Subsidiary Bank Sberbank of Russia JSC

Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

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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 Subsidiary Bank Sberbank of Russia JSC

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

ERNST & YOUNG

Opinion

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

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

9 March 2011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

(In thousands of Tenge)

	Note	*2010*	*2009*
Assets			
Cash and cash equivalents	5	**42,273,136**	80,029,706
Amounts due from other banks	6	**744,222**	1,495,790
Loans and advances to customers	7	**168,288,891**	91,787,773
Investment securities:	8		
- available-for-sale		**52,303,141**	27,650,766
- held-to-maturity		**9,715,308**	10,622,625
Assets held for sale	9	**1,351,558**	1,245,691
Current income tax assets	21	**63,434**	71,704
Property and equipment	10	**6,977,303**	4,861,780
Intangible assets	10	**392,796**	218,380
Other assets	11	**1,112,137**	1,627,834
Total assets		283,221,926	219,612,049
Liabilities			
Amounts due to credit institutions	12	**29,271,846**	22,353,951
Amounts due to corporate customers	13	**163,860,563**	116,867,346
Amounts due to individuals	13	**35,121,145**	37,220,180
Debt securities issued	14	**13,599,564**	5,607,716
Current tax liability	21	**–**	231,632
Deferred income tax liability	21	**517,378**	136,328
Other liabilities	15	**959,858**	532,291
Total liabilities		243,330,354	182,949,444
Equity			
Share capital	16	**10,000,000**	10,000,000
Additional paid-in capital	16	**19,000,000**	19,000,000
Other reserves		**4,785,636**	3,350,520
Retained earnings		**6,105,936**	4,312,085
Total equity		39,891,572	36,662,605
Total equity and liabilities		283,221,926	219,612,049

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

Nurmanbetova L. A. Deputy of Chairman of the Board

Saurambayev N. B. Chief Accountant

9 March 2011

The accompanying selected explanatory notes on pages 6 to 43 are an integral part of these financial statements

INCOME STATEMENT

For the year ended 31 December 2010

(In thousands of Tenge)

		Year ended 31 December	
	Note	*2010*	*2009*
Interest income		**20,562,188**	13,985,193
Interest expense		**(8,594,402)**	(5,664,480)
Net interest income	17	**11,967,786**	8,320,713
Allowance for loan impairment	7	**(4,706,335)**	(2,885,445)
Net interest income after allowance for loan impairment		**7,261,451**	5,435,268
Fee and commission income	18	**4,620,311**	3,149,701
Fee and commission expense	18	**(557,026)**	(366,996)
Net gains from transactions with derivative financial instruments		**–**	1,556,926
Net gains from transactions with available-for-sale investment securities		**7,036**	–
Net gains/(losses) from foreign currencies:			
- dealing		**1,894,719**	1,463,821
- translation differences		**34,092**	(1,829,659)
Other income		**77,337**	26,415
Operating income		**13,337,920**	9,435,476
Administrative and operating expenses	19	**(7,921,538)**	(6,386,617)
Other operating provisions	20	**(2,002,043)**	(303,991)
Profit before income tax expense		**3,414,339**	2,744,868
Income tax expense	21	**(810,488)**	(586,605)
Profit for the year		**2,603,851**	2,158,263
Basic and diluted earnings per share (in Tenge)	22	**260,385**	215,826

The accompanying selected explanatory notes on pages 6 to 43 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(In thousands of Tenge)

		Year ended 31 December	
	Note	*2010*	*2009*
Profit for the year		**2,603,851**	2,158,263
Other components of comprehensive income			
Gains from revaluation of available-for-sale investment securities		**660,687**	155,279
Income tax relating to other components of comprehensive income	21	**(35,571)**	–
Other components of comprehensive income for the year, net of tax		**625,116**	155,279
Comprehensive income for the year		**3,228,967**	2,313,542

The accompanying selected explanatory notes on pages 6 to 43 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(In thousands of Tenge)

	Note	*Share capital*	*Additional paid-in capital*	*General reserve*	*Revaluation reserve of available-for-sale investment securities*	*Retained earnings*	*Total*
As at 1 January 2009		10,000,000	19,000,000	1,600,000	(4,759)	3,753,822	34,349,063
Comprehensive income for the year		–	–	–	155,279	2,158,263	2,313,542
Allowances for general reserve	16	–	–	1,600,000	–	(1,600,000)	–
As at 31 December 2009		10,000,000	19,000,000	3,200,000	150,520	4,312,085	36,662,605
Comprehensive income for the year		–	–	–	**625,116**	**2,603,851**	**3,228,967**
Allowances for general reserve	16	–	–	**810,000**	–	**(810,000)**	–
As at 31 December 2010		**10,000,000**	**19,000,000**	**4,010,000**	**775,636**	**6,105,936**	**39,891,572**

The accompanying selected explanatory notes on pages 6 to 43 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(In thousands of Tenge)

