Development Bank of Kazakhstan JSC

Consolidated Financial Statements

for the year ended 31 December 2009

Contents

KPMG Audit LLC
Koktem Business Centre
180 Dostyk Avenue
Almaty, Kazakhstan 050051

Telephone +7 (727) 298 08 98
Fax +7 (727) 298 07 08
E-mail company@kpmg.kz

Independent Auditors' Report

To the Board of Directors of Development Bank of Kazakhstan JSC

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 principles 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 opinion.

Basis for Qualified Opinion

In respect of certain foreign currency derivatives accounted for as hedges in the accompanying consolidated financial statements, we were unable to satisfy ourselves whether the documentation of the prospective hedge effectiveness test qualified them for hedge accounting under IAS 39 *Financial Instruments Recognition and Measurement* during the period from 9 October 2007 to 26 August 2008, the potential effect and further detail is set out in Note 29 (c).

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in relation to the issue set out in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

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

24 March 2010

	Note	2009 KZT'000	2008 KZT'000
Interest income	4	41,868,939	28,068,935
Interest expense	4	(18,626,030)	(12,823,176)
Net interest income		**23,242,909**	**15,245,759**
Fee and commission income	5	181,683	323,619
Fee and commission expense	6	(142,642)	(131,116)
Net fee and commission income		**39,041**	**192,503**
Net foreign exchange gain	7	7,667,621	476,215
Net realised gain on available-for-sale assets		513,524	15,382
Net loss on derivative financial instruments	8	(3,297,045)	(181,800)
Other income, net	9	1,174,115	83,318
Operating income		**29,340,165**	**15,831,377**
Impairment losses	10	(73,414,097)	(10,229,992)
General administrative expenses	11	(2,767,114)	(2,989,142)
(Loss)/profit before taxes		**(46,841,046)**	**2,612,243**
Income tax benefit/(expense)	12	7,365,391	(454,312)
(Loss)/profit		**(39,475,655)**	**2,157,931**
Other comprehensive income			
Net change in fair value of available-for-sale assets		40,713,458	(3,436,139)
Impairment on available-for-sale assets transferred to profit or loss		2,193,109	-
Net change in fair value of available-for-sale assets transferred to profit or loss		(313,395)	(15,479)
Net unrealised gain/(loss) on hedging instruments		5,550,476	(3,258,561)
Other comprehensive income/(loss) for the year		**48,143,648**	**(6,710,179)**
Total comprehensive income/(loss)		**8,667,993**	**(4,552,248)**
Earnings per share	32		
Basic and diluted (loss)/earnings per share		(20.98)	1.19

The consolidated financial statements as set out on pages 5 to 62 were approved by the Management Board on 24 March 2010 and were signed on its behalf by:

Iskaliyev Gali Nazhmedenovich
Chairman of the Management Board

Mamekova Saule Mamyrovna
Chief Accountant

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

	Note	2009 KZT'000	2008 KZT'000
ASSETS			
Cash and cash equivalents	13	293,316,214	72,397,464
Placements with banks	14	44,481,676	10,420,732
Amounts receivable under reverse repurchase agreements		-	12,984,384
Loans to customers	15	201,412,285	187,725,199
Finance lease receivables	16	19,276,889	10,345,167
Available-for-sale assets			
- Held by the Group	17	268,830,210	63,222,974
- Pledged under repurchase agreements	17	-	7,364,400
Equipment and intangible assets	18	150,748	175,297
Advances for finance leases		483,951	4,044,778
Assets to be transferred under finance lease agreements		5,782,190	6,273,302
Other assets	19	7,397,839	698,637
Current tax asset		532,481	763,084
Deferred tax asset	20	8,000,974	1,451,155
Total assets		**849,665,457**	**377,866,573**
LIABILITIES			
Current accounts and deposits from customers	21	45,181,216	631,924
Loans from the Government of the Republic of Kazakhstan	22	30,886,093	33,903,137
Loans from the Parent company	23	-	50,388,500
Loans from banks and other financial institutions	24	430,143,235	138,036,607
Government grants	25	9,459,497	-
Amounts payable under repurchase agreements		-	5,012,410
Debt securities issued	26	51,372,403	41,678,071
Subordinated debt	27	2,723,830	-
Other liabilities	28	2,673,340	4,459,108
Derivative financial instruments	29	8,183,906	7,476,042
Total liabilities		**580,623,520**	**281,585,799**
EQUITY			
Share capital	30	255,975,958	90,975,950
Reserve capital	31	17,666,734	15,143,459
General reserve		-	45,578
Hedging reserve		(847,701)	(6,398,177)
Revaluation reserve for available-for-sale assets		36,064,330	(6,528,842)
Retained earnings		(39,817,384)	3,042,806
Total equity		**269,041,937**	**96,280,774**
Total liabilities and equity		**849,665,457**	**377,866,573**
Commitments and Contingencies	35-37		

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

	2009 KZT'000	2008 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	34,375,446	23,704,727
Interest payments	(16,385,875)	(10,167,724)
Fee and commission receipts	194,195	323,619
Fee and commission payments	(98,076)	(131,116)
Net receipts from foreign exchange	304,031	377,242
Net payments for derivative financial instruments	(393,317)	(18,321)
Receipt of government grants	9,459,497	-
Other income, net	239,269	87,004
Other general administrative expenses	(2,986,618)	(2,927,449)
	24,708,552	**11,247,982**
(Increase)/decrease in operating assets		
Placements with banks	(31,491,858)	(4,756,050)
Amounts receivable under reverse repurchase agreements	12,956,695	(12,956,695)
Loans to customers	(34,225,516)	(116,686,992)
Finance lease receivables	(5,142,277)	(6,981,227)
Advances for finance leases	3,560,827	(98,427)
Assets to be transferred under finance lease agreements	491,112	(5,537,426)
Derivative financial instruments	-	89,372
Other assets	(723,059)	(531,546)
Increase/(decrease) in operating liabilities		
Loans from the Government of the Republic of Kazakhstan	(3,020,259)	8,338,543
Loans from the Parent Company	(50,000,000)	50,000,000
Loans from banks and other financial institutions	254,988,703	84,311,390
Current accounts and deposits from customers	44,106,246	(1,275,591)
Amounts payable under repurchase agreements	(5,001,448)	5,001,448
Other liabilities	(1,831,031)	2,300,459
Net cash provided from operating activities before taxes paid	**209,376,687**	**12,465,240**
Income tax paid	(286,311)	(1,616,000)
Cash flows from operating activities	**209,090,376**	**10,849,240**

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

	2009 KZT'000	2008 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment and intangible assets	(36,231)	(72,256)
Sales of property and equipment	125	-
Acquisition of available-for-sale assets	(249,218,680)	(15,663,579)
Disposal of available-for-sale assets	39,157,303	15,489,985
Cash flows used in investing activities	**(210,097,483)**	**(245,850)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	165,000,008	-
Subordinated debt received	53,142,370	-
Cash flows from financing activities	**218,142,378**	-
Net increase in cash and cash equivalents	**217,135,271**	**10,603,390**
Effect of changes in exchange rates on cash and cash equivalents	3,783,479	100,475
Cash and cash equivalents at the beginning of the year	72,397,464	61,693,599
Cash and cash equivalents at the end of the year (Note 13)	**293,316,214**	**72,397,464**

