"Al Hilal" Islamic Bank" JSC
Financial Statements

Period from 22 January 2010 (Inception date) to 31 December 2010
Together with Independent Auditors' Report

Contents

Independent auditors' report

Statement of financial position ... 1
Statement of comprehensive income ... 3
Statement of changes in equity ... 4
Statement of cash flows ... 5

Notes to financial statements

1. Principal activities ... 5
2. Basis of preparation ... 5
3. Definition of significant terms ... 5
4. Summary of accounting policies ... 5
5. Significant accounting judgments and estimates ... 12
6. Cash and cash equivalents ... 12
7. Receivables from finance activities ... 12
8. Property and equipment ... 13
9. Intangible assets ... 13
10. Taxation ... 13
11. Other assets and liabilities ... 14
12. Wakala deposits from shareholder ... 14
13. Amounts due to customers ... 14
14. Equity ... 15
15. Commitments and contingencies ... 15
16. Net fee and commission income ... 16
17. Personnel and other operating expenses ... 17
18. Risk management ... 17
19. Fair values of financial instruments ... 23
20. Maturity analysis of assets and liabilities ... 23
21. Related party disclosures ... 24
22. Capital adequacy ... 24

Ernst & Young

Ernst & Young LLP
Esentai Tower
Al-Farabi Ave., 77/7
Almaty, Kazakhstan
Tel: +7 (727) 258 5960
Fax: +7 (727) 258 5961
www.ey.com/kazakhstan

ТОО «Эрнст энд Янг»
Казахстан, Алматы
пр. Аль-Фараби, 77/7
Здание «Есентай Тауэр»
Тел.: +7 (727) 258 5960
Факс: +7 (727) 258 5961

Independent auditors' report

To the Shareholder and Board of Directors of "Al Hilal" Islamic Bank" JSC

We have audited the accompanying financial statements of "Al Hilal" Islamic Bank" JSC , which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, of changes in equity and of cash flows for the period from 22 January 2010 (inception date) to 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

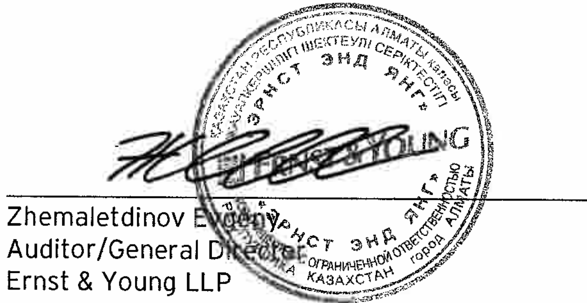
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

ERNST & YOUNG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of "Al Hilal" Islamic Bank" JSC as at 31 December 2010, and its financial performance and its cash flows for the period from 22 January 2010 (inception date) to 31 December 2010 in accordance with International Financial Reporting Standards.



Zhemaletdinov Evgeny
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

4 March 2011

STATEMENT OF FINANCIAL POSITION

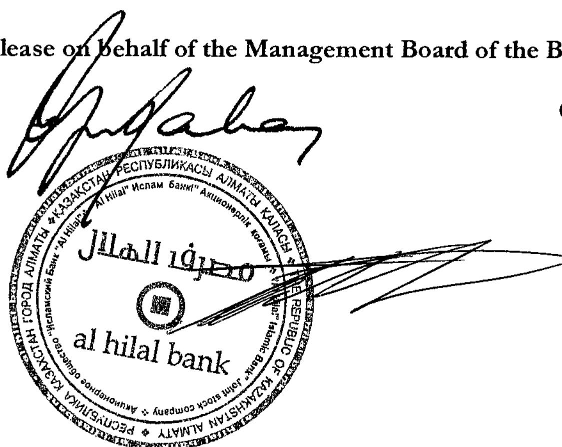
As of 31 December 2010

(Thousands of tenge)

	Notes	2010
Assets		
Cash and cash equivalents	6	**5,835,055**
Receivables from Islamic finance activities	7	**437,204**
Property and equipment	8	**96,571**
Intangible assets	9	**5,577**
Deferred income tax assets	10	**93,677**
Other assets	11	**70,996**
Total assets		**6,539,080**
Liabilities		
Wakala deposits from shareholder	12,15	**54,751**
Amounts due to customers	13	**256,616**
Unamortized commission income		**8,893**
Other liabilities	11	**101,757**
Total liabilities		**422,017**
Equity	14	
Share capital		**6,500,000**
Total Comprehensive loss for the period		**(382,937)**
Total equity		**6,117,063**
Total liabilities and equity		**6,539,080**

