"ASSOCIATED BANK "KAZAKHSTAN ZIRAAT-INTERNATIONAL BANK" JOINT STOCK COMPANY

Financial Statements
for the year ended 31 December 2010
together with Independent auditor's Report

ERNST & YOUNG

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Independent auditors' report

To the Shareholders and Board of Directors of "Associated Bank "Kazakhstan Ziraat-International Bank" Joint Stock Company

We have audited the accompanying financial statements of "Associated Bank "Kazakhstan Ziraat-International Bank" Joint Stock Company (the "Bank"), which comprise the statement of financial position as at 31 December 2010, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of "Associated Bank "Kazakhstan Ziraat-International Bank" Joint Stock Company 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

Жемалетдинов Евгений Фиданльевич * Казахстан Республикасының Аудиторы * 0553

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

28 February 2011

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Notes to the financial statements

Statement of comprehensive income

For the year ended 31 December 2010
(Thousands of KZT)

	Notes	*2010*	*2009*
Interest income	5	**590,318**	608,366
Interest expense	5	**(9,101)**	(58,717)
Net interest income		**581,217**	549,649
Reverse/(charge)of allowance for loan impairment	11	**17,530**	(228,384)
Net interest income after allowance for loan impairment		**598,747**	321,265
Net fee and commission income	6	**321,653**	275,566
Net gains from foreign currencies		**122,022**	54,703
Other operating income		**7,859**	4,460
Non-interest income		**451,534**	334,729
Personnel expenses	7	**(371,504)**	(330,880)
Depreciation and amortisation	13	**(40,374)**	(38,517)
Other operating expenses	7	**(206,235)**	(207,639)
Non-interest expense		**(618,113)**	(577,036)
Profit before income tax expense		**432,168**	78,958
Income tax expense	8	**(70,827)**	44,767
Profit for the year		**361,341**	123,725
Other comprehensive income			
Revaluation of property and equipment, net of tax		–	32,944
Other comprehensive income for the year, net of tax		–	32,944
Total comprehensive income for the year		**361,341**	156,669

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

Firat Dursun — Chairman of the Management Board

Sarsenbaeva A. — Chief Accountant

28 February 2011

Statement of financial position

As at 31 December 2010
(Thousands of KZT)

	Notes	*2010*	*2009*
Assets			
Cash on hand		**822,456**	909,435
Amounts due from the National Bank of the Republic of Kazakhstan	9	**1,130,684**	1,528,119
Amounts due from credit institutions	10	**743,507**	1,227,656
Loans to customers	11	**3,264,630**	3,497,810
Investment securities:			
- held-to-maturity	12	**3,894,339**	2,486,057
- available-for-sale		**7,001**	7,001
Property and equipment	13	**758,053**	703,422
Intangible assets	14	**14,918**	14,035
Current income tax assets	8	**45,542**	69,186
Other assets	15	**567,800**	512,828
Total assets		**11,248,930**	10,955,549
Liabilities			
Amounts due to credit institutions		**1,311**	1,548
Amounts due to customers	16	**4,714,588**	5,234,249
Deferred tax liabilities	8	**99,311**	51,916
Other liabilities		**49,533**	9,955
Total liabilities		**4,864,743**	5,297,668
Equity			
Share capital	17	**5,010,000**	5,010,000
General statutory reserve		**588,466**	169,045
Property and equipment revaluation reserve		**247,297**	247,297
Retained earnings		**538,424**	231,539
Total equity		**6,384,187**	5,657,881
Total equity and liabilities		**11,248,930**	10,955,549
Commitments and contingencies	18		

Statement of cash flows

For the year ended 31 December 2010
(Thousands of KZT)

	Notes	2010	2009
Cash flows from operating activities			
Interest received		**525,989**	608,908
Interest paid		**(9,942)**	(58,829)
Fees and commissions received		**334,004**	287,970
Fees and commissions paid		**(15,017)**	(12,395)
Realised gains less losses from dealing with foreign currencies		**173,109**	(31,599)
Other income received		**7,859**	–
Personnel expenses paid		**(335,931)**	(330,880)
Other operating expenses paid		**(210,742)**	(123,485)
Cash flows from operating activities before changes in operating assets and liabilities		**469,329**	339,690
Net (increase)/decrease in operating assets			
Loans to customers		**45,936**	245,225
Other assets		**90,650**	(375,015)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		**(237)**	(270)
Amounts due to customers		**(535,419)**	1,961,035
Other liabilities		**4,217**	(7,379)
Net cash flows from operating activities before income tax		**74,476**	2,163,286
Income tax paid		**–**	(14,539)
Net cash from operating activities		**74,476**	2,148,747
Cash flows from investing activities			
Purchase of held-to-maturity investment securities		**(10,591,850)**	(8,851,561)
Proceeds from redemption of held-to-maturity investment securities		**9,248,757**	6,571,671
Purchase of property and equipment	13	**(22,212)**	(17,978)
Purchase of intangible assets		**(3,690)**	(718)
Proceeds from sale of property and equipment		**–**	6,770
Net cash used in investing activities		**(1,368,995)**	(2,291,816)
Cash flows from financing activities			
Proceeds from increase of general statutory reserve		**364,965**	2,578,748
Net cash from financing activities		**364,965**	2,578,748
Net increase/(decrease) in cash and cash equivalents		**(929,554)**	2,435,679
Effect of exchange rates changes on cash and cash equivalents		**(39,009)**	141,941
Cash and cash equivalents, beginning	24	**3,665,210**	1,087,590
Cash and cash equivalents, ending	24	**2,696,647**	3,665,210

Statement of changes in equity

For the year ended 31 December 2010
(Thousands of KZT)

