JSC AB “Bank of China in Kazakhstan”

Financial Statements

for the year ended 31 December 2010

Contents

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

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

Independent Auditors' Report

To the Board of Directors of JSC AB "Bank of China in Kazakhstan"

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

KPMG Audit LLC

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

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

1 March 2011

	Note	2010 KZT'000	2009 KZT'000
Interest income	4	585,973	1,113,025
Interest expense	4	(10,456)	(271,382)
Net interest income		**575,517**	**841,643**
Fee and commission income	5	1,178,400	1,108,475
Fee and commission expense	6	(65,508)	(86,316)
Net fee and commission income		**1,112,892**	**1,022,159**
Net foreign exchange income	7	414,089	340,877
Other operating income		1,402	279,645
Operating income		**2,103,900**	**2,484,324**
General administrative expenses	8	(423,457)	(548,530)
Profit before income tax		**1,680,443**	**1,935,794**
Income tax expense	9	(331,294)	(367,939)
Profit and total comprehensive income for the year		**1,349,149**	**1,567,855**

The financial statements as set out on pages 5 to 46 were approved by the Board of Directors on 1 March 2011:

Tian Wei
Chairman of the Board

Usenova Z.S.
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 46.

	Note	2010 KZT’000	2009 KZT’000
ASSETS			
Cash and cash equivalents	10	42,265,300	53,662,375
Mandatory reserve with the National Bank of the Republic of Kazakhstan	10	659,475	855,810
Loans to customers	11	2,821,035	683,669
Held-to-maturity investments	12	8,782,071	7,862,569
Property, equipment and intangible assets	13	672,965	573,937
Deferred tax assets	9	3,802	2,825
Other assets	14	175,270	139,561
Total assets		**55,379,918**	**63,780,746**
LIABILITIES			
Deposits and balances from banks	15	374,364	364,279
Current accounts and deposits from customers	16	43,491,794	53,224,948
Other liabilities	17	8,369	35,277
Total liabilities		**43,874,527**	**53,624,504**
EQUITY			
Share capital	18	5,485,008	5,485,008
Share premium		89,144	89,144
Retained earnings		5,931,239	4,582,090
Total equity		**11,505,391**	**10,156,242**
Total liabilities and equity		**55,379,918**	**63,780,746**

Commitments and contingencies 21-22

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 46.

		2010 KZT'000	2009 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		552,579	954,548
Interest payments		(13,932)	(285,666)
Fee and commission receipts		1,174,657	1,021,989
Fee and commission payments		(91,356)	(61,387)
Net receipts from foreign exchange		406,512	341,836
Other income receipts		1,402	811
General administrative expenses payments		(391,895)	(513,855)
(Increase)/decrease in operating assets			
Minimum reserve requirements		196,335	(217,385)
Loans to customers		(2,133,342)	343,811
Other assets		-	4,296
Increase in operating liabilities			
Deposits and balances from banks		15,178	166,087
Current accounts and deposits from customers		(9,686,528)	19,129,563
Other liabilities		356	-
Net cash provided from operating activities before income tax paid		**(9,970,034)**	**20,884,648**
Income tax paid		(332,271)	(369,911)
Cash flows from operations		**(10,302,305)**	**20,514,737**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		(8,481,010)	(6,736,840)
Maturity of held-to-maturity investments		7,594,666	2,342,400
Purchases of property and equipment and intangible assets		(165,276)	(45,985)
Sales of property and equipment		-	280,301
Cash flows used in investing activities		**(1,051,620)**	**(4,160,124)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net repayments of other borrowed funds		-	(603,950)
Proceeds from issuance of share capital		-	4,509,102
Cash flows from financing activities		-	**3,905,152**
Net (decrease)/increase in cash and cash equivalents		**(11,353,925)**	**20,259,765**
Effect of changes in exchange rates on cash and cash equivalents		43,150	3,916,245
Cash and cash equivalents as at the beginning of the period		53,662,375	29,486,365
Cash and cash equivalents as at the end of the period (Note 10)	10	**42,265,300**	**53,662,375**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 46.