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

Prasad Abraham — Chairman of the Management Board



Aidyn Tairov — Chief Accountant

4 March 2011

The accompanying notes on pages 5 to 24 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the period from 22 January 2010 (inception date) to 31 December 2010

(Thousands of tenge)

	Notes	
Revenue from Islamic finance activities		13,002
Net fee and commission income	16	47,028
Net gains from foreign currencies:		
- dealing		2,718
- translation differences		1,524
Non-finance income		51,270
Personnel expenses	17	(320,473)
Other operating expenses	17	(220,413)
Non-finance expenses		(540,886)
Loss before corporate income tax benefit		(476,614)
Corporate income tax benefit	10	93,677
Loss for the period		(382,937)
Other comprehensive income for the period		–
Total comprehensive loss for the period		(382,937)

The accompanying notes on pages 5 to 24 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the period from 22 January 2010 (inception date) to 31 December 2010

(Thousands of tenge)

	Share capital	*Total Comprehensive loss for the period*	*Total*
22 January 2010 (inception date)	–	–	–
Initial share capital contribution (Note 14)	5,000,000	–	5,000,000
Additional share issuance (Note 14)	1,500,000	–	1,500,000
Comprehensive loss for the period	–	(382,937)	(382,937)
31 December 2010	6,500,000	(382,937)	6,117,063

The accompanying notes on pages 5 to 24 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the period from 22 January 2010 (inception date) to 31 December 2010

(Thousands of tenge)

	Notes	
Cash flows from operating activities		
Revenue received from Islamic finance activities		10,186
Fees and commissions received		47,282
Fees and commissions paid		(1,507)
Net realised gains from dealing in foreign currencies		2,718
Personnel expenses paid		(311,184)
Other operating expenses paid		(144,366)
Cash flows used in operating activities before changes in operating assets and liabilities		**(396,871)**
Net increase in operating assets		
Receivables from Islamic finance activities		(432,787)
Other assets		(48,778)
Net increase in operating liabilities		
Wakala deposits from shareholder		54,550
Amounts due to customers		256,616
Other liabilities		8,275
Unamortised commission income		–
Net cash used in operating activities before corporate income tax		**(558,995)**
Corporate income tax paid		–
Net cash used in operating activities		**(558,995)**
Cash flows from investing activities		
Purchase of property and equipment	8	(99,867)
Purchase of intangible assets	9	(6,207)
Net cash used in investing activities		**(106,074)**
Cash flows from financing activities		
Proceeds from issuance of share capital		6,500,000
Net cash flows from financing activities		**6,500,000**
Effect of exchange rates changes on cash and cash equivalents		124
Net increase in cash and cash equivalents		**5,835,055**
Cash and cash equivalents, at 22 January 2010 (inception date)		–
Cash and cash equivalents, at 31 December 2010	6	**5,835,055**

The accompanying notes on pages 5 to 24 are an integral part of these financial statements.

1. Principal activities

"Al Hilal" Islamic Bank" JSC (the "Bank") was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license №1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations (the "FMSA") on 17 March 2010.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and a branch in Astana. The Bank accepts deposits from the public and extends finance transactions based on Sharia principles and rules, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

As at 31 December the sole shareholder of the bank is Al Hilal Bank PJSC (Abu Dhabi, United Arabic Emirates). The ultimate shareholder of the Bank is the Government of the United Arabian Emirates, represented by Abu Dhabi Investment Council.

The registered address of the Bank is Masanchi str. 26, Almaty, Republic of Kazakhstan.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention. These financial statements are presented in thousands of tenge ("tenge" or "KZT") unless otherwise indicated.

3. Definition of significant terms

Sharia

Sharia is the Body of Islamic law and is derived from the Holy Quran and the Sunna'h of Holy Prophet (PBUH). The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Murabaha

Murabaha is an agreement whereby the Bank makes a sale to a customer of an asset that is possessed by the bank based on a offer from the customer to buy the relevant asset according to the relevant specific terms and conditions. While making a sale under Murabaha agreement, the Bank expressly mentions the costs incurred on the asset to be sold and the profit thereon, to the customer.

Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

Wakala

An agreement whereby the Investor provides a certain sum of money to an agent (the Bank), who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent (the Bank) may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The agent (the Bank) is obliged to return the invested amount in case of the Bank's negligence or violation of the terms and conditions of the Wakala.

4. Summary of accounting policies

Financial assets

Initial recognition

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

4. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Receivables from Islamic finance activities

Receivables from Islamic finance activities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivable from Islamic finance activities consisted of Murabaha receivables. Murabaha receivables are stated at amortised cost less any provision for impairment.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Reclassification of financial assets

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

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

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

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

Cash and cash equivalents

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

Leases

Operating - Bank as lessee

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

4. Summary of accounting policies (continued)

Impairment of financial assets

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

Receivables from Islamic finance activities

For receivables from Islamic finance activities carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Finance income continues to be accrued on the reduced carrying amount based on the original effective profit rate of the asset. Receivables from Islamic finance activities together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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

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

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

4. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Taxation

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

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

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

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

4. Summary of accounting policies (continued)

Property and equipment (continued)

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

	Years
Buildings	20
Furniture and fixtures	4
Computers and office equipment	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Assets under construction represents property and equipment under construction and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. Depreciation of construction-in-progress commences when construction of such assets is completed or when the equipment are ready for their intended use.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets include computer software. Intangible assets are carried at cost less any accumulated amortization. Intangible assets are amortised on a straight –line basis over the useful economic lives of 6 to 7 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

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

Share capital

Share capital

Ordinary shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Fiduciary assets

Assets held in a fiduciary capacity under Wakala and Mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for Mudaraba and Wakala products, unless this happened due to the Bank's gross negligence or willful misconduct, both Wakala and Mudaraba deposits are accounted as off balance sheet items in the Bank's financial statements.

Contingencies

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

Recognition of income and expenses

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

4. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Income and expense on Islamic finance

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

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

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and agency fee under Wakala agreements..

Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") and reported by the NBRK at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The market exchange rates at 31 December 2010 and 22 January 2010 (inception date) were KZT 147.5 and KZT 146.95 to USD 1, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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

IFRS 9 "Financial Instruments"

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

4. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

Improvements to IFRSs

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

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

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Bank now evaluates the impact of the adoption of these amendments.

5. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

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

Impairment losses on receivables from Islamic finance activities

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

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010
Cash on hand	55,247
Current account with the NBRK	5,652,124
Current accounts with other credit institutions	127,684
Cash and cash equivalents	**5,835,055**

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2010, obligatory reserves amounted to KZT 7,352 thousand.

7. Receivables from Islamic finance activities

As at 31 December 2010 receivables from Islamic finance activities comprised receivables arising from Murabaha agreements, which bear profit rate of 10%-12% per annum and mature in 2011-2017.

Collateral and other credit enhancements

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

As at 31 December 2010 receivables arising from Murabaha agreements are secured by real estate, movable property, inventory, corporate guarantees and cash deposits. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment on receivables from Islamic finance activities. No allowance for losses is established as the receivables are unimpaired as at 31 December 2010.

Concentration of receivables from Islamic finance activities

Receivables from Islamic finance activities are made principally within Kazakhstan in the following industry sectors:

	2010
Food trading	370,860
Transportation services	57,339
Real estate construction	9,005
	437,204

8. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Assets under construction*	*Total*
Cost					
22 January 2010 (inception date)	–	–	–	–	–
Additions	75,995	7,389	4,579	11,904	99,867
31 December 2010	75,995	7,389	4,579	11,904	99,867
Accumulated depreciation					
22 January 2010 (inception date)	–	–	–	–	–
Depreciation charge	(932)	(1,055)	(587)	(722)	(3,296)
31 December 2010	(932)	(1,055)	(587)	(722)	(3,296)
Net book value:					
22 January 2010 (inception date)	–	–	–	–	–
31 December 2010	75,063	6,334	3,992	11,182	96,571

9. Intangible assets

The movements in intangible assets were as follows:

	Computer software
Cost	
22 January 2010 (inception date)	–
Additions	6,207
31 December 2010	6,207
Accumulated amortization and impairment	
22 January 2010 (inception date)	–
Amortisation charge	(630)
31 December 2010	(630)
Net book value:	
22 January 2010 (inception date)	–
31 December 2010	5,577

10. Taxation

The corporate income tax expense comprises:

	31 December 2010
Current tax charge	–
Deferred tax credit – origination and reversal of temporary differences	93,677
Income tax benefit	93,677

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with Kazakhstan tax legislation, the corporate income tax rate is set at 20%.