	Share capital	*General statutory reserve*	*Revaluation reserve of fixed assets, net of tax*	*Retained earnings*	*Total equity*
31 December 2008	2,066,287	547,079	214,353	94,745	2,922,464
Total comprehensive income for the year	–	–	32,944	123,725	156,669
Issue of share capital	2,943,713	(364,965)	–	–	2,578,748
Transfer	–	(13,069)	–	13,069	–
31 December 2009	**5,010,000**	**169,045**	**247,297**	**231,539**	**5,657,881**
Total comprehensive income for the year	**–**	**–**	**–**	**361,341**	**361,341**
Increase in general statutory reserve (Note 17)	**–**	**364,965**	**–**	**–**	**364,965**
Transfer (Note 17)	**–**	**54,456**	**–**	**(54,456)**	**–**
31 December 2010	**5,010,000**	**588,466**	**247,297**	**538,424**	**6,384,187**

1. Background

Principal activities

Joint Stock Company Associated Bank "KZI Bank" ("the Bank") was established in the Republic of Kazakhstan in 1993 under the laws of the Republic of Kazakhstan.

The Bank is regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") and the Agency of the Republic of Kazakhstan on regulation and supervision of financial markets and financial organisations ("the FMSA") under the license #163 dated 29 December 2007.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

The registered office of the Bank is located at 132, Klochkova street, Almaty, Republic of Kazakhstan.

As at 31 December 2010 and 2009, the Bank has 2 branches: in Astana and Shymkent, Republic of Kazakhstan.

Shareholders

The Bank's major shareholder is T.C.Ziraat Bankasi A.S ("the Shareholder" or "the Parent Bank") located in Turkey, Ankara. The activities of the Bank are closely linked with the requirements of the Shareholder and determination of the pricing of the Bank's services to the Parent Bank is undertaken in conjunction with other Parent banks. Related party transactions are detailed in Note 23.

The following shareholders owned the issued shares of the Bank:

Shareholders	*31 December 2010, %*	*31 December 2009, %*
T.C. Ziraat Bankasi A.S.	**97.62**	97.33
Groupama Sigorta A.S.	**0.89**	1.04
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S	**0.74**	0.74
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	**0.53**	0.62
Licorne Gestion	**0.22**	0.27
Total	**100.00**	100.00

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are prepared under the historical cost convention except for the measurement at fair value of land and building included within property and equipment disclosed further in these financial statements.

The functional currency of the Bank is Kazakhstani Tenge. These financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Bank 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 decided to early adopt this standard which did not significantly affect the financial statements.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 did not affect the Bank'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 IFRS 3 and IAS 27 were issued in January 2008 and are effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduced 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. These amendments did not have any impact on the Bank's financial statements.

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 Bank's financial statements.

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

IFRIC Interpretation 17 was issued on 27 November 2008 and was 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 Bank's financial statements.

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 Bank, except the following amendments resulting in changes to accounting policies, as described below.

- 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 not review segment assets and liabilities, the Bank does not 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 Bank as the annual impairment test is performed before aggregation.

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, 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 Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank 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.

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 income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investment securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank 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 statement of comprehensive income when the investments are impaired, as well as through the amortisation process.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investment securities 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 net income/expense. Interest calculated using the effective interest method is recognised in the statement of comprehensive income.

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 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

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 Bank 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 Bank 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 recognised in the statement of comprehensive income 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, amounts due from NBRK – excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers 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 statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 credit institutions and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use the asset.

Operating rent - Bank 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.

3. Summary of accounting policies (continued)

Impairment of financial assets

The Bank 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 Bank 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 Bank 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 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 Bank. 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 statement of comprehensive income.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank'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 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 investment securities

For held-to-maturity investments the Bank 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 assets'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 statement of comprehensive income.

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 statement of

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank 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.
- 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 recognises 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 the 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.

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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank'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 expires.

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 statement of comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of guarantees and acceptances. Financial guarantees are initially recognised in the 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

3. Summary of accounting policies (continued)

Financial guarantees (continued)

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income 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 rates that have been enacted or substantively enacted at the reporting date.

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried under the historical cost convention, except for the measurement at fair value of land and building, which reflected in revalued price.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation of buildings 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 of buildings 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 statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive income, 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:

	Useful life
Land	Not depreciated
Buildings	40
Motor vehicles	5 - 7
Computers and computer equipment	2.5 - 5
Other	3 - 10

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 capitalisation.

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets comprise computer software.

Intangible assets acquired separately are measured on initial recognition at cost. 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 3 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognised when the Bank 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.

Share capital

Ordinary shares are 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.

Dividends

Dividends 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.

Contingencies

Contingent liabilities are not recognised in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue 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 Bank 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.

(In thousands of KZT)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank 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 and asset management, custody and other management and advisory fees. 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.

Foreign currency translation

The financial statements are presented in thousand of Kazakh Tenge ("KZT"), which is the Bank's functional and presentation 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 statement of comprehensive income 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 table below represents the exchange currency rates, which were used by the Bank in preparing financial statements.

	31 December 2010	*31 December 2009*
KZT/USD	**147.40**	148.46
KZT/EUR	**195.23**	213.95

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 Bank expects that this amendment will have no impact on the Bank'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 Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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 Bank'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 Bank, 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 Bank applies IFRS 3 Revised, it may required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on financial statements of the Bank.

- 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 financial statements of the Bank if the Bank issues interim 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 Bank.

Amendments to IFRS 7 "Financial instruments: disclosures"

In October 2010 the IASB issued amendments to IFRS 7 effective for financial years beginning on or after 1 July 2011. Amendments introduce additional requirements to disclosure of information on assets which were transferred but not derecognised. The Bank expects that these amendments will have no impact on financial position or performance of the Bank.