	Note	Year ended 31 December 2010	2009
Cash flows from operating activities:			
Interest received		**19,493,231**	13,553,102
Interest paid		**(5,973,415)**	(4,905,093)
Fees and commissions received		**4,620,066**	3,150,567
Fees and commissions paid		**(541,810)**	(366,275)
Net gains from transactions with derivative financial instruments		**–**	1,556,926
Net gains from dealing in foreign currencies		**1,894,719**	1,463,823
Other operating income received		**82,888**	183,661
Operating expenses paid		**(7,442,333)**	(5,978,200)
Cash flows from operating activities before changes in operating assets and liabilities		**12,133,346**	8,658,511
Net decrease/(increase) in operating assets			
Amounts due from other banks		**743,057**	(1,178,970)
Loans and advances to customers		**(81,965,677)**	(20,760,017)
Other assets		**(746,541)**	(1,150,243)
Net (decrease)/increase in operating liabilities			
Amounts due to credit institutions		**6,912,535**	6,694,886
Amounts due to corporate customers		**46,048,280**	86,519,888
Amounts due to individuals		**(2,170,778)**	25,132,529
Current tax liability		**(231,632)**	–
Other liabilities		**362,940**	426,218
Net cash flows (used in)/from operating activities before income tax		**(18,914,470)**	104,342,802
Income tax paid		**(456,739)**	(642,232)
Net cash flows (used in)/from operating activities		**(19,371,209)**	103,700,570
Cash flows from investing activities:			
Purchase of property and equipment	10	**(2,263,808)**	(2,005,768)
Advances given for property and equipment		**152,615**	97,489
Proceeds from sale of property and equipment		**3,540**	–
Purchase of intangible assets	10	**(156,540)**	(120,793)
Purchase of available-for-sale investment securities		**(46,947,524)**	–
Proceeds from sale and redemption of available-for-sale investment securities		**23,420,989**	(19,164,149)
Purchase of held-to-maturity investment securities		**(2,331)**	(10,427,605)
Proceeds from redemption of held-to-maturity investment securities		**702,665**	–
Net cash used in investing activities		**(25,090,394)**	(31,620,826)
Cash flows from financing activities:			
Redemption of debt securities issued	14	**(3,000,000)**	–
Proceeds from issuance of debt securities	14	**9,392,900**	–
Net cash from financing activities		**6,392,900**	–
Effect of exchange rate changes on cash and cash equivalents		**312,133**	(1,829,659)
Net (decrease)/increase of cash and cash equivalents		**(37,756,570)**	70,250,085
Cash and cash equivalents, beginning	5	**80,029,706**	9,779,621
Cash and cash equivalents, ending	5	**42,273,136**	80,029,706
Non-cash transactions:			
Reclassification of loans and advances to customers into assets held for sale		**(1,351,558)**	(1,245,691)

The accompanying selected explanatory notes on pages 6 to 43 are an integral part of these financial statements

1. Principal activities

Subsidiary Bank Sberbank of Russia JSC (the "Bank") was registered in 1993 in accordance with legislation of the Republic of Kazakhstan.

As at 31 December 2010 and 2009, the sole shareholder of the Bank is the Savings Bank of the Russian Federation Open Joint Stock Company (the "Parent"). The ultimate principal shareholder of the Bank is the Government of the Russian Federation. Pursuant to the Resolution No. 226 of the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of Kazakhstan (the "FMSA") dated 24 December 2008 Savings Bank of the Russian Federation Open Joint Stock Company has been awarded with the status of the Bank Holding of Subsidiary Bank of Sberbank of Russia Joint Stock Company.

The Bank's principal business activity is banking operations within the Republic of Kazakhstan. The Bank operates under a license for conducting banking and other operations and operations on securities market No. 0000145, issued on 13 December 2007, which supersedes preceding licenses. The Bank is a participant of Kazakhstani Deposit Insurance Fund JSC.

The Bank's branch network comprises 13 branches located in the Republic of Kazakhstan (31 December 2009: 12) and 92 business subdivision of branches (31 December 2009: 93).

The Bank's registered address is: 30/26, Gogol/Kaldayakov str., Almaty, Republic of Kazakhstan.

2. Basis of preparation

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 except as disclosed in the accounting policies below. For example, investment securities available-for-sale have been measured at fair value, and assets held for sale have been measured at a lower of carrying amount and fair value, less costs of sales. These financial statements are presented in thousands of Kazakh Tenge ("KZT" or "Tenge"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

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

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to early adopt the revised IAS 24 from 1 January 2010.

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

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

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

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

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

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

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

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

Improvements to IFRSs

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

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. These amendments had no impact on the Bank's financial statements.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Bank's financial statements.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and, where allowed and appropriate, re-evaluates these designations at each financial year-end.

Date of recognition

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Day 1' profit

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost, which is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the 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.

Cash and cash equivalents

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

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including currency swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as other assets when their fair value is positive and as other liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as gains less losses from derivative financial instruments.

Borrowings

Borrowings are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

Borrowings, comprising amounts due to credit institutions and amounts due to customers initially recognized at fair value of consideration received, less transactions costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

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 using an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on 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.

When issued loans are uncollectible, including exercise of security, they are written off against impairment provision. Such assets are written off after all necessary procedures to recover amounts have been completed, and when the Bank received available security.

Held-to-maturity financial investments

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

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

Available-for-sale financial investments

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

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

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Taxation

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

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

3. Summary of accounting policies (continued)

Taxation (continued)

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.

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

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

Property and equipment

Property and equipment are carried 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.

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	30
Computer equipment	3 - 5
Office and other equipment	7 - 13
Vehicles	10
Land	–

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.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount 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.

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations

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

Share capital

The share capital is recorded at fair value of consideration received or paid. 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.

Segment reporting

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

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

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

- Fee income from providing transaction services

Commission for settlement operations, operations with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated 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 at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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" (first phase)

In November 2009 and 2010, 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. A requirement relating to accounting of changes in fair value specified by credit risk was introduced with respect to financial liabilities through profit or loss using fair value measurement in other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The Bank expects that this amendment will have no 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. The Bank expects that these 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.
- 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.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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 or its financial performance.

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

In December 2010, the IASB issued amendments to IAS 12 effective for financial years beginning on or after 1 January 2012. According to amendments, deferred tax on investment property carried at fair value and on non-amortized assets in the scope of IAS 16, application to which the revaluation model is applied shall be determined based on assumption that the carrying amount shall be reimbursed through asset realization. The Bank expects that these amendments will have no impact on the Bank's financial position or its financial performance.