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

	31 December 2010
Loss before income tax benefit	(476,614)
Statutory corporate income tax rate	20%
Theoretical income tax benefit at the statutory rate	(95,323)
Non-deductible expenditures:	
- entertainment	1,360
- representation expenses	284
- Other accrued expenses	2
Income tax benefit	(93,677)

10. Taxation (continued)

Deferred tax assets and liability as of 31 December 2010 and their movements for the period comprise:

	22 January 2010 (inception date)	*Origination and reversal of temporary differences in the statement of comprehensive income*	*31 December 2010*
Tax effect of deductible temporary differences:			
Tax loss carried forward	–	93,698	93,698
Unused vacation reserves	–	1,858	1,858
Deferred tax assets	–	95,556	95,556
Tax effect of taxable temporary differences:			
Property and equipment	–	(1,879)	(1,879)
Deferred tax liability	–	(1,879)	(1,879)
Deferred tax assets	–	93,677	93,677

Tax loss in Kazakhstan can be carried forward up to ten years in accordance with the Tax Code.

11. Other assets and liabilities

Other assets comprise:

	31 December 2010
Prepayments for the repair works	43,761
Agency commission and performance incentive receivable under Wakala agreements	10,146
Guarantee deposit	2,363
Other prepayments	14,726
Other assets	70,996

Other liabilities comprise:

	31 December 2010
Accounts payables	84,193
Unused vacation reserves	9,289
Tax payables	8,275
Other liabilities	101,757

12. Wakala deposits from shareholder

As at 31 December 2010, Wakala deposits from shareholder of KZT 54,751 thousand comprised unutilised portion of Wakala deposits placed by the shareholder (see Note 15).

13. Amounts due to customers

The amounts due to customers include the following:

	31 December 2010
Current accounts	245,193
Unutilised portion of Mudaraba deposits (Note 15)	11,423
Amounts due to customers	256,616

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

	31 December 2010
Private enterprises	198,863
Individuals	57,055
Employees	698
Amounts due to customers	256,616

13. Amounts due to customers

An analysis of customer accounts by economic sector follows:

	31 December 2010
Real estate constructions	148,459
Individuals	57,055
Government	33,117
Trade	13,336
Transport and communication	3,934
Employees	698
Other	17
Amounts due to customers	256,616

14. Equity

On 22 January 2010 the Bank has issued 5,000,000 common shares, which were fully paid in by the shareholder in the amount of KZT 5,000,000 thousand. On 25 August 2010 the shareholder decided to increase the Bank's authorised capital from KZT 5,000,000 thousand to KZT 10,000,000 thousand. On 28 October 2010 the Bank has issued additional 1,500,000 shares, which were also fully paid in by the shareholder in the amount of KZT 1,500,000 thousand. As at 31 December 2010, 6,500,000 common shares have been issued and fully paid for the total amount of KZT 6,500,000 thousand. No dividends were declared or distributed during 2010.

15. Commitments and contingencies

Operating environment

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Kazakhstan Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. As at 31 December 2010, no provision has been made in these financial statements for any of the contingent liabilities.

Taxation

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

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

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

As of 31 December the Bank's commitments and contingencies comprised the following:

	2010
Credit related commitments	
Undrawn commitments on receivables from Islamic finance activities	587,296
Commitments and contingencies	587,296

15. Commitments and contingencies (continued)

Agency activities

The Bank acts in agent capacity in investing amounts received under Wakala and act as a Mudareb in Mudaraba agreements during the period from 22 January 2010 (Inception date) to 31 December 2010 as follows:

	Period from 22 January 2010 (inception date) to 31 December 2010
Wakala	
Wakala deposits received	2,217,700
Amount utilised for issuance of Murabaha receivables	(2,175,188)
Unutilised portion of Wakala deposits	42,512
Profit received on Murabaha receivables payable to customers under Wakala agreements	12,239
Wakala deposits from shareholder (Note 12)	54,751
Profit accrued on Murabaha receivables	54,793
Agency commission attributable to the Bank (Note 16)	(37,925)
Profit attributable to customers on the Wakala deposit	16,868
Mudaraba	
Mudaraba deposits received	11,423
Unutilised portion of Mudaraba deposits (Note 13)	11,423

The Bank carries no risk for utilised portion of Wakala and Mudaraba deposits.