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

	Share capital KZT'000	Reserve capital KZT'000	General reserve KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale assets KZT'000	Retained earnings KZT'000	Total equity KZT'000
Balance at 1 January 2008	**90,975,950**	**12,889,916**	**66,920**	**(3,139,616)**	**(3,077,224)**	**3,117,076**	**100,833,022**
Total comprehensive loss							
Profit	-	-	-	-	-	2,157,931	2,157,931
Other comprehensive income							
Net change in fair value of available-for-sale assets	-	-	-	-	(3,436,139)	-	(3,436,139)
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	-	(15,479)	-	(15,479)
Net unrealised loss on hedging instruments	-	-	-	(3,258,561)	-	-	(3,258,561)
Total other comprehensive loss	-	-	-	(3,258,561)	(3,451,618)	-	(6,710,179)
Total comprehensive loss for the year	**-**	**-**	**-**	**(3,258,561)**	**(3,451,618)**	**2,157,931**	**(4,552,248)**
Transfer to reserve capital	-	2,253,543	-	-	-	(2,253,543)	-
Transfer from general reserve	-	-	(21,342)	-	-	21,342	-
Balance at 31 December 2008	**90,975,950**	**15,143,459**	**45,578**	**(6,398,177)**	**(6,528,842)**	**3,042,806**	**96,280,774**

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

	Share capital KZT'000	Reserve capital KZT'000	General reserve KZT'000	Hedging reserve KZT'000	Revaluation reserve for available-for-sale assets KZT'000	Retained earnings KZT'000	Total equity KZT'000
Balance at 1 January 2009	**90,975,950**	**15,143,459**	**45,578**	**(6,398,177)**	**(6,528,842)**	**3,042,806**	**96,280,774**
Total comprehensive income							
Loss	-	-	-	-	-	(39,475,655)	**(39,475,655)**
Other comprehensive income							
Net change in fair value of available-for-sale assets	-	-	-	-	40,713,458	-	40,713,458
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	-	(313,395)	-	(313,395)
Impairment on available-for-sale assets transferred to profit or loss	-	-	-	-	2,193,109	-	2,193,109
Net unrealised gain on hedging instruments	-	-	-	5,550,476	-	-	5,550,476
Total other comprehensive income	-	-	-	5,550,476	42,593,172		48,143,648
Total comprehensive income for the year	-	-	-	**5,550,476**	**42,593,172**	**(39,475,655)**	**8,667,993**
Shares issued	165,000,008	-	-	-	-	-	165,000,008
Other distributions (Note 27)						(906,838)	(906,838)
Transfer to reserve capital	-	2,523,275	-	-	-	(2,523,275)	-
Transfer from general reserve	-	-	(45,578)	-	-	45,578	-
Balance at 31 December 2009	**255,975,958**	**17,666,734**	-	**(847,701)**	**36,064,330**	**(39,817,384)**	**269,041,937**

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

1 Background

(a) Principal activities

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

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

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

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

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

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

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

(b) Shareholders

As at 31 December 2009 and 2008 the sole shareholder of the Bank was Sovereign Wealth Fund "Samruk-Kazyna" JSC (legal successor of Foundation for Sustainable Development "Kazyna" JSC, "the Parent Company"). The ultimate controlling party is the Government of the Republic of Kazakhstan. Related party transactions are detailed in Note 38.

1 Background, continued

(c) Kazakhstan business environment

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

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the Note 15 "Loans to customers", Note 16 "Finance lease receivables", Note 17 "Available-for-sale assets",Note 20 "Deferred tax asset" and Note 29 "Derivative financial instruments".

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

(c) Cash and cash equivalents

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

(d) Placements with banks

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

(e) Repurchase and reverse repurchase agreements

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

3 Significant accounting policies, continued

(e) Repurchase and reverse repurchase agreements, continued

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

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

(f) Financial instruments

(i) Classification

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(f) Financial instruments, continued

(i) Classification, continued

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(iii) Measurement, continued

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

(iv) Fair value measurement principles

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

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

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

(v) Gains and losses on subsequent measurement

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

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

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

(vi) Derecognition

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

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

3 Significant accounting policies, continued

(f) Financial instruments, continued

(vii) Derivative financial instruments

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

According to existing policy of the Group, some of derivative instruments qualify for hedge accounting.

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

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

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

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

(viii) Offsetting

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

3 Significant accounting policies, continued

(g) Finance leases

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

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

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

(h) Foreclosed assets

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

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

(i) Equipment

(i) Owned assets

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

When parts of an item equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

(ii) Depreciation

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

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

3 Significant accounting policies, continued

(j) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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

(k) Impairment

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(k) Impairment, continued

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale assets

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

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

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

(iv) Non financial assets

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

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

(l) Government grants

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

3 Significant accounting policies, continued

(l) Government grants, continued

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

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

(m) Provisions

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

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

(n) Credit related commitments

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

(o) Taxation

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

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

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

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

(p) Share capital

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

3 Significant accounting policies, continued

(q) Income and expense recognition

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

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

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

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

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

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

(r) Segment reporting

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

(s) Changes in accounting policies

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

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

Amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* clarified accounting for low interest loans from Government that the Group started to account at fair value at initial recognition with the difference allocated to government grants as appropriate. Previously the Group recognised such loans at nominal amounts.

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

3 Significant accounting policies, continued

(t) New Standards and Interpretations not yet adopted

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

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.
- Amendment to IAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

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

4 Net interest income

	2009 KZT'000	2008 KZT'000
Interest income		
Loans to customers	28,864,827	16,824,416
Available-for-sale assets	6,930,888	5,192,813
Placements with banks	3,974,225	4,943,632
Finance lease receivables	1,638,322	1,057,904
Amounts receivable under reverse repurchase agreements	460,677	50,170
	41,868,939	**28,068,935**
Interest expense		
Loans from banks and other financial institutions	12,150,231	9,004,265
Debt securities issued	3,474,014	2,822,888
Loans from the Parent Company	2,628,730	861,389
Amounts payable under repurchase agreements	261,185	103,218
Loans from the Government of the Republic of Kazakhstan	79,238	30,272
Subordinated debt	30,268	-
Current accounts and deposits from customers	2,364	1,144
	18,626,030	**12,823,176**

5 Fee and commission income

	2009 KZT'000	2008 KZT'000
Letters of credit	70,081	24,219
Foreign exchange fees	60,779	83,344
Expert commission on loans not entered to	24,930	182,096
Transfer services	13,429	21,622
Commission on finance lease	4,651	6,980
Other	7,813	5,358
	181,683	**323,619**

6 Fee and commission expense

	2009 KZT'000	2008 KZT'000
Maintenance of current accounts	76,415	15,340
Securities operations	25,381	17,199
Custodial services	9,192	6,778
Plastic card services	4,988	5,204
Transfer services	935	877
Fees and commissions related to cancelled eurobonds issuance	554	82,559
Other	25,177	3,159
	142,642	**131,116**

7 Net foreign exchange gain

	2009 KZT'000	2008 KZT'000
Translation differences, net	7,363,590	98,973
Dealing, net	304,031	377,242
	7,667,621	**476,215**

8 Net loss on derivative financial instruments

	2009 KZT'000	2008 KZT'000
Unrealised gain/(loss) from inefficiency of cash flow hedge	129,850	(146,645)
Realised (loss)/gain on derivative financial instruments	(392,129)	122,126
Unrealised loss from revaluation of derivative financial instruments	(3,034,766)	(157,281)
	(3,297,045)	**(181,800)**

