JSC Nurbank

Consolidated Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholders and Board of Directors of JSC Nurbank-

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

ERNST & YOUNG

Opinion

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

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

15 March 2011

Consolidated statement of financial position
For the year ended 31 December 2010
(Thousands of Kazakh tenge)

	Notes	2010	2009
Assets			
Cash and cash equivalents	7	**52,567,628**	18,266,670
Obligatory reserves	8	**3,403,547**	4,525,802
Trading securities	10	**3,742,792**	–
Amounts due from credit institutions	9	**1,522,622**	4,075,109
Investment securities:	11		
- available-for-sale		**23,477,643**	13,740,338
- held-to-maturity		**778,274**	1,137,924
Loans to customers	12	**190,444,143**	245,435,301
Property and equipment	13	**4,774,037**	5,978,281
Current income tax assets	14	**488,863**	207,724
Deferred income tax assets	14	**1,761,838**	723,101
Other assets		**3,142,011**	2,988,905
Total assets		**286,103,398**	297,079,155
Liabilities			
Amounts due to the Government	16	**12,190,166**	13,874,225
Amounts due to credit institutions	17	**3,259,554**	10,443,537
Amounts due to customers	18	**150,584,760**	179,762,853
Debt securities issued	19	**46,994,360**	48,134,158
Other liabilities		**3,438,152**	1,746,415
Total liabilities		**216,466,992**	253,961,188
Equity			
Share capital:	20		
- common shares		**127,316,185**	31,652,370
- preferred shares		**303,711**	303,711
Treasury shares		**(282,252)**	(278,401)
Additional paid-in capital		**100**	237,220
Other reserves		**944,862**	616,778
(Accumulated deficit)/retained earnings		**(58,796,555)**	10,323,638
Total equity attributable to shareholders of the Bank		**69,486,051**	42,855,316
Non-controlling interests		**150,355**	262,651
Total equity		**69,636,406**	43,117,967
Total equity and liabilities		**286,103,398**	297,079,155

Signed and authorized for release on behalf of the Management Board of the Bank

Marat Z. Zairov — Chairman of the Management Board

Gulnar A. Suleimanova — Chief Accountant

15 March 2011

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements

Consolidated income statement
For the year ended 31 December 2010
(Thousands of Kazakh tenge)

	Notes	2010	2009
Interest income			
Loans to customers		**25,198,058**	31,515,265
Investment securities available-for-sale		**1,414,294**	1,524,058
Cash and cash equivalents and amounts due from credit institutions		**289,739**	1,179,279
		26,902,091	34,218,602
Trading securities		**182,939**	–
		27,085,030	34,218,602
Interest expense			
Amounts due to the Government		**(980,101)**	(991,601)
Amounts due to customers		**(12,482,780)**	(13,604,418)
Amounts due to credit institutions		**(556,822)**	(1,465,630)
Debt securities issued		**(5,156,138)**	(4,865,241)
		(19,175,841)	(20,926,890)
Net interest income		**7,909,189**	13,291,712
Allowance for loan impairment	9, 12	**(67,470,940)**	(7,220,382)
Net interest income after allowance for loan impairment		**(59,561,751)**	6,071,330
Net fee and commission income	22	**3,303,033**	2,601,932
Net losses from trading securities		**(432,715)**	(140,309)
Net losses from investment securities available-for-sale		**(625,563)**	(21,093)
Net gains/(losses) from foreign currencies:			
- dealing		**176,045**	3,083,340
- translation differences		**175,918**	(2,534,202)
Loss from issuance of loans with non-market interest rates		**(587,960)**	–
Net insurance underwriting income	23	**591,347**	588,253
Other income		**155,247**	413,531
Non-interest (loss)/income		**(547,681)**	1,389,520
Personnel expenses	24	**(4,745,113)**	(4,902,777)
Other operating expenses	24	**(3,437,795)**	(3,634,295)
Depreciation and amortisation	13	**(610,337)**	(593,973)
Impairment of property and equipment	13	**(987,813)**	–
Other impairment and provisions	15	**(3,270,799)**	(97,556)
Taxes other than income tax		**(356,266)**	(324,012)
Non-interest expense		**(13,408,123)**	(9,552,613)
(Loss)/profit before income tax expense		**(70,214,522)**	510,169
Income tax benefit/(expense)	14	**980,216**	(195,913)
(Loss)/profit for the year		**(69,234,306)**	314,256
Attributable to:			
- shareholders of the Bank		**(69,173,651)**	274,607
- non-controlling interests		**(60,655)**	39,649
Basic and diluted (loss) /earnings per share (in Kazakh tenge)	25	**(20,927.06)**	86.76

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income
For the year ended 31 December 2010
(Thousands of Kazakh tenge)

	Note	*2010*	*2009*
(Loss)/profit for the year		**(69,234,306)**	314,256
Other comprehensive income			
Unrealised (losses)/gains on investment securities available-for-sale, net of tax		**(124,723)**	1,014,295
Realised gains on investment securities available-for-sale, reclassified to the income statement, net of tax		**(207,073)**	(750,470)
Loss from impairment of investment securities available-for-sale, net of tax	11	**802,832**	533,377
Revaluation of property and equipment	13, 20	**(158,850)**	–
Currency translation differences		**54,368**	(69,037)
Income tax relating to reserve for property and equipment including changes in tax rate	20	**(18,709)**	–
Other comprehensive income for the year, net of tax		**347,845**	728,165
Total comprehensive (loss)/ income for the year		**(68,886,461)**	1,042,421
Attributable to:			
- shareholders of the Bank		**(68,825,806)**	1,010,919
- non-controlling interests		**(60,655)**	31,502
		(68,886,461)	1,042,421

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity
For the year ended 31 December 2010
(Thousands of Kazakh tenge)

	Attributable to shareholders of the Bank									
	Share capital		Treasury shares							
	Common shares	Preferred shares	Common shares	Preferred shares	Additional paid-in capital	Other reserves	(Accumulated deficit)/retained earnings	Total	Non-controlling interests	Total Equity
At 31 December 2008	31,650,930	303,711	(215,905)	(12,780)	100	(97,968)	10,027,465	41,655,553	249,960	41,905,513
Total comprehensive income for the year	–	–	–	–	–	736,312	274,607	1,010,919	31,502	1,042,421
Depreciation of revaluation reserves, net of tax	–	–	–	–	–	(21,566)	21,566	–	–	–
Issue of share capital *(Note 20)*	1,440	–	–	3,127	237,120	–	–	241,687	–	241,687
Acquisition of non-controlling interests *(Note5)*	–	–	–	–	–	–	–	–	(18,811)	(18,811)
Purchase of treasury shares *(Note 20)*	–	–	(47,493)	(5,350)	–	–	–	(52,843)	–	(52,843)
At 31 December 2009	31,652,370	303,711	(263,398)	(15,003)	237,220	616,778	10,323,638	42,855,316	262,651	43,117,967
Total comprehensive income/(loss) for the year	–	–	–	–	–	**347,845**	**(69,173,651)**	**(68,825,806)**	**(60,655)**	**(68,886,461)**
Depreciation of revaluation reserves, net of tax	–	–	–	–	–	**(19,761)**	**19,761**	–	–	–
Issue of share capital *(Note 20)*	**95,545,255**	–	–	–	–	–	–	**95,545,255**	–	**95,545,255**
Transfer *(Note 20)*	**118,560**	–	–	–	**(237,120)**	–	–	**(118,560)**	–	**(118,560)**
Acquisition of non-controlling interests *(Note 5)*	–	–	–	–	–	–	**33,697**	**33,697**	**(51,641)**	**(17,944)**
Purchase of treasury shares *(Note 20)*	–	–	**(3,851)**	–	–	–	–	**(3,851)**	–	**(3,851)**
At 31 December 2010	**127,316,185**	**303,711**	**(267,249)**	**(15,003)**	**100**	**944,862**	**(58,796,555)**	**69,486,051**	**150,355**	**69,636,406**

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements

Consolidated statement of cash flows
For the year ended 31 December 2010
(Thousands of Kazakh tenge)

	Notes	2010	2009
Cash flows from operating activities:			
Interest received		**18,409,035**	20,414,236
Interest paid		**(19,295,322)**	(19,601,192)
Realised gains less losses from dealing in foreign currencies		**333,926**	3,064,529
Fee and commissions received		**3,522,924**	3,163,145
Fee and commissions paid		**(341,011)**	(493,667)
Other operating income received		**170,590**	122,677
Operating expenses paid		**(4,296,036)**	(3,296,524)
Personnel expenses paid		**(4,751,679)**	(4,999,638)
Cash flows used in operating activities before changes in operating assets and liabilities		**(6,247,573)**	(1,626,434)
Net decrease/(increase) in operating assets			
Obligatory reserves		**1,122,255**	1,334,812
Trading securities		**(3,742,792)**	338,377
Amounts due from credit institutions		**2,554,733**	2,320,663
Loans to customers		**(4,808,261)**	7,922,540
Other assets		**(1,408,549)**	(1,253,339)
Net increase/(decrease) in operating liabilities			
Amounts due to the Government		**(1,684,033)**	8,786,032
Due to credit institutions		**(7,344,441)**	(20,485,661)
Amounts due to customers		**(28,824,906)**	(6,364,437)
Other liabilities		**247,252**	(239,139)
Net cash used in operating activities before income tax		**(50,136,315)**	(9,266,586)
Income tax paid		**(353,429)**	(775,301)
Net cash used in operating activities		**(50,489,744)**	(10,041,887)
Cash flows from investing activities:			
Purchase of property and equipment	13	**(448,311)**	(881,604)
Proceeds from sale of property and equipment	13	**9,635**	32,746
Purchase of investment securities		**(35,956,252)**	(34,606,177)
Proceeds from sale and redemption of investment securities		**26,689,760**	33,923,843
Share in cash of acquired subsidiaries		**–**	10
Net cash used in investing activities		**(9,705,168)**	(1,531,182)
Cash flows from financing activities:			
Acquisition of non-controlling interests	5	**(169,164)**	(271,120)
Proceeds from issue of share capital	20	**95,545,255**	4,567
Purchase of treasury shares	20	**(3,851)**	(52,843)
Redemption of debt securities		**(780,319)**	–
Proceeds from issue of debt securities		**–**	10,244,837
Net cash from financing activities		**94,591,921**	9,925,441
Net increase/(decrease) in cash and cash equivalents		**34,397,009**	(1,647,628)
Effect of exchange rate changes on cash and cash equivalents		**(96,051)**	234,708
Net (decrease)/increase in cash and cash equivalents		**34,300,958**	(1,412,920)
Cash and cash equivalents, beginning		**18,266,670**	19,679,590
Cash and cash equivalents, ending	7	**52,567,628**	18,266,670

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements

(Thousands of Kazakh tenge)

1. Principal activities

JSC Nurbank (the "Bank") was formed in 1993 under the laws of the Republic of Kazakhstan. The Bank operates under a general banking licence No. 142 issued on 13 December 2007 by Agency of the Republic of Kazakhstan for Regulation and Supervision of Financial Markets and Financial Organizations (the "FMSA").