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

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

Allowance for loan impairment

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

Taxation

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

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

(In thousands of Tenge, unless otherwise is stated)

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2010	*2009*
Cash on hand (other than obligatory reserve assets)	**3,921,576**	3,193,406
Obligatory reserve assets	**3,185,744**	2,805,736
Cash balances with the National Bank of the Republic of Kazakhstan	**2,093,430**	27,679,300
Correspondent accounts and overnight placements with banks of:		
- Republic of Kazakhstan	**22,005,412**	38,727,478
- Russian Federation	**3,023,793**	2,431,670
- European Union countries	**2,640,917**	975,763
- United States of America	**3,469,601**	1,726,016
Placements with other banks with original maturities of less than 90 days	**1,932,663**	2,490,337
Cash and cash equivalents	**42,273,136**	80,029,706

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either non-interest bearing deposits with the National Bank of the Republic of Kazakhstan ("NBRK") or in physical cash and maintained based on average balances of the aggregate of deposits with the NBRK and physical cash in national or freely convertible currency for the period of reserves formation. As of 31 December 2010, obligatory reserves amounted to KZT 3,185,744 thousand (31 December 2009: KZT 2,805,736 thousand).

6. Amounts due from other banks

As at 31 December 2010 amounts due from other banks comprise non-impaired and unsecured deposit in a Russian bank totalling to KZT 744,222 thousand (31 December 2009: KZT 1,495,790 thousand), with maturity in 2011 (31 December 2009: in 2010) and annual interest rate of 7.2% (31 December 2009: 7.0% - 10.8%).

7. Loans and advances to customers

Loans and advances to customers comprise:

	2010		
	Not past due loans	*Past due loans*	*Total*
Corporate loans to legal entities	**131,720,639**	**6,420,871**	**138,141,510**
Specialized loans to legal entities	**24,116,867**	**903,599**	**25,020,466**
Consumers and other loans to individuals	**8,190,813**	**1,255,763**	**9,446,576**
Mortgage loans to individuals	**4,553,567**	**93,383**	**4,646,950**
Car loans to individuals	**1,287,560**	**6,888**	**1,294,448**
Total gross loans and advances to customers before allowance for loan impairment	**169,869,446**	**8,680,504**	**178,549,950**
Less: Allowance for loan impairment	**(4,460,561)**	**(5,800,498)**	**(10,261,059)**
Loans and advances to customers	**165,408,885**	**2,880,006**	**168,288,891**

	2009		
	Not past due loans	*Past due loans*	*Total*
Corporate loans to legal entities	77,684,982	3,261,580	80,946,562
Specialized loans to legal entities	5,369,675	586,415	5,956,090
Consumers and other loans to individuals	5,842,451	1,879,856	7,722,307
Mortgage loans to individuals	2,083,579	56,365	2,139,944
Car loans to individuals	829,007	3,557	832,564
Total gross loans and advances to customers before allowance for loan impairment	91,809,694	5,787,773	97,597,467
Less: Allowance for loan impairment	(792,054)	(5,017,640)	(5,809,694)
Loans and advances to customers	91,017,640	770,133	91,787,773

(In thousands of Tenge, unless otherwise is stated)

7. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers

The movements in allowance for impairment of loans for the years ended 31 December 2010 and 2009 are as follows:

	Loans to legal entities	*Loans to individuals*	*Total*
As at 31 December 2008	1,519,146	1,787,562	3,306,708
Charge for the year	2,475,690	409,755	2,885,445
Amounts written-off for the year	–	(382,459)	(382,459)
As at 31 December 2009	3,994,836	1,814,858	5,809,694
Charge/(reversal) for the year	**4,846,745**	**(140,410)**	**4,706,335**
Amounts written-off for the year	–	**(362,390)**	**(362,390)**
Recoveries of assets previously written-off	–	**111,957**	**111,957**
Exchange rate difference	–	**(4,537)**	**(4,537)**
As at 31 December 2010	**8,841,581**	**1,419,478**	**10,261,059**

Individually impaired loans

Interest income accrued on individually impaired loans at 31 December 2010, amounted to KZT 362,743 thousand (31 December 2009: KZT 145,107 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to KZT 5,008,841 thousand (31 December 2009 KZT 10,728,702 thousand). In accordance with the NBRK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending – collateral of real estate properties, inventory and guarantees;
- for retail lending – collateral of residential properties.

The Bank also received guarantees from the Parent with respect to five loans issued to customers.

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 loan impairment.

During the year, the Bank took possession of a collateral with an estimated value of KZT 1,351,558 thousand (2009: KZT 1,200,650 thousand), which the Bank is in the process of selling. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Derecognition of a loan portfolio

The Bank regularly sells a portion of its mortgage loans to Kazakhstan Mortgage Company (the "KMC") with full right of recourse to the Bank on any unpaid loan. The Bank determined that as a result of these transactions not all significant risks and rewards under the portfolio were transferred to KMC. Accordingly, the Bank continues to recognize these loans as assets in the statement of financial position and corresponding liability within loans from credit institutions for the same amount. As at 31 December 2010 these loans amounts to KZT 315,113 thousand (31 December 2009: KZT 343,402 thousand).

Concentration of loans to customers

As at 31 December 2010 the Bank had ten major borrowers, which accounted for 37.8% (31 December 2009: 40.0%) of the total gross loan portfolio before impairment. The total aggregate amount of these loans was KZT 67,867,334 thousand (31 December 2009: KZT 39,093,708 thousand). Analysis by credit quality of loans and advances to customers outstanding at 31 December 2010, based on contractual terms, is as follows:

(In thousands of Tenge, unless otherwise is stated)

