8,689
Loans to customers	1,188,280	-	1,188,280	1,027,161	161,119
Other financial assets	2,897	-	2,897	-	2,897
Total financial assets	1,498,181	-	1,498,181	1,029,509	468,672
Commitments and contingencies	71,697	-	71,697	1,197	70,500

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, before any impairment losses and which are monitored by international rating agencies:

	AA	AA-	A	BBB	BB+	<BBB	Not rated	31 December 2010 Total
Cash and cash equivalents	195,094	63	26,499	79,538	36,385	39	55,280	392,898
Financial assets at fair value through profit or loss	20	-	78	622	944	4	4,383	6,051
Amounts due from credit institutions	-	-	7,679	8,466	3,831	-	149	20,125
Available-for-sale investment securities	-	20	-	262,683	9,972	2,544	7,287	282,506
Investments held to maturity	-	-	-	171,815	-	1,620	984	174,419
Other financial assets	-	-	-	-	-	-	5,131	5,131
Commitments and contingencies	-	-	-	-	-	-	151,147	151,147

	AA	AA-	A	BBB	BB+	<BBB	Not rated	31 December 2009 Total
Cash and cash equivalents	-	170,332	43,294	3,970	-	213,310	49,716	480,622
Financial assets at fair value through profit or loss	-	-	-	-	-	3,105	5,423	8,528
Amounts due from credit institutions	-	-	51,086	1,242	-	3,242	540	56,110
Available-for-sale investment securities	-	-	920	5,138	1,995	186,860	6,038	200,951
Investments held to maturity	-	6,233	-	197	3,647	6,293	816	17,186
Other financial assets	-	-	-	-	-	-	3,659	3,659
Commitments and contingencies	-	-	-	-	-	-	101,924	101,924

	AA	AA-	A	BBB	BB+	<BBB	Not rated	31 December 2008 Total
Cash and cash equivalents	-	107,062	24,158	104	77	107	29,580	161,088
Financial assets at fair value through profit or loss	-	-	-	7,092	1,454	-	6,441	14,987
Amounts due from credit institutions	-	3,241	-	1,721	4,084	388	940	10,374
Available-for-sale investment securities	-	5,424	1,922	110,661	1,060	15,727	1,007	135,801
Investments held to maturity	-	3,131	-	4,547	1,011	-	-	8,689
Other financial assets	-	-	-	-	-	-	3,971	3,971
Commitments and contingencies	-	-	-	-	-	-	74,586	74,586

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the Risk Management function.

During 2009 the Group introduced a new internal model to classify loans in different risk categories. After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically the required information is inputted into the model by credit officers. Information input into the system and the estimate of the allowance for loan loss is verified by the Risk management department.

The new model was introduced in 2009, therefore the breakdown of classification of loans according to this model is not available for the comparative periods and is not presented. The following classifications are used by the new model:

- Rating score 1 - superior loan rating, minimal credit risk;
- Rating score 2 - very high quality of loan, very low credit risk;
- Rating score 3 - high quality of loan, low credit risk;
- Rating score 4 - satisfactory quality of loan, insignificant risk;
- Rating score 5 - credit risk can increase at economic variation;
- Rating score 6 - high risk at economic variation;
- Rating score 7 - high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8 - very high risk of default;
- Rating score 9 - procedure of bankruptcy is initiated but repayments are still made by the borrower;
- Rating score 10 – default.
- Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Collective assessment is performed on loans that were determined not to be individually significant based on the limits set by the Board of Directors of the Group and loans that are individually assessed for impairment and for which an impairment loss is not recognized.

Rating score	31 December 2010	31 December 2009
1	-	-
2	-	-
3	193	47
4	52,926	29,789
5	149,185	149,513
6	238,790	343,355
7	232,282	337,047
8	93,107	105,943
9	26,283	-
10	192,914	990
Loans to customers that individually assessed for impairment	985,680	966,684
Loans to customers that are collectively assessed for impairment	356,830	373,652
	1,342,510	1,340,336
Less – Allowance for loan impairment (Note 20)	(253,237)	(207,101)
Loans to customers	1,089,273	1,133,235

Previously, Risk Management used the following classifications:

Pools of homogeneous loans

Loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Collective assessment is performed on loans that were determined not to be individually significant based on the limits set by the Board of Directors and loans that are individually assessed for impairment and for which an impairment loss is not recognized.

Doubtful 1st category

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower repays the loan principal and the interest without delay and in full. The value of collateral covers at least 50 per cent of the Group's exposure.

