Eurasian Bank JSC

Unconsolidated Financial Statements

for the year ended 31 December 2010

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 and Management Board of Eurasian Bank JSC

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

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

KPMG Audit LLC

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

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

5 April 2011

	Note	2010 KZT'000	2009 KZT'000
Interest income	4	28,391,885	24,784,533
Interest expense	4	(22,545,268)	(20,562,033)
Net interest income		**5,846,617**	**4,222,500**
Fee and commission income	5	3,003,772	2,349,836
Fee and commission expense	6	(248,624)	(260,960)
Net fee and commission income		**2,755,148**	**2,088,876**
Net loss on other financial instruments at fair value through profit or loss		2,058	14,468
Net foreign exchange income		2,479,456	1,628,117
Net gain on available-for-sale financial assets	7	891,668	141,462
Gain from repurchased own subordinated debt instruments		44,162	555,435
Net loss on disposal of subsidiaries		-	(22,631)
Other operating income	8	70,242	20,613
Operating income		**12,089,351**	**8,648,840**
Impairment losses	9	(1,559,232)	(15,846,522)
Personnel expenses	10	(5,140,780)	(4,941,950)
Other general administrative expenses	11	(3,801,554)	(4,452,571)
Profit/(loss) before income tax		**1,587,785**	**(16,592,203)**
Income tax (expense)/benefit	12	(816,429)	3,617,778
Profit/(loss) for the year		**771,356**	**(12,974,425)**
Other comprehensive income/(loss), net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		1,782,954	(1,170,281)
- Net change in fair value transferred to profit or loss		(891,668)	(141,462)
Other comprehensive income/(loss) for the year, net of income tax		**891,286**	**(1,311,743)**
Total comprehensive income/(loss) for the year		**1,662,642**	**(14,286,168)**
Diluted and non-diluted earnings/(loss) per ordinary share, in KZT	31	50.39	(962.29)

The unconsolidated financial statements as set out on pages 5 to 67 were approved by the Board of Directors on 5 April 2011:

Eggleton M.
Chairman

Nelina L.N.
Chief Accountant

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

	Note	2010 KZT'000	2009 KZT'000
ASSETS			
Cash and cash equivalents	13	35,916,577	81,712,586
Available-for-sale financial assets	14		
- Held by the Bank		32,404,202	34,023,772
- Pledged under sale and repurchase agreements		1,258,170	2,316,720
Loans and advances to banks	15	6,759,818	9,871,325
Amounts receivable under reverse repurchase agreements	16	-	21,392,315
Loans to customers	17	212,705,586	148,996,935
Held-to-maturity investments	18		
- Held by the Bank		25,200,777	-
- Pledged under sale and repurchase agreements		15,085,530	-
Investment in subsidiary	19	3,245,353	-
Current tax asset		535,889	543,492
Property, equipment and intangible assets	20	12,268,825	11,672,012
Deferred tax asset	12	3,487,412	4,296,247
Other assets	21	6,683,710	6,455,213
Total assets		**355,551,849**	**321,280,617**
LIABILITIES			
Financial instruments at fair value through profit or loss	22	33,500	-
Deposits and balances from banks	23	1,293,743	697,456
Amounts payable under repurchase agreements	24	15,283,435	2,200,271
Current accounts and deposits from customers	25	244,159,690	240,618,500
Debt securities issued	26	23,190,282	10,177,668
Subordinated debt securities issued	27	19,365,588	16,569,016
Other borrowed funds	28	24,434,497	25,597,725
Other liabilities	29	1,898,238	1,189,747
Total liabilities		**329,658,973**	**297,050,383**
EQUITY			
Share capital	30	24,210,204	24,210,204
Share premium		2,025,632	2,025,632
Reserve for general banking risks		5,304,320	5,304,320
Revaluation reserve for available-for-sale financial assets		(451,707)	(1,342,993)
Accumulated losses		(5,195,573)	(5,966,929)
Total equity		**25,892,876**	**24,230,234**
Total liabilities and equity		**355,551,849**	**321,280,617**

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

	2010 KZT'000	2009 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	25,656,343	21,991,842
Interest payments	(21,369,270)	(21,274,114)
Fee and commission receipts	2,889,518	2,772,166
Fee and commission payments	(244,858)	(260,960)
Net receipts/(payments) from financial instruments at fair value through profit or loss	35,558	(48,739)
Net receipts from foreign exchange	2,694,170	1,780,492
Other income receipts	70,242	37,078
Personnel payments	(4,899,275)	(5,055,461)
Other general administrative payments	(2,743,725)	(3,468,984)
(Increase)/decrease in operating assets		
Obligatory reserve	(439,823)	(404,336)
Loans and advances to banks	3,525,841	(4,471,721)
Amounts receivable under reverse repurchase agreements	21,388,013	(21,388,013)
Loans to customers	(62,636,840)	(39,274,007)
Other assets	(728,333)	260,468
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	609,958	(9,602,261)
Amounts payable under repurchase agreements	13,083,001	(11,930,406)
Current accounts and deposits from customers	2,936,589	100,358,320
Other liabilities	673,385	219,217
Net cash (used in)/from operating activities before income tax paid	**(19,499,506)**	**10,240,581**
Income tax paid	-	(91,766)
Cash flows (used in)/from operating activities	**(19,499,506)**	**10,148,815**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of subsidiary	(3,245,353)	(130)
Sale of subsidiary	-	4,003,445
Purchases of available-for-sale financial assets	(108,453,833)	(52,487,904)
Sale and repayment of available-for-sale financial assets	112,928,448	36,022,079
Purchases of precious metals	-	(459,692)
Sales of precious metals	316,015	109,462
Purchases of held-to-maturity investments	(74,997,028)	-
Redemption of held-to-maturity investments	35,000,000	-
Purchases of property and equipment and intangible assets	(1,966,411)	(2,646,741)
Sales of property and equipment and intangible assets	101,604	31,233
Cash flows used in investing activities	**(40,316,558)**	**(15,428,248)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from debt securities issued	18,207,660	10,890,175
Repayment of debt securities issued	(5,415,790)	-
Receipts from subordinated debt securities issued	2,428,812	719,803
Repayment of subordinated debt securities issued	-	(7,133,360)
Receipts of other borrowed funds	2,798,778	22,273,833
Repayment of other borrowed funds	(3,914,245)	(30,703,086)
Proceeds from issuance of share capital	-	12,200,134
Dividends paid	-	(100,053)
Cash flows from financing activities	**14,105,215**	**8,147,446**
Net (decrease)/increase in cash and cash equivalents	**(45,710,849)**	**2,868,013**
Effect of changes in exchange rates on cash and cash equivalents	(85,160)	136,123
Cash and cash equivalents as at the beginning of the year	81,712,586	78,708,450
Cash and cash equivalents as at the end of the year (note 13)	**35,916,577**	**81,712,586**

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

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings/ (accumulated losses)**	**Total**
Balance as at 1 January 2009	12,010,070	25,632	2,705,325	(31,250)	9,706,544	24,416,321
Total comprehensive income						
Loss for the year	-	-	-	-	(12,974,425)	(12,974,425)
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	(1,170,281)	-	(1,170,281)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(141,462)	-	(141,462)
Total other comprehensive income	-	-	-	(1,311,743)	-	(1,311,743)
Total comprehensive income for the year	**-**	**-**	**-**	**(1,311,743)**	**(12,974,425)**	**(14,286,168)**
Transactions with owners, recorded directly in equity						
Shares issued	12,200,134	-	-	-	-	12,200,134
Dividends declared	-	-	-	-	(100,053)	(100,053)
Disposal of subsidiary to the Parent company	-	2,000,000	-	-	-	2,000,000
Increase of reserves for general banking risks	-	-	2,598,995	-	(2,598,995)	-
Total transactions with owners	**12,200,134**	**2,000,000**	**2,598,995**	**-**	**(2,699,048)**	**14,100,081**
Balance as at 31 December 2009	**24,210,204**	**2,025,632**	**5,304,320**	**(1,342,993)**	**(5,966,929)**	**24,230,234**
Balance as at 1 January 2010	24,210,204	2,025,632	5,304,320	(1,342,993)	(5,966,929)	24,230,234
Total comprehensive income						
Profit for the year	-	-	-	-	771,356	771,356
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	1,782,954	-	1,782,954
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(891,668)	-	(891,668)
Total other comprehensive income	-	-	-	891,286	-	891,286
Total comprehensive income for the year	-	-	**-**	**891,286**	**771,356**	**1,662,642**
Balance as at 31 December 2010	**24,210,204**	**2,025,632**	**5,304,320**	**(451,707)**	**(5,195,573)**	**25,892,876**

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

1 Background

(a) Organisation and operations

Eurasian Bank JSC ("the Bank") was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence number 237 granted on 28 December 2007. The Bank also possesses licences number 0401100623 and number 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Agency (the "FMSA") and the National Bank of the Republic of Kazakhstan (the "NBRK").

As at 31 December 2010 the Bank has 18 regional branches (2009: 18) and 49 cash settlement centers (2009: 54) from which it conducts business throughout the Republic of Kazakhstan. The registered address of the Bank's head office is 56 Kunayev str., Almaty, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in Kazakhstan.

As at 31 December 2010 the Bank has one subsidiary (2009: nil), which is Eurasian Bank OJSC located in Moscow, Russian Federation (note 19).