Amendments to IAS 12 "Income taxes" – Deferred taxes: reimbursement of asset providing the basis for deferred tax

In December 2010 the IASB issued amendments to IAS 12 effective for financial years beginning on or after 1 January 2012. According to amendments, deferred tax on investment property carried at fair value and on non-amortised assets in the scope of IAS 16 application to which the revaluation model is applied shall be determined based on assumption that the carrying amount shall be reimbursed through asset realisation. Currently the Bank evaluates the impact of these amendments.

(In thousands of KZT)

4. Significant accounting judgments and estimates

Judgments

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

Estimation uncertainty

The management of the Bank makes estimates and judgments that could affect amounts of assets and liabilities as at the reporting date and amounts of income and expenses for the period, recognised in the financial statement. The management on an ongoing basis performs valuation of its estimates and judgments, which are based on historic experience and different factors acceptable in various circumstances. Actual results could differ from those estimates in light of different assumptions and conditions. The following estimates and judgments are considered important for presentation of the Bank's financial position:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the 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 judgment is required in establishing fair values.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced 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 Bank estimates changes in future cash flows based on the 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 Bank 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 Company 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 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

5. Net interest income

	2010	*2009*
Loans to customers	**525,666**	570,770
Investment securities held-to-maturity	**58,432**	35,521
Income from other investments	**5,600**	1,166
Amounts due from credit institutions	**620**	909
Interest income	**590,318**	608,366
Amounts due to customers	**(9,101)**	(52,625)
Amounts due to credit institutions	**–**	(6,021)
Amounts receivable under repurchase agreements	**–**	(71)
Interest expense	**(9,101)**	(58,717)

(In thousands of KZT)

6. Net fee and commission income

Net fee and commission income comprises:

	2010	*2009*
Settlement operations	**179,777**	147,894
Cash withdrawals	**87,530**	84,273
Guarantee and letter of credit issuance	**43,787**	35,933
Remittance services	**8,375**	5,484
Safe operations	**4,420**	3,873
Other	**12,781**	10,504
Fee and commission income	**336,670**	287,961
Settlement operations	**(11,372)**	(9,628)
Other	**(3,645)**	(2,767)
Fee and commission expense	**(15,017)**	(12,395)
Net fee and commission income	**321,653**	275,566

7. Personnel costs and other operating expenses

	2010	*2009*
Salaries and bonuses	**(335,072)**	(289,250)
Social security costs	**(36,432)**	(41,630)
Personnel expenses	**(371,504)**	(330,880)
Security and alarm system	**(37,618)**	(32,509)
Loss related to legal proceeding	**(28,800)**	–
Communications and information services	**(23,237)**	(25,929)
Professional services	**(18,915)**	(18,202)
Taxes other than income tax	**(17,286)**	(37,457)
Software support	**(13,357)**	(3,487)
Building maintenance	**(10,356)**	(9,708)
Deposit guarantee fund membership fee	**(8,172)**	(8,670)
Rent	**(7,241)**	(7,047)
Customers costs	**(5,033)**	(5,734)
Impairment charge for other assets	**4,507**	(4,454)
Stationery and other office supplies	**(4,139)**	(3,770)
Money collection	**(3,612)**	(4,893)
Transportation	**(3,442)**	(4,264)
Repair and maintenance	**(3,480)**	(18,127)
Business trips	**(3,281)**	(4,347)
Sponsor expenses	**(2,990)**	(1,999)
Representation expenses	**(2,383)**	(6,473)
Marketing and advertising	**(1,252)**	(3,902)
Other	**(16,148)**	(6,667)
Other operating expenses	**(206,235)**	(207,639)

8. Taxation

The corporate income tax expense comprises

	2010	*2009*
Current tax charge		
Reporting period	**23,432**	11,718
Underaccrued in the previous years	**–**	10,452
	23,432	22,170
Deferred tax charge – origination and decrease of temporary differences	**47,395**	(66,937)
Income tax expense (benefit)	**70,827**	(44,767)

As at 31 December 2010 current income tax assets amounted to KZT 45,542 thousand (31 December 2009: KZT 69,186 thousand).

Kazakh legal entities must file individual tax declarations themselves. The tax rate for banks was 20% in 2010 and 2009.

(In thousands of KZT)

8. Taxation (continued)

Below is the reconciliation of income tax expenses based on the statutory rate with actual expenses:

	2010	*2009*
Profit before taxation	**432,168**	78,958
Income tax expenses at the official` tax rate at 20%	**86,433**	15,791
Non-taxable income on investment securities held-to-maturity	**(11,686)**	(7,451)
Reversal of deferred CIT accrued in previous years	–	(53,107)
Other permanent differences	**(3,920)**	–
	70,827	(44,767)

Temporary differences between the carrying amount of assets and liabilities recorded the financial statements and amounts used for calculation of taxable base give rise to the net deferred tax liabilities as at 31 December 2010 and 2009.

	2009	*Through profit and loss in the statement of comprehensive income*	*2010*
Tax effect of deductible temporary differences			
Other liabilities	**860**	**6,937**	**7,797**
Deferred income tax assets	**860**	**6,937**	**7,797**

Tax effect of taxable temporary differences	*2009*	*Through profit and loss in the statement of comprehensive income*	*2010*
Property and equipment, intangible assets	**(38,538)**	**3,932**	**(34,606)**
Loans to customers	**(14,238)**	**(58,264)**	**(72,502)**
Deferred tax liabilities	**(52,776)**	**(54,332)**	**(107,108)**
Deferred tax liabilities	**(51,916)**	**(47,395)**	**(99,311)**

	2008	*Through profit and loss in the statement of comprehensive income*	*In the statement of changes in equity*	*2009*
Tax effect of taxable temporary differences:				
Other liabilities	5,327	(4,467)	–	860
Deferred tax assets	5,327	(4,467)	–	860
Property and equipment, intangible assets	(115,944)	(85,642)	8,236	(38,538)
Loans to customers	–	(14,238)	–	(14,238)
Deferred tax liabilities	(115,944)	71,404	8,236	(52,776)
Deferred tax liabilities	(110,617)	66,937	8,236	(51,916)

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.