7. Loans and advances to customers (continued)

	Loans before allowance for impairment	*Allowance for impairment*	*Loans less allowance for impairment*	*Ratio of allowance to loans before allowance*
Commercial loans to legal entities				
Individually impaired loans				
Not past due	549,143	(16,475)	532,668	3.0%
Loans over 90 days overdue	6,208,783	(3,821,995)	2,386,788	61.6%
Total individually impaired loans	6,757,926	(3,838,470)	2,919,456	56.8%
Collectively assessed loans				
Not past due	131,171,496	(3,422,051)	127,749,445	2.6%
Loans up to 30 days overdue	13	(11)	2	84.6%
Loans 31 to 90 days overdue	38,707	(11,152)	27,555	28.8%
Loans over 91 days overdue	173,368	(65,024)	108,344	37.5%
Total collectively assessed loans	131,383,584	(3,498,238)	127,885,346	2.7%
Total commercial loans to legal entities	138,141,510	(7,336,708)	130,804,802	5.3%
Specialized loans to legal entities				
Individually impaired loans				
Loans over 90 days overdue	824,629	(769,690)	54,939	93.3%
Total individually impaired loans	824,629	(769,690)	54,939	93.3%
Collectively assessed loans				
Not past due	24,116,867	(712,431)	23,404,436	3.0%
Loans up to 30 days overdue	5,493	(1,582)	3,911	28.8%
Loans over 90 days overdue	73,477	(21,170)	52,307	28.8%
Total collectively assessed loans	24,195,837	(735,183)	23,460,654	3.0%
Total specialized loans to legal entities	25,020,466	(1,504,873)	23,515,593	6.0%
Total loans to legal entities	163,161,976	(8,841,581)	154,320,395	5.4%
Consumers and other loans to individuals				
Individually impaired loans				
Loans over 90 days overdue	120,008	(80,405)	39,603	67.0%
Total individually impaired loans	120,008	(80,405)	39,603	67.0%
Collectively assessed loans				
Not past due	8,190,813	(247,961)	7,942,852	3.0%
Loans up to 30 days overdue	26,735	(2,359)	24,376	8.8%
Loans 31 to 90 days overdue	21,849	(13,913)	7,936	63.7%
Loans over 90 days overdue	1,087,171	(986,240)	100,931	90.7%
Total collectively assessed loans	9,326,568	(1,250,473)	8,076,095	13.4%
Total consumers and other loans to individuals	9,446,576	(1,330,878)	8,115,698	14.1%
Mortgage loans to individuals				
Collectively assessed loans				
Not past due	4,553,567	(55,402)	4,498,165	1.2%
Loans up to 30 days overdue	49,757	(14,336)	35,421	28.8%
Loans 31 to 90 days overdue	5,387	(1,552)	3,835	28.8%
Loans over 90 days overdue	38,239	(11,018)	27,221	28.8%
Total mortgage loans to individuals	4,646,950	(82,308)	4,564,642	1.8%
Car loans to individuals				
Collectively assessed loans				
Not past due	1,287,560	(6,241)	1,281,319	0.5%
Loans up to 30 days overdue	3,003	(2)	3,001	0.1%
Loans 31 to 90 days overdue	841	(2)	839	0.2%
Loans over 90 days overdue	3,044	(47)	2,997	1.5%
Total car loans to individuals	1,294,448	(6,292)	1,288,156	0.5%
Total loans to individuals	15,387,974	(1,419,478)	13,968,496	9.2%
Total loans and advances to customers as at 31 December 2010	178,549,950	(10,261,059)	168,288,891	

(In thousands of Tenge, unless otherwise is stated)

7. Loans and advances to customers (continued)

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2009, based on contractual terms, is as follows:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans less allowance for impairment*	*Ratio of allowance to loans before allowance*
Commercial loans to legal entities				
Individually impaired loans				
Loans up to 30 days overdue	183,737	(1,892)	181,845	1.0%
Loans over 90 days overdue	3,077,843	(2,975,477)	102,366	96.7%
Total individually impaired loans	3,261,580	(2,977,369)	284,211	91.3%
Collectively assessed loans				
Not past due	77,684,982	(321,393)	77,363,589	0.4%
Total collectively assessed loans	77,684,982	(321,393)	77,363,589	0.4%
Total commercial loans to legal entities	80,946,562	(3,298,762)	77,647,800	4.1%
Specialized loans to legal entities				
Individually impaired loans				
Loans 31 to 90 days overdue	429,192	(429,192)	–	100.0%
Loans over 90 days overdue	157,223	(153,836)	3,387	97.8%
Total individually impaired loans	586,415	(583,028)	3,387	99.4%
Collectively assessed loans				
Not past due	5,369,675	(113,046)	5,256,629	2.1%
Total collectively assessed loans	5,369,675	(113,046)	5,256,629	2.1%
Total specialized loans to legal entities	5,956,090	(696,074)	5,260,016	11.7%
Total loans to legal entities	86,902,652	(3,994,836)	82,907,816	4.6%
Consumers and other loans to individuals				
Individually impaired loans				
Not past due	3,064,366	(11,569)	3,052,797	0.4%
Loans up to 30 days overdue	13,690	(2,343)	11,347	17.1%
Loans 31 to 90 days overdue	22,976	(9,257)	13,719	40.3%
Loans over 90 days overdue	169,644	(169,611)	33	100.0%
Total individually impaired loans	3,270,676	(192,780)	3,077,896	5.9%
Collectively assessed loans				
Not past due	2,778,085	(334,446)	2,443,639	12.0%
Loans up to 30 days overdue	57,745	(15,824)	41,921	27.4%
Loans 31 to 90 days overdue	49,612	(14,052)	35,560	28.3%
Loans over 90 days overdue	1,566,189	(1,193,880)	372,309	76.2%
Total collectively assessed loans	4,451,631	(1,558,202)	2,893,429	35.0%
Total consumers and other loans to individuals	7,722,307	(1,750,982)	5,971,325	22.6%
Mortgage loans to individuals				
Individually impaired loans				
Not past due	2,083,579	(7,200)	2,076,379	0.3%
Loans 31 to 90 days overdue	4,092	(396)	3,696	9.7%
Loans over 90 days overdue	52,273	(51,816)	457	99.1%
Total mortgage loans to individuals	2,139,944	(59,412)	2,080,532	2.8%
Car loans to individuals				
Individually impaired loans				
Not past due	36,923	–	36,923	–
Total individually impaired loans	36,923	–	36,923	–
Collectively assessed loans				
Not past due	792,084	(4,400)	787,684	0.6%
Loans over 90 days overdue	3,557	(64)	3,493	1.8%
Total collectively assessed loans	795,641	(4,464)	791,177	0.6%
Total car loans to individuals	832,564	(4,464)	828,100	0.5%
Total loans to individuals	10,694,815	(1,814,858)	8,879,957	17.0%
Total loans and advances to customers as at 31 December 2009	97,597,467	(5,809,694)	91,787,773	