Doubtful 2nd category

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. However, due to temporary difficulties the borrower repays the loan with delays and/or not in full. The value of collateral covers at least 50 per cent of the Group's exposure.

Doubtful 3rd category

There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and the interest in full. However, despite severe deterioration of financial health the borrower manages to repay the loan and interest in full and without delay. The value of collateral covers at least 50 per cent of the Group's exposure.

Doubtful 4th category

There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to stabilize and improve its current financial performance and impairs the borrower's ability to repay the loan and the interest in full. The borrower repays the loan late and/or not in full. The value of collateral covers at least 50 per cent of the Group's exposure.

Doubtful 5th category

The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral can be classified as satisfactory (normally not highly liquid but covering not less than 100 per cent of the borrower's outstanding debt) or unsatisfactory (the value of which covers nearly but not less than 50 per cent of the borrower's outstanding debt).

Loss

In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50 per cent of the borrowers' outstanding debt.

	31 December 2008
Pools of homogeneous loans	737,434
Doubtful 1st category	369,689
Doubtful 2nd category	7,922
Doubtful 3rd category	97,430
Doubtful 4th category	16,307
Doubtful 5th category	20,447
Loss loans	54,103
	1,303,332
Less – Allowance for loan impairment (Note 20)	(115,052)
Loans to customers	1,188,280

The following table details the carrying value of assets that are impaired and the aging of those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2010 Total
	Impaired financial assets that have been individually assessed for impairment		Unimpaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Financial assets at fair value through profit or loss	-	-	6,051	-	-	-	6,051
Amounts due from credit institutions	-	-	20,106	-	19	(2)	20,123
Available-for-sale investment securities	1,244	(1,212)	281,262	-	-	-	281,294
Investments held-to-maturity	-	-	174,419	-	-	-	174,419
Loans to customers	605,187	(191,910)	380,493	(22,576)	356,830	(38,751)	1,089,273
Other financial assets	2,143	(771)	3,759	-	-	-	5,131

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2009 Total
	Impaired financial assets that have been individually assessed for impairment		Unimpaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance forimpairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Financial assets at fair value through profit or loss	-	-	8,528	-	-	-	8,528
Amounts due from credit institutions	-	-	55,926	-	184	(9)	56,101
Available-for-sale investment securities	1,169	(730)	199,782	-	-	-	200,221
Investments held-to-maturity	-	-	17,186	-	-	-	17,186
Loans to customers	577,963	(139,038)	388,721	(40,405)	373,652	(27,658)	1,133,235
Other financial assets	3,610	(930)	49	-	-	-	2,729

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2008 Total
	Impaired financial assets that have been individually assessed for impairment		Unimpaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Financial assets at fair value through profit or loss	-	-	14,987	-	-	-	14,987
Amounts due from credit institutions	244	(11)	9,993	-	137	(6)	10,357
Available-for-sale investment securities	-	-	135,801	-	-	-	135,801
Investments held-to-maturity	-	-	8,689	-	-	-	8,689
Loans to customers	565,898	(87,627)	319,152	(24,965)	418,282	(2,460)	1,188,280
Other financial assets	2,142	(1,074)	1,829	-	-	-	2,897

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors, by branches and in total. These limits also comply with the minimum requirements of the FMSA. The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2010			31 December 2009			31 December 2008		
	KZT	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**
FINANCIAL ASSETS:									
Cash and cash equivalents	94,811	298,087	392,898	242,624	237,998	480,622	4,282	156,806	161,088
Obligatory reserves	12,320	14,964	27,284	7,991	17,958	25,949	20,165	10,660	30,825
Financial assets at fair value through profit or loss	1,291	4,760	6,051	2,750	5,778	8,528	8,090	6,897	14,987
Amounts due from credit institutions	9,448	10,675	20,123	2,864	53,237	56,101	5,777	4,580	10,357
Available-for-sale investment securities	240,694	40,600	281,294	193,889	6,332	200,221	132,879	2,922	135,801
Investments held to maturity	168,752	5,667	174,419	9,005	8,181	17,186	-	8,689	8,689
Loans to customers	591,360	497,913	1,089,273	544,296	588,939	1,133,235	643,078	545,202	1,188,280
Other financial assets	4,012	1,119	5,131	2,516	213	2,729	2,579	318	2,897
	1,122,688	873,785	1,996,473	1,005,935	918,636	1,924,571	816,850	736,074	1,552,924
FINANCIAL LIABILITIES:									
Amounts due to customers	796,880	618,875	1,415,755	569,663	704,406	1,274,069	465,863	401,529	867,392
Amounts due to credit institutions	4,737	66,666	71,403	141,108	31,598	172,706	91,522	198,086	289,608
Financial liabilities at fair value through profit or loss	-	2,910	2,910	-	3,201	3,201	-	6,048	6,048
Debt securities issued	44,466	207,701	252,167	55,266	208,627	263,893	62,873	200,118	262,991
Other financial liabilities	818	191	1,009	1,594	278	1,872	8,862	96	8,958
	846,901	896,343	1,743,244	767,631	948,110	1,715,741	629,120	805,877	1,434,997
Net balance sheet position	275,787	(22,558)	253,229	238,304	(29,474)	208,830	187,730	(69,803)	117,927