Management believes that the Bank 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.

(In thousands of KZT)

9. Amounts due from the National Bank of the Republic of Kazakhstan

	2010	*2009*
Current account with NBRK	**1,130,684**	1,528,119

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 physical cash and maintained based on average balances of the aggregate of deposits with the NBRK and physical cash in national or freely convertible currency for the period of reserves formation.

The NBRK obligatory reserve requirements are computed at 2% to 1.5% for internal liabilities, and from 3% to 2.5% for other liabilities, including external debt.

As at 31 December 2010 the amount of minimum reserve requirements was KZT 86,463 thousand (31 December 2009: KZT 92,765 thousand). As at 31 December 2010 and 2009 the Bank is in compliance with minimum reserve requirements for the second tier bank.

10. Amounts due from credit institution

	2010	*2009*
Deposits in other foreign credit institutions	**689,963**	1,194,302
Deposits in Parent Bank	**30,106**	12,976
Deposits in local credit institutions	**23,438**	20,378
	743,507	1,227,656

11. Loans to customers

	2010	*2009*
Loans to large corporates	**681,328**	150,152
Loans to small and medium size companies	**1,529,177**	2,091,925
Consumer loans	**1,072,474**	1,536,589
Mortgage loans	**582,328**	461,630
Gross loans to customers	**3,865,307**	4,240,296
Impairment allowance	**(600,677)**	(742,486)
Net loans to customers	**3,264,630**	3,497,810

Movements in the loan impairment allowance for the year ended 31 December 2010 and 2009 are as follows:

	Loans to large corporates	*Loans to small and medium size companies*	*Consumer loans*	*Mortgage loans*	*Total*
At 1 January 2010	91,805	252,945	381,979	15,757	742,486
(Reversal)/ charge for the year	(48,964)	86,800	(105,110)	49,744	(17,530)
Amounts written off	–	(104,842)	(21,578)	(4,932)	(131,352)
Recovery	505	3,108	7,264	792	11,669
Foreign exchange difference	–	(340)	(4,256)	–	(4,596)
31 December 2010	**43,346**	**237,671**	**258,299**	**61,361**	**600,677**
Individually impaired	**–**	**128,965**	**127,393**	**–**	**256,358**
Collectively impaired	**43,346**	**108,706**	**130,906**	**61,361**	**344,319**
	43,346	**237,671**	**258,299**	**61,361**	**600,677**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**313,915**	**256,419**	**–**	**570,334**

(In thousands of KZT)

11. Loans to customers (continued)

	Loans to large corporates	*Loans to small and medium size companies*	*Consumer loans*	*Mortgage loans*	*Total*
At 1 January 2009	–	240,875	252,567	30,152	523,594
(Reversal) / charge for the year	91,805	10,425	149,056	(22,902)	228,384
Amounts written off	–	(2,623)	(52,886)	–	(55,509)
Foreign exchange difference	–	4,268	33,242	8,507	46,017
At 31 December 2009	91,805	252,945	381,979	15,757	742,486
Individually impaired	–	180,346	–	–	180,346
Collectively impaired	91,805	72,599	381,979	15,757	562,140
	91,805	252,945	381,979	15,757	742,486
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	658,357	–	–	658,357

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2010, comprised KZT 4,073 thousand (2009 – KZT 18,762 thousand).

Collateral and other credit enhancements

The amount and type of collateral required by the Bank 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, deposits, guarantees, vehicles and equipment

For retail lending, mortgages over residential properties.

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

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to KZT 313,975 thousand (2009 : KZT 478,011 thousand). In accordance with the NBRK requirements, loans may only be written off with the decision of the Management Board and, in certain cases, with the respective decision of the Court.

Concentration of loans to customers

As at 31 December 2010, the Bank had a concentration of loans represented by KZT 1,091,837 thousand due from the ten largest borrowers or (34 % of gross loan portfolio (2009: KZT 1,269,086 thousand or 30 % of gross loan portfolio). An allowance of KZT 79,798 thousand (2009: KZT 58,534 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2010	***2009***
Private companies	**2,210,505**	2,242,077
Individuals	**1,654,802**	1,998,219
	3,865,307	4,240,296

(In thousands of KZT)

11. Loans to customers (continued)

Analysis of loans by industries and geographic regions

Loans are made principally within Kazakhstan in the following industry sectors:

	2010	*%*	*2009*	*%*
Consumer loans	**1,072,474**	**27.7**	1,536,589	36.2
Mortgages	**582,328**	**15.1**	461,630	10.9
Trade	**1,032,201**	**26.7**	968,207	22.8
Construction	**353,441**	**9.1**	555,473	13.1
Food industry	**193,253**	**5.0**	184,207	4.3
Transport and communication	**124,870**	**3.2**	36,637	0.9
Manufacturing	**121,615**	**3.1**	144,675	3.4
Education	**44,200**	**1.1**	5,542	0.1
Furniture	**39,895**	**1.0**	31,153	0.7
Textile industry	**26,366**	**0.7**	23,426	0.6
Printing industry	**25,892**	**0.7**	27,967	0.7
Culture and art	**11,745**	**0.3**	14,977	0.4
Mining/metallurgy	**–**	**0.0**	44,365	1.0
Other	**237,027**	**6.3**	205,448	4.9
	3,865,307	**100.00**	4,240,296	100.0
Impairment allowance	**(600,677)**		(742,486)	
	3,264,630		3,497,810	

12. Investment securities held-to-maturity

Investments securities held-to-maturity comprise the following:

	2010	*2009*
Notes of the National Bank of the Republic of Kazakhstan	**2,798,042**	2,486,057
Bonds of the Ministry of finance of the Republic of Kazakhstan	**1,096,297**	–
	3,894,339	2,486,057

