JOINT STOCK COMPANY
BANK CENTERCREDIT

Consolidated Financial Statements
for the year ended 31 December 2010

JOINT STOCK COMPANY BANK CENTERCREDIT

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JOINT STOCK COMPANY BANK CENTERCREDIT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries (the "Group").

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

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2010 were authorized for issue on 17 February 2011 by the Management Board of the Group.

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

17 February 2011
Almaty

Kainarbekova G.K.
Chief Accountant

17 February 2011
Almaty

Deloitte

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INDEPENDENT AUDITORS' REPORT

To: Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit:

We have audited the accompanying consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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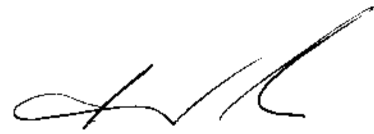
Opinion

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



Andrew Weekes
Engagement Partner
Chartered Accountant
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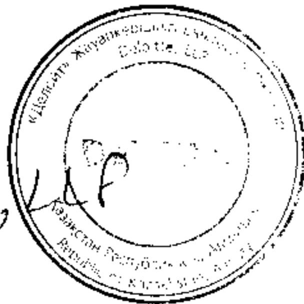
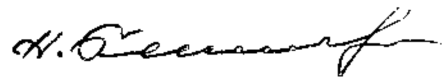
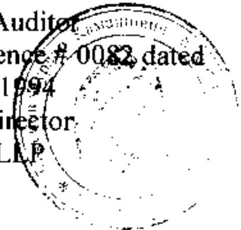
Australia





Nurlan Bekenov
Qualified Auditor
Certificate of competence # 0082 dated
13 June 1994
General Director
Deloitte, LLP



Deloitte LLP
State license on auditing in the Republic of Kazakhstan №0000015, type MFU - 2, issued by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006

17 February 2011
Almaty

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

(in Kazakhstani tenge and in millions, except for earnings per share which is in tenge)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	4, 29	94,792	111,636
Interest expense	4, 29	(80,047)	(75,251)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		14,745	36,385
Provision for impairment losses on interest bearing assets	5	(38,547)	(32,940)
NET INTEREST (EXPENSE)/INCOME		(23,802)	3,445
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	6	1,382	(10,521)
Net realized loss on disposal and impairment of investments available-for-sale	7	(942)	(2,349)
Net gain on foreign exchange operations	8	2,351	8,194
Net gain from early redemption of debt	9	-	28,453
Fee and commission income	10	15,718	13,564
Fee and commission expense	10	(1,298)	(1,199)
Provision for impairment losses on other transactions	5	(574)	(11,938)
Other income		32	56
NET NON-INTEREST INCOME		16,669	24,260
OPERATING (LOSS)/INCOME		(7,133)	27,705
OPERATING EXPENSES	11, 29	(23,845)	(20,050)
OPERATING (LOSS)/PROFIT BEFORE INCOME TAX		(30,978)	7,655
Income tax benefit/(expense)	12	309	(4,203)
NET (LOSS)/PROFIT		(30,669)	3,452
Attributable to:			
Owners of the parent		(30,785)	3,335
Non-controlling interest		116	117
		(30,669)	3,452
(LOSS)/EARNINGS PER SHARE			
Basic (KZT)	13	(192.55)	23.10
Diluted (KZT)	13	(192.55)	23.10

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

17 February 2011
Almaty

Kainarbekova G.K.
Chief Accountant

17 February 2011
Almaty

The notes on pages 10-67 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

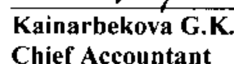
(in Kazakhstani tenge and in millions)

	Year ended 31 December 2010	Year ended 31 December 2009
NET (LOSS)/PROFIT	(30,669)	3,452
OTHER COMPREHENSIVE INCOME/(LOSS)		
Net change in fair value of investments available-for-sale	764	(944)
Exchange differences on translation of foreign operations	(172)	515
OTHER COMPREHENSIVE INCOME/(LOSS)	592	(429)
TOTAL COMPREHENSIVE (LOSS)/INCOME	(30,077)	3,023
Attributable to:		
Owners of the parent	(30,193)	2,906
Non-controlling interest	116	117
TOTAL COMPREHENSIVE (LOSS)/INCOME	(30,077)	3,023