(b) Shareholders

As at 31 December 2010 Eurasian Financial Company JSC is the Bank's Parent company, and owns 99.67% of the Bank's shares (2009: 91%), while Eurasian Industrial Company JSC owns 0.33% of the Bank's shares (2009: 9%).

(c) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

The Bank also prepares consolidated financial statements for the year ended 31 December 2010 in accordance with IFRS that can be obtained from the Bank's head office at 56, Kunayev str., Almaty, the Republic of Kazakhstan.

(b) Basis of measurement

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

2 Basis of preparation, continued

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- deferred tax asset - note 12
- loan impairment estimates – note 17.

3 Significant accounting policies

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

(a) Accounting for investments in subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are accounted for at cost in these unconsolidated financial statements.

(b) Foreign currency

Foreign currency transactions

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

3 Significant accounting policies, continued

(c) Cash and cash equivalents

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

(d) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

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

- the Bank upon initial recognition designates as at fair value through profit or loss

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

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

(ii) Recognition

Financial assets and liabilities are recognized in the unconsolidated statement of financial position when the Bank 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 amortized cost using the effective interest method

- held-to-maturity investments that are measured at amortized cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot 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 amortized cost.

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

(iv) Fair value measurement principles

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iv) Fair value measurement principles, continued

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

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

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

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

(v) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

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

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vi) Derecognition

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

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

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

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

If the Bank purchases its own debt, it is removed from the unconsolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt. The Bank writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

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

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

(viii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the unconsolidated 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

(d) Financial instruments, continued

(ix) Precious metals

Precious metals are stated at the lower of net realizable value and costs. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula. Precious metals are recorded within other assets.

(e) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

- Buildings	25 to 40 years
- Computer and banking equipment	3 to 8 years
- Vehicles	7 years
- Furniture	8 to 10 years
- Leasehold improvements	5 years

(f) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 7 years.

(g) Impairment

(i) Financial assets carried at amortized cost

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank 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 Bank of assets such as adverse changes in the payment status of borrowers in the Bank, or economic conditions that correlate with defaults in the Bank.

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortized cost, continued

The Bank 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 Bank 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 Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized 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 Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

3 Significant accounting policies, continued

(g) Impairment, continued

(iii) Available-for-sale financial assets, continued

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

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

(iv) Non financial assets

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

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

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

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

(i) 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

(i) Share capital, continued

(i) Repurchase of share capital

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

(ii) Dividends

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

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

(j) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(k) Income and expense recognition

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

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

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

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

3 Significant accounting policies, continued

(k) Income and expense recognition, continued

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

(l) Segment reporting

An operating segment is a component of a Bank 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 Bank); 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.

(m) Comparative information

In the unconsolidated statement of financial position as at 31 December 2009 cash, due from the National Bank of the Republic of Kazakhstan and loans and advances to banks with an original maturity up to 3 months were presented separately and in the current year they are presented in one line as cash and cash equivalents. Comparative figures have been reclassified to reflect these changes.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these unconsolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective.

The Bank has not yet analysed the likely impact of these new standards on its unconsolidated financial statements.

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

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

4 Net interest income

	2010 KZT'000	2009 KZT'000
Interest income		
Loans to customers	26,016,792	22,631,073
Available-for-sale financial assets	1,618,441	1,455,871
Held-to-maturity investments	288,524	-
Placements with banks	256,049	98,801
Cash and cash equivalents	167,816	434,424
Amounts receivable under reverse repurchase agreements	44,263	164,364
	28,391,885	**24,784,533**
Interest expense		
Current accounts and deposits from customers	17,564,964	14,501,600
Other borrowed funds	1,870,798	2,481,776
Subordinated debt securities issued	1,867,942	2,299,020
Debt securities issued	1,140,042	753,602
Deposits and balances from banks	75,836	492,675
Amounts payable under repurchase agreements	25,686	33,360
	22,545,268	**20,562,033**

All interest income, apart from interest income on loans to customers, for the year ended 31 December 2010 is accrued on unimpaired financial assets. For interest income for the year ended 31 December 2010 on impaired loans to customers refer to Note 17.

5 Fee and commission income

	2010 KZT'000	2009 KZT'000
Settlement	1,027,487	755,078
Cash withdrawal	690,745	561,679
Guarantee and letter of credit issuance	656,096	553,031
Payment card maintenance fees	296,115	149,989
Custodian services	182,537	109,823
Cash delivery	57,368	58,004
Other	93,424	162,232
	3,003,772	**2,349,836**

6 Fee and commission expense

	2010 KZT'000	2010 KZT'000
Cash withdrawal	89,937	60,812
Settlement	59,501	48,753
Payment card maintenance fees	50,790	50,263
Custodian services	31,725	87,556
Other	16,671	13,576
	248,624	**260,960**

7 Net gain on available-for-sale financial assets

	2010 KZT'000	2009 KZT'000
Debt and other fixed-income instruments		
Government securities of the Republic of Kazakhstan	788,503	85,627
Other	103,165	55,835
	891,668	**141,462**

8 Other operating income

	2010 KZT'000	2009 KZT'000
Precious metals trading (loss)/gain	(41,450)	42,148
Gain on sale of inventory	7,667	24,726
Loss on sale of property and equipment	(39)	(5)
Other	104,064	(46,256)
	70,242	**20,613**

9 Impairment losses

	2010 KZT'000	2009 KZT'000
Loans to customers (note 17)	1,275,205	15,717,538
Other assets (note 21)	284,027	128,984
	1,559,232	**15,846,522**

10 Personnel expenses

	2010 KZT'000	2009 KZT'000
Wages, salaries, bonuses and related taxes	4,812,165	4,516,734
Other employee costs	328,615	425,216
	5,140,780	**4,941,950**

11 Other general administrative expenses

	2010 KZT'000	2009 KZT'000
Depreciation and amortization	1,267,994	969,863
Operating lease expense	655,920	709,227
Communications and information services	431,166	238,988
Taxes other than on income	381,982	494,719
Advertising and marketing	203,532	891,585
Travel expenses	139,692	148,755
Repairs and maintenance	135,862	304,711
Security	101,375	92,906
Stationery and office supplies	75,221	103,149
Professional services	67,680	52,269
Insurance	61,301	228,251
Representation expenses	42,602	12,188
Transportation	35,212	34,782
Trainings	10,256	11,509
Other	191,759	159,669
	3,801,554	**4,452,571**

12 Income tax expense/(benefit)

	2010 KZT'000	2009 KZT'000
Current tax expense		
Under provided in prior years	7,594	111,680
Deferred tax expense		
Origination and reversal of temporary differences	808,835	(3,729,458)
Total income tax expense/(benefit)	**816,429**	**(3,617,778)**

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

Reconciliation of effective tax rate:

	2010 KZT'000	%	2009 KZT'000	%
Profit/(loss) before incometax	**1,587,785**	**100.00**	**(16,592,203)**	**100.00**
Income tax at the applicable tax rate	317,557	20.00	(3,318,441)	20.00
Effect of change in tax rates	119,297	7.51	(236,070)	1.42
Under provided in prior years	7,594	0.48	111,680	(0.67)
Tax-exempt securities	(551,845)	(34.76)	(361,032)	2.18
Change in unrecognised deductible temporary differences	729,789	45.96	-	-
Non-deductible costs	194,037	12.22	186,085	(1.12)
	816,429	**51.42**	**(3,617,778)**	**21.80**

Deferred tax asset and liability

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

12 Income tax expense/(benefit), continued

Deferred tax asset and liability, continued

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

2010 **KZT'000**	**Balance 1 January 2010**	**Recognised in profit or loss**	**Balance 31 December 2010**
Loans to customers	443,596	114,987	558,583
Property and equipment	(352,880)	(171,704)	(524,584)
Other assets	177,024	107,235	284,259
Financial instruments at fair value through profit or loss	-	4,200	4,200
Other liabilities	88,446	51,698	140,144
Tax loss carry-forwards	3,940,061	(915,251)	3,024,810
	4,296,247	**(808,835)**	**3,487,412**

2009 **KZT'000**	**Balance 1 January 2009**	**Recognised in profit or loss**	**Balance 31 December 2009**
Loans to customers	659,956	(216,360)	443,596
Property and equipment	(284,804)	(68,076)	(352,880)
Other assets	156,027	20,997	177,024
Other liabilities	35,610	52,836	88,446
Tax loss carry-forwards	-	3,940,061	3,940,061
	566,789	**3,729,458**	**4,296,247**

Unrecognised deferred tax assets

As at 31 December 2010 deferred tax assets are not recognised in respect of tax loss carry-forwards in the amount of KZT 729,789 thousand because it is not probable that future taxable profit will be available against which the Bank can utilise the benefits there from. These tax losses expire in 2012.

13 Cash and cash equivalents

	2010 KZT'000	2009 KZT'000
Cash on hand	**8,386,851**	**13,820,441**
Nostro accounts with the NBRK	**17,855,778**	**45,851,865**
Nostro accounts with other banks		
- rated from AA- to AA+	6,593,667	18,576,871
- rated A- to A+	1,857,819	2,709,569
- rated BBB	119,873	37,914
- rated from BB- to BB+	155,014	12,431
- rated below B+	285,008	689,163
- not rated	662,567	14,332
Total nostro accounts with other banks	**9,673,948**	**22,040,280**
Total cash and cash equivalents	**35,916,577**	**81,712,586**

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

As at 31 December 2010 the Bank has 3 banks (2009: 3 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 24,193,990 thousand (2009: KZT 66,750,653 thousand).