9 Other income, net

	2009 KZT'000	2008 KZT'000
Fines and penalties	1,088,956	69,716
Other income from non-banking activity	71,322	7,101
Income from decrease in value added tax rate	21,814	10,939
Loss on disposal of equipment and intangible assets	-	(3,686)
Other expense	(7,977)	(752)
	1,174,115	**83,318**

10 Impairment losses

	2009 KZT'000	2008 KZT'000
Impairment losses		
Loans to customers	66,852,966	9,946,287
Available-for-sale assets	4,807,960	-
Finance lease receivables	857,763	196,922
Other assets	895,408	107,153
	73,414,097	**10,250,362**
Reversals of impairment losses		
Letters of credit	-	(20,370)
	-	**(20,370)**
Net impairment losses	**73,414,097**	**10,229,992**

11 General administrative expenses

	2009 KZT'000	2008 KZT'000
Payroll and related taxes	1,832,016	2,066,890
Occupancy	333,423	347,888
Taxes other than on income	181,608	103,581
Communication and information services	98,666	107,473
Depreciation and amortisation	60,655	61,693
Professional services	56,268	34,506
Business travel	51,456	67,130
Repair and maintenance	22,889	17,703
Office supplies	22,173	18,830
Rating services	20,908	28,815
Transportation	16,945	10,554
Insurance	15,904	15,964
Advertising and marketing	14,920	20,212
Security	11,123	12,901
Representative expenses	7,424	4,061
Training and seminars	6,925	25,471
Conferences	3,958	13,565
Other	9,853	31,905
	2,767,114	**2,989,142**

12 Income tax benefit/(expense)

	2009 KZT'000	2008 KZT'000
Current tax expense		
Current year	(89,898)	(948,925)
Underprovided in prior years	(34,190)	(35,506)
	(124,088)	**(984,431)**
Deferred tax benefit		
Origination and reversal of temporary differences	7,489,479	530,119
	7,489,479	**530,119**
Total income tax benefit/(expense) in profit or loss	**7,365,391**	**(454,312)**

The Group's applicable tax rate for current tax is 20% (2008: 30%).

Reconciliation of effective tax rate:

	2009 KZT'000	%	2008 KZT'000	%
(Loss)/income before tax	**(46,841,046)**	**100**	**2,612,243**	**100**
Income tax at the applicable tax rate	9,368,209	(20)	(783,673)	(30)
Non-taxable net income on state securities	1,230,396	(3)	832,208	32
Tax effect of non-deductible items	954,106	(2)	(311,724)	(12)
Underprovided in prior years	(34,190)	-	(35,506)	(1)
Witholding tax	(251,110)	1	-	-
Effect of change in rate applicable to deferred taxes	(834,605)	2	(170,147)	(7)
Change in unrecognised deferred tax assets	(1,039,141)	2	14,530	1
Non-deductile impairment losses	(2,028,274)	4	-	-
	7,365,391	**16**	**(454,312)**	**(17)**

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

13 Cash and cash equivalents

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

	2009 KZT'000	2008 KZT'000
Demand deposits		
National Bank of the Republic of Kazakhstan		
Rated BBB-	201,660,683	20,002,917
Other banks		
Rated from BB- to BB+	4,239,126	19,185,381
Rated below B+	-	2,833,673
Total demand deposits	**205,899,809**	**42,021,971**
Cash at current bank accounts		
National Bank of the Republic of Kazakhstan		
Rated BBB-	505,746	21,542,039
Other banks		
Rated from AA- to AA+	44,990,432	7,929,639
Rated from A- to A+	667,172	209
Rated from BBB- to BBB+	2,429	10,365
Rated from BB- to BB+	1,544,889	893,238
Rated below B+	39,705,631	-
Total cash at current bank accounts	**87,416,299**	**30,375,490**
Cash on hand	106	3
	293,316,214	**72,397,464**

Concentration of cash and cash equivalents

As at 31 December 2009 and 2008 the Group had three banks, whose balances exceeded 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2009 and 2008 were KZT 286,351,389 thousand and KZT 64,495,192 thousand, respectively.

14 Placements with banks

	2009 KZT'000	2008 KZT'000
Not impaired or past due		
Loans and deposits		
Rated from A- to A+	4,257,419	-
Rated from AA- to AA+	-	3,243,177
Rated from BBB- to BBB+	30,004,075	-
Rated from BB- to BB+	-	7,177,555
Rated below B+	10,220,182	-
	44,481,676	**10,420,732**

14 Placements with banks, continued

As at 31 December 2009 placements with banks included a deposit of KZT 4,257,419 thousand, which serves as a margin deposit on a foreign currency swap with Morgan Stanley (31 December 2008: KZT 3,243,177 thousand).

Concentration of placements with banks

As at 31 December 2009 and 2008 the Group had two and four banks, respectively, whose balances exceeded 10% of total placements with banks. The gross value of these balances as at 31 December 2009 and 2008 were KZT 40,224,257 thousand and KZT 10,420,732 thousand, respectively.

15 Loans to customers

	2009 KZT'000	2008 KZT'000
Loans to large corporate	269,966,942	195,062,591
Mortgage loans	311,660	149,747
Accrued interest	10,674,101	5,301,555
Gross loans to customers	**280,952,703**	**200,513,893**
Impairment allowance	(79,540,418)	(12,788,694)
Net loans to customers	**201,412,285**	**187,725,199**

Movements in the loan impairment allowance for the year ended 31 December 2009 and 2008 are as follows:

	2009 KZT'000	2008 KZT'000
Balance at the beginning of the year	(12,788,694)	(2,842,407)
Net charge for the year	(66,852,966)	(9,946,287)
Effect of foreign currency movements	(3,197,174)	-
Write-offs	3,298,416	-
Balance at the end of the year	**(79,540,418)**	**(12,788,694)**

As at 31 December 2009, interest accrued on impaired loans amount to KZT 399,743 thousand (31 December 2008: KZT 30,930 thousand).

15 Loans to customers, continued

(a) Credit quality of loan portfolio

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

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans without individual signs of impairment	135,581,133	(7,904,165)	127,676,968	5.83
Impaired loans:				
- not past due	94,013,100	(40,589,015)	53,424,085	43.17
- overdue less than 90 days	32,706,490	(15,954,121)	16,752,369	48.78
- overdue more than 90 days and less than 1 year	18,651,980	(15,093,117)	3,558,863	80.92
Total impaired loans	145,371,570	(71,636,253)	73,735,317	49.28
Total loans	**280,952,703**	**(79,540,418)**	**201,412,285**	**28.31**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2008:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Loans without individual signs of impairment	170,754,054	(1,479,632)	169,274,422	0.87
Impaired loans:				
- not past due	24,512,163	(7,201,687)	17,310,476	29.38
- overdue less than 90 days	5,079,436	(3,939,135)	1,140,301	77.55
- overdue more than 90 days and less than 1 year	168,240	(168,240)	-	100.00
Total impaired loans	29,759,839	(11,309,062)	18,450,777	38.00
Total loans	**200,513,893**	**(12,788,694)**	**187,725,199**	**6.38**

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

The objective indicators of loan impairment include the following:

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

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

In determining the impairment allowance for loans to legal entities, management made the following key assumptions:

15 Loans to customers, continued

(a) Credit quality of loan portfolio

- historic annual loss rate of 5.83%
- a discount of between 20% and 50% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment allowance. If the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to customers as at 31 December 2009 would be KZT 2,014,123 thousand (31 December 2008: KZT 1,877,252 thousand) lower or higher.