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

17 February 2011
Almaty



Kainarbekova G.K.
Chief Accountant

17 February 2011
Almaty

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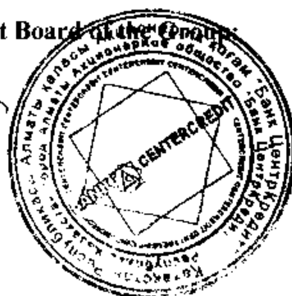
JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(in Kazakhstani tenge and in millions)

	Notes	31 December 2010	31 December 2009
ASSETS:			
Cash and cash equivalents	14	209,163	245,429
Financial assets at fair value through profit or loss	15	13,495	10,404
Investments available-for-sale	16	100,176	164,536
Investments held to maturity	17	163,812	44,166
Due from banks	18	1,649	700
Loans to customers and banks	19, 29	699,456	665,515
Current income tax assets		2,162	228
Deferred income tax assets	12	1,693	254
Other assets	20	10,538	8,061
Property, equipment and intangible assets	21	22,414	21,282
TOTAL ASSETS		1,224,558	1,160,575
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and financial institutions	22, 29	146,921	191,048
Customer and banks accounts	23, 29	796,382	676,191
Debt securities issued	24	153,891	154,954
Other liabilities	25	6,969	3,516
Subordinated bonds	26	35,614	37,244
Total liabilities		1,139,777	1,062,953
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	27	69,841	52,710
Investments available-for-sale fair value reserve		754	(10)
Foreign currency translation reserve		(25)	147
Retained earnings		13,307	44,092
Total equity attributable to owners of the parent		83,877	96,939
Non-controlling interest		904	683
Total equity		84,781	97,622
TOTAL LIABILITIES AND EQUITY		1,224,558	1,160,575
Book value per ordinary share (KZT)	13	436	661
Book value per preferable share (KZT)	13	300	300

On behalf of the Management Board of the Group:



Lee V.S.
Chairman

17 February 2011
Almaty

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Chief Accountant

17 February 2011
Almaty

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JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(in Kazakhstani tenge and in millions)

	Share capital	Investments available-for-sale fair value reserve	Foreign currency translation reserve	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
31 December 2008	52,684	934	(368)	40,757	94,007	606	94,613
Net profit	-	-	-	3,335	3,335	117	3,452
Net change in fair value of investments available-for-sale	-	(944)	-	-	(944)	-	(944)
Exchange differences on translation of foreign operations	-	-	515	-	515	-	515
Net comprehensive income	-	(944)	515	3,335	2,906	117	3,023
Purchase of treasury shares	(10)	-	-	-	(10)	-	(10)
Issue of ordinary shares	16	-	-	-	16	-	16
Issue of preference shares	20	-	-	-	20	-	20
Changes in non-controlling interest	-	-	-	-	-	(40)	(40)
31 December 2009	52,710	(10)	147	44,092	96,939	683	97,622
Net (loss)/profit	-	-	-	(30,785)	(30,785)	116	(30,669)
Net change in fair value of investments available-for-sale	-	764	-	-	764	-	764
Exchange differences on translation of foreign operations	-	-	(172)	-	(172)	-	(172)
Net comprehensive loss	-	764	(172)	(30,785)	(30,193)	116	(30,077)
Purchase of treasury shares	(1)	-	-	-	(1)	-	(1)
Issue of ordinary shares	5,377	-	-	-	5,377	-	5,377
Issue of preference shares	11,755	-	-	-	11,755	-	11,755
Changes in non-controlling interest	-	-	-	-	-	105	105
31 December 2010	69,841	754	(25)	13,307	83,877	904	84,781

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

17 February 2011
Almaty

Kainarbekova G.K.
Chief Accountant

17 February 2011
Almaty

The notes on pages 10-67 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(in Kazakhstani tenge and in millions)