14 Available-for-sale financial assets

	2010 KZT'000	2009 KZT'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	9,088,297	25,164,772
Notes of the NBRK	13,981,425	3,154,008
Total government and municipal bonds	**23,069,722**	**28,318,780**
- Corporate bonds		
- rated BBB	3,127,378	1,275,745
- rated below B+	4,667,151	4,375,698
- not rated	1,529,951	43,549
Total corporate bonds	**9,324,480**	**5,694,992**
Equity investments		
- Corporate shares	10,000	10,000
	32,404,202	**34,023,772**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Notes of the NBRK	1,258,170	2,316,720
Total government and municipal bonds	**1,258,170**	**2,316,720**
	33,662,372	**36,340,492**

Available-for-sale investments stated at cost comprise unquoted equity securities in Processing Center JSC. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. No notes and bonds are overdue or impaired as at 31 December 2010 (209: nil).

15 Loans and advances to banks

	2010 KZT'000	2009 KZT'000
Mandatory reserve with the NBRK	**4,942,570**	**4,502,747**
Term deposits		
- rated from AA- to AA+	1,055,948	216,024
- rated BBB	236	-
- rated below B+	759,050	5,152,554
- not rated	2,014	-
Total loans and deposits	**1,817,248**	**5,368,578**
Net loans and advances to banks	**6,759,818**	**9,871,325**

No loans, deposits or nostro accounts are overdue or impaired as at 31 December 2010 (2009: nil).

(a) Concentration of loans and advances to banks

As at 31 December 2010 no banks (2009: 1 bank) have balances that exceed 10% of equity. The gross value of these balances as at 31 December 2009 are KZT 3,717,270 thousand.

(b) Mandatory reserve with the NBRK

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the NBRK and whose withdrawability is restricted.

16 Amounts receivable under reverse repurchase agreements

	2010 KZT'000	2009 KZT'000
Reverse repurchase agreements	-	21,392,315
	-	**21,392,315**

Collateral

At 31 December 2009 the fair value of financial assets accepted as collateral under reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is KZT 23,181,012 thousand.

17 Loans to customers

	2010 KZT'000	2009 KZT'000
Loans to corporate customers		
Loans to large corporate	137,213,997	81,737,021
Loans to small and medium size companies	26,803,001	20,951,485
Total loans to corporate customers	**164,016,998**	**102,688,506**
Loans to retail customers		
Mortgage loans	28,784,065	30,281,969
Small business loans	20,883,632	21,497,283
Loans collaterised by cash	16,079,801	10,601,499
Auto loans	2,383,272	3,826,833
Other	1,916,644	2,239,781
Total loans to retail customers	**70,047,414**	**68,447,365**
Gross loans to customers	**234,064,412**	**171,135,871**
Impairment allowance	(21,358,826)	(22,138,936)
Net loans to customers	**212,705,586**	**148,996,935**

17 Loans to customers, continued

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

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	13,950,180	8,188,756	22,138,936
Net (recovery)/charge	(1,965,200)	3,240,405	1,275,205
Write-offs	(1,485,763)	(418,540)	(1,904,303)
Effect of foreign currency translation	(95,247)	(55,765)	(151,012)
Balance at the end of the year	**10,403,970**	**10,954,856**	**21,358,826**

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

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	3,256,185	2,525,152	5,781,337
Net charge	9,955,118	5,762,420	15,717,538
Recoveries/(write-offs)	500,320	(238,485)	261,835
Effect of foreign currency translation	238,557	139,669	378,226
Balance at the end of the year	**13,950,180**	**8,188,756**	**22,138,936**

Interest income for the year ended 31 December 2010 accrued on impaired loans to customers amounted to KZT 3,786,679 thousand (2009: KZT 1,344,094 thousand).

(a) Credit quality of loans to customers

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	121,691,446	(2,153,910)	119,537,536	1.77
Impaired loans:				
- not overdue	7,122,166	(2,238,593)	4,883,573	31.43
-overdue less than 90 days	4,780,051	(2,640,554)	2,139,497	55.24
- overdue more than 90 days and less than 1 year	2,720,125	(907,187)	1,812,938	33.35
- overdue more than 1 year	900,209	(258,342)	641,867	28.70
Total impaired loans	**15,522,551**	**(6,044,676)**	**9,477,875**	**38.94**
Total loans to large corporate	**137,213,997**	**(8,198,586)**	**129,015,411**	**5.98**
Loans to small and medium size companies				
Loans without individual signs of impairment	20,535,488	(290,236)	20,245,252	1.41
Impaired loans:				
- not overdue	3,145,030	(745,970)	2,399,060	23.72
- overdue less than 90 days	1,045,222	(51,590)	993,632	4.94
- overdue more than 90 days and less than 1 year	1,119,837	(600,764)	519,073	53.65
- overdue more than 1 year	957,424	(516,824)	440,600	53.98
Total impaired loans	**6,267,513**	**(1,915,148)**	**4,352,365**	**30.56**
Total loans to small and medium size companies	**26,803,001**	**(2,205,384)**	**24,597,617**	**8.23**
Total loans to corporate customers	**164,016,998**	**(10,403,970)**	**153,613,028**	**6.34**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	18,790,858	(187,862)	18,602,996	1.00
- overdue less than 30 days	1,599,345	(214,045)	1,385,300	13.38
- overdue 30-89 days	1,306,917	(727,386)	579,531	55.66
- overdue 90-179 days	171,571	(7,927)	163,644	4.62
- overdue 180-360 days	1,195,396	(390,096)	805,300	32.63
- overdue more than 360 days	5,719,978	(3,041,513)	2,678,465	53.17
Total mortgage loans	**28,784,065**	**(4,568,829)**	**24,215,236**	**15.87**
Small business loans				
- not overdue	11,303,592	(835,665)	10,467,927	7.39
- overdue less than 30 days	908,196	(13,926)	894,270	1.53
- overdue 30-89 days	981,129	(185,678)	795,451	18.92
- overdue 90-179 days	519,233	(86,980)	432,253	16.75
- overdue 180-360 days	519,529	(89,205)	430,324	17.17
- overdue more than 360 days	6,651,953	(3,967,970)	2,683,983	59.65
Total small business loans	**20,883,632**	**(5,179,424)**	**15,704,208**	**24.80**
Loans collaterised by cash				
- not overdue	16,079,801	-	16,079,801	-
Total loans collaterised by cash	**16,079,801**	**-**	**16,079,801**	**-**
Auto loans				
- not overdue	1,226,056	(10,087)	1,215,969	0.82
- overdue less than 30 days	121,353	(3,499)	117,854	2.88
- overdue 30-89 days	54,676	(440)	54,236	0.80
- overdue 90-179 days	42,156	(16,480)	25,676	39.09
- overdue 180-360 days	74,021	(29,179)	44,842	39.42
- overdue more than 360 days	865,010	(612,140)	252,870	70.77
Total auto loans	**2,383,272**	**(671,825)**	**1,711,447**	**28.19**
Other loans to retail customers				
- not overdue	1,160,591	(9,490)	1,151,101	0.82
- overdue less than 30 days	196,154	(70,339)	125,815	35.86
- overdue 30-89 days	30,493	(4,540)	25,953	14.89
- overdue 90-179 days	25,101	(15,920)	9,181	63.42
- overdue 180-360 days	39,833	(30,344)	9,489	76.18
- overdue more than 360 days	464,472	(404,145)	60,327	87.01
Total other loans to retail customers	**1,916,644**	**(534,778)**	**1,381,866**	**27.90**
Total loans to retail customers	**70,047,414**	**(10,954,856)**	**59,092,558**	**15.64**
Total loans to customers	**234,064,412**	**(21,358,826)**	**212,705,586**	**9.13**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	66,331,510	(2,166,219)	64,165,291	3.27
Impaired loans:				
- not overdue	11,529,197	(7,082,359)	4,446,838	61.43
- overdue more than 90 days and less than 1 year	1,537,185	(1,005,107)	532,078	65.39
- overdue more than 1 year	2,339,129	(1,399,753)	939,376	59.84
Total impaired loans	**15,405,511**	**(9,487,219)**	**5,918,292**	**61.58**
Total loans to large corporates	**81,737,021**	**(11,653,438)**	**70,083,583**	**14.26**
Loans to small and medium size companies				
Loans without individual signs of impairment	17,942,860	(460,244)	17,482,616	2.57
Impaired loans:				
- not overdue	708,857	(437,856)	271,001	61.77
- overdue less than 90 days	280,934	(152,495)	128,439	54.28
- overdue more than 90 days and less than 1 year	1,230,051	(723,073)	506,978	58.78
- overdue more than 1 year	788,783	(523,074)	265,709	66.31
Total impaired loans	**3,008,625**	**(1,836,498)**	**1,172,127**	**61.04**
Total loans to small and medium size companies	**20,951,485**	**(2,296,742)**	**18,654,743**	**10.96**
Total loans to corporate customers	**102,688,506**	**(13,950,180)**	**88,738,326**	**13.58**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	23,240,036	(492,394)	22,747,642	2.12
- overdue less than 30 days	1,431,616	(253,562)	1,178,054	17.71
- overdue 30-89 days	1,117,861	(599,813)	518,048	53.66
- overdue 90-179 days	1,308,398	(998,103)	310,295	76.28
- overdue more than 180 days	3,184,058	(398,568)	2,785,490	12.52
Total mortgage loans	**30,281,969**	**(2,742,440)**	**27,539,529**	**9.06**
Small business loans				
- not overdue	15,410,877	(1,921,629)	13,489,248	12.47
- overdue less than 30 days	472,729	(171,692)	301,037	36.32
- overdue 30-89 days	1,685,483	(1,113,008)	572,475	66.03
- overdue 90-179 days	852,127	(768,850)	83,277	90.23
- overdue more than 180 days	3,076,067	(600,499)	2,475,568	19.52
Total auto loans	**21,497,283**	**(4,575,678)**	**16,921,605**	**21.28**
Loans collaterised by cash				
- not overdue	10,601,499	-	10,601,499	-
Total loans collaterised by cash	**10,601,499**	**-**	**10,601,499**	**-**
Auto loans				
- not overdue	2,331,428	(101,687)	2,229,741	4.36
- overdue less than 30 days	258,344	(69,656)	188,688	26.96
- overdue 30-89 days	202,659	(141,347)	61,312	69.75
- overdue 90-179 days	171,250	(165,139)	6,111	96.43
- overdue more than 180 days	863,152	-	863,152	-
Total auto loans	**3,826,833**	**(477,829)**	**3,349,004**	**12.49**
Other loans to retail customers				
- not overdue	1,484,659	(121,577)	1,363,082	8.19
- overdue less than 30 days	231,742	(28,648)	203,094	12.36
- overdue 30-89 days	91,982	(79,794)	12,188	86.75
- overdue 90-179 days	29,817	(27,173)	2,644	91.13
- overdue more than 180 days	401,581	(135,617)	265,964	33.77
Total other loans to retail customers	**2,239,781**	**(392,809)**	**1,846,972**	**17.54**
Total loans to retail customers	**68,447,365**	**(8,188,756)**	**60,258,609**	**11.96**
Total loans to customers	**171,135,871**	**(22,138,936)**	**148,996,935**	**12.94**