(In thousands of Tenge, unless otherwise is stated)

7. Loans and advances to customers (continued)

Below is the structure of loan portfolio by industries:

	2010		2009	
	Amount	*%*	*Amount*	*%*
Services	**45,473,316**	**25.5**	29,523,990	30.3
Trade	**34,215,137**	**19.2**	23,031,771	23.7
Construction	**25,020,466**	**14.0**	5,956,090	6.1
Manufacturing	**20,200,953**	**11.3**	16,460,325	16.7
Consumer, mortgage and car loans to individuals	**15,138,264**	**8.5**	10,415,389	10.7
Agriculture	**14,893,513**	**8.3**	2,987,922	3.1
Extraction of hydrocarbons and energy minerals	**9,348,514**	**5.2**	3,977,480	4.1
Mining industry	**9,039,180**	**5.1**	3,469,568	3.6
Transport	**4,190,058**	**2.3**	611,523	0.6
Education	**536,960**	**0.3**	181,787	0.2
Credit cards	**250,239**	**0.1**	279,426	0.3
Other	**243,350**	**0.1**	702,196	0.6
	178,549,950	**100.0**	97,597,467	100.0

8. Investment securities

Available-for-sale investment securities comprise:

	2010	*2009*
Kazakhstan government bonds	**30,838,354**	20,348,673
Corporate bonds	**21,462,387**	7,299,693
Unquoted shares	**2,400**	2,400
Available-for-sale securities	**52,303,141**	27,650,766

All available-for-sale securities, apart from unquoted shares, are traded in active markets and their value is based on quoted market prices at the end of the reporting period. The quoted market price used for investment securities valuation is the current bid price. Thus, available-for-sale securities are included in level 1 of fair value hierarchy except for corporate shares that represent the holding of Kazakhstan Stock Exchange JSC and Central Depository JSC shares, which are not quoted on an active market.

Held-to-maturity securities comprise:

	2010	*2009*
Corporate bonds of Kazakhstan issuers	**8,275,538**	2,584,967
Corporate bonds of foreign issuers	**1,439,770**	8,037,658
Held-to-maturity securities	**9,715,308**	10,622,625

As at 31 December 2010 and 2009, available-for-sale and held-to-maturity investment securities are not impaired.

9. Assets held for sale

	2010	*2009*
Real estate	**1,351,558**	–
Grain	**–**	1,245,691
Assets held for sale	**1,351,558**	1,245,691

As at 31 December 2010 and 2009 assets held for sale in the form of real estate and grain have been levied by the Bank from borrowers who failed to meet the obligations to repay a loan to the Bank. It is expected that the sale of this asset will be performed within 12 months from the acquisition date. During 2010, the Bank did not sell grain in the amount of KZT 1,200,650 thousand and reclassified this asset from held-for-sale into inventory (Note 11 *Other assets*). As at 31 December 2010 the provision on these assets was KZT 1,200,650 thousand (31 December 2009: nil).

(In thousands of Tenge, unless otherwise is stated)

10. Property and equipment and intangible assets

Movement of property and equipment in 2010 and 2009 is as follows:

	Land and buildings	*Computer hardware*	*Office and other equipment*	*Motor vehicles*	*Construction in progress*	*Total*
Cost:						
31 December 2008	2,751,087	328,437	801,870	143,061	6,614	4,031,069
Additions	922,854	260,923	728,470	93,521	–	2,005,768
Disposal	(1,032)	(42,283)	(118,673)	(17,744)	–	(179,732)
31 December 2009	3,672,909	547,077	1,411,667	218,838	6,614	5,857,105
Additions	**872,007**	**302,171**	**639,002**	**43,496**	**407,132**	**2,263,808**
Disposal	–	**(54,386)**	**(62,919)**	**(4,301)**	**(12,566)**	**(134,172)**
Transfer from other assets	**60,346**	**184,535**	**70,525**	–	–	**315,406**
Transfer between categories	–	–	**50,699**	–	**(50,699)**	–
Transfer to intangible assets	–	–	–	–	**(31,669)**	**(31,669)**
31 December 2010	**4,605,262**	**979,397**	**2,108,974**	**258,033**	**318,812**	**8,270,478**
Accumulated depreciation:						
31 December 2008	(316,573)	(200,013)	(174,882)	(43,042)	–	(734,510)
Depreciation charge	(92,502)	(88,064)	(85,660)	(17,075)	–	(283,301)
Disposal	–	5,943	8,915	7,628	–	22,486
31 December 2009	(409,075)	(282,134)	(251,627)	(52,489)	–	(995,325)
Depreciation charge	**(123,272)**	**(109,591)**	**(161,514)**	**(21,623)**	–	**(416,000)**
Disposal	–	**54,440**	**60,519**	**3,191**	–	**118,150**
31 December 2010	**(532,347)**	**(337,285)**	**(352,622)**	**(70,921)**	–	**(1,293,175)**
Net book value:						
31 December 2008	2,434,514	128,424	626,988	100,019	6,614	3,296,559
31 December 2009	3,263,834	264,943	1,160,040	166,349	6,614	4,861,780
31 December 2010	**4,072,915**	**642,112**	**1,756,352**	**187,112**	**318,812**	**6,977,303**

During the year, the Bank acquired three office buildings and adjacent land plots for the total amount of KZT 836,602 thousand.

The carrying value of fully depreciated assets that are in use as at 31 December 2010 was KZT 187,168 thousand (31 December 2009: KZT 244,770 thousand).