	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from financial assets at fair value through profit or loss	959	1,280
Interest received from investments available-for-sale	3,214	2,962
Interest received from investments held to maturity	5,218	4,892
Interest received on due from banks	794	2,532
Interest received on loans to customers and banks	68,224	72,550
Penalties received from loans to customers	1,291	1,710
Interest paid on due to banks and financial institutions	(9,545)	(13,251)
Interest paid on customer and banks accounts	(51,853)	(37,443)
Interest paid on debt securities issued	(16,171)	(19,247)
Interest paid on subordinated bonds	(2,928)	(4,137)
Fee and commission received	15,693	13,626
Fee and commission paid	(1,413)	(1,392)
Other income received	32	56
Operating expenses paid	(25,738)	(18,774)
Cash (outflow)/inflow from operating activities before changes in operating assets and liabilities	(12,223)	5,364
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Financial assets at fair value through profit or loss	(1,688)	698
Due from banks	(944)	3,719
Loans to customers and banks	(42,507)	31,995
Other assets	(1,949)	(9,659)
Increase/(decrease) in operating liabilities:		
Due to banks and financial institutions	(43,769)	16,321
Customer and banks accounts	120,834	234,722
Other liabilities	6,077	(325)
Cash inflow from operating activities before taxation	23,831	282,835
Income tax paid	(3,065)	(2,110)
Net cash inflow from operating activities	20,766	280,725

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)
(in Kazakhstani tenge and in millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOW FROM INVESTING ACTIVITIES:			
Proceeds on sale of investments available-for-sale		357,600	185,323
Purchase of investments available-for-sale		(494,293)	(318,435)
Proceeds on redemption of investments held to maturity		529,442	42,790
Purchase of investments held to maturity		(448,292)	(3,807)
Purchase of property, equipment and intangible assets		(3,391)	(2,326)
Proceeds on sale of property and equipment		568	48
Net cash outflow from investing activities		(58,366)	(96,407)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from ordinary and preference shares issued		17,132	36
Purchase of treasury shares		(1)	(10)
Proceeds from debt securities issued		(11,232)	-
Repayment of debt securities issued		2,871	2,745
Repurchase of debt securities issued		-	(33,830)
Repayment of subordinated bonds issued		(2,000)	(1,500)
Proceeds from subordinated bonds issued		-	3,500
Net cash inflow/(outflow) from financing activities		6,770	(29,059)
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(5,436)	(33,113)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(36,266)	122,146
CASH AND CASH EQUIVALENTS, beginning of the year	14	245,429	123,283
CASH AND CASH EQUIVALENTS, end of the year	14	209,163	245,429

On behalf of the Management Board of the Group:

Lee V.S.
Chairman

17 February 2011
Almaty

Kainarbekova G.K.
Chief Accountant

17 February 2011
Almaty

The notes on pages 10-67 form an integral part of these consolidated financial statements.

1. ORGANIZATION

JSC Bank CenterCredit ("the Bank") is a Joint Stock Company ("JSC"), which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The Bank is regulated by the legislation 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 for regulation and supervision of the financial market and financial institutions ("the FMSA"). The Bank conducts its business under license number 248, renewed on 13 December 2007 by the FMSA. On 27 August 2008, Kookmin Bank (South Korea) purchased 23% of the Bank's issued ordinary share capital. As at 31 December 2010, Kookmin Bank's share was 41.93% and the International Financial Corporation's ("IFC") share was 10% of the issued capital of the Bank.

The Bank's primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

The registered address is: 98 Panfilov Street, Almaty, the Republic of Kazakhstan.

As at 31 December 2010, the Bank had 20 branches in the Republic of Kazakhstan.