JSC Nurbank and its subsidiaries (together the "Group") provide retail and corporate banking, pension, asset management and insurance services in Kazakhstan. The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank has a primary listing on the Kazakhstani Stock Exchange ("KASE") and certain of the Bank's debt securities issued are primarily listed on the London Stock Exchange with secondary listing on KASE. Its head office is located in Almaty, Kazakhstan.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on "Obligatory insurance of second tier banks deposits" dated 7 July 2006 and is governed by the FMSA. Insurance covers the Bank's liabilities to individual depositors for amounts up to five million Kazakh tenge for each individual in the event of business failure and revocation of the National Bank's of the Republic of Kazakhstan (the "NBRK") banking license.

The address of the Bank's registered office is: 168B Zheltoksan Street, Almaty, 050013, Republic of Kazakhstan. As at 31 December 2010, the Bank had 16 branches and 55 cash settlement units (31 December 2009: the Bank had 17 branches and 56 cash settlement units) located throughout Kazakhstan.

As at 31 December, the following shareholders own outstanding shares:

Shareholder	*2010 %*	*2009 %*
Sarsenova S.T.	**68.57**	–
LLP «Gelious»	**9.67**	–
Nazarbayeva D.N.	–	50.87
Aliyev N.R.	–	6.42
Other shareholders owing less than 5%	**21.76**	42.71
Total	**100.00**	100.00

As at 31 December 2010, members of the Board of Directors and Management Board do not possess shares of the Bank (31 December 2009: 1,918,996 shares or 60.62%).

As at 31 December, the Bank was ultimately controlled by Mrs. Sarsenova S.T.

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Also, deterioration of liquidity could affect the Group's borrowers that in return could impact the ability of borrowers to settle their debts to the Group. Due to the fall in prices in global and Kazakhstani securities markets, the Group may face a significant decrease in the fair value of securities pledged as collateral against loans extended by the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities, investment securities available-for-sale, derivatives and land and buildings have been measured at fair value. These consolidated financial statements are presented in thousands of Kazakh tenge ("KZT" or "Tenge"), except per share amounts and unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to adopt earlier the revised IAS 24 from 1 January 2010. The revised standard did not have any impact on the Group's financial statements.

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment had no impact on the Group's financial statements as the Bank has not entered into any such hedges.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised standards are applied prospectively.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Group's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Group's financial statements.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group's financial statements as the annual impairment test is performed before aggregation.

Basis of consolidation

Basis of consolidation from 1 January 2010

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either trading securities, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Trading securities

Financial assets classified as held for trading are included in the category 'trading securities'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts, amounts due from the National Bank of the Republic of Kazakhstan (the "NBRK") and amounts due from other credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves

Obligatory reserves represent mandatory reserve deposits and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the cash flow statements.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or cash and cash equivalents as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as due to credit institutions.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, mainly currency swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as other assets when their fair value is positive and as other liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from trading securities. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated income statement.

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Government, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

Finance - Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term and included a component of loans to customers in the consolidated statement of financial position. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement as a component of allowance for impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement as a component of other impairment and provisions.

Investment securities available-for-sale

For investment securities available-for-sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised in the statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. The extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax legislation that have been enacted or substantively enacted at the reporting date.

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

The Republic of Kazakhstan also has various operating taxes that are assessed on the Group's activities. These taxes are disclosed as taxes other than income tax in the consolidated income statement.

3. Summary of accounting policies (continued)

Property and equipment

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

	Years
Buildings	40
Vehicles	7 – 10
Computers and banking equipment	4 – 10
Leasehold improvements	6
Other	4 – 14

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Bank's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets presented within other assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 "*Operating Segments*" before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3. Summary of accounting policies (continued)

Other intangible assets

Other intangible assets include computer software and licences. Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include computer software and licences. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 6 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets are included in the consolidated statement of financial position as a component of other assets.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are included in the consolidated statement of financial position as a component of other liabilities.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends on common shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Preferred shares

IAS 32 "Financial instruments: Presentation" requires that preferred shares or their components be classified as financial liabilities or equity instruments in accordance with the essence of contractual agreement and definitions of financial liability and equity instrument. Preferred shares which carry a mandatory dividend payment are classified as debt securities issued. On initial recognition the fair value of the debt is equivalent to the present value of the mandatory dividend obligations over the term of the preferred share discounted at the interest rate for a similar instrument that does not retain a residual benefit to discretionary dividends.

Dividends on preferred shares are classified as an expense and are recognized in the consolidated income statement within interest expense on debt securities issued.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

3. Summary of accounting policies (continued)

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Group functions.

Contingencies

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

Recognition of income and expenses

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, asset management fees and fees for issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Income is recognised when the Group's right to receive the payment is established.

Expenses

Expenses are recognized on an accrual basis when the services are provided.

Insurance underwriting income (loss)

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the consolidated statement of financial position.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Insurance underwriting income (loss) (continued)

Losses and loss adjustments are charged to the consolidated income statement as a component of net insurance underwriting income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recognised in the consolidated income statement as incurred.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for insurance losses and loss adjustment expenses

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

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

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

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the consolidated statement of financial position within other assets.

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

Foreign currency translation

The consolidated financial statements are presented in Kazakh Tenge, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official KASE exchange rates as at 31 December 2010 and 2009 were KZT 147.50 and KZT 148.46 to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Kazakh Tenge at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement. Any goodwill `arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's financial statements.

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Group's financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on consolidated financial statements of the Group.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim consolidated financial statements.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

4. Significant accounting judgements and estimates

Judgments and estimation of uncertainty

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Allowances for impairment of assets and other provisions;
- Fair value of financial instruments; and
- Taxation.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five preceding calendar years. The review may cover longer periods under certain circumstances.

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

5. Business combination

Acquisition of additional interest in JSC Accumulated Pension Fund "Atameken"

Acquisitions in 2010

On 27 April 2010 and 20 May 2010, the Group acquired an additional 1.87% and 10.70% of the voting shares of JSC Accumulated Pension Fund "Atameken", respectively, increasing its ownership from 74.43% to 87.02%. A net cash consideration of KZT 169,164 thousand was paid to the non-controlling interest shareholders.

The carrying value of the net assets of Atameken at these dates was KZT 1,017,069 thousand and KZT 1,424,627 thousand, respectively, and the carrying value of the additional interest acquired was KZT 51,641 thousand. The difference of KZT 33,697 thousand between the consideration paid and the carrying value of the interest acquired has been recognized in accumulated loss/retained earnings within equity.

Acquisitions in 2009

On 27 August 2009 and 16 September 2009, the Bank increased its holding in the share capital of JSC Accumulated Pension Fund "Atameken" from 61.84% to 65.02% and from 65.02% to 74.43%, respectively. The Bank purchased 289 and 856 common shares from non-controlling interest shareholder for KZT 85,600 thousand and KZT 185,520 thousand, respectively. The Bank recognized the excess of the net assets acquired over cost of the additional interest in JSC Accumulated Pension Fund "Atameken" of KZT 67,578 thousand.

(Thousands of Kazakh tenge)

6. Segment information

For management purposes, the Group is organised into three business segments based on products and services as follows:

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Group function	Treasury functions, including balances and transactions with trading securities and investment securities available-for-sale and held-to-maturity.

The Group's geographical segments are based on the location of the Group's assets. Income from external customers disclosed by geographical segments is based on the geographical location of its customers.

Where the Group cannot directly attribute or reasonably allocate items of revenue and operating expense to segments, it reports them as unallocated.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2010 or 2009.