KZT’000	Share capital	Share premium	Retained earnings	Total
Balance as at 1 January 2009	1,065,050	-	3,014,235	4,079,285
Profit and total comprehensive income for the year	-	-	1,567,855	1,567,855
Shares issued	4,419,958	89,144	-	4,509,102
Balance as at 31 December 2009	**5,485,008**	**89,144**	**4,582,090**	**10,156,242**
Balance as at 1 January 2010	5,485,008	89,144	4,582,090	10,156,242
Profit and total comprehensive income for the year	-	-	1,349,149	1,349,149
Balance as at 31 December 2010	**5,485,008**	**89,144**	**5,931,239**	**11,505,391**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 46.

1 Background

(a) Organisation and operations

Joint Stock Company Affiliate Bank “Bank of China in Kazakhstan” (“the Bank”) was established on 19 April 1993 as “Bank of China in Almaty”. On 19 December 1997, the Bank was re-registered as Close Joint Stock Company Subsidiary Bank “Bank of China in Kazakhstan”. On 4 May 2005, the Bank was re-registered to Joint Stock Company Affiliate Bank “Bank of China in Kazakhstan”.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations, and operations with securities and foreign exchange. The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Agency (“the FMSA”) and the National Bank of the Republic of Kazakhstan (the “NBRK”). The Bank has a banking license No 181 received on 31 January 2006 from the FMSA. The Bank is a member of the state deposit insurance system in the Republic of Kazakhstan.

The registered address of the Bank is 201, Gogol Street, Almaty. The Bank has one branch in Almaty. Currently, the Bank is on register process of its new branch in Aktobe city.

The average number of people employed during the year was 74 (2009: 64).

The Bank is wholly-owned by the Bank of China Limited (the “Shareholder” or the “Parent Bank”) located in People’s Republic of China, Beijing. The activities of the Bank are closely linked with the requirements of the Shareholder and determination of the pricing of the Bank’s services to the Shareholder and other related parties is undertaken in conjunction with other Shareholder banks. Related party transactions are detailed in Note 23.

On 24 December 2008 the Parent Bank obtained the status of banking holding of JSC AB “Bank of China in Kazakhstan” from the FMSA. The change in status resulted from amendments to regulations effective from 23 October 2008, in accordance with which, nonresident banks with majority of capital owned in resident bank of the Republic of Kazakhstan can have status of banking holding.

(b) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

2 Basis of preparation, continued

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the Note 11 – Loans to customers.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the KZT at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawability.

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

(ii) Recognition

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

(iii) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

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

(iv) Fair value measurement principles

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iv) Fair value measurement principles, continued

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

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

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

(v) Gains and losses on subsequent measurement

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

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

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

(viii) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

3 Significant accounting policies, continued

(d) Property and equipment

(ii) Depreciation

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

- Buildings 50 years
- Computers 4 to 5 years
- Furniture 7 years
- Vehicles 15 years
- Other 5 to 15 years

(e) Intangible assets

Acquired intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment lossess.

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

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

(f) Impairment

(i) Financial assets carried at amortised cost

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

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

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

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

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

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

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

(ii) Non financial assets

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

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

(g) Credit related commitments

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

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

3 Significant accounting policies, continued

(g) Credit related commitments, continued

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

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;

- commitments to provide a loan at a below-market interest rate.

(h) Share capital

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

Dividends

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

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

(i) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3 Significant accounting policies, continued

(i) Taxation, continued

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

(j) Income and expense recognition

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

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

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

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

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

(k) Prior period reclassification

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

(l) New standards and interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

3 Significant accounting policies, continued

(l) New standards and interpretations not yet adopted, continued

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of fina*ncial liabilities was* published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Bank recognises that the new standard introduces many changes to the accounting fo*r financial instrument*s *and is likely to have a si*gnificant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

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

4 Net interest income

	2010 KZT'000	2009 KZT'000
Interest income		
Held-to-maturity investments	341,784	252,390
Loans to customers	191,304	114,116
Cash and cash equivalents:		
- Due from the National Bank of the Republic of Kazakhstan - deposits with original maturities of less than three months	45,965	738,809
- Placements with banks – nostro accounts	6,920	7,710
	585,973	**1,113,025**
Interest expense		
Current accounts and deposits from customers	(10,456)	(250,123)
Other borrowed funds – Parent Bank	-	(20,441)
Deposits and balances from banks	-	(818)
	(10,456)	**271,382**
	575,517	**841,643**

5 Fee and commission income

	2010 KZT'000	2009 KZT'000
Agency services	795,537	800,813
Settlement	291,506	240,898
Cash withdrawal	41,234	25,065
Guarantee and letter of credit issuance	24,326	5,628
Client account maintenance	10,286	14,078
Other	15,511	21,993
	1,178,400	**1,108,475**

5 Fee and commission income, continued

Fee income for agency services relate to commissions earned by the Bank for acting as an agent for loans issued by the Bank of China Cayman Islands. The Bank provides services of administration of loans issued to corporate customers – residents of the Republic of Kazakhstan. The Bank does not bear any credit risk related to loans issued by Bank of China Cayman Islands. Accordingly, related loans are not recognised in the Bank's financial statements.