During the year ended 31 December 2009 the Group renegotiated 38 loans to legal entitites that would otherwise be past due or impaired of KZT 99,143,940 thousand (31 December 2008: nil). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Analysis of collateral

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

	31 December 2009 KZT'000	%	31 December 2008 KZT'000	%
Mixed types of collateral	165,775,886	82	124,581,799	66
Guarantees of financial institutions	49,344,654	24	47,458,475	25
Motor vehicles and equipment	34,158,886	17	5,161,709	4
Real estate	10,166,628	5	4,950,115	3
Cash	9,076,703	5	8,242,617	4
Guarantees of the Government of the Republic of Kazakhstan	7,965,136	4	6,399,021	3
Guarantees of other companies	4,464,810	2	3,720,157	2
Less impairment allowance	(79,540,418)	(39)	(12,788,694)	(7)
Total	201,412,285	**100**	**187,725,199**	**100**

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

As at 31 December 2009 it was impracticable to determine the fair value of collateral for impaired or overdue loans with gross value of KZT 145,371,570 thousand. As at 31 December 2008 impaired or overdue loans with gross value of KZT 4,259,626 thousand were secured by collateral with a fair value of KZT 3,147,820 thousand, for the remaining impaired loans of KZT 25,500,213 thousand it was impracticable to determine the fair value of collateral.

During the year ended 31 December 2009 the Group did not obtain any assets by taking control of collateral accepted as security for loans (31 December 2008: nil).

15 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

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

	2009 KZT'000	2008 KZT'000
Agriculture	60,953,272	44,132,522
Mining, metallurgy and mineral resources	35,994,821	31,550,783
Transportation and warehousing	34,762,155	29,215,635
Textile	32,189,740	19,618,813
Construction materials	22,149,605	10,731,723
Chemical	22,022,083	15,231,119
Energy and electricity distribution	21,391,892	12,466,523
Paper-pulp	13,508,951	9,666,869
Food processing	10,675,187	7,753,324
Manufacturing	7,757,227	5,454,526
Machinery-producing	6,476,362	5,241,598
Recycling	5,743,435	5,109,904
Oil and gas	2,054,706	1,619,336
Telecommunication	1,745,635	1,824,376
Electric equipment	494,806	498,728
Mortgage	311,660	149,746
Fishery	296,920	248,368
Other	2,424,246	-
	280,952,703	**200,513,893**
Impairment allowance	(79,540,418)	(12,788,694)
Total loans to customers	**201,412,285**	**187,725,199**

(c) Significant credit exposures

As at 31 December 2009 the Group had no borrowers or groups of related borrowers whose loan balances exceeded 10% of loans to customers (2008: one).

(d) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 33, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

16 Finance lease receivables

The components of net investments in finance lease as at 31 December 2009 and 2008 are as follows:

	2009 KZT'000	2008 KZT'000
Within one year	7,805,375	3,780,667
Later than one year, but not later than five years	13,065,186	8,056,207
After five years	3,494,034	1,710,593
Minimum lease payments	**24,364,595**	**13,547,467**
Less unearned finance income	(4,033,021)	(3,005,378)
Less impairment allowance	(1,054,685)	(196,922)
Net investment in finance lease	**19,276,889**	**10,345,167**

	2009 KZT'000	2008 KZT'000
Leases to large corporates	7,829,995	2,990,781
Leases to small and medium size companies	12,501,579	7,551,308
Less impairment allowance	(1,054,685)	(196,922)
Net investment in finance lease	**19,276,889**	**10,345,167**

Movements in the lease impairment allowance for the years ended 31 December 2009 and 2008 are as follows:

	2009 KZT'000	2008 KZT'000
Balance at the beginning of the year	(196,922)	-
Net charge for the year	(857,763)	(196,922)
Balance at the end of the year	**(1,054,685)**	**(196,922)**

As at 31 December 2009 and 2008, there was KZT 203,349 thousand and KZT 91,266 thousand interest accrued on impaired finance lease receivables, respectively.

Embedded derivative

The repayment of investment in finance leases of KZT 17,854,124 thousand (2008: KZT 10,249,783 thousand) is in part linked to any appreciation in the rate of the USD or EUR against the KZT. If these foreign currencies appreciate, the amount receivable is increased by the respective index. If these foreign currencies depreciate, the amount receivable is not adjusted below the original outstanding amount in KZT.

These embedded derivatives recorded at fair value in the financial statements. The estimated amount of the embedded derivative, which is included in finance lease receivables as at 31 December 2009 is KZT 4,331,208 thousand (31 December 2008: KZT 29,108 thousand). Fair value is calculated using a model based on the Black-Scholes option pricing model (Note 40).

16 Finance lease receivables, continued

The management uses the following assumptions for valuation of the embedded derivative:

- risk-free rates are estimated using yield curves for respective currencies and ranged from 0.66% to 3.04% for USD, from 1.29% to 2.26% for EUR, and from 4.65% to 5.58% for KZT;
- volatility in the model is defined based on the historical one-year observations of fluctuations in actual foreign exchange rates;
- no transaction cost is included in the model;
- all leases are perfectly divisible.

If the spreads between KZT and USD (or EUR as appropriate) risk-free rates narrowed by 0.5% across all the contracts the fair value of derivative would have decreased by KZT 202,247 thousand. Increase of volatility by 50% would result in increase of the fair value of derivative by KZT 18,295 thousand.

Credit quality of finance lease portfolio

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

	Gross finance leases KZT'000	Impairment KZT'000	Net finance leases KZT'000	Impairment as a percentage of gross finance lease %
Leases to large corporates				
Leases for which no impairment has been identified:				
- Standard leases	7,829,995	(206,629)	7,623,366	2.64
Total leases to large corporate customers	**7,829,995**	**(206,629)**	**7,623,366**	**2.64**
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- Standard leases	10,715,158	(282,767)	10,432,391	2.64
Impaired leases:				
- overdue more than 90 days	1,786,421	(565,289)	1,221,132	31.64
Total leases to small and medium size companies	**12,501,579**	**(848,056)**	**11,653,523**	**6.78**
Total finance leases	**20,331,574**	**(1,054,685)**	**19,276,889**	**5.19**

16 Finance lease receivables, continued

Credit quality of finance lease portfolio, continued

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2008:

	Gross finance leases KZT'000	Impairment KZT'000	Net finance leases KZT'000	Impairment as a percentage of gross finance lease %
Leases to large corporates				
Leases for which no impairment has been identified:				
- Standard leases	2,990,781	(15,590)	2,975,191	0.52
Total leases to large corporate customers	**2,990,781**	**(15,590)**	**2,975,191**	**0.52**
Leases to large corporates				
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- Standard leases	6,735,616	(35,110)	6,700,506	0.52
Impaired leases:				
- overdue more than 90 days	815,692	(146,222)	669,470	17.93
Total leases to small and medium size companies	**7,551,308**	**(181,332)**	**7,369,976**	**2.40**
Total finance leases	**10,542,089**	**(196,922)**	**10,345,167**	**1.87**

The Group has estimated impairment for finance leases based on an analysis of the future cash flows for impaired lease receivables and based on current economic conditions for portfolios of finance leases for which no indications of impairment has been identified.

In determining the collective impairment allowance for finance lease receivables, the management has assumed an annual loss rate of 2.64% and 0.52% for 2009 and 2008, respectively, which is based on current economic conditions.