16. Net fee and commission income

Net fee and commission income comprises:

	Period from 22 January 2010 (inception date) to 31 December 2010
Agency commission and performance incentive under Wakala agreements (Note 15)	37,925
Letters of credit	5,039
Finance origination fee non-capitalisable portion	4,935
Transfer operations	431
Settlement and cash operations	85
Other	120
Fee and commission income	48,535
Transfer operations	(1,330)
Other	(177)
Fee and commission expense	(1,507)
Net fee and commission income	47,028

17. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	Period from 22 January 2010 (inception date) to 31 December 2010
Salaries and bonuses	(291,915)
Social security costs	(28,558)
Personnel expenses	**(320,473)**
Rent	(82,015)
Professional services	(39,448)
Security	(14,448)
Taxes	(12,883)
Information technology services	(12,870)
Communication	(10,724)
Business trips	(8,081)
Transportation	(6,026)
Entertainment	(5,283)
Advertising	(4,457)
Cleaning services	(4,002)
Depreciation	(3,926)
Trainings	(2,978)
Stationery	(2,955)
Utilities	(2,664)
Other	(7,653)
Other operating expenses	**(220,413)**

18. Risk management

Introduction

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

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

Risk management structure

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

Board of Directors

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

Management Board

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

18. Risk management (continued)

Introduction (continued)

Risk Controlling

Risk Management Department is responsible for control over compliance with principles, policies on risk-management and risk limits of Bank, for independent risk control, including positions subject to risk in comparison with established limits, estimation of risk for new products and structured transactions and also performs collection of full information in risk estimation systems and risk-management reports. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The Department together with Business units is responsible for realisation of Credit Policy of the Bank and requirements of other internal documents and of state regulators. The Department takes part in making decisions on accepting different risks. The Department develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. Risk Management Department develops and implements methodology and analytical instruments, which allow evaluating risks, to control level of risk and organise procedures to mitigate risks is an essential part of work of the Department.

Islamic Financial Principles Board

The is responsible to review the operational, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory Board they are also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia'a in the Bank's overall activities.

The Sharia Coordinator is representing Islamic Financial Principles Board and also responsible to ensure compliance with instructions issued by the *Islamic Financial Principles Board* including reviewing and Sharia Auditing all standard and non standard contracts, product parameters, financial statements and Sharia Audit, etc.

Bank Treasury

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

Internal audit

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

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Asset and Liability Committee, and the Credit Committee as appropriate. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

The Bank actively uses collateral to reduce its credit risk.

18. Risk management (continued)

Introduction (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

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

Credit-related commitments risks

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

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

	Notes	*Maximum exposure 2010*
Cash and cash equivalents (excluding cash on hand)	6	5,779,808
Receivables from Islamic finance activities	7	437,204
Other assets	11	12,508
		6,229,520
Financial commitments and contingencies	15	587,296
Total credit risk exposure		6,816,816

Credit quality per class of financial assets

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

		Neither past due nor impaired	
	Notes	*Standard grade 2010*	*Total 2010*
Receivables from Islamic finance activities	7	437,204	437,204
Total		437,204	437,204

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

18. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the impairment assessment of receivables from Islamic finance activities include whether any payments on those receivables are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on receivables from Islamic finance activities that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

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

	2010		
	Kazakhstan	*UAE*	*Total*
Assets:			
Cash and cash equivalents	5,707,371	127,684	5,835,055
Receivables from Islamic finance activities	437,204	–	437,204
Other assets	12,509	–	12,509
	6,157,084	127,684	6,284,768
Liabilities:			
Wakala deposits from shareholder	54,751	–	54,751
Amounts due to customers	256,616	–	256,616
Other liabilities	92,468	–	92,468
	403,835	–	403,835
Net assets / (liabilities)	5,753,249	127,684	5,880,933