The Bank is a parent company of a banking group (the "Group") which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	31 December 2010	31 December 2009	Type of operation
JSC APF Capital	Republic of Kazakhstan	76%	75%	Pension fund management
LLP Center Leasing	Republic of Kazakhstan	91%	91%	Finance lease of property
JSC BCC Invest	Republic of Kazakhstan	100%	100%	Brokerage and dealer activity
CenterCredit International B.V.	Netherlands	100%	100%	Issuance of capital on international financial markets
LLC Bank BCC-Moscow	Russian Federation	100%	100%	Banking services

JSC Accumulated Pension Fund Capital ("APF Capital") was established as a closed joint stock company in October 2001, in accordance with legislation of the Republic of Kazakhstan.
In December 2003, APF Capital was reregistered as a joint stock company. APF Capital manages pension contribution inflows and the accumulation of individual pension accounts in accordance with the requirements of legislative authorities of the Republic of Kazakhstan.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations, which are carried out in accordance with Article 10 on financial leasing of the Republic of Kazakhstan. Article 10 states that a limited liability partnership is not required to obtain a license to perform leasing operations.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named "LLP KIB ASSET MANAGEMENT") in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was re-registered as a joint stock company. The main activity of JSC BCC Invest consists of management of assets of mutual funds and management of investment portfolios.

CenterCredit International B.V. was registered in January 2006 in Rotterdam, Netherlands, as a special purpose entity. Its main activity is to raise capital on international financial markets.

In August 2006, the Bank received permission from the FMSA for establishment of its subsidiary LLC Bank BCC – Moscow. On 21 March 2008, LLC Bank BCC-Moscow received its license from the Central Bank of Russian Federation. The main activity of LLC Bank BCC-Moscow consists of banking services.

As at 31 December 2010 and 2009 the following ultimate beneficial shareholders owned individually more than 5% of the issued shares of the Group:

	31 December 2010 %	**31 December 2009** %
Kookmin Bank	41.93	30.52
Baiseitov B.R.	25.10	36.39
IFC	10.00	-
Other (individually hold less than 5%)	22.97	33.09
Total	100.00	100.00

The consolidated financial statements were authorized for issue by the Management Board of the Group on 17 February 2011.

2. BASIS OF PRESENTATION

Accounting basis

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

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

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT millions"), unless otherwise indicated. These consolidated financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the measurement of investments available-for-sale, financial assets and liabilities at fair value through profit or loss, and derivative financial instruments at fair value.

The Group maintains its accounting records in accordance with the accounting policies authorized by the Resolution of the Board of Directors of the Group. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non—current) is presented in Note 34.

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Recognition and measurement of financial instruments

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

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, investments held-to-maturity, investments available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Derecognition of financial assets and liabilities

Financial assets

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

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecogntion of a financial asset other than it is entirety (e.g. when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the pat no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances on correspondent and time deposit accounts. For the purposes of determining cash flows, cash and cash equivalents include cash and balances with the NBRK and due from banks with original maturities of 90 days or less. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as valued at fair value through profit or loss if they meet any of the following conditions: (1) acquired principally for the purpose of selling them in the near future; (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; or (3) are designated as derivatives.

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (2) the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and spot transactions to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Group are not designated as hedges and do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Investments available-for-sale

Investments available-for-sale are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in other comprehensive income, except for impairment losses, foreign exchange gains or losses on monetary debt investments and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled through the consolidated income statement. Under certain circumstances, when transferred to investments held to maturity the fair value of investments available-for-sale at the date of transfer becomes the new amortized cost of the investments held to maturity. Any previous gain or loss on those assets that has been recognized in equity is amortized into the income statement over the remaining life of the held to maturity investments using the effective interest method for financial assets with fixed maturity and when financial assets are sold or otherwise disposed of for financial assets without fixed maturity. The Group uses quoted market prices to determine the fair value for the Group's debt securities held as investments available-for-sale (equity securities are not material) where available. If the market for investments is not active, the Group establishes fair value by using valuation techniques including discounted future cash flows and option pricing models. When valuation techniques are used, the input data is based on market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty, recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends received on investments available-for-sale are included in other income in the consolidated income statement.

Non-marketable debt/equity securities are stated at amortized cost/cost less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period.

Investments held to maturity

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

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

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business, the Group enters into sale and repurchase agreements ("repos") and purchase and resale agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks.

The difference between the sale and repurchase prices is treated as interest expense in the consolidated income statement and accrued over the life of the repos agreement using the effective interest rate method.