Changes in these estimates could affect the lease impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment provision on finance leases as at 31 December 2009 would be KZT 192,769 thousand lower/higher (31 December 2008: KZT 103,452 thousand).

During the year ended 31 December 2009 the Group renegotiated leases that would otherwise be past due or impaired of KZT 6,985,154 thousand (31 December 2008: nil). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

16 Finance lease receivables, continued

Industry and geographical analysis of the lease portfolio

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

	2009 KZT'000	2008 KZT'000
Telecommunication and transportation	7,812,049	3,128,640
Textile	2,732,126	1,113,769
Metallurgy	2,166,706	556,301
Construction	1,862,810	2,108,093
Machinery	1,609,907	1,076,097
Construction materials	1,525,135	1,554,171
Mineral resources	1,322,898	341,376
Electric equipment	618,610	37,112
Agriculture	346,373	384,693
Food processing	244,578	240,679
Pharmaceutical	10,682	508
Paper and pulp	79,700	650
	20,331,574	**10,542,089**
Impairment allowance	(1,054,685)	(196,922)
	19,276,889	**10,345,167**

Significant credit exposures

As at 31 December 2009 and 2008, the Company had two and one lessees, respectively, whose balances exceeded 10% of finance lease receivables. The gross value of these balances as at 31 December 2009 and 2008 was KZT 5,350,386 thousand and KZT 2,074,604 thousand, respectively.

Lease maturities

The maturity of the Group's lease portfolio is presented in Note 33, which shows the remaining period from the reporting date, to the contractual maturity of the finance lease receivables in the lease portfolio.

17 Available-for-sale assets

	2009 KZT'000	2008 KZT'000
Held by the Group		
Debt instruments		
Corporate bonds	206,215,043	2,671,369
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	38,630,894	36,919,104
Bonds of Kazakh banks	16,130,389	16,021,920
Bonds of Kazakh credit institutions, other than banks	4,359,967	4,066,929
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna"	1,816,992	-
Bonds of OECD banks	1,676,925	3,543,652
	268,830,210	**63,222,974**
Pledged under repurchase agreements		
Debt instruments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	7,364,400
	-	**7,364,400**

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

	2009 KZT'000	2008 KZT'000
Rated A- to A+	1,676,925	3,543,652
Rated BBB	39,189,155	48,350,433
Rated from BB- to BB+	214,556,603	16,507,670
Rated below B+	8,612,834	1,051,086
Rated D	1,945,823	-
Not rated	2,848,870	1,134,533
	268,830,210	**70,587,374**

In October 2009 the Group acquired bonds of National Company "Kazmunaigaz" JSC and Kazakhtelecom JSC for a total cash consideration of KZT 165,500,000 thousand. The bonds bear coupons paying 6 months Libor plus premiums of 8.5% p.a and 9.0% p.a, respectively. Both bonds have a tenor of 10 years, are denominated in KZT and are tied to changes in USD/KZT rates and are redeemable in 16 equal semi-annual instalments following a two years grace period.

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

17 Available-for-sale assets, continued

During 2009 the Group acquired bonds of the Parent Company for a total cash consideration of KZT 53,142,370 thousand. The bonds have a tenor of 50 years, are denominated in KZT and pay a coupon of 0.01% p.a. At initial recognition the bonds were measured at fair value of KZT 1,815,695 thousand applying appropriate market interest rate. The acquisition occurred simultaneously with sale of subordinated securities for the same consideration under terms discussed in Note 27.

Non-quoted debt and equity securities

Included in available-for-sale assets are non-quoted debt securities with a net book value of KZT 204,421,724 thousand.

Analysis of movements in the impairment allowance

	2009 KZT'000	2008 KZT'000
Balance at the beginning of the year	-	-
Net charge	(4,807,960)	-
Write-offs	76,456	-
Balance at the end of the year	**(4,731,504)**	-

The entire impairment loss relates to defaulted bonds and there are no other assets that are past due or impaired.

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

18 Equipment and intangible assets

KZT'000	Computers and equipment	Vehicles	Intangible assets	Furniture and other equipment	Total
Cost					
At 1 January 2008	111,109	47,959	206,422	106,684	472,174
Additions	17,268	13,845	22,324	18,819	72,256
Disposals	(1,194)	-	(20,974)	(3,669)	(25,837)
At 31 December 2008	**127,183**	**61,804**	**207,772**	**121,834**	**518,593**
Additions	8,634	-	18,891	8,706	36,231
Disposals	(9,595)	-	(6,879)	(3,637)	(20,111)
Transfer	9	-	-	(9)	-
At 31 December 2009	**126,231**	**61,804**	**219,784**	**126,894**	**534,713**
Depreciation/amortisation					
At 1 January 2008	(73,741)	(29,287)	(155,272)	(45,454)	(303,754)
Depreciation and amortisation charge	(21,953)	(5,902)	(18,887)	(14,951)	(61,693)
Disposals	1,171	-	19,829	1,151	22,151
At 31 December 2008	**(94,523)**	**(35,189)**	**(154,330)**	**(59,254)**	**(343,296)**
Depreciation and amortisation charge	(17,964)	(5,408)	(21,126)	(16,157)	(60,655)
Disposals	9,562	-	6,879	3,545	19,986
At 31 December 2009	**(102,925)**	**(40,597)**	**(168,577)**	**(71,866)**	**(383,965)**
Net book value					
At 1 January 2008	37,368	18,672	51,150	61,230	168,420
At 31 December 2008	32,660	26,615	53,442	62,580	175,297
At 31 December 2009	**23,306**	**21,207**	**51,207**	**55,028**	**150,748**

19 Other assets

	2009 KZT'000	2008 KZT'000
Loan arrangement fee prepaid	5,285,847	-
Fines and penalties accrued	756,326	18,687
Apartments to be transferred to employees	645,402	-
Foreclosed equipment	507,943	-
Taxes recoverable other than income tax	478,484	88,440
Accrued commission income	393,613	406,125
Prepayments	65,902	36,455
Trade and other receivables	26,500	7,585
Office supplies	23,651	26,619
Customs duties prepaid	18,099	220,454
Equity investment	2,200	2,200
	8,203,967	**806,565**
Impairment allowance	(806,128)	(107,928)
	7,397,839	**698,637**

Loan arrangement fee is represented by a paid commitment charge attributable to undrawn part of credit facility provided by the Export-Import Bank of China (Note 24) deferred pending recognition as an adjustment to the effective interest rate of the loan at receipt.

Included in other assets are non-quoted equity securities – the ordinary shares of Kazakhstan Stock Exchange JSC are unquoted and carried at cost with a carrying value of KZT 2,200 thousand (2008: KZT 2,200 thousand), the fair value of which cannot be reliably determined. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

Analysis of movements in the impairment allowance

	2009 KZT'000	2008 KZT'000
Balance at the beginning of the year	(107,928)	(1,134)
Net charge for the year	(895,408)	(107,153)
Write-offs	197,208	359
Balance at the end of the year	**(806,128)**	**(107,928)**

As at 31 December 2009, included in other assets are receivables overdue for less than 90 days of KZT 85,140 thousand (31 December 2008: KZT 12,202 thousand).