As at 31 December 2010 included in the loan portfolio are restructured loans to corporate and retail customers that would otherwise be past due or impaired of KZT 20,005,877 thousand and KZT 7,482,486 thousand, respectively (2009: KZT 33,713,453 thousand and KZT 9,654,497 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Restructured loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the restructured terms.

17 Loans to customers, continued

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

Loans to corporate customers

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

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

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

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

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

- historic annual loss rate of 1.36-3.27%
- a discount of between 15% and 50% to the originally appraised value if the property pledged is sold
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2010 would be KZT 1,536,130 thousand lower/higher (2009: KZT 887,383 thousand lower/higher).

Loans to retail customers

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

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 4.5 years
- a discount of between 15% and 50% to the annually appraised value if the property pledged is sold
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be KZT 1,772,777 thousand lower/higher (2009: KZT 1,807,758 thousand).

17 Loans to customers, continued

(c) Analysis of collateral

Loans to corporate customers

The following table provides the analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December 2010:

	2010 KZT'000	% of loan portfolio	2009 KZT'000	% of loan portfolio
Real estate	76,579,691	49.9	62,219,084	70.1
Insurance policy	17,500,784	11.4	1,491,173	1.7
Goods in turnover	14,691,255	9.6	813,764	0.9
Future contract revenues	12,429,303	8.1	4,269,533	4.8
Other collateral	9,772,400	6.4	4,454,017	5.0
Real estate under construction	6,567,802	4.3	3,160,928	3.6
Bank cash deposits	4,684,079	3.0	4,258,052	4.8
Guarantees of legal entities and individuals	4,452,602	2.9	2,634,231	3.0
Equipment	3,578,429	2.3	4,368,754	4.9
Motor vehicles	2,376,511	1.5	487,402	0.5
No collateral	980,172	0.6	581,388	0.7
	153,613,028	**100.0**	**88,738,326**	**100.0**

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

Impaired or overdue loans to corporate customers with a gross value of KZT 21,790,064 thousand (2009: KZT 15,278,379 thousand) are secured by collateral with a fair value of KZT 17,610,394 thousand (2009: KZT 10,298,655 thousand). For the remaining impaired loans, there is no collateral or it is impracticable to determine the fair value of collateral (2009: KZT 3,135,757 thousand).

During the year ended 31 December 2010 the Bank did not obtain any assets by taking control of collateral securing loans to corporate customers (2009: nil).

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Small business loans are secured by real estate and movable property. Auto loans are secured by the underlying cars. Other loans are not secured.

17 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

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

	2010 KZT'000	2009 KZT'000
Loans to corporate customers		
Agriculture, forestry and timber	30,791,430	11,197,749
Wholesale trade	29,280,192	18,140,404
Foods production	18,246,876	7,238,727
Transport	14,688,905	3,068,082
Mining/metallurgy	14,057,313	6,127,465
Construction without government guarantees	13,439,696	14,450,160
Construction with government guarantee	6,937,941	3,609,838
Retail trade	9,230,178	1,992,928
Lease, rental & leasing	5,354,359	2,756,201
Energy production and supply	4,782,907	242,715
Entertainment	4,239,340	4,475,552
Manufacturing	4,204,359	7,215,194
Real estate	2,767,440	13,896,627
Services	2,029,168	6,169,900
Medical and social care	1,040,593	571,438
Research and activities	962,294	374,574
Financial intermediary	779,495	253,598
Publishing	318,947	367,007
Machinery production	142,183	201,962
Other	723,382	338,385
Loans to retail customers		
Mortgage loans	28,784,065	30,281,969
Small business loans	20,883,632	21,497,283
Loans collaterised by cash	16,079,801	10,601,499
Auto loans	2,383,272	3,826,833
Other	1,916,644	2,239,781
	234,064,412	**171,135,871**
Impairment allowance	(21,358,826)	(22,138,936)
	212,705,586	**148,996,935**

(e) Significant credit exposures

As at 31 December 2010 the Bank has 18 borrowers or groups of connected borrowers (2009: 13), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2010 is KZT 103,511,286 thousand (2009: KZT 61,590,232 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 33(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

18 Held-to-maturity investments

	2010 KZT'000	2009 KZT'000
Held by the Bank		
Government and municipal bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	2,422,412	-
Notes of the NBRK	21,783,862	-
Total government and municipal bonds	**24,206,274**	**-**
Corporate bonds		
- rated BBB	775,952	-
- rated from BB- to BB+	218,551	-
Total corporate bonds	**994,503**	**-**
	25,200,777	**-**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	3,929,278	-
Notes of the NBRK	11,156,252	-
Total government and municipal bonds	**15,085,530**	**-**
	40,286,307	**-**

No notes or bonds are overdue or impaired as at 31 December 2010 (2009: nil).

19 Investment in subsidiary

As at 31 December 2010 the Bank has one subsidiary, which is accounted for at cost.

Name	Country of incorporation	Activities	Proportion of ownership interest, % 2010	Carrying amount KZT'000 2010	Proportion of ownership interest, % 2009	Carrying amount KZT'000 2009
Eurasian Bank OJSC, Moscow	Russian Federation	Banking	99.99	3,245,353	-	-
				3,245,353		**-**

On 1 April 2010 the Bank acquired 99.99% share in Russian bank Bank Troika Dialog OJSC from third parties for a total consideration of USD 22,075 thousand and RUR 150 thousand, satisfied in cash. The Parent company acquired the remaining 0.01% share for USD 0.09.

20 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress and equipment to be installed	Leasehold improvements	Computer software and other intangibles	Total
Cost								
Balance at 1 January 2010	8,234,679	3,537,841	334,722	256,127	236,666	337,754	1,205,717	14,143,506
Additions	990,124	546,671	18,045	20,811	137,895	22,301	230,564	1,966,411
Disposals	-	(96,753)	(5,283)	(11,776)	(23,421)	(77,051)	(24,835)	(239,119)
Transfers	-	132,909	-	-	(132,909)	-	-	-
Balance at 31 December 2010	**9,224,803**	**4,120,668**	**347,484**	**265,162**	**218,231**	**283,004**	**1,411,446**	**15,870,798**
Depreciation and amortisation								
Balance at 1 January 2010	(442,196)	(1,177,091)	(174,604)	(83,668)	-	(135,412)	(458,523)	(2,471,494)
Depreciation for the year	(197,213)	(688,857)	(44,387)	(25,186)	-	(67,407)	(244,944)	(1,267,994)
Disposals	-	80,393	5,283	11,298	-	30,700	9,841	137,515
Balance at 31 December 2010	**(639,409)**	**(1,785,555)**	**(213,708)**	**(97,556)**	**-**	**(172,119)**	**(693,626)**	**(3,601,973)**
Carrying amount								
At 31 December 2010	**8,585,394**	**2,335,113**	**133,776**	**167,606**	**218,231**	**110,885**	**717,820**	**12,268,825**