The Group enters into repos and reverse repos agreements using the automated system of the Kazakhstan Stock Exchange (KASE) in accordance with the trading rules established by the KASE (the "Rules"). According to the Rules the automated repos and reverse repos are concluded using open sale methods. For open sale methods the counterparty remains undefined and all risks the Group undertakes, including credit and settlement risks, are with the KASE.

Loans to customers and banks

Loans to customers and banks are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers and bank granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers and banks are carried net of any allowance for impairment losses.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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.

Change in accounting policy: write off of loans

On 30 June 2010 the Group has changed its accounting policy in relation to the write off of loans. Until that date the policy stated that loans were written off against the allowance for impairment losses when deemed uncollectible. In particular, loans were written off after becoming 180 days past due; and subsequent recoveries of amounts previously written off were reflected in the consolidated income statement.

The Group's revised accounting policy on write off of loans, states that overdue loans are written off based on the decision of the Group's Credit Committee, after the Group has exercised all possible measures for recovery of the overdue debt, and the possibility of recovery of these amounts is low or does not exist. Subsequently, if in the assessment of the Credit Committee, a loan previously written off is deemed recoverable, the amounts previously written off are recorded in loans to customers and banks and the related allowance for impairment loss accounts. Due to the inherent uncertainty of recovery of such loans, the amount recovered will be reflected in the consolidated income statement only when realized.

This change in accounting policy has not been applied retrospectively as it is impracticable to determine the effects of the retrospective application on prior periods, or what management's intent would have been in the prior periods. Management believes that the change in accounting policy does not impact the net carrying amount of loans to customers and banks, the Group's financial position, nor the results of its operation for prior periods.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statements is transferred from equity to the consolidated income statement.

In respect of equity securities classified as investments available-for-sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of debt securities classified as investments available-for-sale, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Finance leases

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

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

The Group as a lessor

The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement date property, plant and equipment purchased for future transfer to the financial lease is recognized in the consolidated financial statements as property and equipment purchased to transfer to finance lease at cost.

Non-current assets held for sale

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

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

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives to their residual values. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1-50%
Furniture and computer equipment	2-20%
Intangible assets	12-60%

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

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Due to banks and financial institutions, customer and banks accounts, debt securities issued and subordinated debt

Due to banks and financial institutions, customer and bank accounts, debt securities issued and subordinated debt are initially recognized at fair value plus related transaction costs that directly relate to the issuance of the financial liabilities. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share capital

Share capital is recognized at historical cost.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of the initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Retirement and other benefit obligations

In accordance with the requirements of the countries in which the Group operates, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged to the consolidated income statement in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

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

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

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KZT using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Rates of exchange

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2010	31 December 2009
Tenge/1 US Dollar	147.50	148.46
Tenge/1 Euro	196.88	213.95
Tenge/1 JPY	1.81	1.610

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the consolidated Group's customers bear the credit and market risks associated with such operations.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Group's revenue is included in reportable segments.

Areas of significant management judgment and sources of estimation uncertainty

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

Investments held-to-maturity

The management has reviewed the Group's investments held-to-maturity in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 17.

Allowance for impairment of loans and receivables

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

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Valuation of financial instruments

As described in Note 31, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 31 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section New Standards and Interpretations affecting the reported results or financial position.

New and revised IFRSs affecting presentation and disclosure only

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

New and revised IFRSs in issue but not yet effective

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

Amendments to IFRS 7	*Disclosures – Transfers of Financial Assets*[1]
IFRS 9 (as amended in 2010)	*Financial Instruments*[2]
IAS 24 (revised in 2009)	*Related Party Disclosures*[3]
Amendments to IAS 32	*Classification of Rights Issues*[4]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments1*

Improvements to IFRS issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28 described earlier in section 2.1)[5]

[1] Effective for annual periods beginning on or after July 1, 2011.
[2] Effective for annual periods beginning on or after January 1, 2013.
[3] Effective for annual periods beginning on or after January 1, 2011.
[4] Effective for annual periods beginning on or after February 1, 2010.
[5] Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