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group's interest rate policy is reviewed and approved by the Group's ALMC. The interest rates on the Group's assets and liabilities are disclosed in the relevant notes to the consolidated financial statements.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Short-term liquidity needs are managed by the Group's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means. The Assets and Liabilities Management Committee within the authority approved by the Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the contractual maturity date, except for financial assets at fair value through profit or loss which are included in the column "On demand" as they are available to meet the Group's short-term liquidity needs. The presentation below is based upon the information provided internally to key management personnel of the Group.

	31 December 2010								
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS:									
Cash and cash equivalents	49,727	343,171	-	-	-	-	-	-	392,898
Obligatory reserves	7,911	2,411	2,819	7,437	1,765	573	120	4,248	27,284
Financial assets at fair value through profit or loss	6,051	-	-	-	-	-	-	-	6,051
Amounts due from credit institutions	33	-	1,235	2,902	8,028	7,061	863	1	20,123
Available-for-sale investment securities	43	17,453	31,743	55,391	32,616	26,834	72,686	44,528	281,294
Investments held to maturity	-	6,029	65,349	89,158	1,303	1,658	6,058	4,864	174,419
Loans to customers	48,253	60,416	108,410	515,001	112,781	65,775	88,218	90,419	1,089,273
Other financial assets	1,031	3,353	114	291	207	36	25	74	5,131
	113,049	432,833	209,670	670,180	156,700	101,937	167,970	144,134	1,996,473
FINANCIAL LIABILITIES:									
Amounts due to customers	499,300	104,883	178,492	468,022	108,453	23,509	4,899	28,197	1,415,755
Amounts due to credit institutions	3,040	48,694	574	3,534	4,286	3,506	2,730	5,039	71,403
Financial liabilities at fair value through profit or loss	2,910	-	-	-	-	-	-	-	2,910
Debt securities issued	-	100	993	3,358	9,496	111,476	15,212	111,532	252,167
Other financial liabilities	142	364	99	278	32	94	-	-	1,009
	505,392	154,041	180,158	475,192	122,267	138,585	22,841	144,768	1,743,244
Net position	(392,343)	278,792	29,512	194,988	34,433	(36,648)	145,129	(634)	
Accumulated gap	(392,343)	(113,551)	(84,039)	110,949	145,382	108,734	253,863	253,229	

	31 December 2009								
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS:									
Cash and cash equivalents	63,330	318,563	98,729	-	-	-	-	-	480,622
Obligatory reserves	6,532	1,566	2,123	7,622	1,827	1,618	1,998	2,663	25,949
Financial assets at fair value through profit or loss	8,528	-	-	-	-	-	-	-	8,528
Amounts due from credit institutions	-	2	1	47,355	55	6,537	2,140	11	56,101
Available-for-sale investment securities	2,988	14,432	89,021	45,210	15,445	9,645	17,467	6,013	200,221
Investments held to maturity	-	72	6,698	1,723	293	1,643	2,827	3,930	17,186
Loans to customers	35,843	54,867	128,819	572,453	97,099	56,581	66,369	121,204	1,133,235
Other financial assets	633	1,128	642	50	3	130	10	133	2,729
	117,854	390,630	326,033	674,413	114,722	76,154	90,811	133,954	1,924,571
FINANCIAL LIABILITIES:									
Amounts due to customers	392,946	80,803	122,606	448,813	108,868	86,508	3,455	30,070	1,274,069
Amounts due to credit institutions	42,821	89,452	524	2,471	5,363	6,833	6,359	18,883	172,706
Financial liabilities at fair value through profit or loss	3,201	-	-	-	-	-	-	-	3,201
Debt securities issued	-	107	1,065	8,476	-	10,138	111,977	132,130	263,893
Other financial liabilities	317	1,379	36	87	-	-	53	-	1,872
	439,285	171,741	124,231	459,847	114,231	103,479	121,844	181,083	1,715,741
Net position	(321,431)	218,889	201,802	214,566	491	(27,325)	(31,033)	(47,129)	
Accumulated gap	(321,431)	(102,542)	99,260	313,826	314,317	286,992	255,959	208,830	