20 Deferred tax asset

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax asset as at 31 December 2009 and 2008. These deferred tax assets have been recognised in these consolidated financial statements except for temporary differences of KZT 148,675 thousand (2008: nil) relating to finance leases and KZT 1,010,631 thousand (2008: KZT 120,165 thousand) to tax loss carry-forwards of the subsidiary have not been recognised due to uncertainties concerning their realisation. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

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

With effect from 1 January 2009 the income tax rate has been reduced to 20% for 2009-2012 and will be decreased to 17.5% for 2013 and to 15% for later years. Except in relation to loans to customers, the tax rate applicable for deferred taxes was 20% (2008: 30%). The tax rate applicable for deferred taxes in relation to loans to customers was calculated based on the timing of the expected realisation of temporary differences, applying the rates that will be in effect at that time.

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

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

KZT'000	Balance 1 January 2008	Recognised in income	Recognised in equity	Balance 31 December 2008
Equipment and intangible assets	20,741	(6,682)	-	14,059
Loans from banks and other financial institutions	(94,244)	285,593	-	191,349
Debt securities issued	(84,651)	32,132	-	(52,519)
Derivative financial instruments	1,248,746	97,146	(226,075)	1,119,817
Other liabilities	56,519	121,930	-	178,449
Net deferred tax assets	**1,147,111**	**530,119**	**(226,075)**	**1,451,155**

21 Current accounts and deposits from customers

	2009 KZT'000	2008 KZT'000
Current accounts and demand deposits	44,182,114	255,712
Advances received as collateral on liabilities of customers	999,102	376,212
	45,181,216	**631,924**

At 31 December 2009 current accounts and demand deposits include KZT 43,869,926 thousand held by the Parent Company on a current account (2008: nil).

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

22 Loans from the Government of the Republic Kazakhstan

	2009 KZT'000	2008 KZT'000
Loans from the Government of the Republic of Kazakhstan	24,038,334	23,988,313
Advances for project finance	6,847,759	9,914,824
	30,886,093	**33,903,137**

As at 31 December 2009, included in loans from the Government of the Republic of Kazakhstan are accrued interest expenses of KZT 12,528 thousand (31 December 2008: KZT 9,313 thousand).

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

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

23 Loans from the Parent Company

As at 31 December 2008 the loans from the Parent company consisted of long-term loans granted by the Sovereign Wealth Fund "Samruk-Kazyna" JSC under agreement #2 and #6/BRK. The interest rate on the loans equaled 7% per annum and was payable by semi-annual payments – on the first loan starting from 15 October 2008, and on the second loan starting from 1 July 2009. The principal on the first loan of KZT 26,000,000 thousand was payable upon maturity on 15 April 2015. The principal on the second loan of KZT 24,000,000 thousand was payable by semi-annual payments starting on 29 December 2009 till maturity of the loan on 29 December 2011.

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

24 Loans from banks and other financial institutions

	2009 KZT'000	2008 KZT'000
Loans with fixed interest rate		
Loans from OECD banks	89,831,178	73,249,691
Loans from non-OECD banks	9,028,391	-
Total loans with fixed interest rate	**98,859,569**	**73,249,691**
Loans with floating interest rate		
Loans from OECD banks	23,997,465	19,889,939
Loans from non-OECD banks	269,320,296	12,086,905
Syndicated loan facility	44,851,737	36,761,524
Total loans with floating interest rate	**338,169,498**	**68,738,368**
Less unamortised portion of borrowing costs	(6,885,832)	(3,951,452)
	430,143,235	**138,036,607**

In August 2009 the Group signed a Master facility agreement with the Export-Import Bank of China for USD 5,000,000 thousand. Out of this amount, USD 1,500,000 thousand (equivalent to KZT 226,255,051 thousand) was drawn in October 2009. This amount is repayable in 8 years following 2 years of grace period and bears an interest rate of 6 months Libor + 5.5% p.a.

In November 2009 the Group received a loan of KZT 20,000,000 thousand from Fund of Distressed Assets JSC, a state-owned company, with a tenor of 15 years and interest rate of 1% p.a. The loan was provided to finance restructuring of loans of troubled borrowers under certain conditions. At initial recognition the loan was recognised at fair value measured applying interest rate of 7% p.a.. The difference of KZT 11,035,227 thousand between the fair value and the consideration received was recognised as a government grant (Note 25).

As at 31 December 2009, included in loans from banks and other financial institutions are accrued interest expenses of KZT 4,848,006 thousand (31 December 2008: KZT 2,657,852 thousand).

25 Government grants

The Group recorded as the initial amount of government grants the amount of benefits provided by means of low interest rate on the loan from Fund of Distressed Assets JSC (Note 24). Subsequent to initial recognition the Group allocates to profit or loss the amount corresponding to the debt relief provided to the borrowers. In 2009 the amount of government grants transferred to consolidated profit or loss was KZT 1,575,730 thousand and is included in "interest expenses".

26 Debt securities issued

	2009 KZT'000	2008 KZT'000
Debt securities with fixed interest rate		
Eurobonds denominated in USD	51,961,000	42,276,500
	51,961,000	**42,276,500**
Unamortised discount, net	(1,166,972)	(1,069,007)
	50,794,028	**41,207,493**
Accrued interest	578,375	470,578
	51,372,403	**41,678,071**

27 Subordinated debt

	2009 KZT'000	2008 KZT'000
Subordinated debt with fixed coupon		
Nominal in KZT	53,142,370	-
	53,142,370	-
Unamortised discount, net	(51,326,675)	-
	1,815,695	-
Accrued interest	908,135	-
	2,723,830	-

Subordinated debt is represented by subordinated bonds issued to a Parent company. The bonds are denominated in KZT, mature in 50 years and bear a fixed interest rate of 0.01% p.a. In addition, the bonds have a discretionary coupon of 6.99% p.a. which the Group can unilaterally and unconditionally waive with no further obligation. Discretionary coupon for 2009 of KZT 906,838 thousand was recognised as "other distributions" in equity.

In case of bankruptcy, the repayment of the subordinated debt will be made after repayment in full of all other liabilities of the Group.

At initial recognition the bonds were measured at fair value of KZT 1,815,695 thousand applying appropriate market interest rate.

28 Other liabilities

	2009 KZT'000	2008 KZT'000
Advances received for finance lease	892,977	2,375,058
Payables to employees	833,801	872,740
Advances on letters of credit	411,115	-
Payables to suppliers	293,682	926,307
Vacation reserve	79,611	73,140
Deferred income	60,543	124,270
Accrued commission expenses	48,638	3,375
Tax liabilities other than income tax	20,172	59,673
Other accrued expenses and accounts payable	32,801	24,545
	2,673,340	**4,459,108**

29 Derivative financial instruments

The Group had the following derivative financial instruments. Embedded derivatives are described in Note 16.

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

Type of instrument	Notional amount	Maturity	Payments made by Group	Payments received by Group	Fair value Liability KZT'000
31 December 2008					
Interest rate swap	USD 5,000,000	1/09/09	Fixed 3.75%	6 month LIBOR	10,011
Amortising interest rate swap	USD 944,053	31/07/10	Fixed 3.987%	6 month LIBOR	2,864
Foreign currency swap	USD160,000,000	16/02/14	USD 160,000,000 at maturity	KZT'000 20,644,800 at maturity	4,042,411
Foreign currency swap	USD 122,349,103	27/06/14	USD 122,349,103 at maturity	KZT'000 15,557,912 at maturity	3,420,756
					7,476,042

(a) Group's approach to derivative transactions

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

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

29 Derivative financial instruments, continued

(a) Group's approach to derivative transactions, continued

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

(b) Significant foreign currency transactions

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

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

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

In determining the fair value of the swaps the Management has assumed the following rates appropriate for the Group: 5.05% in KZT and 2.6% in USD (2008: 8.75% and 2.11%, respectively).