Movements of intangible assets are as follows:

	Intangible assets
Cost:	
31 December 2008	157,081
Additions	120,793
31 December 2009	277,874
Additions	**156,540**
Disposal	**(31)**
Transfer from construction in progress	**31,669**
31 December 2010	**466,052**
Accumulated amortisation:	
31 December 2008	(51,769)
Amortisation charge	(7,725)
31 December 2009	(59,494)
Amortisation charge	**(13,792)**
Disposal	**30**
31 December 2010	**(73,256)**
Net book value:	
31 December 2008	105,312
31 December 2009	218,380
31 December 2010	**392,796**

(In thousands of Tenge, unless otherwise is stated)

11. Other assets

	2010	2009
Other financial assets		
Amounts due from collecting companies	**1,190,928**	1,190,928
Other receivables	**9,648**	16,363
Less: provision on other financial assets	**(595,464)**	(238,186)
Total other financial assets	**605,112**	969,105
Other nonfinancial assets		
Inventory	**1,325,319**	19,902
Less: provision on inventory	**(1,200,650)**	–
Total inventory	**124,669**	19,902
Advances paid for property and equipment	**162,791**	315,406
State duty	**85,547**	67,264
Prepaid expenses	**65,659**	141,073
Rent	**63,433**	40,538
Employee benefit	**3,339**	1,383
Other	**98,699**	131,800
Less: provision for other nonfinancial assets	**(97,112)**	(58,637)
Total other nonfinancial assets	**507,025**	658,729
Other assets	**1,112,137**	1,627,834

Amounts due from collecting companies represent receivables from a debt recovery firm from the sale of unrecoverable loans. Fair value of collateral for this debt as at 31 December 2010 is KZT 595,464 thousand (31 December 2009: KZT 1,350,860 thousand).

Inventory comprises nonfinancial assets collected by the Bank from borrowers failed to discharge their liabilities in the amount of KZT 1,200,650 thousand (Note 9 *Assets held for sale*), as well as coins from precious metals in the amount of KZT 104,695 thousand (31 December 2009: KZT 19,902 thousand).

As at 31 December 2010 advances paid for property and equipment comprise, mainly, advances for ATMs in the amount of KZT 75,296 thousand (31 December 2009: computer hardware – KZT 151,843 thousand and capital repairs of buildings – KZT 31,000 thousand).

Movements in provisions for other assets for 2010 and 2009 are detailed in Note 20 *"Other operating provisions"*.

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	2009
Loans from other banks	**23,066,124**	1,344,312
Loans from other financial institutions	**5,775,972**	6,157,781
Correspondent accounts and overnight deposits of other banks	**429,750**	4,279
Short-term deposits of other banks	–	14,847,579
Amounts due to credit institutions	**29,271,846**	22,353,951

Loans from other financial institutions represent loans received under the state lending program from the sources of "DAMU" entrepreneurship development fund" JSC for the period up to 2015 – 2016, and interest rate of 3% - 8% per annum.

In accordance with the guarantee agreement terms with Eurasian Bank of Reconstruction and Development, which agreement serves as collateral of the short-term loan denominated in USD obtained by the Bank from Bank of New York Bony Mellon, the Bank is required to maintain certain financial and non-financial ratios, particularly with regard to its capital adequacy, credit risk and etc. As at 31 December 2010 the management believes that, the Bank meets these commitments.

(In thousands of Tenge, unless otherwise is stated)

13. Amounts due to customers

Amounts due to customers comprise:

	2010	*2009*
State and public organisations		
- Current/settlement accounts	**9,167,546**	15,138,098
- Term deposits	**33,856,635**	6,028,316
Non-governmental legal entities		
- Current/settlement accounts	**62,370,839**	40,426,100
- Term deposits	**58,465,543**	55,274,832
Amounts due to corporate customers	**163,860,563**	116,867,346
Individuals		
- Current accounts/demand accounts	**6,678,116**	4,100,351
- Term deposits	**28,443,029**	33,119,829
Amounts due to individuals	**35,121,145**	37,220,180
Amounts due to customers	**198,981,708**	154,087,526
Held as security against guarantees	**595,605**	979,685
Held as security against letters of credit	**4,830**	42,622

State owned commercial entities are not included in the state and public organizations.

Below is the breakdown of due to corporate and state customers by industry sectors:

	2010		*2009*	
	Amount	*%*	*Amount*	*%*
Customer services	**61,042,205**	**37.3**	32,182,868	27.5
Mining industry	**42,422,768**	**25.9**	42,127,045	36.1
Financial intermediary	**18,924,520**	**11.5**	3,490,909	3.0
Trade	**9,968,721**	**6.1**	6,914,170	5.9
Manufacturing	**8,245,505**	**5.0**	11,281,811	9.7
Insurance	**7,622,567**	**4.7**	9,547,350	8.2
Real estate	**7,222,348**	**4.4**	8,307,905	7.1
Transportation and communication	**5,868,817**	**3.6**	1,666,372	1.4
Agriculture	**1,719,633**	**1.0**	132,954	0.1
Other	**823,479**	**0.5**	1,215,962	1.0
Amounts due to customers	**163,860,563**	**100.0**	116,867,346	100.0

As at 31 December 2010 the Bank had ten major customers, which accounted for 47.8% of the gross balance of customer accounts and deposits (31 December 2009: 42.0%). The total aggregate amount of these customer accounts and deposits as at 31 December 2010 was KZT 78,247,789 thousand (31 December 2009: KZT 64,637,111 thousand).

14. Debt securities issued

As at 31 December 2010 debt securities issued are represented by three emissions (31 December 2009: two emissions) of KZT denominated bonds. These bonds were issued for seven and nine years with maturity in 2011 - 2019 (31 December 2009: 2010 - 2011) and have interest rate of 4.0% - 11.0% p.a. (31 December 2009: 8.2% - 11.0% p.a.). On 4 July 2010, the Bank fully redeemed subordinated bonds of the second emission with nominal value of KZT 3,000,000 thousand. In November and December 2010, the Bank placed two emissions of bonds for total amount of KZT 9,392,900 thousand.