13. Property, equipment and intangible assets

	Land	*Buildings*	*Computers and office equipment*	*Motor vehicles*	*Other*	*Construction in progress*	*Total*
Cost/revalued amount							
At 1 January 2010	**274,400**	**379,930**	**16,828**	**19,388**	**61,737**	**–**	**752,283**
Transfer from other assets	**–**	**–**	**–**	**–**	**–**	**72,671**	**72,671**
Additions	**–**	**–**	**9,909**	**–**	**12,303**	**–**	**22,212**
Disposals	**–**	**–**	**(11,169)**	**–**	**(6,097)**	**–**	**(17,266)**
At 31 December 2010	**274,400**	**379,930**	**15,568**	**19,388**	**67,943**	**72,671**	**829,900**
Depreciation							
At 1 January 2010	**–**	**–**	**8,968**	**9,016**	**30,877**	**–**	**48,861**
Depreciation charge	**–**	**16,446**	**6,843**	**4,625**	**9,653**	**–**	**37,567**
Disposals	**–**	**–**	**(8,485)**	**–**	**(6,096)**	**–**	**(14,581)**
At 31 December 2010	**–**	**16,446**	**7,326**	**13,641**	**34,434**	**–**	**71,847**
Carrying amount						**–**	
At 31 December 2009	**274,400**	**379,930**	**7,860**	**10,372**	**30,860**	**–**	**703,422**
At 31 December 2010	**274,400**	**363,484**	**8,242**	**5,747**	**33,509**	**72,671**	**758,053**

(In thousands of KZT)

13. Property, equipment and intangible assets (continued)

	Land	*Buildings*	*Computers and office equipment*	*Motor vehicles*	*Other*	*Total*
Cost/revalued amount						
At 1 January 2009	259,600	425,813	20,201	29,004	62,063	796,681
Additions	–	–	6,389	6,168	5,421	17,978
Revaluation	14,800	26,380	–	–	–	41,180
Elimination of accumulated depreciation due to revaluation	–	(56,006)	–	–	–	(56,006)
Transfer to other assets	–	(16,200)	–	(9,470)	–	(25,670)
Disposals	–	(57)	(9,762)	(6,314)	(5,747)	(21,880)
At 31 December 2009	274,400	379,930	16,828	19,388	61,737	752,283
Depreciation						
At 1 January 2009	–	40,193	12,443	5,913	28,021	86,570
Depreciation charge	–	15,870	6,229	4,610	8,603	35,312
Disposals	–	(57)	(9,704)	(1,507)	(5,747)	(17,015)
Elimination of accumulated depreciation	–	(56,006)	–	–	–	(56,006)
At 31 December 2009	–	–	8,968	9,016	30,877	48,861
Carrying amount		–				
At 31 December 2008	259,600	385,620	7,758	23,091	34,042	710,111
At 31 December 2009	274,400	379,930	7,860	10,372	30,860	703,422

If the land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2010	
	Land	***Buildings***
Cost at 1 January	**50.080**	**406.346**
Accumulated depreciation at 31 December	**–**	**(88.324)**
Carrying amount at 31 December	**50.080**	**318.022**

	2009	
	Land	***Buildings***
Cost at 1 January	50.080	406.346
Accumulated depreciation at 31 December	–	(73.663)
Carrying amount at 31 December	50.080	332.683

Revalued assets

As at 31 December 2009, land and buildings were revaluated based on the results of an independent appraisal performed by the "Atikva Audit Company" LLC. The basis used for the appraisals was market approach. The market approach was based upon an analysis of the results of comparable sales of similar buildings and land. The Bank believes that the value of land and buildings did not materially change in the Republic of Kazakhstan in 2010.

Depreciation and amortisation in the statement of comprehensive income includes amortisation of intangible assets for the amount of KZT 2,807 thousand in 2010 (2009 – KZT 3,205 thousand).

(In thousands of KZT)

14. Intangible assets

Intangible assets comprise computer software. The table below represents the movement of intangible assets:

	2010	*2009*
At 1 January	**32,472**	54,231
Additions	**3,689**	718
Disposals	**–**	(22,477)
At 31 December	**36,161**	32,472
Amortisation		
At 1 January	**18,437**	37,709
Amortisation charge	**2,807**	3,205
Disposals	**–**	(22,477)
At 31 December	**21,244**	18,437
Carrying amount		
At 1 January	**14,035**	16,522
At 31 December	**14,917**	14,035

15. Other assets

	2010	*2009*
Assets for sale	**548,146**	402,617
Prepayments	**3,723**	43,476
Settlements with employees	**2,211**	2,071
Debtors on capital expenditure	**–**	59,385
Other	**13,720**	9,786
	567,800	517,335
Impairment allowance	**–**	(4,507)
	567,800	512,828

Analysis of movements in the impairment allowance

	2010	*2009*
1 January	**4,507**	53
Net charge/(recovery) for the year	**(4,507)**	4,454
31 December	**–**	4,507

During the year, the Bank took possession of assets with an estimated value of KZT 220,835 thousand (2009: KZT 277,072 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. In general, the Bank does not occupy repossessed properties for business use.

16. Amounts due to customers

	2010	*2009*
Current accounts and demand deposits		
– Retail	**1,258,651**	1,411,323
– Corporate	**3,203,547**	2,266,363
Term deposits		
- Retail	**114,733**	265,772
- Corporate	**137,657**	1,290,791
	4,714,588	5,234,249

As at 31 December 2010, the Bank maintained customer deposit balances of KZT 55,486 thousand (2009: KZT 259,064 thousand) that serves as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(In thousands of KZT)

16. Amounts due to customers (continued)

Concentrations of current accounts and customer deposits

As at 31 December 2010 amounts due to customers of KZT 1,520,091 thousand (33%) represent amounts due to ten largest customers (2009: KZT 2,142,622 thousand (41%).