(c) Hedge accounting of significant transactions

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

If hedge accounting had not been applied, the derivative financial instruments would have been classified as "financial liabilities at fair value through profit or loss" and income would have increased by KZT 517,394 thousand net of taxation in the period from 1 January to 26 August 2008.

30 Share capital

The authorised, issued and outstanding share capital comprised 1,819,519 ordinary shares with a nominal value of KZT 50,000 as at 31 December 2008. During 2009 247,006 ordinary shares were issued and fully paid at the nominal value of KZT 668,000.

31 Reserve capital and general reserve

According to legislation the accumulated net profit of the Group cannot be distributed and is transferred to reserve capital or general banking risk reserve annually following the approval of the consolidated financial statements at the shareholder's general meeting. The reserve capital and general banking risk reserve are not subject to distribution.

32 Earnings per share

The calculation of earnings per share is based upon the net income for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Group has no dilutive potential ordinary shares.

	2009	2008
Issued shares at 1 January	1,819,519	1,819,519
Effect of shares issued in September	62,259	-
Weighted average number of shares for the year ended 31 December	**1,881,778**	**1,819,519**

33 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

33 Risk management, continued

(a) Risk management policies and procedures, continued

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

(b) Market risk

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

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

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

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

(i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

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

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

Cash flow interest rate sensitivity analysis

An analysis of sensitivity of the Group's net income for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 31 December 2008 is as follows:

	2009		2008	
KZT'000	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
100 bp parallel increase	992,350	992,350	731,460	731,460
100 bp parallel decrease	(992,350)	(992,350)	(731,460)	(731,460)

33 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Fair value interest rate sensitivity analysis

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

	2009		2008	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel increase	-	(1,526,932)	-	(1,794,634)
100 bp parallel decrease	-	1,899,247	-	1,896,952

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

(ii) Currency risk

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

33 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	247,395,932	45,001,641	909,097	9,544	293,316,214
Placements with banks	5,723,514	38,758,162	-	-	44,481,676
Loans to customers	9,080,587	189,949,318	2,382,380	-	201,412,285
Finance lease receivables *	19,276,889	-	-	-	19,276,889
Available-for-sale assets	57,490,399	211,212,520	-	127,291	268,830,210
Equipment and intangible assets	150,748	-	-	-	150,748
Advances for finance leases	483,951	-	-	-	483,951
Assets to be transferred under finance lease agreements	5,782,190	-	-	-	5,782,190
Other assets	6,692,153	703,882	1,718	86	7,397,839
Current tax asset	532,481				532,481
Deferred tax asset	8,000,974	-	-	-	8,000,974
Total assets	**360,609,818**	**485,625,523**	**3,293,195**	**136,921**	**849,665,457**
Liabilities					
Current accounts and deposits from customers	61,046	45,119,379	4	787	45,181,216
Loans from the Government of the Republic of Kazakhstan	30,886,093	-	-	-	30,886,093
Loans from banks and other financial institutions	9,028,391	419,523,816	1,591,028	-	430,143,235
Government grants	9,459,497	-	-	-	9,459,497
Debt securities issued	-	51,372,403	-	-	51,372,403
Subordinated debt	2,723,830	-	-	-	2,723,830
Other liabilities	1,901,860	77,477	691,336	2,667	2,673,340
Derrivative financial instruments	-	8,183,906	-	-	8,183,906
Total liabilities	**54,060,717**	**524,276,981**	**2,282,368**	**3,454**	**580,623,520**
Net on balance sheet positions as at 31 December 2009	**306,549,101**	**(38,651,458)**	**1,010,827**	**133,467**	**269,041,937**
Notional amount of derivative liabilities as at 31 December 2009	36,202,712	(41,968,371)	-	-	(5,765,659)
Net on and off balance sheet position positions as at 31 December 2009	**342,751,813**	**(80,619,829)**	**1,010,827**	**133,467**	**263,276,278**
Net on and off balance sheet position positions as at 31 December 2008	96,212,993	(8,698,153)	6,848,173	(204,550)	94,158,463

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

33 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

An analysis of sensitivity of the Group's net profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions, and embeded derivatives, existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in USD, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2009		2008	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
5% appreciation of USD against KZT	(3,224,793)	(3,224,793)	(347,926)	(347,926)
5% depreciation of USD against KZT	3,224,793	3,224,793	347,926	347,926
5% appreciation of EUR against KZT	100,523	100,523	273,927	273,927
5% depreciation of EUR against KZT	(100,523)	(100,523)	(273,927)	(273,927)
5% appreciation of Other currencies against KZT	5,430	5,430	(8,182)	(8,182)
5% depreciation of Other currencies against KZT	(5,430)	(5,430)	8,182	8,182

(c) Credit risk

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

At the statement of financial position date the maximum exposures to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position and in the amounts of certain commitments as discussed in the Note 35.

33 Risk management, continued

(d) Liquidity risk

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

The following table shows liabilities on an consolidated basis by remaining contractual maturity dates as at 31 December 2009. Off balance sheet commitments are discussed in the Note 35.

	On demand and less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 6 months KZT'000	6 months to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Book value KZT'000
Non-derivative liabilities							
Current accounts and deposits from customers	44,182,078	-	-	-	999,138	45,181,216	45,181,216
Loans from the Government of the Republic of Kazakhstan	2,300	10,160	2,150	64,844	31,775,684	31,855,138	30,886,093
Loans from banks and other financial institutions	2,897,102	3,186,536	1,808,046	24,421,254	576,076,653	608,389,591	430,143,235
Government grants	-	-	-	-	9,459,497	9,459,497	9,459,497
Debt securities issued	-	668,070	1,030,015	1,698,085	85,123,698	88,519,868	51,372,403
Subordinated debt	-	-	1,325	2,657	53,402,768	53,406,750	2,723,830
Other liabilities	535,561	690,827	308,445	1,114,822	23,685	2,673,340	2,673,340
Derivative financial instruments							
– Inflow	-	-	-	-	(36,202,712)	(36,202,712)	-
– Outflow	916	-	-	786	41,968,371	41,970,073	8,183,906
	47,617,957	**4,555,593**	**3,149,981**	**27,302,448**	**762,626,782**	**845,252,761**	**580,623,520**

33 Risk management, continued

(e) Maturity

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

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	197,035,757	96,280,457	-	-	-	-	-	-	293,316,214
Placements with banks	-	-	-	40,224,257	4,257,419		-	-	44,481,676
Loans to customers	-	-	587,551	19,093,170	45,126,855	133,336,111	-	3,268,598	201,412,285
Finance lease receivables	-	280,374	1,293,084	3,026,183	10,184,948	2,991,392	-	1,500,908	19,276,889
Available-for-sale assets	-	-	8,040,725	22,768,213	23,102,938	214,459,448	-	458,886	268,830,210
Equipment and intangible assets	-	-	-	-	-	150,748	-	-	150,748
Advances for finance leases	-	621	478,465	4,865	-	-	-	-	483,951
Assets to be transferred under finance lease	-	-	4,822,839	959,351	-	-	-	-	5,782,190
Other assets	5,521,639	61,904	155,258	982,483	674,355	-	2,200	-	7,397,839
Current tax asset	532,481	-	-	-	-	-	-	-	532,481
Deferred tax asset	-	-	-	-	-	8,000,974	-	-	8,000,974
Total assets	**203,089,877**	**96,623,356**	**15,377,922**	**87,058,522**	**83,346,515**	**358,938,673**	**2,200**	**5,228,392**	**849,665,457**