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments:

2010	*Retail Banking*	*Corporate Banking*	*Group function*	*Unallocated*	*Total*
Revenue					
Third party					
Interest income	4,340,362	22,744,668	–	–	27,085,030
Fee and commission income	1,017,508	2,231,405	30,661	310,875	3,590,449
Net losses from trading securities	–	–	(432,715)	–	(432,715)
Net losses from investment securities available-for-sale	–	–	(625,563)	–	(625,563)
Net gains from foreign currencies	–	–	351,963	–	351,963
Net insurance income	591,347	–	–	–	591,347
Other income	2,679	(605,592)	67,565	690,595	155,247
Total revenue	5,951,896	24,370,481	(608,089)	1,001,470	30,715,758
Interest expense	(3,519,401)	(11,682,704)	–	(3,973,736)	(19,175,841)
Fee and commission expense	(381,156)	232,887	(35,334)	(103,813)	(287,416)
Loss from issuance of loans with non- market interest rates	–	(587,960)	–	–	(587,960)
Allowance for loan impairment	(543,356)	(66,927,584)	–	–	(67,470,940)
Personnel expenses	–	–	–	(4,745,113)	(4,745,113)
Depreciation and amortization	–	–	–	(610,337)	(610,337)
Impairment of property and equipment	–	–	–	(987,813)	(987,813)
Other impairment and provisions	(771,792)	(1,668,515)	–	(830,492)	(3,270,799)
Taxes other than income tax	–	–	–	(356,266)	(356,266)
Other operating expenses	–	–	–	(3,437,795)	(3,437,795)
Total expenses	(5,215,705)	(80,633,876)	(35,334)	(15,045,365)	(100,930,280)
Segment results	736,191	(56,263,395)	(643,423)	(14,043,895)	(70,214,522)
Income tax benefit	–	–	–	980,216	980,216
Loss for the year	736,191	(56,263,395)	(643,423)	(13,063,679)	(69,234,306)
Segment assets	34,660,085	160,710,821	46,271,134	44,461,358	286,103,398
Segment liabilities	42,114,466	85,514,122	41,273,650	47,564,754	216,466,992
Other segment information					
Capital expenditure					(448,311)

(Thousands of Kazakh tenge)

6. Segment information (continued)

2009	*Retail Banking*	*Corporate Banking*	*Group function*	*Unallocated*	*Total*
Revenue					
Third party					
Interest income	5,505,526	28,713,076	–	–	34,218,602
Fee and commission income	899,583	1,811,778	33,324	381,831	3,126,516
Net losses from trading securities	–	–	(140,309)	–	(140,309)
Net losses from investment securities available-for-sale	–	–	(21,093)	–	(21,093)
Net gains from foreign currencies	–	–	549,138	–	549,138
Net insurance income	588,253	–	–	–	588,253
Other income	–	–	153,687	259,844	413,531
Total revenue	6,993,362	30,524,854	574,747	641,675	38,734,638
Interest expense	(2,575,680)	(15,253,875)	–	(3,097,335)	(20,926,890)
Fee and commission expense	(29,575)	(323,174)	(30,444)	(141,391)	(524,584)
Allowance for loan impairment	(1,161,707)	(6,058,675)	–	–	(7,220,382)
Personnel expenses	–	–	–	(4,902,777)	(4,902,777)
Depreciation and amortization	–	–	–	(593,973)	(593,973)
Taxes other than income tax	–	–	–	(324,012)	(324,012)
Other impairment and provisions	(14,447)	(34,076)	–	(49,033)	(97,556)
Other operating expenses	–	–	–	(3,634,295)	(3,634,295)
Total expenses	(3,781,409)	(21,669,800)	(30,444)	(12,742,816)	(38,224,469)
Segment results	3,211,953	8,855,054	544,303	(12,101,141)	510,169
Income tax expense	–	–	–	(195,913)	(195,913)
Profit/(loss) for the year	3,211,953	8,855,054	544,303	(12,297,054)	314,256
Segment assets	43,312,479	231,027,542	14,870,236	7,868,898	297,079,155
Segment liabilities	(35,009,957)	(192,301,390)	(138,311)	(26,511,530)	(253,961,188)
Other segment information					
Capital expenditure					(881,604)

Geographic information

The following tables show the distribution of the Group's revenues from third party customers and non-current assets allocated based on the location of the customers and assets respectively for the years ended 31 December 2010 and 2009:

2010	*Kazakhstan*	*OECD*	*Non-OECD*	*Total*
Income				
Revenues from third party customers	**28,718,579**	**1,771,186**	**225,993**	**30,715,758**
Non-current assets	**5,313,130**	–	–	**5,313,130**

Non-current assets consist of property, equipment and intangible assets.

2009	*Kazakhstan*	*OECD*	*Non-OECD*	*Total*
Income				
Revenues from third party customers	37,237,512	1,306,350	190,777	38,734,639
Non-current assets	6,409,762	–	–	6,409,762

Non-current assets consist of property, equipment and intangible assets.

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	*2009*
Cash on hand	**6,807,393**	5,378,885
Current accounts with other credit institutions	**6,963,474**	2,887,507
Time deposits with credit institutions up to 90 days	**35,006,111**	10,000,278
Reverse repurchase agreements with credit institutions up to 90 days	**3,790,650**	–
Cash and cash equivalents	**52,567,628**	18,266,670

As at 31 December 2010 the Group entered into short-term reverse repurchase agreements with KASE. The subject of these agreements is promissory notes issued by the Government of Republic of Kazakhstan with a fair value of KZT 4,188,587.

(Thousands of Kazakh tenge)

8. Obligatory reserves

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either non-interest bearing deposits with the NBRK or in correspondent accounts or in physical cash. The use of such funds is, therefore, subject to certain restrictions.

As at 31 December 2010, the obligatory reserves are KZT 3,403,547 thousand (31 December 2009: KZT 4,525,802 thousand).

9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	*2009*
Time deposits for more than 90 days	**1,522,622**	5,347,962
Reverse repurchase agreements for more than 90 days	–	607,030
	1,522,622	5,954,992
Less - Allowance for impairment	–	(1,879,883)
Amounts due from credit institutions	**1,522,622**	4,075,109

As at 31 December 2010 the Group has no reverse repurchase agreements. As at 31 December 2010, inter-bank time deposits were placed with two Kazakh banks. As at 31 December 2009, the Group entered into reverse repurchase agreements. The subject of these agreements were treasury bills of the Ministry of Finance and notes of the NBRK issued by the Government of Republic of Kazakhstan with a fair value of KZT 693,438 thousand.

The movements in allowances for impairment of amounts due from credit institutions were as follows:

	2010	*2009*
As at 1 January	**1,879,883**	–
Charge for the year	–	1,879,883
Write-offs	**(1,879,883)**	–
As at 31 December	–	1,879,883

During 2009 the Bank recorded an impairment charge of KZT 1,879,883 thousand on loans issued to distressed Kazakh banks under restructuring process: BTA Bank JSC and Alliance Bank JSC, which were written off during 2010.

10. Trading securities

	2010	*2009*
Debt securities:		
Treasury bills of the Ministry of Finance	**1,926,470**	–
Bonds of Kazakh banks	**1,287,322**	–
Eurobonds of Kazakh banks	**330,603**	–
	3,544,395	–
Equity securities:		
Preferred shares of Kazakh financial institutions	**107,965**	–
Common shares of Kazakh financial institutions	**90,432**	–
	198,397	
	3,742,792	–

11. Investment securities

Available-for-sale securities comprise:

	2010	*2009*
Debt securities:		
Treasury bills of the Ministry of Finance	**19,626,759**	8,884,755
Bonds of Kazakh credit institutions, other than banks	**2,030,989**	1,020,267
Eurobonds of Kazakh banks	**794,652**	2,965,504
Bonds of Kazakh banks	**449,094**	165,713
Notes of foreign banks	**333,893**	318,879
Corporate bonds	**75,583**	212,977
Treasury bills of the OECD central governments	–	42,555
	23,310,970	13,610,650
Equity securities:		
Corporate shares	**70,669**	93,268
Shares of Kazakh banks and other credit institutions	**96,004**	36,420
	166,673	129,688
Investment securities available-for-sale	**23,477,643**	13,740,338

(Thousands of Kazakh tenge)

11. Investment securities (continued)

For the year ended 31 December 2010, the Bank recognized impairment charge on available for sale investment securities in the amount of KZT 802,832 thousand (2009: KZT 533,377 thousand). Impairment loss primarily comprised of securities issued by Kazakhstan financial institutions which are undergoing significant financial difficulties.

Reclassifications

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", during the first half of 2009 the Group's subsidiaries (JSC APF "Atameken" and JSC Insurance Company "Nurpolicy") reclassified certain financial assets that met the definition of loans and receivables out of available-for-sale category to held-to-maturity investments securities. Information about the reclassified financial assets is presented in the table below:

	2010	*2009*
Fair value of securities reclassified from AFS to HTM at reclassification date	**395,251**	395,251
Carrying amount as at 31 December	**272,767**	151,560
Fair value as at 31 December	**292,113**	150,075
Fair value gain/(loss) that would have been recognized on the reclassified assets for the year if the reclassification had not been made	**17,777**	(6,230)
Gain recognized in profit or loss in the year of reclassification		13,335
Effective interest rate as at date of reclassification	**18%**	18%
Estimated cash flows expected to be recovered as at date of reclassification	**546,503**	546,503

Held-to-maturity securities comprise:

	2010	*2009*
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**441,016**	507,119
Bonds of Kazakh banks	**99,397**	402,299
Bonds of Kazakh credit institutions, other than banks	**237,861**	228,506
Held-to-maturity securities	**778,274**	1,137,924

12. Loans to customers

Loans to customers comprise:

	2010	*2009*
Individually significant corporate borrowers	**192,187,444**	198,005,929
Individually insignificant corporate, small and medium size borrowers	**39,596,572**	35,129,251
Consumer lending	**20,033,572**	22,122,824
Residential mortgages	**8,856,527**	10,488,715
Gross loans to customers	**260,674,115**	265,746,719
Less – Allowance for impairment	**(70,229,972)**	(20,311,418)
Loans to customers	**190,444,143**	245,435,301

During 2010, the quality of the Bank's loan portfolio has significantly deteriorated due to the decline in value of collateral and seasoning of certain loans that became overdue. While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loan loss allowances is accrued based on realizable value of collateral. In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

(Thousands of Kazakh tenge)

12. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

2010	*Individually significant corporate borrowers*	*Individually insignificant corporate, small and medium size borrowers*	*Consumer lending*	*Residential mortgages*	*Total*
At 1 January 2010	10,100,127	9,655,905	510,539	44,847	20,311,418
Charge/(recoveries) for the year	72,098,543	(5,170,959)	326,225	217,131	67,470,940
Amounts written off	(17,443,599)	(108,787)	–	–	(17,552,386)
At 31 December 2010	64,755,071	4,376,159	836,764	261,978	70,229,972
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	112,194,153	–	–	–	112,194,153