20 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress and equipment to be installed	Leasehold improvements	Computer software and other intangibles	Total
Cost								
Balance at 1 January 2009	8,114,995	2,010,886	296,966	195,540	357,097	203,383	857,829	12,036,696
Additions	122,133	1,053,447	37,756	71,201	446,863	127,691	356,656	2,215,747
Disposals	(2,449)	(79,808)	-	(10,614)	(7,298)	-	(8,768)	(108,937)
Transfers	-	553,316	-	-	(559,996)	6,680	-	-
At 31 December 2009	**8,234,679**	**3,537,841**	**334,722**	**256,127**	**236,666**	**337,754**	**1,205,717**	**14,143,506**
Depreciation and amortisation								
Balance at 1 January 2009	(257,619)	(755,575)	(135,207)	(71,952)	-	(81,618)	(272,317)	(1,574,288)
Depreciation for the year	(184,691)	(480,309)	(39,397)	(21,740)	-	(53,794)	(189,932)	(969,863)
Disposals	114	58,793	-	10,024	-	-	3,726	72,657
Balance at 31 December 2009	**(442,196)**	**(1,177,091)**	**(174,604)**	**(83,668)**	**-**	**(135,412)**	**(458,523)**	**(2,471,494)**
Carrying amounts								
At 31 December 2009	**7,792,483**	**2,360,750**	**160,118**	**172,459**	**236,666**	**202,342**	**747,194**	**11,672,012**
At 1 January 2009	7,857,376	1,255,311	161,759	123,588	357,097	121,765	585,512	10,462,408

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

21 Other assets

	2010 KZT'000	2009 KZT'000
Receivable from collection company	4,109,910	3,941,061
Accrued commission income	876,525	635,891
Debtors on loan operations	119,425	-
Due from American Express for travel cheques accepted	16,063	15,982
Receivable from personnel	12,769	117,309
Net receivables under open spot transactions	-	390
Other	750,183	543,735
Impairment allowance	(258,176)	(119,689)
Total other financial assets	**5,626,699**	**5,134,679**
Advances for capital expenditures	820,414	703,576
Materials and supplies	103,240	128,670
Prepayments	52,302	45,700
Precious metals	41,359	403,898
Taxes prepaid other than on income tax	39,696	38,690
Total other non-financial assets	**1,057,011**	**1,320,534**
Total other assets	**6,683,710**	**6,455,213**

Receivable from collection company relates to the outstanding balance on the sale of a portfolio of retail loans. This retail portfolio was sold in 2008 for a consideration of KZT 5,155,995 thousand with 10% receivable in advance and the remainder receivable in instalments until 25 December 2010. In 2010 the contract maturity was renegotiated to 25 September 2011.

Analysis of movements in the impairment allowance

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

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	119,689	3,574
Net charge	284,027	128,984
Write-offs	(137,426)	-
Effect of foreign currency translation	(8,114)	(12,869)
Balance at the end of the year	**258,176**	**119,689**

As at 31 December 2010, included in other assets are overdue receivables of KZT 2,057 thousand (2009: KZT 478 thousand), of which KZT 1,979 thousand (2009: KZT 253 thousand) are overdue for more than 90 days but less than one year. No receivables that are overdue for more than one year were outstanding as at 31 December 2010 (2009: KZT 225 thousand).

22 Financial instruments at fair value through profit or loss

	2010 KZT'000	2009 KZT'000
Derivative financial instruments		
Foreign currency contracts	33,500	-
	33,500	**-**

22 Financial instruments at fair value through profit or loss, continued

Foreign currency contracts

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

Type of instrument	Notional amount	Maturity	Payments made by Bank	Payments received by Bank	Fair value Liability KZT'000
31 December 2010					
Foreign currency swap	USD 50,000,000	15/11/2011	KZT'000 7,387,500	USD 50,000,000	(33,500)

The following table provides information on the credit quality of foreign currency contracts, which are liabilities:

	2010 KZT'000	2009 KZT'000
Large OECD banks	33,500	-

23 Deposits and balances from banks

	2010 KZT'000	2009 KZT'000
Vostro accounts	21,943	41,996
Term deposits	1,271,800	655,460
	1,293,743	**697,456**

As at 31 December 2010 and 2009 the Bank does not have banks, whose balances exceed 10% of equity.

24 Amounts payable under repurchase agreements

	2010 KZT'000	2009 KZT'000
Repurchase agreements	15,283,435	2,200,271

Securities pledged

As of 31 December 2010 and 2009, the Bank has pledged certain securities as collateral under repurchase agreements (notes 14 and 18).

25 Current accounts and deposits from customers

	2010 KZT'000	2009 KZT'000
Current accounts and demand deposits		
- Retail	11,773,506	9,181,997
- Corporate	45,734,206	36,636,675
Term deposits		
- Retail	75,074,207	91,411,982
- Corporate	111,577,771	103,387,846
	244,159,690	**240,618,500**

As at 31 December 2010, the Bank maintains customer deposit balances of KZT 20,664,459 thousand (2009: KZT 20,360,188 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2010, the Bank has 20 customers (2009: 13 customers), whose balances exceed 10% of equity. These balances as at 31 December 2010 are KZT 144,015,765 thousand (2009: KZT 111,243,676 thousand).

26 Debt securities issued

	2010 KZT'000	2009 KZT'000
Par value	21,796,200	10,334,740
Premium (discount)	813,021	(446,558)
Accrued interest	581,061	289,486
	23,190,282	**10,177,668**

All bonds issued bear a fixed coupon rate. A summary of bond issues at 31 December 2010 and 2009 is presented below:

	Issue registration date	Maturity	Fixed coupon rate	Effective rate	Carrying amount 2010 KZT'000	Carrying amount 2009 KZT'000
Bonds of the fifth issue	01-Sep-08	01-Sep-23	7.80%	9.09%	6,627,323	6,619,200
Bonds of the seventh issue	24-Sep-08	21-Jan-19	6.80%	10.01%	4,842	-
Bonds of the ninth issue	15-Oct-08	15-Oct-15	13.00%	10.23%	16,558,117	3,558,468
					23,190,282	**10,177,668**

27 Subordinated debt securities issued

	2010 KZT'000	2009 KZT'000
Par value	20,592,000	17,942,000
Discount	(1,664,873)	(1,780,549)
Accrued interest	438,461	407,565
	19,365,588	**16,569,016**

As at 31 December 2010 subordinated debt securities issued comprise unsecured obligations of the Bank. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Bank.

27 Subordinated debt securities issued, continued

All subordinated bonds issued bear a fixed coupon rate. A summary of subordinated debt issues at 31 December 2010 and 2009 is presented below:

	Issue registration date	Maturity	Fixed coupon rate	Effective rate	Carrying amount 2010 KZT'000	Carrying amount 2009 KZT'000
Bonds of the second issue	10-Dec-04	10-Dec-11	7.50%	7.84%	1,053,364	1,050,312
Bonds of the third issue	05-Apr-06	05-Apr-13	8.40%	10.19%	9,261,121	7,158,603
Bonds of the forth issue	04-Sep-07	04-Sep-14	7.80%	12.31%	8,329,812	7,643,213
Bonds of the sixth issue	01-Sep-08	01-Sep-15	11.00%	11.05%	4,840	4,838
Bonds of the eighth issue	15-Oct-08	15-Oct-23	7.70%	9.19%	716,451	712,050
					19,365,588	**16,569,016**

28 Other borrowed funds

	2010 KZT'000	2009 KZT'000
Loans from state financial institutions other than banks	23,360,951	24,658,165
Loans from the Ministry of Finance of the Republic of Kazakhstan	1,008,804	181,749
Loans from banks	64,742	757,811
	24,434,497	**25,597,725**

As at 31 December 2010, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying amount KZT'000
Damu Entrepreneurship Development Fund JSC	KZT	5.50-9.05%	2013-2016	23,360,951
The Ministry of Finance of the Republic of Kazakhstan	KZT	7.00%	2025	623,830
The Ministry of Finance of the Republic of Kazakhstan	USD	6m LIBOR+1%	2025	384,974
Foreign banks	KZT/USD	1.93-8.50%	2011	64,742
				24,434,497

As at 31 December 2009, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying amount KZT'000
Damu Entrepreneurship Development Fund JSC	KZT	8.00-11.35%	2013-2016	24,658,165
Foreign banks	USD/EUR	3.68-8.59%	2010	757,811
The Ministry of Finance of the Republic of Kazakhstan	KZT	7.00-10.00%	2025	91,908
The Ministry of Finance of the Republic of Kazakhstan	USD	6m LIBOR+1%	2025	89,841
				25,597,725

29 Other liabilities

	2010 KZT'000	2009 KZT'000
Accounts payable	43,143	45,111
Net payables under open spot transactions	2,803	-
Other financial liabilities	165,589	212,894
Total other financial liabilities	**211,535**	**258,005**
Deferred income	647,842	181,392
Vacation reserve	406,658	292,970
Other taxes payable	360,429	332,605
Amounts payable to employees	266,222	24,717
Other non-financial liabilities	5,552	100,058
Total other non-financial liabilities	**1,686,703**	**931,742**
Total other liabilities	**1,898,238**	**1,189,747**

30 Share capital

(a) Issued capital and share premium

Issued and outstanding share capital as at 31 December comprised of the following fully paid ordinary shares:

	2010 Shares	2009 Shares
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	1,377,718	1,377,718
Total issued and outstanding shares	**15,307,970**	**15,307,970**

The carrying value per one ordinary share, calculated in accordance with the requirements of JSC "Kazakhstan Stock Exchange" is KZT 1,691.46 as at 31 December 2010 (2009: KZT 1,582.85).

During the year ended 31 December 2009 the Bank issued to existing shareholders 4,308,170 ordinary shares for KZT 12,200,134 thousand.

In March 2009 the Bank sold Insurance Company Eurasia JSC to the Parent company for KZT 2,200,000 thousand. Since consideration paid by the Parent company was greater than the carrying amount of the subsidiary, a gain in the amount of KZT 2,000,000 thousand was recognised directly in equity.