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

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

The management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

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

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

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

4. NET INTEREST INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired assets	42,084	53,668
- interest income on impaired assets	48,318	53,752
Interest income on financial assets recorded at fair value	4,390	4,216
Total interest income	94,792	111,636
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers and banks	83,470	98,470
Interest on investments held-to-maturity	4,841	4,724
Interest on due from banks	800	2,516
Penalties on loans to customers and banks	1,291	1,710
Total interest income on financial assets recorded at amortized cost	90,402	107,420
Interest income on financial assets recorded at fair value comprises:		
Interest income on investments available-for sale	3,411	2,952
Interest income on financial assets at fair value through profit or loss	979	1,264
Total interest income on financial assets recorded at fair value	4,390	4,216
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	80,047	75,251
Total interest expense	80,047	75,251
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer and banks accounts	51,211	40,722
Interest on debt securities issued	16,414	18,381
Interest on due to banks and financial institutions	9,186	12,136
Interest on subordinated bonds	3,236	4,012
Total interest expense on financial liabilities recorded at amortized cost	80,047	75,251
Net interest income before provision for impairment losses on interest bearing assets	14,745	36,385

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Consumer loans	Corporate loans	Credit cards	Total* (Note 19)
31 December 2008	12,274	34,037	93	46,404
(Reversal of provision)/additional provision recognized	(596)	33,556	(19)	32,941
Write-off of assets	(2,397)	(19,461)	-	(21,858)
Recoveries of assets previously written off	348	2,410	-	2,758
Exchange rate difference	356	6,792	-	7,148
31 December 2009	9,985	57,334	74	67,393
Additional provision/(reversal of provision) recognized	2,639	35,941	(33)	38,547
Write-off of assets	(1,316)	(6,240)	-	(7,556)
Recoveries of assets previously written off	870	7,219	-	8,089
Exchange rate difference	(109)	(575)	-	(684)
31 December 2010	12,069	93,679	41	105,789

	Loans to banks* (Note 19)
31 December 2008	7
Reversal of provision recognized	(1)
Write-off of assets	(5)
31 December 2009	1
Write-off of assets	(1)
31 December 2010	-

*In order to reconcile provision for impairment losses on interest bearing assets in consolidated income statement, amount of provision on loans to customers and banks should be considered together.

The movements in provision for impairment losses on other transactions were as follows:

	Investments held to maturity (Note 17)	Property, equipment and intangible assets (Note 21)	Other assets (Note 20)	Guarantees and letters of credit (Note 25)	Total
31 December 2008	-	-	4,694	988	5,682
Additional provision recognized/(reversal of provision)	1,357	5,639	5,151	(209)	11,938
Write-off of assets	(93)	-	(2,838)	-	(2,931)
Exchange rate difference	-	-	12	173	185
31 December 2009	1,264	5,639	7,019	952	14,874
(Reversal of provision)/ additional provision recognized	(520)	500	589	5	574
Write-off of assets	(35)	(500)	(845)	-	(1,380)
Recoveries of assets previously written off	40	-	-	-	40
Exchange rate difference	-	-	3	93	96
31 December 2010	749	5,639	6,766	1,050	14,204

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

	Year ended 31 December 2010	Year ended 31 December 2009
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	1,382	(10,521)
Total net gain/(loss) on financial assets and liabilities at fair value through profit or loss	1,382	(10,521)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprise:		
Realized gain on trading operations	678	4,287
Unrealized gain on operations with derivative financial instruments	325	288
Realized gain/(loss) on operations with derivative financial instruments	269	(15,118)
Unrealized gain on fair value adjustment	110	22
Total net gain/(loss) on financial assets and liabilities at fair value through profit or loss	1,382	(10,521)

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. In March 2009 the Group early terminated a swap agreement with a foreign financial institution which was used to economically hedge a loan due to a bank which was early settled (Note 22). As a result of the swap cancellation the Group recorded a loss of KZT 13,276 million on operations with derivative financial instruments.