6 Fee and commission expense

	2010 KZT'000	2009 KZT'000
Deposit insurance fund contributions	41,290	66,942
Settlement	12,290	9,378
Kazakhstan stock exchage membership	6,935	6,220
Castodian services	2,593	1,222
Cash operations	217	210
Other	2,183	2,344
	65,508	**86,316**

7 Net foreign exchange income

	2010 KZT'000	2009 KZT'000
Net gain on spot transactions	406,512	341,836
Gain/(loss) from revaluation of financial assets and liabilities	7,577	(959)
	414,089	**340,877**

8 General administrative expenses

	2010 KZT'000	2009 KZT'000
Employee compensation	208,155	184,134
Communications and information services	43,844	54,943
Depreciation and amortisation	33,339	32,807
Taxes other than on income	26,063	141,227
Security	22,271	22,184
Repairs and maintenance	21,335	22,450
Professional services	14,967	22,378
Travel expenses	14,294	10,900
Representation expenses	11,156	24,863
Rent expenses	8,986	8,986
Transportation expenses	1,331	3,516
Advertising and marketing	23	646
Other	17,693	19,496
	423,457	**548,530**

9 Income tax expense

	2010 KZT’000	2009 KZT’000
Current tax expense		
Current year	310,571	355,468
Under provided in prior years	21,700	14,443
	332,271	**369,911**
Deferred tax expense		
Origination and reversal of temporary differences	(977)	(1,972)
Total income tax expense	**331,294**	**367,939**

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

Reconciliation of effective tax rate:

	2010 KZT’000	%	2009 KZT’000	%
Profit before tax	**1,680,443**	**100**	**1,935,794**	**100**
Income tax at the applicable tax rate	336,089	20.00	387,159	20.00
Non-taxable income	(26,495)	(1.58)	(33,663)	(1.74)
Underprovided in prior years	21,700	1.29	14,443	0.75
	331,294	**19.71**	**367,939**	**19.01**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2010 and 2009. These deferred tax assets have been recognised in these financial statements.

These deductible temporary difference do not expire under Kazakhstan tax legislation.

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

2010

KZT’000	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Property and equipment	1, 019	1,502	2,521
Other liabilities	1,806	(525)	1,281
	2,825	**977**	**3,802**

9 Income tax expense, continued

2009

KZT’000	Balance 1 January 2009	Recognised in profit or loss	Balance 31 December 2009
Property and equipment	2,037	(1,018)	1,019
Other liabilities	(1,184)	2,990	1,806
	853	**1,972**	**2,825**

10 Cash and cash equivalents

	2010 KZT’000	2009 KZT’000
Cash on hand	98,742	82,523
Due from the the National Bank of the Republic of Kazakhstan –		
- Nostro account	31,571,120	42,861,210
- Term deposits with original maturities of less than three months	8,000,319	5,801,592
Placements with banks – nostro accounts		
- Rated A- to A+	3,253,483	5,771,467
- Rated BB- to BB+	1,111	1,393
Minimum reserve requirements with the NBRK	(659,475)	(855,810)
	42,265,300	**53,662,375**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the NBRK and whose withdrawability is restricted. The nostro balances represent balances with the NBRK related to settlement activity and were available for withdrawal at year end.

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

Significant credit exposures

As at 31 December 2010 and 2009 the Bank had one bank, whose balances exceed 10% of total equity. The gross value of these balances as at 31 December 2010 is KZT 2,910,745 thousand (2009: KZT 5,218,139 thousand).

11 Loans to customers

	2010 KZT’000	2009 KZT’000
Commercial loans		
Loans to large companies	350,097	-
Loans to small and medium size companies	2,305,460	554,069
Total commercial loans	**2,655,557**	**554,069**
Loans to individuals		
Consumer loans	119,836	108,420
Mortgage loans	45,642	21,180
Total loans to individuals	**165,478**	**129,600**
	2,821,035	**683,669**

As at 31 December 2010 and 2009 all loans to customers are neither past due nor impaired. None of loans were restructured.