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

(b) Dividends

In accordance with Kazakhstan legislation the distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. As at 31 December 2010 the Bank had accumulated losses, including profit for the current year, of KZT 5,234,894 thousand (2009: KZT 5,966,929 thousand).

As at 31 December 2010 no dividends were declared. In May 2009 the Bank declared and paid dividends of KZT 7.23 per share for a total of KZT 100,053 thousand.

30 Share capital, continued

(c) Reserves for general banking risks

Reserves for general banking risks are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. During the year ended 31 December 2010 the Bank did not make transfers from retained earnings to the reserve for general banking risks (2009: KZT 2,598,995 thousand)

31 Earnings per share

The calculation of earnings per share is based on the net profit, and a weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Bank has no dilutive potential ordinary shares.

	2010 KZT'000	2009 KZT'000
Net profit/(loss)	771,356	(12,974,425)
Weighted average number of ordinary shares	15,307,970	13,482,855
Basic and diluted earnings/(loss) per share, in KZT	**50.39**	**(962.29)**

32 Analysis by segment

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

33 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

33 Risk management, continued

(a) Risk management policies and procedures, continued

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

(b) Market risk

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

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Management Board member of the Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department. The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

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

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

(i) Interest rate risk

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

33 Risk management, continued

(a) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Available-for-sale financial assets	10,810,392	6,704,855	9,209,070	4,812,619	2,115,436	33,652,372
Loans and advances to banks	-	-	1,135,858	-	681,390	1,817,248
Loans to customers	46,109,074	29,367,129	29,622,512	84,032,207	23,574,664	212,705,586
Held-to-maturity investments	31,737,611	5,575,313	2,444,282	529,101	-	40,286,307
	88,657,077	**41,647,297**	**42,411,722**	**89,373,927**	**26,371,490**	**288,461,513**
LIABILITIES						
Deposits and balances from banks	22,609	-	1,271,134	-	-	1,293,743
Amounts payable under repurchase agreements	15,283,435	-	-	-	-	15,283,435
Current accounts and deposits from customers	29,159,761	42,068,531	40,393,314	67,799,950	7,230,422	186,651,978
Debt securities issued	184,017	397,044	-	16,161,074	6,448,147	23,190,282
Subordinated debt securities issued	234,715	203,746	1,048,980	17,174,388	703,759	19,365,588
Other borrowed funds	1,985,044	1,908,856	2,425,115	17,663,741	451,741	24,434,497
	46,869,581	**44,578,177**	**45,138,543**	**118,799,153**	**14,834,069**	**270,219,523**
	41,787,496	**(2,930,880)**	**(2,726,821)**	**(29,425,226)**	**11,537,421**	**18,241,990**

33 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2009						
ASSETS						
Available-for-sale financial assets	8,017,537	1,525,814	1,073,171	16,249,936	9,464,034	36,330,492
Loans and advances to banks	-	-	4,561,675	-	806,903	5,368,578
Amounts receivable under reverse repurchase agreements	21,392,315	-	-	-	-	21,392,315
Loans to customers	19,042,555	9,101,260	30,478,260	61,958,951	28,415,909	148,996,935
	48,452,407	**10,627,074**	**36,113,106**	**78,208,887**	**38,686,846**	**212,088,320**
LIABILITIES						
Deposits and balances from banks	42,656	654,800	-	-	-	697,456
Amounts payable under repurchase agreements	2,200,271	-	-	-	-	2,200,271
Current accounts and deposits from customers	30,432,661	43,904,933	42,156,589	70,759,596	7,546,049	194,799,828
Debt securities issued	202,703	86,783	-	-	9,888,182	10,177,668
Subordinated debt securities issued	224,994	182,571	-	15,456,601	704,850	16,569,016
Other borrowed funds	1,630,185	773,346	2,068,635	17,524,612	3,600,947	25,597,725
	34,733,470	**45,602,433**	**44,225,224**	**103,740,809**	**21,740,028**	**250,041,964**
	13,718,937	**(34,975,359)**	**(8,112,118)**	**(25,531,922)**	**16,946,818**	**(37,953,644)**

33 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

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

	2010 Average effective interest rate, %			2009 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Available-for-sale financial assets	2.23	4.39	1.97	6.12	6.39	-
Amounts receivable under reverse repurchase agreements	-	-	-	15.52	-	-
Loans and advances to banks	0.60	5.41	-	11.00	5.03	-
Loans to customers	13.43	12.98	13.75	17.15	16.09	13.69
Held-to-maturity investments	1.42	4.05	-	-	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	7.59	-	-	13.70	-	-
Amounts payable under repurchase agreements	0.51	-	-	9.78	-	-
Current accounts and deposits from customers						
- Corporate customers	6.64	6.12	2.78	9.03	7.98	5.80
- Retail customers	10.18	7.32	5.13	12.27	9.32	8.89
Debt securities issued	9.91	-	-	14.79	-	-
Subordinated debt securities issued	10.94	-	-	15.31	-	-
Other borrowed funds						
- Loans from financial institutions	7.76	-	-	8.19	-	-
- Loans from banks	-	4.30	2.31	8.30	4.37	-
- Loans from the Ministry of Finance of the Republic of Kazakhstan	7.00	2.10	-	7.00	2.10	-

33 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

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

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	272,404	272,404	96,504	96,504
100 bp parallel rise	(272,404)	(272,404)	(96,504)	(96,504)

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

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	-	219,372	-	1,091,418
100 bp parallel rise	-	(213,187)	-	(1,043,396)

33 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Bank does not hedge its exposure to currency risk. The Bank manages its foreign currency position through the limits established for each currency and net foreign currency position limits.

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

	USD	Other currencies	Total
	KZT'000	KZT'000	KZT'000
ASSETS			
Cash and cash equivalents	7,282,729	11,403,481	18,686,210
Available-for-sale financial assets	2,634,534	2,022,795	4,657,329
Loans and advances to banks	1,814,997	-	1,814,997
Loans to customers	61,391,836	85,584	61,477,420
Held-to-maturity investments	994,502	-	994,502
Other financial assets	1,214,668	-	1,214,668
Total assets	**75,333,266**	**13,511,860**	**88,845,126**
LIABILITIES			
Deposits and balances from banks	20,256	75	20,331
Current accounts and deposits from customers	80,521,222	13,419,299	93,940,521
Other borrowed funds	427,728	21,987	449,715
Other financial liabilities	13,749	29,723	43,472
Total liabilities	**80,982,955**	**13,471,084**	**94,454,039**
Net position as at 31 December 2010	**(5,649,689)**	**40,776**	**(5,608,913)**
The effect of derivatives held for risk management	7,354,000	-	7,354,000
Net position with the effect of derivatives held for risk management as at 31 December 2010	**1,704,311**	**40,776**	**1,745,087**

33 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	USD KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	54,353,811	821,265	55,175,076
Available-for-sale financial assets	1,147,360	-	1,147,360
Loans and advances to banks	1,651,307	-	1,651,307
Loans to customers	50,479,038	3,410,777	53,889,815
Other financial assets	732,252	-	732,252
Total assets	**108,363,768**	**4,232,042**	**112,595,810**
LIABILITIES			
Deposits and balances from banks	40,245	81	40,326
Current accounts and deposits from customers	94,801,578	17,432,539	112,234,117
Other borrowed funds	632,927	214,725	847,652
Other financial liabilities	14,311	10,130	24,441
Total liabilities	**95,489,061**	**17,657,475**	**113,146,536**
Net position as at 31 December 2009	**12,874,707**	**(13,425,433)**	**(550,726)**

(iii) Other price risk

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

33 Risk management, continued

(b) Market risk, continued

(iv) Value at Risk estimates

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The Bank does not solely rely on its VaR calculations in its market risk measurement due to inherent risk of usage of VaR as described above. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VaR estimates in respect of foreign currency risk at 31 December is as follows:

	31 December 2010 KZT'000	31 December 2009 KZT'000
Foreign exchange risk	45,591	51,388

(c) Credit risk

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

33 Risk management, continued

(c) Credit risk, continued

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Loans Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Credit Risk and Collateral Valuation Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Loans Department and the Credit Risk and Collateral Valuation Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

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

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

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

Loan approvals and credit card limits can be cancelled at anytime.

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

33 Risk management, continued

(c) Credit risk, continued

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

	2010 KZT'000	2009 KZT'000
ASSETS		
Cash and cash equivalents	27,529,726	67,892,145
Available-for-sale financial assets	33,662,372	36,340,492
Loans and advances to banks	6,759,818	9,871,325
Amounts receivable under reverse repurchase agreements	-	21,392,315
Loans to customers	212,705,586	148,996,935
Held-to-maturity investments	40,286,307	-
Other financial assets	5,668,058	5,538,577
Total maximum exposure	**326,611,867**	**290,031,789**

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

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 34.