7. NET REALIZED LOSS ON DISPOSAL AND IMPAIRMENT OF INVESTMENTS AVAILABLE-FOR-SALE

	Year ended 31 December 2010	Year ended 31 December 2009
Net gain on investments available-for-sale	156	800
Impairment loss on investments available-for-sale	(1,098)	(3,149)
Total net realized loss on disposal and impairment of investments available-for-sale	(942)	(2,349)

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2010	Year ended 31 December 2009
Dealing, net	2,129	5,539
Translation differences, net	222	2,655
Total net gain on foreign exchange operations	2 ,351	8,194

9. NET GAIN FROM EARLY REDEMPTION OF DEBT

During the year ended 31 December 2009 the Group recorded a gain extinguishment of KZT 28,453 million related to early redemptions of debt. KZT 20,206 million is attributable to the advance repayment of an amount due to a foreign financial institution (Note 22) and KZT 8,247 million is attributable to early redemption of international bonds (Note 24).

10. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2010	Year ended 31 December 2009
Fee and commission income:		
Settlements	3,635	2,995
Cash operations	3,272	2,874
Guarantees	2,831	2,132
Payment cards	2,247	1,615
Trust operations	1,659	1,400
Foreign exchange operations	877	834
Documentary operations	298	1,020
Internet-banking operations	271	217
Custodian activities	186	149
Purchase and sale of securities	95	113
Safe operations	71	64
Sale of insurance polices	16	10
Other	260	141
Total fee and commission income	15,718	13,564
Fee and commission expense:		
Settlements	545	418
Documentary operations	355	462
Custodian activities	148	92
Legal services	79	60
Rating agencies services	29	9
Brokerage services	25	23
Foreign exchange operations	21	27
Purchase and sale of securities	19	28
Services on deal arrangements	1	43
Other	76	37
Total fee and commission expense	1,298	1,199

11. OPERATING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs	9,814	7,849
Operating leases expenses	3,395	3,475
Deposit Insurance Fund	2,176	1,469
Taxes other than income tax	1,907	1,709
Depreciation and amortization	1,612	1,493
Administrative expenses	1,183	1,020
Security expenses	651	625
Advertising costs	629	439
Telecommunications	531	503
Property and equipment maintenance	450	275
Business trip expenses	219	114
Professional services	199	231
Entertainment expenses	115	75
Business development expenses	74	54
Sponsorship expenses	16	8
Other expenses	874	711
Total operating expenses	23,845	20,050

12. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses such as business development expenses and a tax free regime for certain income such as income on finance lease and income from operations with state securities and securities listed on the Kazakhstan Stock Exchange.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010 and 31 December 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2010 and 2009 comprise:

	31 December 2010	31 December 2009
Deductible temporary differences:		
Tax loss carry forward	17,919	-
Loans to customers	14,175	3,376
Impairment loss on debt securities	5,034	4,450
Revaluation of financial assets and liabilities at fair value through profit or loss	98	651
Other	238	18
Total deductible temporary differences	37,464	8,495
Taxable temporary differences:		
Property, equipment and intangible assets	(2,831)	(2,773)
Revaluation of financial assets and liabilities at fair value through profit or loss	(1,784)	-
Other	(171)	-
Total taxable temporary differences	(4,786)	(2,773)
Net deferred tax asset	32,678	5,722
Deferred tax asset at the statutory tax rates	6,536	1,144
Unrecognized deferred tax asset	(4,843)	(890)
Net deferred tax asset at the statutory tax rates	1,693	254

Relationships between tax expenses and accounting profit for the period ended 31 December 2010 and 2009 are explained as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Operating (loss)/profit before income tax	(30,978)	7,655
Tax at the statutory tax rate	(6,196)	1,531
Tax effect of permanent differences:		
Change in deferred tax asset not recognized	3,953	890
Tax-exempt interest income and other related income on state and other qualifying securities	-	(1,621)
Non-deductible expenditure	2,031	3,476
Other tax-exempt income	(97)	(73)
Income tax (benefit)/expense	(309)	4,203
Current income tax expense	1,130	6,415
Deferred tax benefit	(1,439)	(2,212)
Income tax (benefit)/expense	(309)	4,203