	31 December 2008								
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS:									
Cash and cash equivalents	32,338	128,750	-	-	-	-	-	-	161,088
Obligatory reserves	7,900	7,464	1,861	9,166	1,361	1,676	806	591	30,825
Financial assets at fair value through profit or loss	14,987	-	-	-	-	-	-	-	14,987
Amounts due from credit institutions	-	1,428	778	3,676	221	14	4,235	5	10,357
Available-for-sale investment securities	725	8,825	33,355	47,027	20,352	3,941	6,852	14,724	135,801
Investments held to maturity	-	868	421	4,645	-	-	-	2,755	8,689
Loans to customers	8,620	46,261	112,823	518,568	234,252	4,103	108,710	154,943	1,188,280
Other financial assets	67	1,520	156	558	76	8	508	4	2,897
	64,637	195,116	149,394	583,640	256,262	9,742	121,111	173,022	1,552,924
FINANCIAL LIABILITIES:									
Amounts due to customers	225,889	208,134	52,001	255,837	37,727	47,157	24,000	16,647	867,392
Amounts due to credit institutions	2,824	93,609	28,286	56,481	89,838	6,473	9,595	2,502	289,608
Financial liabilities at fair value through profit or loss	6,048	-	-	-	-	-	-	-	6,048
Debt securities issued	3	107	16,141	32,586	5,016	-	93,824	115,314	262,991
Other financial liabilities	8,401	237	235	24	-	-	61	-	8,958
	243,165	302,087	96,663	344,928	132,581	53,630	127,480	134,463	1,434,997
Net position	(178,528)	(106,971)	52,731	238,712	123,681	(43,888)	(6,369)	38,559	
Accumulated gap	(178,528)	(285,499)	(232,768)	5,944	129,625	85,737	79,368	117,927	

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities based on the remaining contractual payments (including interest payments).

	Weighted average effective interest rate	Up to 1 month	1 month to 3 year	3 months to 1 year	1year to 2 years	2 to 3 years	3 to 5 years	Over 5 years	31 December 2010 Total
FINANCIAL LIABILITIES:									
Amounts due to customers	3.85%	606,150	184,779	493,848	134,419	48,180	52,020	54,091	1,573,487
Amounts due to credit institutions	2.45%	51,743	579	3,587	4,483	3,644	3,080	8,928	76,044
Financial liabilities at fair value through profit or loss	-	16,467	-	-	-	-	-	-	16,467
Debt securities issued	9.32%	212	2,176	22,804	39,619	129,948	51,227	149,587	395,573
Other financial liabilities	-	506	99	279	32	94	-	-	1,010
Guarantees issued	-	108,346	-	-	-	-	-	-	108,346
Commitments to extend credit	-	14,925	-	-	-	-	-	-	14,925
		798,349	187,633	520,518	178,553	181,866	106,327	212,606	2,185,852
Derivative financial assets	-	69,877	-	-	-	-	-	-	69,877

	Weighted average effective interest rate	Up to 1 month	1 month to 3 year	3 months to 1 year	1year to 2 years	2 to 3 years	3 to 5 years	Over 5 years	31 December 2009 Total
FINANCIAL LIABILITIES:									
Amounts due to customers	5.91%	475,513	128,259	478,492	131,377	117,751	45,354	57,373	1,434,119
Amounts due to credit institutions	3.03%	132,284	533	2,511	5,627	7,351	7,132	28,657	184,095
Financial liabilities at fair value through profit or loss		23,632	-	-	-	-	-	-	23,632
Debt securities issued	9.40%	112	1,300	15,299	21,802	31,940	146,643	163,342	380,438
Other financial liabilities		1,696	36	87	-	-	53	-	1,872
Guarantees issued		64,845	-	-	-	-	-	-	64,845
Commitments to extend credit		16,723	-	-	-	-	-	-	16,723
		714,805	130,128	496,389	158,806	157,042	199,182	249,372	2,105,724
Derivative financial assets		31,226	-	-	-	-	-	-	31,226