Amounts due to customers include accounts with the following types of customers:

	2010	*2009*
Private enterprises	**2,899,321**	3,249,175
Individuals	**1,373,384**	1,677,095
State and budgetary organisations	**409,455**	294,632
Other	**32,428**	13,347
	4,714,588	5,234,249

An analysis of customer accounts by economic sector follows:

	2010	*2009*
Individuals	**1,373,384**	1,677,094
Construction	**1,227,744**	883,368
Trade	**887,883**	1,556,067
Extraterritorial organisations	**344,704**	281,150
Transport and communication	**328,384**	383,696
Manufacturing	**189,162**	164,733
Services	**181,841**	179,423
Sport and tourism	**48,819**	3,179
Education	**48,148**	30,697
Public associations	**42,977**	42,839
Public health	**14,444**	2,244
Production sector	**14,357**	18,970
Other	**12,741**	10,789
	4,714,588	5,234,249

17. Equity

Share capital

As at 31 December 2010 and 2009 the authorised, issued and outstanding share capital comprises 5,010,000 ordinary shares. All shares have a nominal value of KZT 1 thousand.

In accordance with a decision of the shareholders dated 08 December 2010, the Bank decided to issue additional 4,990,000 ordinary shares, in order to comply with FMSA regulations "On minimum amount of charter capital and equity of the second tier banks" No. 140 dated 2 September 2008. Currently the Bank is in the process of state registration of the new issue of shares.

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

Reserve for general banking risks

The reserve for general banking risks is created, as required by the statutory regulations of the Republic of Kazakhstan, for general risks, including future losses and other unforeseen risks or contingencies.

The reserve was formed in accordance with Kazakhstan legislation, which determined that general reserve should exceed 2% of assets and contingent liabilities to be classified in accordance with FMSA requirements.

Total reserve to cover risks of the Bank as at 31 December 2010 amounted to KZT 588,466 thousand and was formed against transfer of KZT 54,456 thousand from retained earnings in accordance with the decision of the general meeting dated 29 April 2010, as well as compensation of KZT 364,965 thousand in accordance with the decision of general meeting of shareholders dated 06 September 2010 that were used in 2009 for payment of 364,965 ordinary shares of the Bank.

Revaluation reserve for property and equipment

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

(In thousands of KZT)

18. Commitments and contingencies

Political and Economic Environment

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

The Kazakhstani 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 Kazakhstan. While the Kazakhstani Government has introduced a range of stabilisation measures aimed at providing liquidity and supporting debt refinancing for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Also, deterioration of liquidity could affect the Bank's borrowers that in return could make an impact on its ability to settle the debt to the Bank. Based on currently available information, the Bank reconsidered estimation of future cash flows in the course of assets impairment analysis.

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

Credit related commitments

In the course of its ordinary activities in order to meet customers' requirements the Bank uses financial instruments with off-balance risks. These instruments with various credit risks are not reflected in the statement of financial position.

Maximum exposure of the to the credit loss on contingent liabilities on loans issuance, when a counterparty fails to fulfill its liabilities, with all counter claims and collateral turn out to be of no value, is represented by contractual amounts of these instruments.

The Bank uses the same credit control and management policy when accepting off-balance sheet liabilities, as for the balance sheet liabilities.

The Bank commitments and contingencies comprise the following:

	31 December 2010	*31 December 2009*
Undrawn-loan commitments	**1,001,518**	–
Guarantees	**1,257,594**	1,343,215
Letters of credit	**75,700**	35,656
	2,334,812	1,378,871
Minus: Cash held as security	**(55,486)**	(259,064)
Commitments and contingencies	**2,279,326**	1,119,807

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.

Legal actions and claims

The Bank is subject to various legal proceedings related to business operations. The Bank 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 Bank's financial position or results of operations.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made as at 31 December 2010 and 2009 for any of the contingent liabilities mentioned above, since it was not necessary.

18. Commitments and contingencies (continued)

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.

The Bank believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise 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 Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Pension payments

In accordance with Kazakhstan legislation all employees of the Bank have the right for the state pension coverage. As at 31 December 2010 and 2009 the Bank did not have liabilities to current and former employees on additional pension benefits, payment of medical services upon retirement, insurance payments or any other pension benefits.

19. Risk management

Introduction

Risk is inherent in the Bank'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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank 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 Bank'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 Bank.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling

The Risk Management unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. The unit is responsible for the independent control of risks, including monitoring the risk of exposures against 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.

19. Risk Management (continued)

Introduction (continued)

Bank Treasury

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

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank'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 Bank'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 models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank 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 Board of Directors, Management Board, Asset and Liability Management Committee, Credit Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios, interest risk ratios and risk profile changes.

For all levels throughout the Bank, 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.

The Bank's Management Board and other relevant employees of the Bank meetings are regularly held to discuss maintenance of established limits, investments, liquidity, and risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more details).

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 Bank's performance to developments affecting a particular industry or geographical location.

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

(In thousands of KZT)

19. Risk Management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank 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 Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions (Principle of monitoring). Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating (Principle of limitation). Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

Assets	*2010*	*2009*
Amounts due from NBRK	**1,130,684**	1,528,119
Amounts due from credit institutions	**743,507**	1,227,656
Loans to customers	**3,264,630**	3,497,810
Investment securities held-to-maturity	**3,894,339**	2,486,057
Financial commitments and contingencies		
Guarantees	**1,257,594**	1,343,215
Letters of credit	**75,700**	35,656
Total credit risk exposure	**10,366,454**	10,118,513

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.