Analysis of collateral

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 31 December:

	2010 KZT’000	% of loan portfolio	2009 KZT’000	% of loan portfolio
Property	1,494,327	63	-	-
Real estate	885,655	37	479,830	100
No collateral	275,574	-	74,239	-
	2,655,557	**100**	**554,069**	**100**

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

Loans to individuals are secured by housing real estate.

During the year ended 31 December 2010 the Bank did not obtain any assets by taking control of collateral accepted as security for commercial loans (2009: nil).

(a) Industry and geographical analysis of the loan portfolio

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

	2010 KZT’000	2009 KZT’000
Trade	1,176,828	147,197
Manufacturing	845,237	332,633
Construction	357,918	-
Energy	275,574	74,239
Loans to individuals	165,478	129,600
	2,821,035	**683,669**

11 Loans to customers, continued

(b) Significant credit exposures

As at 31 December 2010 the Bank had no borrowers (2009: none), whose loan balances exceed 10% of equity.

(c) Loan maturities

The maturity of the loan portfolio is presented in Note 19, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

12 Held-to-maturity investments

	2010 KZT’000	**2009 KZT’000**
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5,194,730	7,862,569
Notes issued by the National Bank of the Republic of Kazakhstan	3,587,341	-
	8,782,071	**7,862,569**

13 Property, equipment and intangible assets

KZT'000	**Land and buildings**	**Computers**	**Furniture**	**Vehicles**	**Other**	**Computer software**	**Total**
Cost							
Balance at 1 January 2010	621,578	14,694	16,340	41,864	17,136	26,487	738,099
Additions	122,411	2,939	-	-	5,191	1,826	132,367
Disposals	-	(3,698)	(1,802)	-	(615)	-	(6,115)
Balance at 31 December 2010	**743,989**	**13,935**	**14,538**	**41,864**	**21,712**	**28,313**	**864,351**
Depreciation and amortisation							
Balance at 1 January 2010	112,008	7,246	9,582	10,878	8,059	16,389	164,162
Depreciation and amortisation for the year	13,390	3,173	1,864	8,373	3,470	3,069	33,339
Disposals	-	(3,698)	(1,802)	-	(615)	-	(6,115)
Balance at 31 December 2010	**125,398**	**6,721**	**9,644**	**19,251**	**10,914**	**19,458**	**191,386**
Carrying amount							
At 31 December 2010	**618,591**	**7,214**	**4,894**	**22,613**	**10,798**	**8,855**	**672,965**

13 Property, equipment and intangible assets, continued

KZT’000	Land and buildings	Computers	Furniture	Vehicles	Other	Computer software	Total
Cost							
Balance at 1 January 2009	645,946	13,540	10,557	24,087	22,820	22,625	739,575
Additions	6,196	4,245	5,913	20,278	5,491	3,862	45,985
Disposals	(30,564)	(3,091)	(130)	(2,501)	(11,175)	-	(47,461)
At 31 December 2009	**621,578**	**14,694**	**16,340**	**41,864**	**17,136**	**26,487**	**738,099**
Depreciation and amortisation							
Balance at 1 January 2009	127,657	7,440	7,844	6,604	14,784	13,020	177,349
Depreciation and amortisation for the year	14,915	2,897	1,868	5,308	4,450	3,369	32,807
Disposals	(30,564)	(3,091)	(130)	(1,034)	(11,175)	-	(45,994)
Balance at 31 December 2009	**112,008**	**7,246**	**9,582**	**10,878**	**8,059**	**16,389**	**164,162**
Carrying amounts							
At 31 December 2009	**509,570**	**7,448**	**6,758**	**30,986**	**9,077**	**10,098**	**573,937**
At 1 January 2009	518,289	6,100	2,713	17,483	8,036	9,605	562,226

14 Other assets

	2010 KZT’000	2009 KZT’000
Not impaired or past due		
Receivables on agency services	140,054	136,286
Prepayments	33,937	1,258
Materials and supplies	551	865
Other	728	1,152
	175,270	**139,561**

15 Deposits and balances from banks

	2010 KZT’000	2009 KZT’000
Vostro accounts	374,364	364,279

As at 31 December 2010 and 2009 the Bank had no banks, whose balances exceed 10% of equity.