33 Risk management, continued

(e) Maturity, continued

	On demand KZT'000	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Liabilities									
Current accounts and deposits from customers	312,152	43,869,926	-	-	-	999,138	-	-	45,181,216
Loans from the Government of the Republic of Kazakhstan	-	-	-	6,847,759	-	24,038,334	-	-	30,886,093
Loans from banks and other financial institutions	-	-	-	6,125,926	82,764,212	341,253,097	-	-	430,143,235
Government grants	-	-	-	-	-	9,459,497	-	-	9,459,497
Debt securities issued	-	-	-	-	14,773,729	36,598,674	-	-	51,372,403
Subordinated debt	-	-	-	-	-	2,723,830	-	-	2,723,830
Other liabilities	52,150	501,770	690,827	1,423,267	5,326	-	-	-	2,673,340
Derivative financial instruments	-	916	-	786	8,182,204	-	-	-	8,183,906
Total liabilities	**364,302**	**44,372,612**	**690,827**	**14,397,738**	**105,725,471**	**415,072,570**	**-**	**-**	**580,623,520**
Net position as at 31 December 2009	**202,725,575**	**52,250,744**	**14,687,095**	**72,660,784**	**(22,378,956)**	**(56,174,059)**	**42,362**	**5,228,392**	**269,041,937**
Net position as at 31 December 2008	30,119,191	46,216,445	14,486,064	40,088,825	(4,083,355)	(30,548,596)	2,200	-	96,280,774

34 Capital management

The National Bank of Republic of Kazakhstan sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation of Republic of Kazakhstan as capital for credit institutions. Under the current capital requirements set by the National Bank of Republic of Kazakhstan the Bank has to maintain a statutory capital ratio (ratio of capital to total assets and commitments, less equity investments) above the prescribed minimum level. As at 31 December 2009, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2009 and 2008.

35 Commitments

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

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

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

	2009 KZT'000	2008 KZT'000
Contracted amount		
Loan, credit line and finance lease commitments	97,128,823	124,399,242
Letters of credit and other commitments related to settlement operations	411,115	14,846,794

The Group uses the same credit control and management policies in undertaking off-balance commitments as it does for on-balance operations.

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

36 Operating leases

Leases as lessee

As at 31 December 2009 and 2008 the Group did not have significant non-cancelable operating lease rentals payable.

During the current year KZT 333,423 thousand was recognised as an expense in profit or loss in respect of operating leases (2008: KZT 347,888 thousand).

37 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

38 Related party transactions

(a) Control relationships

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

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

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

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

	2009 KZT'000	2008 KZT'000
Members of the Board of Directors and the Management Board	205,495	217,025

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

(c) Transactions with other related parties

Other related parties include the State, national companies and organisations.

The outstanding balances and the related average interest rates as at 31 December 2009 and 31 December 2008 and related profit or loss amounts of transactions for the years ended 31 December 2009 and 31 December 2008 with other related parties are as follows.

38 Related party transactions, continued

(c) Transactions with other related parties, continued

2009	The Parent Company		Other state companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000
Statement of Financial position					
Assets					
Cash and cash equivalents	-	-	204,178,743	0.50	204,178,743
Loans to customers	-	-	23,136,304	9.81	23,136,304
Finance lease receivables	-	-	3,434,182	9.84	3,434,182
Available-for-sale assets	1,816,992	0.01	251,998,896	7.37	253,815,888
Other assets	-	-	895,172	-	895,172
Current tax asset	-	-	532,481	-	532,481
Deferred tax asset	-	-	8,000,974	-	8,000,974
Liabilities					
Current accounts and deposits from customers	43,869,926	-	353,199	-	44,223,125
Loans from the Government of the Republic of Kazakhstan	-	-	30,886,093	0.28	30,886,093
Loans from banks and other financial institutions	-	-	9,028,391	1.00	9,028,391
Government grants	-	-	9,459,497	-	9,459,497
Subordinated debt	2,723,830	0.01	-	-	2,723,830
Other liabilities	-	-	17,113	-	17,113
Profit/(loss)					
Interest income	30,268		8,430,426		8,460,694
Interest expense	(2,658,998)		(939,555)		(3,598,553)
Fee and commission income			111,100		111,100
Fee and commission expense	-		(1,163)		(1,163)
Impairment losses	-		(8,729,843)		(8,729,843)
General administrative expenses	(229,797)		(17,569)		(247,366)
Income tax expense	-		7,365,391		7,365,391

38 Related party transactions, continued

(c) Transactions with other related parties, continued

2008	The Parent Company		State companies and organisations		Total
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000
Statement of Financial position					
Assets					
Cash and cash equivalents	-	-	41,544,956	-	41,544,956
Loans to customers	-	-	29,131,627	10.97	29,131,627
Available-for-sale assets	-	-	49,887,270	8.39	49,887,270
Finance lease receivables	-	-	1,641,173	9.60	1,641,173
Other assets	-	-	748,873	-	748,873
Deferred tax asset	-	-	1,451,155	-	1,451,155
Liabilities					
Current accounts and deposits from customers	-	-	508,697	-	508,697
Loans from the Government of the Republic of Kazakhstan	-	-	33,903,137	0.28	33,903,137
Loan from the Parent Company	50,388,500	7.00	-	-	50,388,500
Other liabilities	-	-	54,601	-	54,601
Commitments and contingencies					
Guarantees received for loans to customers	-		11,775,651		11,775,651
Profit/(loss)					
Interest income	-		5,317,833		5,317,833
Interest expense	(861,389)		(31,416)		(892,805)
Fee and commission income	-		48,285		48,285
Impairment losses	-		(403,248)		(403,248)
General administrative expenses	(238,888)		(104,271)		(343,159)
Income tax expense	-		(454,312)		(454,312)

39 Analysis by segment

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

40 Fair value of financial instruments

(a) Determining fair values

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

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

LIABILITIES	2009 KZT'000 Fair value	2009 KZT'000 Carrying value	2008 KZT'000 Fair value	2008 KZT'000 Carrying value
Loans from the Government of the Republic of Kazakhstan	26,789,816	30,886,093	29,497,163	33,903,137
Debt securities issued	48,659,725	51,372,403	41,271,453	41,678,071

(b) Valuation of financial instruments

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

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

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

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

40 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

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

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

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

	Note	Level 1 '000 KZT	Level 2 '000 KZT	Level 3 '000 KZT	Total '000 KZT
Assets					
Available-for-sale assets	17	1,676,925	209,952,086	57,201,199	268,830,210
Embedded derivative	16	-	-	4,331,208	4,331,208
		1,676,925	**209,952,086**	**61,532,407**	**273,161,418**
Liabilities					
Derivative financial instruments	29	-	8,183,906	-	8,183,906
		-	**8,183,906**	**-**	**8,183,906**

During the current year, due to changes in market conditions for certain investment securities, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure fair values of these securities based on significant unobservable inputs. Hence, these securities with a carrying amount of KZT 6,677,327 thousand, were transferred from Level 2 to Level 3 of the fair value hierarchy.

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

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

40 Fair value of financial instruments, continued

(b) Valuation of financial instruments, continued

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

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

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

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