Credit quality per class of financial assets

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

		31 December 2010		
	Note	*Neither past due nor impaired*	*Past due but not impaired*	*Total*
Amounts due from credit institutions	10	**743,507**	–	**743,507**
Loans to customers:	11			
Loans to large corporates		**681,328**	–	**681,328**
Loans to small and medium size companies		**987,646**	**541,531**	**1,529,177**
Consumer loans		**584,582**	**487,892**	**1,072,474**
Mortgage loans		**514,779**	**67,549**	**582,328**
Investment securities held-to-maturity	12	**3,894,339**	–	**3,894,339**
Total		**7,406,181**	**1,096,972**	**8,503,153**

		31 December 2009		
	Note	*Neither past due nor impaired*	*Past due but not impaired*	*Total*
Amounts due from credit institutions	10	1,227,656	–	1,227,656
Loans to customers:	11			
Loans to large corporates		150,152	–	150,152
Loans to small and medium size companies		1,433,568	658,357	2,091,925
Consumer loans		893,605	642,984	1,536,589
Mortgage loans		320,747	140,883	461,630
Investment securities held-to-maturity	12	2,486,057	–	2,486,057
Total		6,511,785	1,442,224	7,954,009

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. The majority of the past due loans are not considered to be impaired.

(In thousands of KZT)

19. Risk Management (continued)

Credit risk (continued)

It is the Bank'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 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 Bank's rating policy. The equivalent risk ratings are assessed and updated regularly.

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

	Less than 30 days	
	2010	*2009*
Loans to small and medium size companies	**56,663**	129,104
Consumer loans	**21,174**	2,477
Mortgage loans	**4,748**	17,641
Total	**82,585**	149,222

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 small and medium size companies		
Consumer loans	**408,700**	221,515
Mortgage loans	**140,978**	195,581
Total	**549,678**	417,096

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 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 Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank 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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer 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. Risk management unit 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 Bank's overall policy.

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

(In thousands of KZT)

19. Risk Management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

Below is geographic concentration of Bank's monetary assets and liabilities:

	2010				2009			
	Kazakhstan	*OECD*	*Non-OECD countries*	*Total*	*Kazakhstan*	*OECD*	*Non OECD countries*	*Total*
Assets:								
Cash on hand	**822,456**	**–**	**–**	**822,456**	909,435	–	–	909,435
Amounts due to National Bank of the Republic of Kazakhstan	**1,130,684**	**–**	**–**	**1,130,684**	1,528,119	–	–	1,528,119
Amounts due from credit institutions	**25,447**	**705,393**	**12,667**	**743,507**	54,535	1,167,794	5,327	1,227,656
Loans to customers	**3,264,630**	**–**	**–**	**3,264,630**	3,497,810	–	–	3,497,810
Investment securities:								
- available-for-sale	**7,001**	**–**	**–**	**7,001**	7,001	–	–	7,001
- held-to-maturity	**3,894,339**	**–**	**–**	**3,894,339**	2,486,057	–	–	2,486,057
	9,144,557	**705,393**	**12,667**	**9,862,617**	8,482,957	1,167,794	5,327	9,656,078
Liabilities:								
Amounts due to credit institutions	**1,311**	**–**	**–**	**1,311**	1,548	–	–	1,548
Amounts due to customers	**4,714,588**	**–**	**–**	**4,714,588**	5,234,249	–	–	5,234,249
	4,715,899	**–**	**–**	**4,715,899**	5,235,797	–	–	5,235,797
Net assets	**4,428,658**	**705,393**	**12,667**	**5,146,718**	3,247,160	1,167,794	5,327	4,420,281

Liquidity risk

Liquidity risk is the risk that the Bank 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.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains an obligatory reserve with the NBRK, the amount of which could, apart from maintaining the liquidity level, serve as the source of maintaining the minimum reserve requirements. The Bank constantly monitors and complies with certain liquidity ratios established by FMSA.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2010					
Financial liabilities	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	**1,311**	**–**	**–**	**–**	**–**	**1,311**
Amounts due to customers	**4,462,878**	**177,586**	**55,813**	**14,638**	**4,964**	**4,715,879**
Total undiscounted financial liabilities	**4,464,189**	**177,586**	**55,813**	**14,638**	**4,964**	**4,717,190**

	2009					
Financial liabilities	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	1,548	–	–	–	–	1,548
Amounts due to customers	4,046,986	1,125,445	64,316	–	–	5,236,747
Total undiscounted financial liabilities	4.048.534	1.125.445	64.316	–	–	5.238.295

(In thousands of KZT)

19. Risk Management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2010	**65,808**	**663,483**	**1,603,598**	**1,923**	**2,334,812**
2009	35,656	286,235	290,296	766.684	1,378,871

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolios is managed and monitored based on sensitivity analysis. Apart from currency positions, the Bank does not have significant concentrations of market risks.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Financial position and cash flows of the Bank are exposed to foreign exchange fluctuations.

ALCO manages currency risk by determining open foreign exchange position by reference to contemplated impairment of Tenge and other macroeconomic indicators, which allows the Bank to minimise losses from significant national and foreign exchange fluctuations. The Treasury performs daily control over open foreign exchange position in order to meet FMSA requirements.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 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 the Kazakhstani Tenge, with all other variables held constant on the statement of comprehensive income (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 statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	2010		*2009*	
Currency	*Increase/ (decrease in basis points, %*	*Sensitivity of net interest income*	*Increase/ (decrease) in basis points,%*	*Sensitivity of net interest income*
USD	**+/-10**	**-/+17,460**	+/-10	+/-26,698
Other currency	**+/-10**	**+/-8,053**	+/-10	+/-47,935

Prepayment risk

Prepayment risk is the risk that the Bank 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.