2009	*Individually significant corporate borrowers*	*Individually insignificant corporate, small and medium size borrowers*	*Consumer lending*	*Residential mortgages*	*Total*
At 1 January 2009	8,960,680	5,703,532	225,742	24,012	14,913,966
Charge for the year	1,139,448	3,899,992	283,753	17,306	5,340,499
Recoveries	–	96,735	2,073	3,528	102,336
Amounts written off	–	(44,354)	(1,029)	–	(45,383)
At 31 December 2009	10,100,128	9,655,905	510,539	44,846	20,311,418
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	36,866,777	–	–	–	36,866,777

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2010, comprises KZT 20,353,273 thousand (31 December 2009: KZT 3,507,138 thousand).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired as at 31 December 2010 amounts to KZT 44,390,321 thousand (31 December 2009: KZT 6,676,981 thousand). In accordance with the Group policies loans may only be written off upon approval by the Credit Committee and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and inventory;
- For retail lending, mortgages over residential properties, charges over vehicles and third party guarantees.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management requests additional collateral in accordance with the underlying agreement and monitors the estimated fair value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the year, the Bank took possession of a industrial buildings with an estimated value of KZT 776,299 thousand, which the Bank is in the process of selling. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy repossessed properties for business use.

(Thousands of Kazakh tenge)

12. Loans to customers (continued)

Derecognition of a loan portfolio

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any default losses on the portfolio. The Group has determined that not substantially all the risks and rewards of the portfolio have been transferred to KMC. Therefore, the Group continues to recognise these loans as an asset on its consolidated statement of financial position with the corresponding liability recorded in amounts due to credit institutions for the same amount. As at 31 December 2010 these loans amounted to KZT 1,756,005 thousand (31 December 2009: KZT 1,867,275 thousand).

Concentration of loans to customers

As at 31 December 2010, the Group had a concentration of loans represented by KZT 109,772,380 thousand due from the ten largest borrowers that comprised 42% of the total gross loan portfolio or 158% of total equity (31 December 2009: KZT 104,156,223 thousand; 39% of the total gross loan portfolio or 242% of total equity). As at 31 December 2010 an allowance of KZT 49,931,738 thousand (31 December 2009: KZT 4,524,994 thousand) was recognised against these loans.

Loans are made to individuals and commercial entities in the following industry sectors:

	2010	*%*	*2009*	*%*
Real estate	**89,713,937**	**34**	76,172,223	29
Retail loans	**28,890,100**	**11**	32,611,539	13
Construction	**21,371,152**	**8**	10,080,059	4
Wholesale trade	**16,150,264**	**6**	29,891,134	11
Food industry	**14,277,834**	**6**	18,520,316	7
Agriculture	**14,058,110**	**6**	14,475,144	5
Oil and gas	**12,314,057**	**5**	11,555,761	4
Entertainment	**10,952,135**	**4**	10,879,032	4
Mining	**9,310,138**	**4**	7,877,307	3
Retail trade	**8,422,892**	**3**	7,424,418	3
Rental properties	**8,093,256**	**3**	9,137,432	3
Transportation	**5,659,998**	**2**	5,564,681	2
Hospitality industry	**4,197,583**	**2**	15,354,485	6
Communication	**819,123**	**–**	583,414	–
Publishing activities	**659,609**	**–**	630,071	–
Other	**15,783,927**	**6**	14,989,703	6
	260,674,115	**100**	265,746,719	100

(Thousands of Kazakh tenge)

13. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Vehicles*	*Computers and banking equipment*	*Leasehold improve-ments*	*Other*	*Total*
Revalued amount:							
31 December 2008	1,128,703	2,625,815	232,472	1,848,359	153,142	1,185,745	7,174,236
Additions	62	237,768	31,417	195,733	658	415,966	881,604
Disposals	–	–	(4,190)	(70,247)	(68,064)	(148,670)	(291,171)
Transfers	–	–	18,333	(700,261)	(631)	682,559	–
31 December 2009	1,128,765	2,863,583	278,032	1,273,584	85,105	2,135,600	7,764,669
Effect of revaluation	**(285,558)**	**(1,015,650)**	–	–	–	–	**(1,301,208)**
Additions	**8,391**	**116,239**	**41,340**	**171,486**	–	**110,855**	**448,311**
Disposals	–	**(95)**	**(32,845)**	**(59,238)**	**(18,250)**	**(31,203)**	**(141,631)**
Transfers	**101**	**(1,083)**	**4,742**	**814**	**(552)**	**(3,704)**	**318**
31 December 2010	**851,699**	**1,962,994**	**291,269**	**1,386,646**	**66,303**	**2,211,548**	**6,770,459**
Accumulated depreciation:							
31 December 2008	–	(4,442)	(55,172)	(881,815)	(94,032)	(474,855)	(1,510,316)
Depreciation charge	–	(72,073)	(35,466)	(203,703)	(21,000)	(169,099)	(501,341)
Disposals	–	–	223	67,287	48,021	109,738	225,269
Transfers	–	–	(1,613)	182,554	488	(181,429)	–
31 December 2009	–	**(76,515)**	**(92,028)**	**(835,677)**	**(66,523)**	**(715,645)**	**(1,786,388)**
Depreciation charge	–	**(78,088)**	**(40,350)**	**(182,703)**	**(9,398)**	**(181,228)**	**(491,767)**
Disposals	–	–	**24,568**	**58,281**	**18,220**	**26,437**	**127,506**
Transfers	–	**58**	**(788)**	**(332)**	**558**	**186**	**(318)**
Effect of revaluation	–	**154,545**	–	–	–	–	**154,545**
31 December 2010	–	–	**(108,598)**	**(960,431)**	**(57,143)**	**(870,250)**	**(1,996,422)**
Net book value:							
31 December 2008	1,128,703	2,621,373	177,300	966,544	59,110	710,890	5,663,920
31 December 2009	1,128,765	2,787,068	186,004	437,907	18,582	1,419,955	5,978,281
31 December 2010	**851,699**	**1,962,994**	**182,671**	**426,215**	**9,160**	**1,341,298**	**4,774,037**

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the last revaluation was 31 December 2010. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2010	*2009*
Cost	**2,740,818**	2,959,724
Accumulated depreciation	**(245,866)**	(324,893)
Net carrying amount	**2,494,952**	2,634,831

The Bank recognized impairment loss of KZT 158,850 thousand in the comprehensive income, to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the same land and buildings. Such an impairment loss on revalued assets reduced the revaluation surplus for the land and buildings and the remaining amount was charged directly to the consolidated income statement in the amount of KZT 987,813 thousand.

In 2010 depreciation of its revaluation reserve for property and equipment net of tax was KZT 19,761 thousand (2009: KZT 21,556 thousand). Depreciation and amortization in the consolidated income statement in 2010 include amortization of intangible assets of KZT 118,570 thousand (2009: KZT 92,632 thousand).

14. Taxation

The corporate income tax expense comprises:

	2010	*2009*
Current tax charge	**72,290**	759,578
Deferred tax (benefit)/charge - origination and reversal of temporary differences	**(1,052,506)**	(563,665)
Income tax (benefit)/expense	**(980,216)**	195,913

(Thousands of Kazakh tenge)

14. Taxation (continued)

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2010	*2009*
Revaluation of buildings	31,770	–
Income tax benefit to other comprehensive income	31,770	–

The tax rate for the Bank's profit and its subsidiaries other than its insurance subsidiary was 20% for 2010 and 2009. In accordance with changes in legislation in 2010 corporate income tax rate will be 20%. Previously tax legislation enacted income tax rates of 17.5% from 1 January 2013 and 15% from 1 January 2014.

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

	2010	*2009*
(Loss)/profit before income tax expense	**(70,214,522)**	510,169
Statutory tax rate	20%	20%
Theoretical income tax (benefit)/ expense at the statutory rate	**(14,042,904)**	102,034
Non-deductible discount on loans issued at below market interest rate	**117,592**	–
Income recognised for tax purposes only	**(155,701)**	155,701
Income on state and other qualifying securities	**33,706**	(136,331)
Dividends on preferred shares	**45,103**	74,316
Permanent difference from change in tax rate	**(75,026)**	(53,074)
Change in allowances on deferred tax assets	**12,834,345**	–
Other	**262,669**	53,267
Income tax (benefit)/expense	**(980,216)**	195,913

As at 31 December 2010 the Group's current income tax assets comprised KZT 488,863 thousand (31 December 2009: KZT 207,724 thousand).

Deferred tax assets and liabilities as at 31 December and their movements for the respective periods comprise:

	2008	*Origination and reversal of temporary differences in the consolidated income statement*	*2009*	*Origination and reversal of temporary differences in the consolidated income statement*	*Origination and reversal of temporary differences in the consolidated other comprehensive income*	*Origination and reversal of temporary differences in consolidated equity*	*2010*
Deferred income tax assets:							
Tax losses carry-forward	–	–	–	**17,455,025**	–	–	**17,455,025**
Other liabilities	19,225	(8,729)	10,496	**128,292**	–	–	**138,788**
Unamortized commission	33,363	14,509	47,872	**(47,872)**	–	–	–
Loans to banks	–	162,217	162,217	**(162,217)**	–	–	–
	52,588	167,997	220,585	**17,373,228**	–	–	**17,593,813**
Deferred income tax liabilities:							
Loans to customers	310,628	468,757	779,385	**(3,349,786)**	–	–	**(2,570,401)**
Property and equipment	(126,767)	(67,426)	(194,193)	**(113,022)**	**(18,709)**	**4,940**	**(320,984)**
Investments in subsidiaries	(46,358)	(10,137)	(56,495)	**(25,570)**	–	–	**(82,065)**
Debt securities issued	(30,655)	28,934	(1,721)	**(5,162)**	–	–	**(6,883)**
Other assets	–	(24,460)	(24,460)	**7,163**	–	–	**(17,297)**
	106,848	395,668	502,516	**(3,486,377)**	**(18,709)**	**4,940**	**(2,997,630)**
Deferred income tax (liabilities)/assets	159,436	563,665	723,101	**13,886,851**	**(18,709)**	**4,940**	**14,596,183**
Allowance on deferred income tax assets	–	–	–	**(12,834,345)**	–	–	**(12,834,345)**
Net deferred income tax assets/(liabilities)	159,436	563,665	723,101	**1,052,506**	**(18,709)**	**4,940**	**1,761,838**

The Bank has tax losses carried forwards which begin to expire in 2019, if not utilised. Tax loss carry-forward represents losses which arose mainly from differences in classification between FMSA and IFRS allowances on loans to customers.