As at 31 December 2010 and 2009 the Bank did not have debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

33 Risk management, continued

(d) Liquidity risk, continued

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

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

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

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

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	22,609	-	792,131	537,139	-	1,351,879	1,293,743
Amounts payable under repurchase agreements	15,285,689	-	-	-	-	15,285,689	15,283,435
Current accounts and deposits from customers	63,761,164	20,661,746	44,030,006	43,448,368	93,668,796	265,570,080	244,159,690
Debt securities issued	170	183,847	397,044	-	44,890,098	45,471,159	23,190,282
Subordinated debt securities issued	-	234,715	203,746	1,127,565	24,862,187	26,428,213	19,365,588
Other borrowed funds	1,202,964	337,855	1,355,448	3,236,991	22,636,337	28,769,595	24,434,497
Other financial liabilities	206,580	4,809	137	9	-	211,535	211,535
Derivative liabilities							
- Inflow	-	-	-	(7,354,000)	-	(7,354,000)	-
- Outflow	-	-	-	7,387,500	-	7,387,500	33,500
Total liabilities	**80,479,176**	**21,422,972**	**46,778,512**	**48,383,572**	**186,057,418**	**383,121,650**	**327,972,270**
Credit related commitments	57,989,595	-	-	-	-	57,989,595	57,989,595

33 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	42,656	-	683,342	-	-	725,998	697,456
Amounts payable under repurchase agreements	2,201,085	-	-	-	-	2,201,085	2,200,271
Current accounts and deposits from customers	58,988,195	9,851,028	35,166,467	34,701,916	128,720,456	267,428,062	240,618,500
Debt securities issued	-	306,609	723,158	-	20,389,367	21,419,134	10,177,668
Subordinated debt securities issued	-	349,122	1,189,410	-	23,668,179	25,206,711	16,569,016
Other borrowed funds	744,849	885,726	1,245,439	2,974,274	25,198,622	31,048,910	25,597,725
Other financial liabilities	250,170	7,830	-	5	-	258,005	258,005
Total	**62,226,955**	**11,400,315**	**39,007,816**	**37,676,195**	**197,976,624**	**348,287,905**	**296,118,641**
Credit related commitments	64,087,555	-	-	-	-	64,087,555	64,087,555

In accordance with Kazakhstan legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band as of 31 December 2010, is as follows:

- from 1 to 3 months: KZT 2,160,748 thousand (2009: KZT 1,611,340 thousand)
- from 3 to 6 months: KZT 1,562,194 thousand (2009: KZT 1,021,150 thousand)
- from 6 to 12 months: KZT 6,846,606 thousand (2009: KZT 2,224,913 thousand)
- more than 1 year: KZT 64,504,659 thousand (2009: KZT 86,554,579 thousand).

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

33 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	35,916,577	-	-	-	-	-	-	35,916,577
Available-for-sale financial assets	185,123	10,625,269	15,913,925	4,812,619	2,115,436	10,000	-	33,662,372
Loans and advances to banks	-	-	1,135,858	-	681,390	4,942,570	-	6,759,818
Loans to customers	21,348,824	20,264,685	58,989,641	84,032,207	23,574,664	-	4,495,565	212,705,586
Held-to-maturity investments	7,996,731	23,740,880	8,019,595	529,101	-	-	-	40,286,307
Investments in subsidiaries	-	-	-	-	-	3,245,353	-	3,245,353
Current tax asset	535,889	-	-	-	-	-	-	535,889
Property, equipment and intangible assets	-	-	-	-	-	12,268,825	-	12,268,825
Deferred tax asset	-	-	-	-	3,487,412	-	-	3,487,412
Other assets	1,465,223	56,021	4,459,623	571,256	28,347	103,240	-	6,683,710
Total assets	**67,448,367**	**54,686,855**	**88,518,642**	**89,945,183**	**29,887,249**	**20,569,988**	**4,495,565**	**355,551,849**
Non-derivative liabilities								
Deposits and balances from banks	22,609	-	1,271,134	-	-	-	-	1,293,743
Amounts payable under repurchase agreements	15,283,435	-	-	-	-	-	-	15,283,435
Current accounts and deposits from customers	64,205,507	20,306,912	84,043,801	68,147,005	7,456,465	-	-	244,159,690
Debt securities issued	170	183,847	397,044	16,161,074	6,448,147	-	-	23,190,282
Subordinated debt securities issued	-	234,715	1,252,726	17,174,388	703,759	-	-	19,365,588
Other borrowed funds	1,647,206	337,838	3,331,729	17,694,429	1,423,295	-	-	24,434,497
Other liabilities	1,310,589	23,150	459,881	99,643	4,975	-	-	1,898,238
Total liabilities	**82,469,516**	**21,086,462**	**90,756,315**	**119,276,539**	**16,036,641**	**-**	**-**	**329,625,473**
Net position	**(15,021,149)**	**33,600,393**	**(2,237,673)**	**(29,331,356)**	**13,850,608**	**20,569,988**	**4,495,565**	**25,926,376**

33 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	81,712,586	-	-	-	-	-	-	81,712,586
Available-for-sale financial assets	2,630,147	5,387,390	2,598,985	16,249,936	9,464,034	10,000	-	36,340,492
Loans and advances to banks	-	-	4,561,675	-	806,903	4,502,747	-	9,871,325
Amounts receivable under reverse repurchase agreements	21,392,315	-	-	-	-	-	-	21,392,315
Loans to customers	7,882,885	5,974,571	39,579,520	61,958,951	28,415,909	-	5,185,099	148,996,935
Current tax asset	543,492	-	-	-	-	-	-	543,492
Property, equipment and intangible assets	-	-	-	-	-	11,672,012	-	11,672,012
Deferred tax asset	-	-	-	-	4,296,247	-	-	4,296,247
Other assets	1,605,538	609,900	4,024,445	74,353	12,307	128,670	-	6,455,213
Total assets	**115,766,963**	**11,971,861**	**50,764,625**	**78,283,240**	**42,995,400**	**16,313,429**	**5,185,099**	**321,280,617**
Non-derivative liabilities								
Deposits and balances from banks	42,656	-	654,800	-	-	-	-	697,456
Amounts payable under repurchase agreements	2,200,271	-	-	-	-	-	-	2,200,271
Current accounts and deposits from customers	57,306,409	6,920,615	62,806,520	107,670,416	5,914,540	-	-	240,618,500
Debt securities issued	-	202,703	86,783	-	9,888,182	-	-	10,177,668
Subordinated debt securities issued	-	224,994	182,571	15,456,601	704,850	-	-	16,569,016
Other borrowed funds	753,439	876,746	2,841,981	17,524,612	3,600,947	-	-	25,597,725
Other liabilities	779,639	31,516	318,879	56,778	2,935	-	-	1,189,747
Total liabilities	**61,082,414**	**8,256,574**	**66,891,534**	**140,708,407**	**20,111,454**	**-**	**-**	**297,050,383**
Net position	**54,684,549**	**3,715,287**	**(16,126,909)**	**(62,425,167)**	**22,883,946**	**16,313,429**	**5,185,099**	**24,230,234**

33 Risk management, continued

(d) Liquidity risk, continued

The key measure used by the Bank for managing liquidity risk is the mandatory liquidity ratios in accordance with the requirement of the NBRK.

The Bank was in compliance with these statutory ratios as at 31 December 2010 and 2009. The following table shows the mandatory liquidity ratios calculated as at 31 December 2010 and 2009.

	Requirement	2010, %	2009, %
Current liquidity ratio (k4), unaudited	Not less than 30%	140.2	224.3
Quick ratio (k4-1), unaudited	Not less than 100%	367.7	2,080.4
Quick ratio (k4-2), unaudited	Not less than 90%	399.6	1,056.4
Quick ratio (k4-3), unaudited	Not less than 80%	308.2	565.8
Quick currency ratio (k4-4), unaudited	Not less than 100%	985.2	2,433.1
Quick currency ratio (k4-5), unaudited	Not less than 90%	1,039.5	773.1
Quick currency ratio (4-6), unaudited	Not less than 80%	368.2	370.7

34 Capital management

The FMSA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions and consists of:

- Tier 1 capital, which includes ordinary share capital, share premuim, perpetual bonds, retained earnings, translation reserve and non-controlling interest after deduction for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains/losses on financial instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of tier 1 capital; collective impairment allowance cannot exceed 1.25% of risk-weighted assets.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specific requirements that seek to reflect the varying level of risk attached to assets and exposures not recognised in the unconsolidated statement of financial position. The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised exposure, with some adjustments to reflect the more contingent nature of the potential losses.

Under the current capital requirements set by the FMSA banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital which is sum of tier 1 and tier 2 capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2010 and 2009, this minimum level of tier 1 capital to total assets is 5% and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 10%. The Bank is in compliance with the statutory capital ratios during the years ended 31 December 2010 and 2009. As at 31 December 2010 this minimum level of tier 1 capital to total assets is 7% (2009: 8%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 14% (2009: 17%).

34 Capital management, continued

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

35 Commitments

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

The Bank 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 Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	2010 KZT'000	2009 KZT'000
Contracted amount		
Loan and credit line commitments	30,520,461	33,497,676
Guarantees	23,092,880	27,295,587
Letters of credit	4,376,254	3,294,292
	57,989,595	**64,087,555**

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

As at 31 December 2010 and 2009 the Bank has no customers whose balances exceed 10% of total commitments.

36 Operating lease

Leases as lessee

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

	2010 KZT'000	2009 KZT'000
Less than 1 year	372,377	360,299
Between 1 and 5 years	135,512	209,591
	507,889	**569,890**

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

During the current year KZT 655,920 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: KZT 709,227 thousand).

37 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

38 Related party transactions

(a) Control relationships

The Bank's parent company is JSC "Eurasian Financial Company" (the "Parent company"). The Parent company is controlled by the group of individuals, each of whom owns 33.3%.

Publicly available financial statements are produced by the Bank's Parent company.