Below is given the effect on profit before tax for one year of with assumption of 10% 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
31 December 2010	**(15,896)**
31 December 2009	(15,554)

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 Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(In thousands of KZT)

20. Fair value of financial instruments

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

Financial assets	*Carrying value 2010*	*Fair value 2010*	*Unrecognised gain/(loss) 2010*	*Carrying value 2009*	*Fair value 2009*	*Unrecognised gain/(loss) 2009*
Cash on hand	**822,456**	**822,456**	**–**	909,435	909,435	–
Amounts due from the NBRK	**1,130,684**	**1,130,684**	**–**	1,528,119	1,528,119	–
Amounts due from credit institutions	**743,507**	**743,507**	**–**	1,227,656	1,227,656	–
Loans to customers	**3,284,592**	**3,264,630**	**19,962**	3,275,494	3,497,810	(222,316)
Held-to-maturity investment securities	**3,820,727**	**3,894,339**	**(73,612)**	2,460,844	2,486,057	(25,213)
Financial liabilities						
Amounts due to credit institutions	**1,311**	**1 311**	**–**	1,548	1,548	–
Amounts due to customers	**4,711,845**	**4,714,588**	**(2,743)**	5,207,067	5,234,249	(27,182)
Total unrecognied change in fair value			**(56,693)**			(274,711)

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 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 three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

Fixed and variable rate financial instruments

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.

21. Maturity analysis of financial 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 19 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010			*2009*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash on hand	**822,456**	**–**	**822,456**	909,435	–	909,435
Amounts due from the NBRK	**1,130,684**	**–**	**1,130,684**	1,528,119	–	1,528,119
Amounts due from credit institutions	**743,333**	**174**	**743,507**	1,227,656	–	1,227,656
Loans to customers	**540,524**	**2,724,106**	**3,264,630**	523,926	2,973,884	3,497,810
Investment securities:						
– available-for-sale	**7,001**	**–**	**7,001**	7,001	–	7,001
– held to maturity	**3,894,339**	**–**	**3,894,339**	2,486,057	–	2,486,057
Other assets	**19,654**	**548,146**	**567,800**	50,826	462,002	512,828
Total	**7,157,991**	**3,272,426**	**10,430,417**	6,733,020	3,435,886	10,168,906
Amounts due to credit institutions	**1,311**	**–**	**1,311**	1,548	–	1,548
Amounts due to customers	**4,696,903**	**17,685**	**4,714,588**	5,234,249	–	5,234,249
Other liabilities	**48,255**	**1,278**	**49,533**	9,955	–	9,955
Total	**4,746,469**	**18,963**	**4,765,432**	5,245,752	–	5,245,752
Net	**2,411,522**	**3,253,463**	**5,664,985**	1,487,268	3,435,886	4,923,154

(In thousands of KZT)

22. 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 maximise shareholders' value.

FMSA capital adequacy ratio

FMSA requires banks to maintain a tier 1 capital adequacy ratio of not less than 6% of total assets and total capital adequacy ratio of not less than 12% of risk-weighted assets. In 2010 and 2009, risk-weighted assets calculated in accordance with the FMSA methodology were derived from the Bank's financial statements prepared in accordance with FMSA methodology. As at 31 December 2010, the Bank's capital adequacy ratios on this basis were as follows:

	2010	*2009*
Tier 1 capital	**5,650,535**	5,226,987
Tier 2 capital	**398,495**	267,855
Total regulatory capital	**6,049,030**	5,494,842
Total assets under the FMSA methodology	**6,185,704**	5,919,132
Risk- weighted assets	**4,647,938**	5,312,729
Tier 1 capital adequacy ratio	**52%**	48%
Total capital adequacy ratio	**98%**	93%

Evaluation of risk weighted assets is carried out using the system of risk weighing coefficients, classified in accordance with risk nature and reflecting credit risk, market risk and other risks related to each asset and counterparty, taking into account any acceptable collateral or guarantees. Similar evaluation methods are applied for off-balance values with certain adjustments to reflect a more conditional nature of potential losses.

23. Related party transactions

Transactions with key management

Total remuneration included in employee compensation (refer Note 7):

	2010	*2009*
Members of the Board of Directors and Management Board	**47,794**	47,268

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

	2010	*Average interest rate*	*2009*	*Average interest rate*
Loans to customers	**79,378**	**9.6%**	85,802	9.0%
Current accounts and deposits from customers	**678**	**–**	183	–

Transactions with key management

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

	2010	*2009*
Profit or loss		
Interest income from loans to customers	**7,231**	10,680

(In thousands of KZT)

23. Related party transactions (continued)

Transactions with related parties

The outstanding balances with related parties are as follows:

	Parent Bank		*Entities under common control*		*Total*	
	2010	*2009*	*2010*	*2009*	*2010*	*2009*
Amounts due from credit institutions	**30,106**	12,976	**–**	–	**30,106**	12,976
Amounts due to customers	**–**	–	**337,617**	290,678	**337,617**	290,768

The parent company of the bank is T.C. Ziraat Bankasi A.S, the ultimate controlling party is the Government of the Republic of Turkey.

The Government of the Republic of Turkey through government agencies and other organisations directly and indirectly controls and exercises a significant influence on large number of entities (jointly referred to as "government related entities"). The Bank performs banking operations with such entities, including cash operations and exchange operations.

The management of the Bank within this financial statements provided information that could be derived from existing Bank's management accounting system concerning transactions with government controlled entities, which are defined as the government controlled entities based on the information available to the Bank. Financial statements disclose information regarding transactions with state institutions and organisations, where the state share equals to or exceeds 50%. With respect to government controlled entities the management of the Bank analysed transactions with the largest customers and defined balances on transactions with indicated group of companies.

Within the Bank's property and equipment included flats located in Almaty that are provided for free rent to management personnel of the Bank, with carrying value of KZT 65,150 thousand as at 31 December 2010 (31 December 2009: KZT 65,628 thousand).

24. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

	2010	*2009*
Cash on hand	**822,456**	909,435
Due from NBRK (Note 9)	**1,130,684**	1,528,119
Amounts due from credit institutions (Note 10)	**743,507**	1,227,656
	2,696,647	3,665,210