The Bank did not recognize a deferred tax asset to the extent of probable future profits, which can not be reliably measured.

(Thousands of Kazakh tenge)

14. Taxation (continued)

Kazakhstan currently has a Tax Code that relates to various taxes imposed by the governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

15. Other impairment and provisions

The movement on the allowances for impairment of other assets and guarantees and commitments were as follows:

	Guarantees and commitments	*Other assets*	*Total*
31 December 2008	57,206	167,460	224,666
Charge	54,988	42,568	97,556
Write-offs	(4,108)	(48,335)	(52,443)
Recoveries	–	649	649
31 December 2009	108,086	162,342	270,428
Charge	**2,079,976**	**1,190,823**	**3,270,799**
Write-offs	**(20,211)**	**(283,547)**	**(303,758)**
31 December 2010	**2,167,851**	**1,069,618**	**3,237,469**

Allowances for impairment of other assets are deducted from carrying amount of the related assets. Provisions for guarantees and commitments are recorded in other liabilities.

16. Amounts due to the Government

As at 31 December 2010 funds attracted by the Bank from Entrepreneurship Development Fund DAMU JSC, 100% owned by the Government, amounted to KZT 12,190,166 thousands (31 December 2009: KZT 13,874,225 thousand). In accordance with the contractual provisions, the Bank can utilize these funds only for financing small and medium business.

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	*2009*
Loans from credit institutions, other than banks	**1,756,005**	1,888,404
Time deposits from Kazakh banks and non OECD banks	**1,018,308**	1,248,597
Time deposits from OECD banks	**483,536**	7,292,849
Current accounts	**1,705**	13,687
Amounts due to credit institutions	**3,259,554**	10,443,537

The decrease in amounts due to credit institution during 2010 is due to repayment of deposits placed by Bank Julius S Baer and Co.Ltd in the amount of KZT 6,086,860 thousand.

18. Amounts due to customers

The amounts due to customers include the following:

	2010	*2009*
Current accounts:		
Legal entities	**41,652,951**	70,730,806
Individuals	**4,021,164**	3,693,883
Held as security against letter of credit	**82,820**	1,089,493
Time deposits:		
Legal entities	**71,397,483**	73,961,235
Individuals	**33,430,342**	30,287,436
Amounts due to customers	**150,584,760**	179,762,853

(Thousands of Kazakh tenge)

18. Amounts due to customers (continued)

At 31 December 2010, amounts due to customers of KZT 55,343,882 thousand or 37% of total amounts due from customers were due to the ten largest customers (31 December 2009: KZT 92,863,623 thousands or 52% of total amounts due to customers).

As at 31 December 2010 included in time deposits are deposits of individuals in the amount of KZT 33,430,342 thousand (31 December 2009: KZT 30,287,436 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

An analysis of customer accounts by economic sector follows:

	2010	*%*	*2009*	*%*
Non-banking financial institutions	**42,655,413**	28	30,185,595	17
Individuals	**37,451,506**	25	33,981,319	19
Oil and gas	**15,613,629**	10	55,697,602	31
Wholesale trade	**9,132,413**	6	20,638,746	12
Communication	**6,663,890**	4	2,667,833	1
Construction	**6,418,008**	4	5,399,089	3
Advertising	**5,411,173**	4	5,417,307	3
Sale and service of automobiles	**3,086,934**	2	5,313,781	3
Entertainment	**3,042,194**	2	3,557,553	2
Real estate	**1,932,418**	1	4,052,834	2
Agriculture	**1,901,303**	1	501,817	–
Education	**998,381**	1	636,393	–
Retail trade	**653,595**	1	222,352	–
Food industry	**646,080**	1	1,087,723	1
Held as security against letters of credit	**82,820**	–	1,089,493	1
Metallurgy	**61,266**	–	400,155	–
Other	**14,833,737**	10	8,913,261	5
Amounts due to customers	**150,584,760**	100	179,762,853	100

19. Debt securities issued

Debt securities issued consisted of the following:

	2010	*2009*
USD Eurobonds	**22,045,563**	22,125,685
KZT notes	**14,828,091**	16,069,306
KZT subordinated notes	**8,760,657**	8,872,115
Preferred shares	**2,043,165**	2,133,412
	47,677,476	49,200,518
Net unamortized discount and cost of issuance	**(1,740,187)**	(2,150,341)
	45,937,289	47,050,177
Interest accrued	**1,057,071**	1,083,981
Debt securities issued	**46,994,360**	48,134,158

KZT subordinated notes are unsecured obligations of the Bank. In accordance with the terms of the USD Eurobonds, the Bank is required to maintain certain financial covenants particularly with regard to its capital adequacy, lending exposures, limitations on transactions unless such transactions are at fair market value. In addition, the Bank is required to obtain the approval of the lender before distributing any dividends to the common shareholders. Furthermore, the terms of the USD Eurobonds include covenants restricting the Bank's ability to create security interests over its assets. In addition, the Bank's default under these covenants could result in cross-defaults under the terms of the Bank's other financing arrangements. The Bank is in compliance with the covenants of the agreements the Bank has with the bonds' trustee and holders as at 31 December 2010.

(Thousands of Kazakh tenge)

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares		*Amount*		
	Common	*Preferred*	*Common*	*Preferred*	*Total*
31 December 2008	3,155,203	29,093	31,435,025	290,931	31,725,956
Increase in share capital	12,000	86	1,440	3,127	4,567
Purchase of treasury shares	(2,598)	(294)	(47,493)	(5,350)	(52,843)
31 December 2009	3,164,605	28,885	31,388,972	288,708	31,677,680
Increase in share capital	**7,349,635**	–	**95,545,255**	–	**95,545,255**
Purchase of treasury shares	**(10,084)**	–	**(208,042)**	–	**(208,042)**
Transfer	–	–	**118,560**	–	**118,560**
Sale of treasury shares	**9,921**	–	**204,191**	–	**204,191**
31 December 2010	**10,514,077**	**28,885**	**127,048,936**	**288,708**	**127,337,644**

As at 31 December 2010, the Bank had 13,375,557 (31 December 2009: 4,200,000) authorised common shares and 300,000 (31 December 2009: 300,000) preferred shares with a nominal value of KZT 13,000 and KZT 200,000 respectively. Each common share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum 10% per annum.

In accordance with IAS 32, if the non-redeemable preferred share establishes a contractual right to a dividend, it contains a financial liability in respect of the dividends, whereby the net present value of the right to receive dividends is shown as a liability and the balance of the issue proceeds as equity.

On 6 September 2010, shareholders of the Bank on the General shareholders meeting approved an issue of additional 7,349,635 common shares. This share issue was registered by FMSA on 18 November 2010. All these common shares were placed and the total cash consideration of KZT 95,545,255 thousand was received in December 2010.

The Bank granted on 20 January 2009 share purchase option to a senior executive on the Board of the Bank. The executive received the right to purchase 12,000 common shares at the price of KZT 120 during 2009. A share option agreement was exercised on 22 January 2009. The market price of shares at the exercise date was KZT 20 thousand. The excess of fair value of shares over considerations received was recognized as additional paid in capital.
The total amount of expenses on share option recognized in 2009 amounted to KZT 237,120 thousand. Subsequently these expenses were reimbursed to the Bank by the former member of Management of Board.

In accordance with the recommendation received from the NBRK and Board of Directors' decision the Bank transferred the reimbursed expenses recognized as additional- paid- in capital to share capital in the amount of KZT 118,560 thousand and to "Atameken" account in the amount of KZT 118,560 thousand.

The share capital of the Bank was contributed by the shareholders in Tenge and they are entitled to dividends and any capital distribution in Tenge. Preferred shares carry a cumulative dividend of a minimum of KZT 1000 per annum, but not less than declared dividends on common shares and do not have any voting rights unless payment of preferred dividends has been delayed for three months or more from the date they became due. All common and preferred shares are KZT denominated.