	Weighted average effective interest rate	Up to 1 month	1 month to 3 year	3 months to 1 year	1year to 2 years	2 to 3 years	3 to 5 years	Over 5 years	31 December 2008 Total
FINANCIAL LIABILITIES:									
Amounts due to customers	6.86%	435,843	56,512	273,376	58,017	63,558	56,989	17,121	961,416
Amounts due to credit institutions	5.72%	96,967	43,739	68,502	127,232	8,602	9,802	2,560	357,404
Financial liabilities at fair value through profit or loss	-	122,007	-	-	-	-	-	-	122,007
Debt securities issued	9.66%	111	16,375	62,466	33,732	29,998	237,157	232,779	612,618
Other financial liabilities	-	8,638	235	24	-	-	61	-	8,958
Guarantees issued		32,337	-	-	-	-	-	-	32,337
Commitments to extend credit	-	23,489	-	-	-	-	-	-	23,489
		719,392	116,861	404,368	218,981	102,158	304,009	252,460	2,118,229
Derivative financial assets		122,450	-	-	-	-	-	-	122,450

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2010.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Group manages interest rate by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2010, 2009 and 2008, and the effect of revaluing instruments with fixed rates accounted at fair value. The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluating available for sale investment securities with fixed rates.

Impact on profit before tax based on asset values as at 31 December 2010, 2009 and 2008:

	31 December 2010		31 December 2009		31 December 2008	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Financial assets at fair value through profit or loss	-	-	(54)	63	(225)	319
Amounts due to credit institutions	-	-	131	(131)	85	(85)
Loans to customers	24	(24)	550	(550)	1,620	(1,620)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	-	-	(551)	551	(2,931)	2,931
Net impact on profit before tax	24	(24)	76	(67)	(1,451)	1,545

Impact on equity:

	31 December 2010		31 December 2009		31 December 2008	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Financial assets at fair value through profit or loss	-	-	(54)	63	(225)	319
Amounts due to credit institutions	-	-	131	(131)	85	(85)
Loans to customers	24	(24)	550	(550)	1,620	(1,620)
Available-for-sale investment securities	(14,072)	14,072	(3,777)	4,034	(2,948)	3,264
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	-	-	(551)	551	(2,931)	2,931
Net impact on equity	(14,048)	14,048	(3,701)	3,967	(4,399)	4,809

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of FMSA.

The table below indicates the currencies in which the Group had significant exposure at 31 December 2010, 2009 and 2008, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase.

Impact on profit before tax based on asset values as at 31 December 2010, 2009 and 2008, calculated using currency rate fluctuations analysis:

	31 December 2010		31 December 2009		31 December 2008	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on profit before tax	(11,207)	11,207	(14,130)	14,130	(19,340)	19,340

Impact on equity:

	31 December 2010		31 December 2009		31 December 2008	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	-25% KZT/USD	-10% KZT/USD
Impact on equity	(11,207)	11,207	(14,130)	14,130	(19,340)	19,340

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.
The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. Such limitation is represented by the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

To determine its exposure to price risk the Group uses an analysis for financial instruments based on:

- the Monte-Carlo simulation method

The Group estimates the price risk at 31 December 2010, 2009 and 2008, to be not material and therefore quantitative information is not disclosed.

Monte-Carlo method

- benchmark data – data on the transaction price for each security received from official KASE sources or other sources such as Bloomberg or Reuters;
- length of period – data from the previous two years is used in the calculation;
- Confidence interval – 95%; and
- Quantity of simulations – no less than 10 thousand.

33. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the FMSA;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined by taking into account the above objectives during the process of preparing the annual budget, and is approved by the Management Board and the Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt limited to 50% of Tier 1 capital and revaluation reserves.

The risk-weighted assets are measured based on a hierarchy of five risk weighting 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 off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2010, 2009 and 2008. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2010	31 December 2009	31 December 2008
Composition of regulatory capital			
Tier 1			
Share capital	143,695	143,695	65,531
Share premium	1,352	1,317	1,908
Retained earnings and other reserves	171,744	135,693	123,428
Less: revaluation, available-for-sale and translation reserves	(22,217)	(18,812)	(20,826)
Less: goodwill	(3,085)	(3,190)	(3,190)
Non-controlling interest	1,186	350	257
Total qualifying tier 1 capital	292,675	259,053	167,108
Tier 2			
Subordinated debt	32,592	39,605	36,755
Property and equipment and available-for-sale investment securities revaluation and translation reserves	22,217	18,812	20,826
Total qualifying tier 2 capital	54,809	58,417	57,581
Less investments in associates	(224)	(228)	(272)
Total regulatory capital	347,260	317,242	224,417
Risk weighted assets	1,696,909	1,537,737	1,673,780
Tier 1 capital ratio	17.3%	16.9%	9.9%
Total capital adequacy ratio	20.5%	20.6%	13.4%

Quantitative measures established by the Basel Committee to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

34. SEGMENT ANALYSIS

The Group is managed and reported on the basis of two main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

Retail banking offers a range of personal banking, savings and mortgage products and services. Corporate banking offers business banking services principally to small and medium sized companies and commercial loans to larger corporate and commercial customers.