15. Other liabilities

	2010	*2009*
Provisions for credit related commitments	**314,629**	45,727
Accrued employee benefits expenses	**198,523**	138,992
Taxes payable other than income tax	**152,804**	164,917
Provision for vacations	**133,958**	32,801
General and administrative expenses accrued	**52,384**	62,661
Payables on guarantees and letters of credit	**34,554**	42,622
Advances received	**9,576**	6,277
Other	**63,430**	38,294
Other liabilities	**959,858**	532,291

(In thousands of Tenge, unless otherwise is stated)

16. Equity

As at 31 December 2010 and 2009 the Bank has 10,000,000 issued and fully paid shares. Each common share gives the right to one vote and equal right for dividends. All shares are KZT denominated and have nominal value of KZT 1,000 thousand each. In 2010 and 2009 no dividends were declared and paid. Additional paid-in capital represents an amount of excess of capital contribution received over the nominal value of issued shares, and amounts to KZT 19,000,000 thousand.

As at 31 December 2010 and 2009 all issued shares were owned by Savings Bank of the Russian Federation OJSC, except for 235 shares belonging to three individuals.

In accordance with local legislation and the NBRK rules in 2010 the Bank allocated funds in the amount of KZT 810,000 thousand from the retained earnings to the statutory reserve to cover unforeseen risks and future losses (2009: KZT 1,600,000 thousand). The funds from the statutory reserve could be allocated only upon the shareholder's official authorisation.

17. Net interest income

Interest income and expense comprise:

	Year ended 31 December	
	2010	*2009*
Loans and advances to customers	**17,002,725**	12,176,502
Available-for-sale investment securities	**2,335,150**	814,825
Held-to-maturity investment securities	**766,903**	215,932
Cash and cash equivalents	**356,433**	703,461
Amounts due from other banks	**100,977**	74,473
Interest income	**20,562,188**	13,985,193
Term deposits of corporate customers	**(5,172,638)**	(2,639,933)
Term deposits of individuals	**(1,531,254)**	(1,244,520)
Current accounts of corporate customers and individuals	**(692,163)**	(442,826)
Amounts due to credit institutions	**(711,566)**	(687,401)
Debt securities issued	**(484,063)**	(597,173)
REPO operations with securities	**(2,718)**	(52,627)
Interest expenses	**(8,594,402)**	(5,664,480)
Net interest income	**11,967,786**	8,320,713

18. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December	
	2010	*2009*
Settlement transactions	**2,062,164**	1,735,410
Cash transactions	**840,948**	500,759
Foreign currency transactions	**840,744**	498,210
Payment cards transactions	**397,248**	216,918
Guarantees issued	**264,965**	101,066
Commission from letters of credit	**148,144**	53,943
Cash collection	**35,128**	19,194
Other	**30,970**	24,201
Fee and commission income	**4,620,311**	3,149,701
Credit card servicing	**(183,412)**	(134,202)
Settlement transactions	**(111,009)**	(97,727)
Commission on letters of credit	**(66,972)**	(24,884)
Services of Kazakhstan centre of interbank settlements	**(48,413)**	(50,684)
Collection services	**(40,840)**	–
Foreign currency exchange fee	**(30,920)**	(19,200)
Commission for reimbursement	**(19,893)**	(19,816)
Transactions with securities	**(7,903)**	(3,226)
Credit bureau services	**(5,120)**	(4,330)
Foreign currency transactions	**(3,144)**	(5,906)
Other	**(39,400)**	(7,021)
Fee and commission expenses	**(557,026)**	(366,996)

(In thousands of Tenge, unless otherwise is stated)

19. Administrative and operating expenses

Administrative and operating expenses comprise:

	Year ended 31 December	
	2010	*2009*
Personnel expenses	**4,076,397**	3,224,617
Rent	**640,794**	615,824
Depreciation and amortisation	**429,792**	291,026
Social security	**393,223**	312,057
Advertising and marketing services	**382,449**	322,750
Taxes other than income tax	**273,927**	148,573
Transport and communication	**249,577**	193,681
Utilities	**209,995**	165,356
Representative expenses	**157,951**	173,717
Business trip expenses	**156,422**	117,678
Security and alarm costs	**149,148**	110,242
Property and equipment repair expenses	**143,752**	74,996
Deposits insurance	**120,461**	157,152
Collection costs	**77,449**	53,397
Stationary and mail expenses	**66,200**	50,710
Insurance	**54,251**	40,298
Audit and consulting services	**38,272**	14,600
Fines associated with current tax liability	**–**	131,170
Other	**301,478**	188,773
Administrative and operating expenses	**7,921,538**	6,386,617

20. Other operating provisions

	Guarantees and commitments	*Other financial assets*	*Inventory*	*Other non-financial assets*	*Total*
As at 1 January 2009	–	–	–	(56,139)	(56,139)
Charge for the year	(45,727)	(238,186)	–	(20,078)	(303,991)
Write-offs	–	–	–	17,580	17,580
As at 31 December 2009	(45,727)	(238,186)	–	(58,637)	(342,550)
As at 1 January 2010	(45,727)	(238,186)	–	(58,637)	(342,550)
Charge for the year	**(314,910)**	**(357,278)**	**(1,200,650)**	**(129,205)**	**(2,002,043)**
Write-offs	**46,008**	**–**	**–**	**90,730**	**136,738**
As at 31 December 2010	**(314,629)**	**(595,464)**	**(1,200,650)**	**(97,112)**	**(2,207,855)**

Provisions for other financial assets as at 31 December 2010 comprise a provision of KZT 595,464 thousand (31 December 2009: KZT 238,186 thousand) for accounts receivable from collecting company, which arose from the sale of bad loans in the amount of KZT 1,190,928 thousand (31 December 2009: KZT 1,190,928 thousand), as well as grain seized by the Bank from borrowers that failed to discharge their liabilities on loans repayment in the amount of KZT 1,200,650 thousand.