(Thousands of Kazakh tenge)

20. Equity (continued)

Movements in other reserves

Movements in other reserves were as follows:

	Revaluation reserve for land and buildings	*Unrealised gains/(losses) on investment securities available-for-sale*	*Foreign currency translation reserve*	*Total*
At 1 January 2009	1,205,127	(1,317,568)	14,473	(97,968)
Depreciation of revaluation reserve, net of tax	(21,566)	–	–	(21,566)
Net unrealized gain on available-for-sale investments, net of tax	–	1,022,442	–	1,022,442
Realized gains on investment securities available-for-sale reclassified to the income statement, net of tax	–	(750,470)	–	(750,470)
Impairment of investment securities available-for-sale, net of tax (Note 11)	–	533,377	–	533,377
Currency translation differences	–	–	(69,037)	(69,037)
At 31 December 2009	1,183,561	(512,219)	(54,564)	616,778
Depreciation of revaluation reserve, net of tax	**(19,761)**	–	–	**(19,761)**
Revaluation of property and equipment	**(158,850)**	–	–	**(158,850)**
Tax rate effect on revaluation reserves on property and equipment	**31,770**	–	–	**31,770**
Permanent change in tax rates	**(50,479)**	–	–	**(50,479)**
Net unrealized losses on available-for-sale investments, net of tax	–	**(124,723)**	–	**(124,723)**
Realized gains on investment securities available-for-sale reclassified to the income statement, net of tax	–	**(207,073)**	–	**(207,073)**
Impairment of investment securities available-for-sale, net of tax (Note 11)	–	**802,832**	–	**802,832**
Currency translation differences	–	–	**54,368**	**54,368**
At 31 December 2010	**986,241**	**(41,183)**	**(196)**	**944,862**

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

Unrealised gains(losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

21. Commitments and contingencies

Legal

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

(Thousands of Kazakh tenge)

21. Commitments and contingencies (continued)

Tax contingencies (continued)

The Group believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2010. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

As at 31 December the Group's financial commitments and contingencies comprised the following:

	2010	*2009*
Credit related commitments		
Undrawn loan commitments	**17,109,249**	35,032,235
Guarantees	**10,496,388**	12,442,227
Letters of credit	**375,456**	1,429,924
	27,981,093	48,904,386
Operating lease commitments		
Not later than 1 year	**336,201**	630,759
Later than 1 year but not later than 5 years	**481,365**	144,048
More than 5 year	**40,404**	18,196
	857,970	793,003
Commitments and contingencies, gross	**28,839,063**	49,697,389
Less – cash held as security against letters of credit and guarantees	**(108,651)**	(1,089,493)
Less – provisions *(Note 15)*	**(2,167,851)**	(108,086)
Commitments and contingencies	**26,562,561**	48,499,810

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

Fiduciary activities

The Group provides fiduciary services to third parties, which involve the Group making allocation, purchase and sales decisions in relation to the trust funds. Those funds that are held in a fiduciary capacity are not included in these consolidated financial statements. As at 31 December 2010, such funds amounted to KZT 64,804,049 thousand (31 December 2009: KZT 58,099,894 thousand).

22. Net fee and commission income

Net fee and commission income comprises:

	2010	*2009*
Pension asset management	**864,848**	771,133
Cash operations	**603,484**	572,740
Guarantees and letters of credit	**752,353**	489,387
Bank cards	**550,945**	456,190
Bank transfers	**481,565**	405,881
Purchase – sale of currencies	**172,064**	235,692
Agent's fees	**70,346**	74,977
Other	**94,844**	120,516
Fee and commission income	**3,590,449**	3,126,516
Bank cards	**(84,438)**	(154,576)
Bank transfers	**(73,560)**	(69,865)
Operations with securities	**(48,956)**	(30,005)
Cash operations	**(47,726)**	(19,775)
Agents' fees	**(5,289)**	(157,924)
Guarantees and letters of credit	**(971)**	(40,810)
Other	**(26,476)**	(51,629)
Fee and commission expense	**(287,416)**	(524,584)
Net fee and commission income	**3,303,033**	2,601,932

(Thousands of Kazakh tenge)

23. Net insurance underwriting income

Net insurance underwriting income comprises:

	2010	*2009*
Premium written, gross	**690,395**	1,759,853
Ceded insurance premiums	**(102,252)**	(321,334)
Premiums written, net of ceded insurance	**588,143**	1,438,519
Change in unearned premiums, net	**564,435**	(264,635)
Premiums earned, net of reinsurance	**1,152,578**	1,173,884
Claims incurred, reinsurance share	**111,133**	31,274
Commission income from insurance	**1,067**	2,593
Insurance underwriting income	**1,264,778**	1,207,751
Claims, gross	**(351,787)**	(206,301)
Commission expense from insurance	**(337,813)**	(339,497)
Change in loss reserve, net	**16,169**	(73,700)
Insurance underwriting expense	**(673,431)**	(619,498)
Net insurance underwriting income	**591,347**	588,253

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	**(4,354,017)**	(4,495,823)
Social security costs	**(391,096)**	(406,954)
Personnel expenses	**(4,745,113)**	(4,902,777)
Rent	**(1,019,640)**	(960,179)
Deposit insurance	**(525,543)**	(336,909)
Repair and maintenance	**(225,611)**	(211,971)
Advertising	**(204,279)**	(478,240)
Communication	**(197,498)**	(208,932)
Security	**(194,666)**	(223,897)
Information technologies services	**(183,880)**	(171,693)
Professional services	**(151,589)**	(152,077)
Transportation	**(84,426)**	(162,893)
Utilities	**(75,266)**	(31,151)
Business trips	**(75,116)**	(97,421)
Cash collection	**(44,244)**	(42,299)
Entertainment	**(38,938)**	(49,942)
Postal services	**(22,345)**	(19,948)
Trainings	**(4,016)**	(13,975)
Other	**(390,738)**	(472,768)
Other operating expenses	**(3,437,795)**	(3,634,295)

25. (Loss)/earnings per share

Basic and diluted earnings per share is calculated by dividing the net (loss)/profit for the year attributable to common shareholders of the Bank by the weighted average number of common shares (excluding treasury shares) (participating shares) outstanding during the year.

The following table shows the profit and share data used in the basic and diluted earnings per share calculations:

	2010	*2009*
Net (loss)/profit for the year attributable to shareholders of the Bank	**(69,173,651)**	274,607
Weighted average number of participating shares for basic and diluted earnings per share	**3,305,465**	3,165,090
Basic and diluted (loss)/ earnings per share (in Kazakh tenge)	**(20,927.06)**	86.76

26. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Asset and Liability Committee

The Asset and Liability Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against set limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur. Monitoring and controlling risks is primarily performed based on limits established by the Group and the Regulator. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Management Department, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regularly briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and credit risks. The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Notes	*Gross maximum exposure 2010*	*Gross maximum exposure 2009*
Cash and cash equivalents (excluding cash on hand)	7	**45,760,235**	12,887,785
Obligatory reserves	8	**3,403,547**	4,525,802
Trading securities (excluding equity securities)	10	**3,544,395**	–
Amounts due from credit institutions	9	**1,522,622**	4,075,109
Investment securities:			
-available-for-sale	11	**23,310,970**	13,610,650
-held-to-maturity	11	**778,274**	1,137,924
Loans to customers	12	**190,444,143**	245,435,301
Other assets (excluding non-monetary items)		**1,891,973**	1,811,723
		270,656,159	283,484,294
Financial commitments and contingencies	21	**26,152,992**	47,706,807
Total credit risk exposure		**296,809,151**	331,191,101

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The effect of collateral and other risk mitigation techniques is shown in Note 12.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related consolidated statement of financial position lines, based on the Group's credit rating system.

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3.

		2010				
	Notes	High grade	Standard grade	Substandard grade	Past due or individually impaired	Total
Amounts due from credit institutions	9	1,522,622	–	–	–	1,522,622
Loans to customers:	12					
Individually significant corporate loans		–	30,676,656	7,577,070	153,933,718	192,187,444
Individually insignificant corporate loans, small and medium size borrowers		3,003,899	8,387,924	1,592,192	26,612,557	39,596,572
Consumer lending		739,626	489,785	268,188	18,535,973	20,033,572
Residential mortgages		230,326	397,683	4,542,437	3,686,081	8,856,527
		3,973,851	39,952,048	13,979,887	202,768,329	260,674,115
Debt securities:	11					
trading securities		3,544,395	–	–	–	3,544,395
investment securities available-for-sale		19,960,652	2,913,765	428,384	8,169	23,310,970
investment securities held-to-maturity		441,016	337,257	–	–	778,273
		23,946,063	3,251,022	428,384	8,169	27,633,638
Total		27,919,914	43,203,070	14,408,271	202,776,498	288,307,753

		2009				
		High grade	Standard grade	Substandard grade	Past due or individually impaired	Total
Amounts due from credit institutions	9	862,190	–	607,030	4,485,772	5,954,992
Loans to customers:	12					
Individually significant corporate loans		–	157,393,717	–	40,612,212	198,005,929
Individually insignificant corporate loans, small and medium size borrowers		13,675,106	8,762,065	1,770,597	10,921,483	35,129,251
Consumer lending		6,113,318	4,031,730	337,297	11,640,479	22,122,824
Residential mortgages		4,449,831	2,979,534	180,964	2,878,386	10,488,715
		24,238,255	173,167,046	2,288,858	66,052,560	265,746,719
Debt investment securities:	11					
available-for-sale		12,437,297	–	1,173,353	–	13,610,650
held-to-maturity		507,119	630,805	–	–	1,137,924
Total		38,044,861	173,797,851	4,069,241	70,538,332	286,450,285

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	2010				
	Less than 30 days	*31 to 60 days*	*61 to 90 Days*	*More than 91 days*	*Total*
Loans to customers:					
Individually significant corporate loans	–	1,825,939	–	–	1,825,939
Individually insignificant corporate loans, small and medium size borrowers	768,701	421,082	99,969	7,278,118	8,567,870
Consumer lending	430,472	110,675	260,258	5,748,349	6,549,754
Residential mortgages	343,425	96,098	60,091	1,348,981	1,848,595
Total	1,542,598	2,453,794	420,318	14,375,448	18,792,158

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2010 was KZT 23,552,751 thousand (31 December 2009: KZT 10,678,000 thousand). See 'Collateral and other credit enhancements' in Note 12 for the details of types of collateral held.