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

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

	2010 KZT'000	2009 KZT'000
Members of the Board of Directors	135,375	136,537
Members of the Management Board	494,753	202,012
	630,128	**338,549**

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

38 Related party transactions, continued

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

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

	2010 KZT'000	Average interest rate, %	2009 KZT'000	Average interest rate, %
Unconsolidated statement of financial position				
ASSETS				
Loans to customers	37,683	13.60%	52,233	13.37%
LIABILITIES				
Current accounts and deposits from customers	22,333,906	9.27%	15,396,620	9.17%

The loans are in US dollars and Kazakhstan tenge and repayable by 2020-2026 and 2011-2013, respectively.

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

	2010 KZT'000	2009 KZT'000
Profit or loss		
Interest income	6,078	14,312
Interest expense	(1,917,959)	(787,962)

(c) Transactions with other related parties

In March 2009 the Bank sold Insurance Company Eurasia JSC to the Parent Company for KZT 2,200,000 thousand. Since consideration paid by the Parent company was greater than the value of the subsidiary, the gain in the amount of KZT 2,000,000 thousand was recognised directly in equity.

38 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent company		Other subsidiaries of the Parent company		Subsidiary of the Bank		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Unconsolidated statement of financial position									
ASSETS									
Cash and cash equivalents									
- In Tenge	-	-	-	-	250,750	-	-	-	250,750
- In other currencies	-	-	-	-	393,339	-	-	-	393,339
Investments in subsidiary									
- In Tenge	-	-	-	-	3,245,353	-	-	-	3,245,353
Loans to customers (principal balance)									
- In Tenge:	-	-	-	-	-	-	7,153,024	15.31%	7,153,024
- In USD	-	-	-	-	-	-	259,472	12.00%	259,472
Loans to customers (provision for impairment)	-	-	-	-	-	-	(88,182)	-	(88,182)
Other assets:									
- In Tenge:	-	-	245,136	-	-	-	1,143	-	246,279

38 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent company		Other subsidiaries of the Parent company		Subsidiary of the Bank		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
LIABILITIES									
Deposits and balances from customers									
- In Tenge	4,411	0.07%	2,512,730	9.45%	-	-	24,500,458	3.00%	27,017,599
- In USD	-	-	451,200	5.98%	-	-	17,519,202	4.39%	17,970,402
- In other currencies	-	-	46,485	3.69%	-	-	2,767,193	0.59%	2,813,678
Debt securities issued									
- In Tenge	239,725	13.00%	16,528	9.13%	-	-	-	-	256,253
Subordinated debt securities issued									
- In Tenge	-	-	92,889	7.88%	-	-	-	-	92,889
Other liabilities									
- In Tenge	-	-	3,499	-	-	-	28,749	-	32,248
Items not recognised in the unconsolidated statement of financial position									
Loans and credit line commitments	-		-		-		814,690		814,690
Profit (loss)									
Interest income	-		155		-		1,101,610		1,101,765
Interest expense	(1)		(295,728)		-		(1,534,833)		(1,830,562)
Fee and commission income	71		39,497		-		663,588		703,156
Other operating expenses	-		(138,987)		-		-		(138,987)
Impairment losses	-		-		-		(14,970)		(14,970)
Personnel expenses	-		-		-		(357,392)		(357,392)
Other general administrative expenses	-		-		-		(92,421)		(92,421)

38 Related party transactions, continued

(c) Transactions with other related parties

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

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Unconsolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In Tenge	-	-	7,453	11.80%	2,857,883	14.10%	2,865,336
- In USD	-	-	-	-	1,098,924	13.45%	1,098,924
Loans to customers (provision for impairment)	-	-	-	-	(153,857)	-	(153,857)
Other assets							
- In Tenge	-	-	55,369	-	42	-	55,411
LIABILITIES							
Deposits and balances from customers							
- In Tenge	2,085	0.00%	1,627,695	12.70%	12,296,035	6.37%	13,925,815
- In USD	-	-	2,223,184	11.57%	30,881,557	6.08%	33,104,741
- In other currencies	-	-	189,562	2.95%	4,708,345	2.28%	4,897,907
Debt securities issued							
- In Tenge	-	-	9,495	12.33%	-	-	9,495
Subordinated debt securities issued							
- In Tenge	-	-	79,198	8.49%	-	-	79,198
Other liabilities							
- In Tenge	-	-	1,065	-	456	-	1,521

38 Related party transactions, continued

(c) Transactions with other related parties

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Items not recognised in the unconsolidated statement of financial position							
Loans and credit commitments	-	-	-	-	1,461,687	-	1,461,687
Letters of credit and guarantees given	-	-	167	-	1,019	-	1,186
Profit (loss)							
Interest income	-		1,433		615,879		617,312
Interest expense	(41,042)		(455,391)		(1,618,595)		(2,115,028)
Fee and commission income	1,056		19,772		476,327		497,155
Other operating income/(expenses)	-		(269,002)		-		(269,002)
Impairment losses	-		-		(71,380)		(71,380)
Personnel expenses	-		-		(186,412)		(186,412)
Other general administrative expenses	(58,187)		-		(110,378)		(168,565)

*Other related parties are the entities that are controlled by the Parent company's shareholders.

39 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT'000	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	35,916,577	-	-	35,916,577	35,916,577
Available-for-sale financial assets	-	-	-	33,662,372	-	33,662,372	33,662,372
Loans and advances to banks	-	-	6,759,818	-	-	6,759,818	6,759,818
Loans customers							
Loans to corporate customers	-	-	153,603,180	-	-	153,603,180	154,396,113
Loans to retail customers	-	-	59,102,406	-	-	59,102,406	67,037,177
Held-to-maturity investments:							
Government and municipal bonds	-	39,291,804	-	-	-	39,291,804	39,291,804
Corporate bonds	-	994,503	-	-	-	994,503	994,503
Other financial assets	-	-	5,626,699	-	-	5,626,699	5,626,699
	-	**40,286,307**	**261,008,680**	**33,662,372**	**-**	**334,957,359**	**343,685,063**
Financial instruments at fair value through profit or loss	33,500	-	-	-	-	33,500	33,500
Deposits and balances from banks	-	-	-	-	1,293,743	1,293,743	1,307,293
Amounts payable under repurchase agreements	-	-	-	-	15,283,435	15,283,435	15,283,435
Current accounts and deposits from customers	-	-	-	-	244,159,690	244,159,690	254,509,089
Debt securities issued	-	-	-	-	23,190,282	23,190,282	26,279,480
Subordinated debt securities issued	-	-	-	-	19,365,588	19,365,588	19,198,650
Other borrowed funds	-	-	-	-	24,434,497	24,434,497	24,325,540
Other financial liabilities	-	-	-	-	211,535	211,535	211,535
	33,500	**-**	**-**	**-**	**327,938,770**	**327,972,270**	**341,148,522**

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

(a) Accounting classifications and fair values, continued

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

KZT'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	81,712,586	-	-	81,712,586	81,712,586
Available-for-sale financial assets	-	36,340,492	-	36,340,492	36,340,492
Loans and advances to banks	9,871,325	-	-	9,871,325	9,871,325
Amounts receivable under reverse repurchase agreements	21,392,315	-	-	21,392,315	21,392,315
Loans customers:					
Loans to corporate customers	88,738,326	-	-	88,738,326	93,927,615
Loans to retail customers	60,258,609	-	-	60,258,609	63,782,445
Other financial assets	5,134,679	-	-	5,134,679	5,134,679
	267,107,840	**36,340,492**	**-**	**303,448,332**	**312,161,457**
Deposits and balances from banks	-	-	697,456	697,456	724,548
Amounts payable under repurchase agreements	-	-	2,200,271	2,200,271	2,200,271
Current accounts and deposits from customers	-	-	240,618,500	240,618,500	247,522,908
Debt securities issued	-	-	10,177,668	10,177,668	11,221,058
Subordinated debt securities issued	-	-	16,569,016	16,569,016	13,424,621
Other borrowed funds	-	-	25,597,725	25,597,725	25,307,080
Other financial liabilities	-	-	258,005	258,005	258,005
	-	**-**	**296,118,641**	**296,118,641**	**300,658,491**

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

(a) Accounting classifications and fair values, continued

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

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

As disclosed in note 14, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 10,000 thousand (2009: KZT 10,000 thousand) can not be determined.

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

(b) Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the unconsolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the 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 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 the 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.

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

(b) Fair value hierarchy, continued

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

KZT'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative liabilities	-	33,500	33,500
Available-for-sale financial assets			
- Debt and other fixed income instruments	4,657,330	28,995,042	33,652,372
	4,657,330	**29,028,542**	**33,685,872**

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

KZT'000	**Level 1**	**Level 2**	**Total**
Available-for-sale financial assets			
- Debt and other fixed income instruments	1,147,360	35,183,131	36,330,492
	1,147,360	**35,183,131**	**36,330,492**

Due to changes in market conditions, quoted prices in active markets were no longer available, including government securities listed on Kazakhstan Stock Exchange. Accordingly, as at 31 December 2010 and 2009 the estimated fair value of financial instruments is based on the results of valuation techniques involving the use of observable market inputs.

As at 31 December 2010 and 2009 the Bank does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market inputs.

40 Events after the reporting period

In January 2011 the Bank acquired the loan portfolios from MCO ProstoKredit LLC and ProstoKredit LLC at carrying value for a total consideration of KZT 13.03 bln satisfied in cash. As at the date of the unconsolidated financial statements the Bank has not finalised the purchase price allocation among the individual loans acquired based on their relative fair values at the date of acquisition.