The products and services offered by each segment are:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages to individuals and cash and foreign currency related services.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products to legal entities.

Other – representing capital market services, insurance services, and documentary operations with guarantees issued and commercial letters of credit.

The segment information below is presented on the basis used by the Bank's chairperson of the management board, who is the Group's chief operating decision maker, to evaluate performance, in accordance with IFRS 8. The Management Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and amounts due to credit institutions and operating expenses other than salaries and other employee benefits.

There were no transactions between business segments during the years ended 31 December 2010, 2009 and 2008. Segment assets and liabilities exclude certain unallocated amounts. Unallocated assets include obligatory reserves, property and equipment and other unallocated assets. Unallocated liabilities include debt securities issued, amounts due to credit institutions and other unallocated liabilities.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2010, 2009 and 2008, is set out below:

	Retail banking	Corporate banking	Other	Total
Year ended 31 December 2010				
External revenues	62,579	158,399	16,002	236,980
Total revenues	62,579	158,399	16,002	236,980
Total revenues comprise:				
- Interest income	41,382	137,033	-	178,415
- Fee and commission income	19,612	15,581	-	35,193
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	1,741	1,741
- Net realized gains from available-for-sale investment securities	-	-	591	591
- Net gain from repurchase of debt securities issued	-	-	(236)	(236)
- Net gain on foreign exchange operations	1,585	5,800	-	7,385
- Share of loss of associates	-	(15)	-	(15)
- Insurance underwriting income and other income	-	-	13,906	13,906
Total revenues	62,579	158,399	16,002	236,980
- Interest expense on amounts due to customers	(29,706)	(30,878)	-	(60,584)
- Impairment charge	(6,633)	(41,795)	-	(48,428)
- Fee and commission expense	(861)	(4,360)	-	(5,221)
- Salaries and other employee	(4,125)	(18,522)	-	(22,647)
- Advertisement expenses	(662)	-	-	(662)
- Other provisions	-	628	-	628
Segment result	20,592	63,472	16,002	100,066
Unallocated costs:				
- Interest expense from debt securities issued and amounts due to credit institutions				(25,795)
- Insurance claims incurred, net of reinsurance				(7,393)
- Unallocated operating expenses				(21,974)
Income before income tax expense				44,904
Total segment assets	254,724	1,247,570	461,988	1,964,282
Unallocated assets				133,653
Total assets				2,097,935
Total segment liabilities	(490,877)	(924,878)	(3,861)	(1,419,616)
Unallocated liabilities				(360,435)
Total liabilities				(1,780,051)
Other segment items:				
Capital expenditure (unallocated)				(10,245)
Depreciation and amortization expense (unallocated)				(6,648)

	Retail banking	Corporate banking	Other	Total
Year ended 31 December 2009				
External revenues	87,278	157,854	12,755	257,887
Total revenues	87,278	157,854	12,755	257,887
Total revenues comprise:				
- Interest income	53,789	140,216	-	194,005
- Fee and commission income	31,113	8,601	-	39,714
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	1,392	1,392
- Net realized gains from available-for-sale investment securities	-	-	109	109
- Net gain from repurchase of debt securities issued	-	-	1,120	1,120
- Net gain on foreign exchange operations	2,376	9,064	-	11,440
- Share of loss of associates	-	(27)	-	(27)
- Insurance underwriting income and other income	-	-	10,134	10,134
Total revenues	87,278	157,854	12,755	257,887
- Interest expense on amounts due to customers	(25,823)	(41,046)	-	(66,869)
- Impairment charge	(20,914)	(62,599)	-	(83,513)
- Fee and commission expense	(627)	(4,310)	-	(4,937)
- Salaries and other employee benefits	(5,605)	(13,079)	-	(18,684)
- Advertisement expenses	(548)	-	-	(548)
- Other provisions	-	(1,221)	-	(1,221)
Segment result	33,761	35,599	12,755	82,115
Unallocated costs:				
- Interest expense from debt securities issued and amounts due to credit institutions				(36,408)
- Insurance claims incurred, net of reinsurance				(4,082)
- Unallocated operating expenses				(22,496)
Income before income tax expense				19,129
Total segment assets	294,828	1,375,130	226,163	1,896,121
Unallocated assets				126,888
Total assets				2,023,009
Total segment liabilities	(400,080)	(873,989)	(4,433)	(1,278,502)
Unallocated liabilities				(463,555)
Total liabilities				(1,742,057)
Other segment items:				
Capital expenditure (unallocated)				(9,155)
Depreciation and amortization expense (unallocated)				(5,979)