	2009				
	Less than 30 days	*31 to 60 days*	*61 to 90 Days*	*More than 91 days*	*Total*
Loans to customers:					
Individually significant corporate loans	1,745,226	–	608,258	477,060	2,830,544
Individually insignificant corporate loans, small and medium size borrowers	359,685	703,679	573,633	582,080	2,219,077
Consumer lending	511,600	52,560	136,088	67,520	767,768
Residential mortgages	46,508	11,875	–	60,257	118,640
Total	2,663,019	768,114	1,317,979	1,186,917	5,936,029

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2010	*2009*
Loans to customers:		
Individually significant corporate loans	50,559,519	73,014,787
Individually insignificant corporate loans, small and medium size borrowers	10,452,432	5,032,590
Consumer lending	9,183,627	3,700,970
Residential mortgages	2,741,590	398,970
Total	72,937,168	82,147,317

See Note 12 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages, consumer lending and small and medium size lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Collectively assessed allowances

The geographical concentration of the Group's monetary assets and liabilities is set out below:

	2010				*2009*			
	Kazakhstan	*OECD*	*CIS and other countries*	*Total*	*Kazakhstan*	*OECD*	*CIS and other countries*	*Total*
Assets:								
Cash and cash equivalents	**50,267,391**	**2,291,851**	**8,386**	**52,567,628**	16,677,420	1,518,371	70,879	18,266,670
Obligatory reserves	**3,403,547**	–	–	**3,403,547**	4,525,802	–	–	4,525,802
Trading securities	**3,742,792**	–	–	**3,742,792**	–	–	–	–
Amounts due from credit institutions	**1,522,622**	–	–	**1,522,622**	3,786,395	288,714	–	4,075,109
Investment securities								
available-for-sale	**23,143,750**	**333,893**	–	**23,477,643**	13,378,904	361,434	–	13,740,338
held-to-maturity	**778,274**	–	–	**778,274**	1,137,924	–	–	1,137,924
Loans to customers	**190,444,143**	–	–	**190,444,143**	237,720,424	–	7,714,877	245,435,301
Other assets (excluding non-monetary items)	**1,649,941**	**242,032**	–	**1,891,973**	1,233,713	568,278	9,732	1,811,723
	274,952,460	**2,867,776**	**8,386**	**277,828,622**	278,460,582	2,736,797	7,795,488	288,992,867
Liabilities:								
Amounts due to the Government	**12,190,166**	–	–	**12,190,166**	13,874,225	–	–	13,874,225
Amounts due to credit institutions	**2,775,197**	**484,357**	–	**3,259,554**	2,898,387	7,315,087	230,063	10,443,537
Amounts due to customers	**150,584,760**	–	–	**150,584,760**	179,762,853	–	–	179,762,853
Debt securities issued	**24,920,075**	–	**22,074,285**	**46,994,360**	23,939,845	24,194,313	–	48,134,158
Other liabilities	**443,500**	–	–	**443,500**	1,741,813	–	–	1,741,813
	190,913,698	**484,357**	**22,074,285**	**213,472,340**	222,217,123	31,509,400	230,063	253,956,586
Net assets / (liabilities)	**84,038,762**	**2,383,419**	**(22,065,899)**	**64,356,282**	56,243,459	(28,772,603)	7,565,425	35,036,281

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Liquidity risk and funding management (continued)

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of certain liabilities attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the FMSA. As at 31 December 2010, these ratios were as follows:

	2010
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days) Minimum ratio: greater than 1	**26.47**
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month, including demand liabilities) Minimum ratio: greater than 0.9	**11.12**
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months, including demand liabilities) Minimum ratio: greater than 0.8	**3.43**
Quick currency ratio k4-4 (average amount of highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 7 days in foreign currency) Minimum ratio: greater than 1	**34.72**
Quick currency ratio k4-5 (average assets with remaining maturities up to 1 month, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 1 month, including demand liabilities in foreign currency) Minimum ratio: greater than 0.9	28.29
Quick currency ratio k4-6 (average assets with remaining maturities up to 3 months, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 3 months, including demand liabilities in foreign currency) Minimum ratio: greater than 0.8	**11.92**

As at 31 December 2009, these ratios were as follows:

	2009
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days) Minimum ratio: greater than 1	2.97
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month, including demand liabilities) Minimum ratio: greater than 0.9	1.76
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months, including demand liabilities) Minimum ratio: greater than 0.8	1.63
Quick currency ratio k4-4 (average amount of highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 7 days in foreign currency) Minimum ratio: greater than 1	2.62
Quick currency ratio k4-5 (average assets with remaining maturities up to 1 month, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 1 month, including demand liabilities in foreign currency) Minimum ratio: greater than 0.9	1.27
Quick currency ratio k4-6 (average assets with remaining maturities up to 3 months, including highly liquid assets in foreign currency) / (average liabilities with remaining maturities up to 3 months, including demand liabilities in foreign currency) Minimum ratio: greater than 0.8	1.23

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities As at 31 December 2010	*Less than 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*	*Total*
Amounts due to the Government	**232,039**	**696,118**	**8,781,119**	**6,859,487**	**16,568,763**
Amounts due to credit institutions	**2,271,666**	**613,260**	**421,347**	**–**	**3,306,273**
Amounts due to customers	**76,780,699**	**36,813,164**	**46,153,070**	**1,977,731**	**161,724,664**
Debt securities issued	**322,937**	**29,800,908**	**20,903,958**	**5,368,927**	**56,396,730**
Other liabilities	**174,958**	**268,542**	**–**	**–**	**443,500**
Total undiscounted financial liabilities	**79,782,299**	**68,191,992**	**76,259,494**	**14,206,145**	**238,439,930**

Financial liabilities As at 31 December 2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*	*Total*
Amounts due to the Government	12,534,978	15,591,736	1,394,687	2,332,042	31,853,443
Amounts due to credit institutions	7,486,547	3,694,745	12,069,524	3,107,518	26,358,334
Amounts due to customers	95,230,465	36,902,816	90,197,771	1,162,022	223,493,074
Debt securities issued	320,991	5,215,290	44,715,836	12,846,255	63,098,372
Other liabilities	1,397,798	20,679	890,523	–	2,309,000
Total undiscounted financial liabilities	116,970,779	61,425,266	149,268,341	19,447,837	347,112,223

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*	*Total*
2010	**3,206,345**	**1,994,210**	**15,224,169**	**8,414,339**	**28,839,063**
2009	7,252,135	3,643,116	16,754,507	22,047,632	49,697,390

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. The Group has a concentration of KZT 55,343,882 thousand with top ten customers as at 31 December 2010 (31 December 2009: KZT 92,863,623 thousand).

In the period within 3 to 12 months any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

Except for the loss of several large customers during the course of ownership change in the Group, historically customers' current accounts demonstrated stability such that their liquidation has taken place over a longer period than less than three months as indicated in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Kazakh legislation, the Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 18.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on sensitivities on market variables. Non-trading positions are managed and monitored using other sensitivity analysis.

(Thousands of Kazakh tenge)

26. Risk management (continued)

Market risk (continued)

Market risk – non trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate investment securities available-for-sale at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*
KZT	**+200**	**172,646**	**78,608**
USD	**+200**	**6,492**	**103**

Currency	*Decrease in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*
KZT	**-200**	**(172,646)**	**(78,608)**
USD	**-200**	**(6,492)**	**(103)**

Currency	*Increase in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
KZT	300	41,420	(1,342,029)
EUR	300	(28,140)	(558,517)
USD	300	965	(10,402)

Currency	*Decrease in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
KZT	225	(31,065)	1,006,522
EUR	225	21,105	418,888
USD	225	(724)	7,802

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the FMSA regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure as at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Tenge, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2010*	*Effect on profit before tax 2010*	*Change in currency rate in % 2009*	*Effect on profit before tax 2009*
USD to KZT	**11.56%**	**476,495**	19.50%	(2,655,015)
USD to KZT	**-11.56%**	**(476,495)**	-19.50%	2,655,015
EUR to KZT	**16.65%**	**(230,983)**	21.80%	314,335
EUR to KZT	**-16.65%**	**230,983**	-21.80%	(314,335)

(Thousands of Kazakh tenge)

26. Risk management (continued)

Market risk (continued)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income	*Effect on equity*
2010	**(2,741,641)**	**(2,193,313)**
2009	(4,031,906)	(3,225,525)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2010	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Trading securities	**1,926,470**	**1,816,322**	**–**	**3,742,792**
Investment securities available-for-sale	**22,994,438**	**483,205**	**–**	**23,477,643**
Total	**24,920,908**	**2,299,527**	**–**	**27,220,435**

At 31 December 2009	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Investment securities available-for-sale	12,072,259	1,668,079	–	13,740,338
Total	12,072,259	1,668,079	–	13,740,338

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Trading securities and investment securities available-for-sale

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Thousands of Kazakh tenge)

27. Fair values of financial instruments (continued)

Transfers between level 1 and 2

The following table shows transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value during the year ended 31 December 2010 and 2009:

	Transfers from level 1 to level 2
Financial assets	
Investment securities available-for-sale	**1,668,079**

During 2009 the above financial assets were transferred from level 1 to level 2 as available-for-sale securities of defaulted organisations ceased to be actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs. During 2010 there were no transfers from level 1 to level 2. The decrease in level 2 by KZT 1,184,874 thousand was due to de-recognition of shares issues by local banks and decrease in fair value of received securities.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2010	*Fair value 2010*	*Unrecog-nised gain/(loss) 2010*	*Carrying value 2009*	*Fair value 2009*	*Unrecog-nised gain/(loss) 2009*
Financial assets						
Cash and cash equivalents	**52,567,628**	**52,567,628**	**–**	18,266,670	18,266,670	–
Obligatory reserves	**3,403,547**	**3,403,547**	**–**	4,525,802	4,525,802	–
Amounts due from credit institutions	**1,522,622**	**1,522,622**	**–**	4,075,109	4,075,109	–
Investment securities held-to-maturity	**778,274**	**863,066**	**84,792**	1,137,924	1,084,602	(53,322)
Loans to customers	**190,444,143**	**192,143,887**	**1,699,744**	245,435,301	245,242,780	(192,521)
Other assets (excluding non-monetary items)	**1,891,973**	**1,891,973**	**–**	1,811,723	1,811,723	–
Financial liabilities						
Amounts due to the Government	**12,190,166**	**12,080,908**	**109,258**	13,874,225	13,874,225	–
Amounts due to credit institutions	**3,259,554**	**3,194,782**	**64,772**	10,443,537	7,440,148	3,003,389
Amounts due to customers	**150,584,760**	**154,006,907**	**(3,422,147)**	179,762,853	184,157,431	(4,394,578)
Debt securities issued	**46,994,360**	**47,500,313**	**(505,953)**	48,134,158	44,156,254	3,977,904
Other liabilities	**443,500**	**443,500**	**–**	1,741,813	1,741,813	–
Total unrecognised change in unrealised fair value			**(1,969,534)**			2,340,872