16 Current accounts and deposits from customers

	2010 KZT’000	2009 KZT’000
Current accounts and demand deposits		
- Retail	2,014,717	33,113,526
- Corporate	37,638,404	18,464,176
Term deposits		
- Retail	355,383	605,213
- Corporate	3,483,290	1,042,033
	43,491,794	**53,224,948**

Blocked amounts

As at 31 December 2010, the Bank maintained customer deposit balances of KZT 480,611 thousand (2009: KZT 1,042,033 thousand) that serve as collateral for off-balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2010 and 2009, the Bank had four and seven customers, respectively, whose balances exceed 10% of equity. These balances as at 31 December 2010 and 2009 were KZT 35,789,989 thousand and KZT 44,173,654 thousand, respectively.

17 Other liabilities

	2010 KZT'000	2009 KZT'000
Accrued expenses	6,228	31,745
Vacation reserve	1,819	3,344
Other liabilities	322	188
	8,369	**35,277**

18 Share capital

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 5,150 ordinary shares (2009: 5,150 ordinary shares). All shares have a nominal value of KZT 1,065,050. During 2009 4,150 ordinary shares were issued with a premium.

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

(b) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. No dividends were declared for 2010 and 2009.

19 Risk management

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

(a) Risk management policies and procedures

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

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

19 Risk management, continued

(a) Risk management policies and procedures, continued

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

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

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate risk

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

Interest rate gap analysis

As at 31 December 2010 and 2009 the Bank has no floating rate instruments and accordingly maturity analysis by expected maturities coincides with repricing analysis.

19 Risk management, continued

(b) Market risk, continued

Average interest rates

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

	2010 Average effective interest rate, %			2009 Average effective interest rate, %	
	KZT	**USD**	**Other currencies**	**KZT**	**USD**
Interest bearing assets					
Cash and cash equivalents:					
- Due from the National Bank of the Republic of Kazakhstan - term deposits with original maturity less than three months	0.5	-	-	3.30	-
- Nostro account with other banks	-	0.15	0.43	-	2.97
Loans to customers	9.97	7.97	-	10.57	9.13
Held-to-maturity investments	4.11	-	-	4.53	-
Interest bearing liabilities					
Current accounts and deposits from customers					
- Term deposits	1.07	0.35	-	0.90	0.96

Interest rate sensitivity analysis

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

	2010		2009	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel rise	94,974	94,974	108,419	108,419
100 bp parallel fall	(94,974)	(94,974)	(108,419)	(108,419)

19 Risk management, continued

(b) Market risk, continued

Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank does not hedge its exposure to currency risk.

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

	KZT KZT’000	USD KZT’000	Other currencies KZT’000	Total KZT’000
ASSETS				
Cash and cash equivalents	8,835,150	33,355,186	74,964	42,265,300
Mandatory reserve with the National Bank of the Republic of Kazakhstan	659,475	-	-	659,475
Loans to customers	2,463,714	357,321	-	2,821,035
Held-to-maturity investments	8,782,071	-	-	8,782,071
Other financial assets	-	140,054	-	140,054
Total assets	**20,740,410**	**33,852,561**	**74,964**	**54,667,935**
LIABILITIES				
Deposits and balances from banks	-	374,364	-	374,364
Current accounts and deposits from customers	10,341,704	33,118,931	31,159	43,491,794
Total liabilities	**10,341,704**	**33,493,295**	**31,159**	**43,866,158**
Net position as at 31 December 2010	**10,398,706**	**359,266**	**43,805**	**10,801,777**

19 Risk management, continued

(b) Market risk, continued

Currency risk, continued

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

	KZT KZT’000	USD KZT’000	Other currencies KZT’000	Total KZT’000
ASSETS				
Cash and cash equivalents	6,979,333	46,617,333	65,709	53,662,375
Mandatory reserve with the National Bank of the Republic of Kazakhstan	855,810	-	-	855,810
Loans to customers	184,093	499,576	-	683,669
Held-to-maturity investments	7,862,569	-	-	7,862,569
Other financial assets	-	136,286	-	136,286
Total assets	**15,881,805**	**47,253,195**	**65,709**	**63,200,709**
LIABILITIES				
Deposits and balances from banks	-	364,279	-	364,279
Current accounts and deposits from customers	6,233,289	46,952,960	38,699	53,224,948
Total liabilities	**6,233,289**	**47,317,239**	**38,699**	**53,589,227**
Net position as at 31 December 2009	**9,648,516**	**(64,044)**	**27,010**	**9,611,482**