Liquidity risk and funding management

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

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

18. Risk management (continued)

Liquidity risk and funding management (continued)

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

	2010, %
Quick ratio k4-1 (average amount of highly liquid assets) / (average liabilities with remaining maturities up to 7 days)	77,692.39
Minimum ratio: greater than 1	77,692.39
Quick ratio k4-2 (average assets with remaining maturities up to 1 month, including highly liquid assets) / (average liabilities with remaining maturities up to 1 month, including demand liabilities)	1,312.911
Minimum ratio: greater than 0.9	1,113.65
Quick ratio k4-3 (average assets with remaining maturities up to 3 months, including highly liquid assets) / (average liabilities with remaining maturities up to 3 months, including demand liabilities)	1,113.65
Minimum ratio: greater than 0.8	28.05

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2010	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Wakala deposits from shareholder	54,751	–	–	–	54,751
Amounts due to customers	251,225	5,391	–	–	256,616
Other liabilities	101,757	–	–	–	101,757
Total undiscounted financial liabilities	407,733	5,391	–	–	413,124

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on receivable is included in the time band containing the earliest date it can be drawn down.

2010	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	–	98,333	488,963	–	587,296

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchanges.

Currency risk

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

18. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
USD	+11.56%	35,576	-11.56%	(35,576)
EUR	+16.65%	49	-16.65%	(49)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit , market and liquidity risks such as those arising from legal, Sharia and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk assigned to senior management within cash business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action.
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards
- Risk mitigation;

Compliance with the Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit and Shaira Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors and senior management of the Bank.

19. Fair values of financial instruments

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

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

	Carrying value 2010	*Fair value 2010*	*Unrecognised Gain /(loss) 2010*
Financial assets			
Cash and cash equivalents	5,835,055	5,835,055	–
Receivables from Islamic finance activities	437,204	437,204	–
Other assets	70,996	70,996	–
Financial liabilities			
Wakala deposits from shareholder	54,751	54,751	–
Amounts due to customers	256,616	256,616	–
Other liabilities	101,757	101,757	–
Total unrecognised change in unrealised fair value			–

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

Assets for which fair value approximates carrying value

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

20. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 18 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	5,835,055	–	5,835,055
Receivables from Islamic finance activities	370,860	66,344	437,204
Property and equipment	–	96,571	96,571
Intangible assets	–	5,577	5,577
Deferred income tax assets	–	93,677	93,677
Other assets	70,996	–	70,996
Total	6,276,911	262,169	6,539,080
Wakala deposits from shareholder	54,751	–	54,751
Amounts due to customers	256,616	–	256,616
Unamortised commission income	3,614	5,279	8,893
Other liabilities	101,757	–	101,757
Total	416,738	5,279	422,017
Net	5,860,173	256,890	6,117,063

21. Related party disclosures

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

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

The outstanding balances of related party transactions are as follows:

	2010
	Shareholder
Cash and cash equivalents as at 22 January 2010	–
Receipts on current account during the period	578,301
Payments from the current account during the period	(450,617)
Cash and cash equivalents as at 31 December 2010	127,684
Wakala deposits from shareholder as at 22 January 2010	–
Receipts on current account during the period	238,480
Payments from the current account during the period	(183,729)
Wakala deposits from shareholder as at 31 December 2010	54,751
Other liabilities as at 22 January 2010	
Receipts on current account during the period	65,998
Other liabilities as at 31 December 2010	65,998
Funds received under Wakala Agreement (Note 15)	2,217,700

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

	Period from 22 January 2010 (Inception date) to 31 December 2010
	Shareholder
Fee and commission income	37,925

Compensation of key management personnel comprised the following:

	2010
Salaries and other short-term benefits	82,739
Social security costs	9,107
Total key management personnel compensation	91,846

22. Capital adequacy

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

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The FMSA requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of the total assets and a capital adequacy ratio (Tier 2) not less than 10% if risk weighted assets, computed based on requirement. As at 31 December 2010, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's capital adequacy ratio, computed in accordance with the FMSA requirements as at 31 December 2010, comprise:

	2010
Tier 1 capital	6,500,000
Tier 2 capital	(382,937)
Total capital	6,117,063
Risk weighted assets	1,435,620
Tier 1 capital ratio	99%
Total capital ratio	426%