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than a year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of Kazakh tenge)

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2010			*2009*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	52,567,628	–	52,567,628	18,266,670	–	18,266,670
Obligatory reserves	3,403,547	–	3,403,547	4,525,802	–	4,525,802
Trading securities	3,742,792	–	3,742,792	–	–	–
Amounts due from credit institutions	1,249,000	273,622	1,522,622	875,742	3,199,367	4,075,109
Investment securities:						
- available-for-sale	3,318,808	20,158,835	23,477,643	5,191,403	8,548,935	13,740,338
- held to maturity	46,679	731,595	778,274	521,888	616,036	1,137,924
Loans to customers	65,815,019	124,629,124	190,444,143	66,349,433	179,085,868	245,435,301
Property and equipment	–	4,774,037	4,774,037	–	5,978,281	5,978,281
Deferred income tax assets	1,453,696	308,142	1,761,838	207,724	–	207,724
Current income tax assets	2,199,479	(1,710,616)	488,863	723,101	–	723,101
Other assets	1,329,305	1,812,706	3,142,011	2,477,163	511,742	2,988,905
Total	135,125,953	150,977,445	286,103,398	99,138,926	197,940,229	297,079,155
Amounts due to the Government	–	12,190,166	12,190,166	–	13,874,225	13,874,225
Amounts due to credit institutions	2,776,018	483,536	3,259,554	8,207,170	2,236,367	10,443,537
Amounts due to customers	110,640,981	39,943,779	150,584,760	129,349,843	50,413,010	179,762,853
Debt securities issued	28,258,397	18,735,963	46,994,360	373,349	47,760,809	48,134,158
Other liabilities	3,438,152	–	3,438,152	774,373	972,042	1,746,415
Total	145,113,548	71,353,444	216,466,992	138,704,735	115,256,453	253,961,188
Net	(9,987,595)	79,624,001	69,636,406	(39,565,809)	82,683,776	43,117,967

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2010 the Group had a negative liquidity gap of KZT 9,987,595 thousand within one year. Management has an action plan in place to meet these obligations including disposal of its investment securities available-for-sale, interbank borrowings at local money markets, use of released obligatory reserves and other measures including extending deposits of its larger and older customers and increase of the share capital.

Included in amounts due to customers are term deposits of individuals. In accordance with the Kazakh legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

29. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In May 2010 the Bank was acquired from Mrs. Nazarbaeva (older daughter of President of Republic of Kazakhstan) and became controlled by Mrs. Sarsenova S.T. The Bank disclosed significant related party transactions and balances of new shareholders and entities under common control.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Kazakh tenge)

29. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2010			*2009*	
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Key management personnel*
Loans to customers outstanding at 1 January, gross	–	–	**840,759**	–	502,815
Loans to customers issued during the year	–	–	**51,461**	–	1,062,336
Loans to customers repaid during the year	–	–	**(865,691)**	–	(724,392)
Loans to customers outstanding at 31 December, gross	–	–	**26,529**	–	840,759
Less – Allowance for loan impairment	–	–	**(1,326)**	–	(308)
Loans to customers outstanding at 31 December, net	–	–	**25,203**	–	840,451
Amounts due to customers at 1 January	**6,917,377**	–	**64,433**	4,730,982	576,140
Amounts due customers received during the year	**1,687,077,537**	**19,516,177**	**991,377**	14,542,890	281,164
Amounts due to customers repaid during the year	**(1,693,141,098)**	**(19,133,798)**	**(1,051,401)**	(12,356,496)	(792,871)
Amounts due to customers at 31 December	**853,816**	**382,379**	**4,409**	6,917,376	64,433
Commitments and guarantees	–	**24**	**(378,651)**	12,235	238,160

The interest rates and maturities of transactions with related parties as at 31 December are as follow:

	2010			*2009*	
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Key management personnel*
Loans to customers:					
Maturity	–	–	**2018-2027**	–	2010-2023
Interest rate in KZT	–	–	**10%-15%**	–	10%-15%
Amounts due to customers:					
Maturity	**2011-2014**	**2011-2014**	**2014-2015**	2010-2014	2011-2029
Interest rate in KZT	**8-12%**	**6%-14%**	**10%**	11%-13%	12%-13%
Interest rate in EUR	–	–	–	11%	10%
Interest rate in USD	**9%-10%**	–	**8%**	10%	8%-10%

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December									
	2010					*2009*				
	Share-holder	*Entities under common control*	*Asso-ciates*	*Key manage-ment person-nel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Asso-ciates*	*Key manage-ment person-nel*	*Other related parties*
Interest income on loans	–	–	–	**56,673**	–	–	–	–	73,102	–
Impairment charge for loans	–	–	–	–	–	–	–	–	–	–
Interest expense on amounts due to customers	**(1,831,217)**	**(35,060)**	–	**(6,832)**	–	(749,402)	–	–	(6,781)	–
Fee and commission income	**14,217**	**5,359**	–	**42**	–	1,251	–	–	752	–
Other operating expenses	**(8,497)**	–	–	**(3,607)**		(54,032)	–	–	(5,785)	

Compensation of key management personnel was comprised of the following:

	2010	*2009*
Salaries and other short-term benefits	**464,075**	449,191
Termination benefits	**20,260**	15,477
Social security costs	**2,557**	89,436
Total key management personnel compensation	**486,892**	554,104

(Thousands of Kazakh tenge)

29. Related party disclosures (continued)

Annual bonus plan options

The Bank granted on 20 January 2009 share purchase option to senior executive in the Board of the Bank. The executive received the right to purchase 12,000 common shares at the price of KZT 120 during 2009. Shares option agreement was exercised on 22 January 2009. The market price of shares at the exercise date was KZT 20 thousand.

The total equity-settled expense recognized for the period arising from equity compensation plans amounted to KZT 237,120 thousands. The fair value of the awards was estimated on the date of grant, based on intrinsic value method since time value of the option is not significant. As at 31 December 2010, there were no share based bonuses.

Subsidaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	*Holding% 2010*	*Holding % 2009*	*Country*	*Date of incorporation*	*Activities*	*Date of acquisition*
JSC "Kupa Nur-trust"	**100**	100	Kazakhstan	2001	Asset management	2001
LLP "Leasing company Nurinvest"	**100**	100	Kazakhstan	2001	Leasing	2001
JSC "Money Experts"	**100**	100	Kazakhstan	2002	Brokerage	2002
JSC "Insurance Company Nurpolicy"	**100**	100	Kazakhstan	1999	Insurance	2004
JSC APF "Atameken"	**87**	74	Kazakhstan	1997	Pension fund	2006
NurFinance B.V.	**100**	100	Netherlands	2006	SPE	2006

On 15 October 2010 the Board of Directors of the Bank ordered to develop liquidation plan of JSC "Kupa Nur-trust". The liquidation process is planned to be completed in 2011. According to the liquidation plan, JSC "Kupa Nur-trust" assets will be transferred to the Bank and liabilities will be assumed by the Bank and its subsidiary JSC APF "Atameken". All assets and liabilities of JSC "Kupa Nur-trust" as at 31 December 2010 and 2009 are stated at their estimated net realizable value.

Special purpose entities

On 31 July 2006, the Bank established a wholly owned special purpose entity ("SPE") Nurfinance B.V. The SPE was created for the purpose of issuing Eurobonds.

The Bank consolidates special purpose entities it controls. In assessing and determining if the Bank controls such special purpose entities, judgments is made about the Bank's exposure to the risks, rewards and its ability to make operational decisions.

On 19 August 2010 the issuer was changed from NurFinance B.V to JSC "Nurbank" with respect to 5 years bonds.

On 26 November 2010 Management of the Board of the Bank decided to discontinue operations of NurFinance B.V.

(Thousands of Kazakh tenge)

30. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the FMSA in supervising the Bank.

During 2010 and 2009, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

FMSA capital adequacy ratio

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.
FMSA requires Banks to maintain capital adequacy ratio k 1-1 at a rate of minimum 5% of total assets under FMSA rules, k 1-2 at a rate of 5% and k 2 at 10% of the assets, contingent liabilities, potential claims and liabilities and operational risks.
As at 31 December 2010 and 2009, the Bank's capital adequacy ratio exceeded the statutory minimum.

As at 31 December 2010 and 2009 the Bank's capital adequacy ratio, calculated in accordance with the requirements of the FMSA were as follows:

	2010	*2009*
Tier 1 capital	**42,888,173**	43,416,121
Tier 2 capital	**6,340,397**	8,398,840
Total regulatory capital	**49,228,570**	51,814,961
Total assets under the FMSA rules	**261,507,583**	294,904,691
Risk- weighted assets and contingent liabilities, potential claims and liabilities	**213,973,637**	300,788,501
Operational risk	**2,695,457**	5,971,365
Capital adequacy ratio k1-1	**16.4%**	14.7%
Capital adequacy ratio k1-2	**20.0%**	17.8%
Capital adequacy ratio k2	**23.0%**	17.2%