	Retail banking	Corporate banking	Other	Total
Year ended 31 December 2008				
External revenues	94,462	137,124	4,513	236,099
Total revenues	94,462	137,124	4,513	236,099
Total revenues comprise:				
- Interest income	75,395	117,265	-	192,660
- Fee and commission income	18,033	9,175	-	27,208
- Net loss from financial assets at fair value through profit or loss	-	-	(9,650)	(9,650)
- Net realized gains from available-for-sale investment securities	-	-	223	223
- Net gain from repurchase of debt securities issued	-	-	2,439	2,439
- Net gains on foreign exchange operations	1,034	10,719	-	11,753
- Share of loss of associates	-	(35)	-	(35)
- Insurance underwriting income and other income	-	-	11,501	11,501
Total revenues	94,462	137,124	4,513	236,099
- Interest expense on amounts due to customers	(37,630)	(29,248)	-	(66,878)
- Impairment charge	(11,641)	(48,374)	-	(60,015)
- Fee and commission expense	(327)	(2,921)	-	(3,248)
- Salaries and other employee benefits	(5,717)	(14,767)	-	(20,484)
- Advertisement expenses	(1,500)	-	-	(1,500)
- Other provisions	(169)	(818)	-	(987)
- Losses incurred from management of pension assets	(7,209)	-	-	(7,209)
Segment result	30,269	40,996	4,513	75,778
Unallocated costs:				
- Interest expense from debt securities issued and amounts due to credit institutions				(33,875)
- Insurance claims incurred, net of reinsurance				(4,951)
- Unallocated operating expenses				(20,774)
Income before income tax expense				16,178
Total segment assets	339,940	1,020,057	159,477	1,519,474
Unallocated assets				131,875
Total assets				1,651,349
Total segment liabilities	(330,847)	(539,434)		(870,281)
Unallocated liabilities				(590,013)
Total liabilities				(1,460,294)
Other segment items:				
Capital expenditure (unallocated)				(19,104)
Depreciation and amortization expense (unallocated)				(5,040)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2010, 2009 and 2008, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2010				
Total assets	1,752,669	306,993	38,273	2,097,935
External revenues	231,428	1,968	3,584	236,980
Capital expenditure	(10,245)	-	-	(10,245)
2009				
Total assets	1,724,165	271,720	27,124	2,023,009
External revenues	250,847	4,385	2,655	257,887
Capital expenditure	(9,155)	-	-	(9,155)
2008				
Total assets	1,509,039	134,850	7,460	1,651,349
External revenues	227,550	8,101	448	236,099
Capital expenditure	(19,104)	-	-	(19,104)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

35. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets						
Amounts due from credit institutions	20,123	18,967	56,101	53,780	10,357	10,239
Loans to customers	1,089,273	1,140,622	1,133,235	1,086,220	1,188,280	1,164,318
Investments held-to-maturity	174,419	173,856	17,186	16,611	8,689	6,655
Financial liabilities						
Amounts due to customers	1,415,755	1,397,685	1,274,069	1,271,937	867,392	830,951
Amounts due to credit institutions	71,403	75,756	172,706	184,392	289,608	291,900
Debt securities issued	252,167	260,351	263,893	249,935	262,991	195,587

Financial assets and liabilities at fair value through profit or loss and available-for-sale investment securities are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

Financial instruments that are classified at fair value through profit or loss or available for sale are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price at the close of business on the reporting date. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgement as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The tables below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2010, 2009 and 2008, before any allowances for impairment losses:

Consolidated statement of financial position category		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Total 31 December 2010
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	270	-	270
	Equity financial instruments	1,141	-	1,141
	Derivative financial instruments	-	4,640	4,640
Available-for-sale investment securities	Debt financial instruments	278,440	-	278,440
	Equity financial instruments	2,854	-	2,854
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	-	2,910	2,910

Consolidated statement of financial position category		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Total 31 December 2009
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	627	-	627
	Equity financial instruments	2,722	-	2,722
	Derivative financial instruments	-	5,179	5,179
Available-for-sale investment securities	Debt financial instruments	198,011	-	198,011
	Equity financial instruments	2,940	-	2,940
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	-	3,201	3,201

Consolidated statement of financial position category		Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Total 31 December 2008
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	6,351	-	6,351
	Equity financial instruments	2,195	-	2,195
	Derivative financial instruments	-	6,441	6,441
Available-for-sale investment securities	Debt financial instruments	134,480	-	134,480
	Equity financial instruments	1,321	-	1,321
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	-	6,048	6,048

36. EVENTS OF THE REPORTING PERIOD

On 28 January 2011, the Group has placed USD 500 million 7.25% Eurobonds with maturity in January 2021 at a price of 98.26%. The Group plans to utilize the raised funds for general corporate purposes, including the financing of the Group's growth and expansion plans and the refinancing of existing indebtedness.

37. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Samruk-Kazyna is a shareholder of the Group since 27 March 2009 (please see Note 1). The ultimate shareholder of the Group Timur Kulibayev holds the position of deputy chairman in Samruk-Kazyna since October 2008. The functional responsibilities of Timur Kulibayev do not allow him to exercise significant control over the operations and policies of Samruk-Kazyna or otherwise influence its governance.

The transactions and balances with Samruk-Kazyna are disclosed as a separate line in related party transactions disclosure below for the periods in which Samruk-Kazyna was a shareholder of the Group.

The Group had the following transactions outstanding as at 31 December 2010, 2009 and 2008, with related parties:

	31 December 2010		31 December 2009		31 December 2008	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Financial assets at fair value through profit or loss	48	6,051	1,508	8,528	-	14,987
- Samruk-Kazyna and its subsidiaries	48	-	1,508	-	-	-
Available-for-sale investment securities before allowance for impairment	39,058	282,506	6,852	200,951	-	135,801
- Samruk-Kazyna and its subsidiaries	39,058	-	6,852	-	-	-
Allowance for available-for-sale investment securities impairment	(549)	(1,212)	(408)	(730)	-	-
- Subsidiaries of Samruk-Kazyna	(549)	-	(408)	-	-	-
Investments held to maturity	4,714	174,419	4,096	17,186	-	8,689
- Subsidiaries of Samruk-Kazyna	4,714	-	4,096	-	-	-
Loans to customers before allowance for impairment losses	12,265	1,342,510	31,908	1,340,336	13,992	1,303,332
- entities with joint control or significant influence over the entity	-	-	9,976	-	9,379	-
- key management personnel of the entity or its parent	109	-	210	-	49	-
- other related parties	12,156	-	21,722	-	4,564	-
Allowance for impairment losses	(1,979)	(253,237)	(4,249)	(207,101)	(677)	(115,052)
- entities with joint control or significant influence over the entity	-	-	(701)	-	(469)	-
- key management personnel of the entity or its parent	(13)	-	(10)	-	(1)	-
- other related parties	(1,966)	-	(3,538)	-	(207)	-
Amounts due to customers	280,277	1,415,755	506,874	1,274,069	207,574	867,392
- the parent	12,457	-	7,901	-	85,956	-
- entities with joint control or significant influence over the entity	3,017	-	13,165	-	116,550	-
- associates	117	-	72	-	39	-
- key management personnel of the entity or its parent	1,450	-	1,678	-	2,514	-
- Samruk-Kazyna and its subsidiaries	257,750	-	479,827	-	-	-
- other related parties	5,486	-	4,231	-	2,515	-
Amounts due to credit institutions	44,482	71,403	51,786	172,706	-	289,608
- Subsidiaries of Samruk-Kazyna	44,482	-	51,786	-	-	-

Included in the consolidated income statement for the years ended 31 December 2010, 2009 and 2008, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	3,630	178,415	6,301	194,005	651	192,660
- *entities with joint control or significant influence over the entity*	797	-	1,987	-	219	-
- *key management personnel of the entity or its parent*	6	-	26	-	-	-
- *other related parties*	1,050	-	2,858	-	432	-
- *Subsidiaries of Samruk-Kazyna*	1,777	-	1,430	-	-	-
Interest expense	(7,283)	(86,379)	(29,876)	(103,277)	(4,458)	(100,753)
- *the parent*	(989)	-	(751)	-	(3,132)	-
- *entities with joint control or significant influence over the entity*	(303)	-	(239)	-	(1,187)	-
- *key management personnel of the entity or its parent*	(129)	-	(164)	-	(97)	-
-*Samruk-Kazyna and its subsidiaries*	(5,339)	-	(28,462)	-	-	-
- *other related parties*	(523)	-	(260)	-	(42)	-
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	4	1,741	(57)	1,392	-	(9,650)
- *Subsidiaries of Samruk-Kazyna*	4	-	(57)	-	-	-

	Year ended 31 December 2010		Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:	271	22,647	233	18,684	1,523	20,484
- *short-term employee benefits*	271	-	233	-	1,523	-