A strengthening of the KZT, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		**2009**	
	Profit or loss KZT’000	**Equity KZT’000**	**Profit or loss KZT’000**	**Equity KZT’000**
10% appreciation of USD against KZT	28,741	28,741	(5,124)	(5,124)
10% appreciation of other currency against KZT	3,504	3,504	2,161	2,161

A weakening of the KZT against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

19 Risk management, continued

(c) Credit risk

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

The credit policy establishes:

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

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

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

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

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

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

19 Risk management, continued

(c) Credit risk, continued

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

	2010 KZT’000	2009 KZT’000
ASSETS		
Cash equivalents	42,166,558	53,579,852
Mandatory reserve with the National Bank of the Republic of Kazakhstan	659,475	855,810
Loans to customers	2,821,035	683,669
Held-to-maturity investments	8,782,071	7,862,569
Other financial assets	140,054	136,286
Total maximum exposure	**54,569,193**	**63,118,186**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 11.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 21.

As at 31 December 2010 and 2009 the Bank had one and two debtors, respectively credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2010 and 2009 were KZT 39,571,439 thousand and KZT 56,525,371 thousand.

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans

19 Risk management, continued

(d) Liquidity risk, continued

- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements

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

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

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the FMSA. The Bank was in compliance with these ratios during the years 31 December 2010 and 2009.

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

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	374,364	-	-	-	-	374,364	374,364
Current accounts and deposits from customers	42,974,829	145,308	35,785	87,972	253,760	43,497,654	43,491,794
Total liabilities	**43,349,193**	**145,308**	**35,785**	**87,972**	**253,760**	**43,872,018**	**43,866,158**
Credit related commitments	**14,006,298**	**-**	**-**	**-**	**-**	**14,006,298**	**14,006,298**

19 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	364,279	-	-	-	-	364,279	364,279
Current accounts and deposits from customers	51,658,230	1,145,502	238,058	143,108	52,330	53,237,228	53,224,948
Total liabilities	**52,022,509**	**1,145,502**	**238,058**	**143,108**	**52,330**	**53,601,507**	**53,589,227**
Credit related commitments	**1,695,990**	**-**	**-**	**-**	**-**	**1,695,990**	**1,695,990**

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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

- from 1 to 3 months: KZT 144,878 thousand
- from 3 to 6 months: KZT 29,707 thousand
- from 6 to 12 months: KZT 92,115 thousand
- more than 1 year: KZT 250,987 thousand

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

19 Risk management, continued

(d) Liquidity risk, continued

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

KZT’000	Demand and less than 1 month ’000 KZT	From 1 to 3 months ’000 KZT	From 3 to 12 months ’000 KZT	From 1 to 5 years ’000 KZT	More than 5 years ’000 KZT	No maturity ’000 KZT	Total ’000 KZT
Non-derivative assets							
Cash and cash equivalents	42,265,300	-	-	-	-	-	42,265,300
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	-	659,475	659,475
Loans to customers	61,988	106,415	637,954	1,852,127	162,551	-	2,821,035
Held-to-maturity investments	-	1,470,821	5,102,215	2,209,035	-	-	8,782,071
Property, equipment and intangible assets	-	-	-	-	-	672,965	672,965
Deferred tax assets	-	-	-	-	-	3,802	3,802
Other assets	103,688	50,932	20,650	-	-	-	175,270
Total assets	**42,**430,976	1,628,168	5,760,819	4,061,162	162,551	**1,336,242**	55,379,918
Non-derivative liabilities							
Deposits and balances from banks	374,364	-	-	-	-	-	374,364
Current accounts and deposits from customers	42,974,114	144,878	121,815	250,987	-	-	43,491,794
Other liabilities	8,369	-	-	-	-	-	8,369
Total liabilities	43,356,847	144,878	121,815	250,987	-	-	43,874,527
Net position	(925,871**)**	1,483,290	5,639,004	3,810,175	162,551	1,336,242	11,505,391

19 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Non-derivative assets							
Cash and cash equivalents	51,662,375	2,000,000	-	-	-	-	53,662,375
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	-	-	-	-	855,810	855,810
Loans to customers	1,169	656	246,387	296,515	138,942	-	683,669
Held-to-maturity investments	102,403	990,340	3,469,021	3,300,805	-	-	7,862,569
Property, equipment and intangible assets	-	-	-	-	-	573,937	573,937
Deferred tax assets	-	-	-	-	-	2,825	2,825
Other assets	93,341	24,743	21,477	-	-	-	139,561
Total assets	51,859,288	3,015,739	3,736,885	3,597,320	138,942	**1,432,572**	63,780,746
Non-derivative liabilities							
Deposits and balances from banks	364,279	-	-	-	-	-	364,279
Current accounts and deposits from customers	51,657,670	1,144,390	376,150	46,738	-	-	53,224,948
Other liabilities	35,277	-	-	-	-	-	35,277
Total liabilities	52,057,226	1,144,390	376,150	46,738	-	-	53,624,504
Net position	**(197,938)**	1,871,349	3,360,735	3,550,582	138,942	1,432,572	10,156,242

20 Capital management

The FMSA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSA banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2010, this minimum level of tier 1 capital to total assets is 5% (2009: 5%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 10% (2009: 10%). The Bank was in compliance with the statutory capital ratios during the years ended 31 December 2010 and 2009.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the FMSA, as at 31 December:

	2010 KZT'000	**2009 KZT'000**
Tier 1 capital:		
Share capital	5,485,008	5,485,008
Share premium	89,144	89,144
Retained earnings of prior periods and reserves formed from retained earnings	4,418,394	3,000,756
Total tier 1 capital	**9,992,546**	**8,574,908**
Tier 2 capital:		
Profit for the year	1,349,149	1,567,855
General reserves, not higher than 1.25% of total risk weighted assets	66,172	13,479
Total tier 2 capital	**1,415,321**	**1,581,334**
Total capital	**11,407,867**	**10,156,242**
Risk-weighted assets	**13,126,**699	**5,568,458**
Tier 1 capital to total assets	**0.180**	**0.134**
Total capital to risk weighted assets	**0.869**	**1.824**

20 Capital management, continued

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

21 Commitments

The Bank has outstanding commitments to extend credit. These commitments take the form of approved loans.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	2010 KZT’000	**2009 KZT’000**
Contracted amount		
Loan and credit line commitments	13,291,398	657,998
Guarantees and letters of credit	714,900	1,037,992
	14,006,298	**1,695,990**

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

Concentration

As at 31 December 2010 the Bank has one customer (2009: nil), whose balances exceed 10% of equity. This balance as at 31 December 2010 was KZT 12,557,860 thousand (2009: nil).

22 Contingencies

(a) Insurance

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

(b) Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

22 Contingencies, continued

(c) Taxation contingencies

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

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

23 Related party transactions

(a) Control relationships

The Bank's Parent is Bank of China Limited, which produces publicly available financial statements. The party with ultimate control over the Bank is the Government of the People's Republic of China.

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

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

	2010 KZT'000	2009 KZT'000
Management of the Board of Directors	1,918	1,644
Members of the Management Board	33,253	39,353
	35,171	**40,997**

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

	2010 KZT'000	Average interest rate, %	2009 KZT'000	Average interest rate, %
Statement of Financial Position				
ASSETS				
Loans to customers	4,718	10.8	6,156	10.8
LIABILITIES				
Current accounts and deposits from customers	25,416	3.2	1,347	3.0

All loans are in Tenge and repayable by the end of 2014.

23 Related party transactions, continued

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

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

	2010 KZT’000	2009 KZT’000
Statement of Comprehensive Income		
Interest income	606	197
Interest expense	20	15

(c) Transactions with other related parties

Other related parties include: the Parent Bank, fellow subsidiaries of the Bank and other related parties. The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows:

	Parent Bank		Fellow subsidiaries		Other related parties*		
	KZT’000	Average interest rate, %	KZT’000	Average interest rate, %	KZT’000	Average interest rate, %	Total KZT’000
Statement of Financial Position							
ASSETS							
Cash and cash equivalents:							
- Placements with banks – nostro accounts							
- In USD	301,652	0.15%	2,912,220	0.11%	-	-	3,213,872
- In other currency			40,722	0.53%	-	-	40,722
Loans to customers							
- In USD							
Principal balance	-	-	-	-	75,524	2.91%	75,524
Other financial assets	-	-	-	-	140,054	1.13%	140,054

23 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent Bank		Fellow subsidiaries		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
LIABILITIES							
Current accounts and deposits from customers							
- In KZT	-	-	-	-	7,061,755	2%	7,061,755
- In USD	-	-	-	-	30,512,620	-	30,512,620
Other liabilities							
- In USD	-	-	-	-	4	-	4
Items not recognised in the Statement of Financial Position							
Guarantees given	-	-	421,223	-	-	-	421,223
Guarantees received	-	-	12,567,000	-	-	-	12,567,000
Letter of credits issued	-	-	-	-	166,793	-	166,793
Statement of Comprehensive Income							
Interest income	664	0.15%	6,256	0.15%	-	-	6,920
Fee and commission income	-	-	-	-	795,537	-	795,537
Fee and commission expense	8,513	-	88	-	-	-	8,601
General administrative expenses	-	-	27,912	-	-	-	27,912

*Other related parties include entities that are under control of the Government of the People's Republic of China.

As at 31 December 2010 the Bank received a guarantee issued by Bank of China Cayman Islands on the undrawn credit loan committment (Note 21).

23 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent Bank		Fellow subsidiaries		Other related parties*		
	KZT’000	Average interest rate, %	KZT’000	Average interest rate, %	KZT’000	Average interest rate, %	Total KZT’000
Statement of Financial Position							
ASSETS							
Cash and cash equivalents							
Placements with banks - nostro accounts							
- In USD	536,858	0.15%	5,218,139	0.11%	-	-	5,754,997
- In other currency	-	-	17,863	-	-	-	17,863
Other financial assets	-	-	-	-	136,286	8.33%	136,286
LIABILITIES							
Current accounts and deposits from customers							
- In KZT	-	-	-	-	3,092,914	-	3,092,914
- In USD	-	-	-	-	7,165,145	-	7,165,145
Items not recognised in the Statement of Financial Position							
Guarantees received	-	-	5,094	-	-	-	5,094
Statement of Comprehensive Income							
Interest income	292	0.15%	7,418	0.11%	-	-	7,710
Interest expense	20,441	4.05%	-		-		20,441
Fee and commission income	-	-	-	-	800,813	-	800,813
General administrative expenses	-	-	46,044	-	-	-	46,044

*Other related parties include entities that are under control of the Government of the People’s Republic of China.

24 Financial assets and liabilities: fair values and accounting classifications

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

KZT '000	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	42,265,300	-	42,265,300	42,265,300
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	659,475	-	659,475	659,475
Loans to customers:					
- Loans to legal entities	-	2,655,557	-	2,655,557	2,514,419
- Loans to individuals	-	165,478	-	165,478	136,416
Held-to-maturity investments:					
- Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	5,194,730	-	-	5,194,730	5,244,376
- Notes issued by the National Bank of the Republic of Kazakhstan	3,587,341	-	-	3,587,341	3,591,437
Other financial assets	-	140,054	-	140,054	140,054
	8,782,071	**45,885,864**	**-**	**54,667,935**	**54,551,477**
Deposits and balances from banks	-	-	374,364	374,364	374,364
Current accounts and deposits from customers	-	-	43,491,794	43,491,794	43,451,133
	-	**-**	**43,866,158**	**43,866,158**	**43,825,497**

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

KZT '000	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	53,662,375	-	53,662,375	53,662,375
Mandatory reserve with the National Bank of the Republic of Kazakhstan	-	855,810	-	855,810	855,810
Loans to customers:					
- Loans to legal entities	-	554,069		554,069	502,667
- Loans to individuals	-	129,600	-	129,600	91,352
Held-to-maturity investments:					
- Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	7,862,569	-	-	7,862,569	7,824,709
Other financial assets	-	136,286	-	136,286	136,286
	7,862,569	**55,338,140**	**-**	**63,200,709**	**63,073,199**
Deposits and balances from banks	-	-	364,279	364,279	364,279
Current accounts and deposits from customers	-	-	53,224,948	53,224,948	53,197,247
Other liabilities	-	-	35,277	35,277	35,277
	-	**-**	**53,624,504**	**53,624,504**	**53,596,803**

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

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

The estimated fair values of all financial assets, except held-to-maturity investments and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at reporting date. The fair value of held-to-maturity investments is determined by using market observable inputs.