21. Taxation

Income tax expenses comprise:

	Year ended 31 December	
	2010	*2009*
Current income tax expense	**465,009**	642,702
Deferred income tax expense /(benefit) - origination and reversal of temporary differences	**345,479**	(56,097)
Income tax expense	**810,488**	586,605

The Bank is subject to income tax in the Republic of Kazakhstan. In accordance with the changes to the tax legislation in 2010 as at 31 December 2010 and subsequently applied income tax rate is fixed at 20.0%. The tax legislation effective in 2009 envisaged a decrease in the income tax rate to 17.5% in 2013 and to 15.0% in 2014.

(In thousands of Tenge, unless otherwise is stated)

21. Taxation (continued)

A reconciliation of the income tax expense recorded in these financial statements, and profit before income tax expense multiplied by the statutory rate for the years ended 31 December is as follows:

	2010	*2009*
Profit before income tax expense	**3,414,339**	2,744,868
Statutory tax rate	20%	20%
Theoretical income tax expenses at the statutory tax rate	**682,868**	548,974
Non-taxable income:		
Non-taxable interest income from state securities and securities included in the official listing of KASE	**(415,489)**	(143,300)
Non-deductible expenditures:		
Provisions charged on receivables from non-banking activities	**320,291**	51,653
Expenses from non-banking activities	**52,624**	47,735
Written off penalties and accrued interest income	**24,404**	–
Provisions on state duty	**22,271**	–
Other taxes, dues and obligatory payments to the budget	**7,923**	156
Accrued expenses on deposit insurance	**6,555**	8,306
Other non-deductible expenses	**109,041**	73,081
Income tax expenses	**810,488**	586,605

As at 31 December 2010 current income tax assets amount to KZT 63,434 thousand (31 December 2009: KZT 71,704 thousand).

Deferred tax balances calculated using statutory tax rates existing on the reporting date to the temporary differences between tax base of assets and liabilities and amounts reported in these financial statements comprise the following as at 31 December:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
Tax effect of deductible temporary differences:	*2008*	*In the income statement*	*In other comprehensive income*	*2009*	*In the income statement*	*In other comprehensive income*	*2010*
Accrued operating expenses	–	29,467	–	29,467	**20,714**	–	**50,181**
Accrued interest income on loans to customers	–	15,210	–	15,210	**2,111**	–	**17,321**
Other liabilities	(7,428)	13,988	–	6,560	**20,232**	–	**26,792**
Revaluation of other securities at fair value through profit and loss	4,835	(1,858)	–	2,977	–	**(2,977)**	–
Deferred tax assets	(2,593)	56,807	–	54,214	**43,057**	**(2,977)**	**94,294**
Tax effect of taxable temporary differences:							
Revaluation of other securities at fair value through profit and loss	–	–	–	–	–	**(32,594)**	**(32,594)**
Property and equipment and intangible assets	(133,886)	(56,656)	–	(190,542)	**(88,372)**	–	**(278,914)**
Loans and advances to customers	(55,946)	55,946	–	–	**(300,164)**	–	**(300,164)**
Deferred tax liability	(189,832)	(710)	–	(190,542)	**(388,536)**	**(32,594)**	**(611,672)**
Total deferred tax liabilities	(192,425)	56,097	–	(136,328)	**(345,479)**	**(35,571)**	**(517,378)**

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

As at 31 December 2009, as the result of tax audit of the Bank for the period 2004 – 2007 were accrued tax liabilities in the amount of KZT 231,632 thousand, including fines related to these tax liabilities in the amount of KZT 130,303 thousand.

(In thousands of Tenge, unless otherwise is stated)

22. Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended 31 December	
	2010	***2009***
Net income for the period attributable to common shareholders of the Bank	**2,603,851**	2,158,263
Weighted average number of participating shares for basic and diluted earnings per share computation	**10,000**	10,000
Basic and diluted earnings per share (in Tenge)	**260,385**	215,826

As at 31 December 2010 and 2009, the Bank did not have dilutive financial instruments.

23. Segment analysis

The main format of presentation of segment disclosure of the Bank is presenting the information based on operating segments.

Operating segments are components of the Bank that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of three main business segments:

- Retail banking – representing private banking services, savings and mortgages.
- Corporate banking – representing business banking services, mainly for small and medium entities, and commercial loans for large corporate customers.
- Investment banking services include assets and liabilities services required for liquidity maintenance, Bank financing requirements, assets and liabilities management.

(б) Factors used by management to identify the reportable segments

Business segments of the Bank are represented by strategic business units, oriented at various client bases. Management of the segments is being performed separately as each individual business unit needs its own marketing strategies and level of service.

Analysis of segment financial information is performed by the Management Board of the Bank, responsible for operating decision-making. This financial information coincides with the internal management information provided to the Management Board for decision-making purposes. Thus, management applied the core principle of IFRS 8 "Operating segments" in deciding what components of partially agreed financial information have to be the base for operating segments disclosure.

Segment information for the reportable segments for the year ended 31 December 2010:

	Retail banking	*Corporate banking*	*Investment banking*	*Total*
Segment assets				
Amounts due from other banks	–	744,222	–	744,222
Loans and advances to customers	13,968,496	154,320,395	–	168,288,891
Available-for-sale investment securities	–	–	52,303,141	52,303,141
Held-to-maturity investment securities	–	–	9,715,308	9,715,308
As at 31 December 2010	13,968,496	155,064,617	62,018,449	231,051,562
Segment liabilities				
Amounts due to credit institutions	–	29,271,846	–	29,271,846
Amounts due to customers	35,121,145	163,860,563	–	198,981,708
Debt securities issued	–	–	13,599,564	13,599,564
As at 31 December 2010	35,121,145	193,132,409	13,599,564	241,853,118

(In thousands of Tenge, unless otherwise is stated)

23. Segment analysis (continued)

For the year ended 31 December 2010	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Interest income	2,078,162	15,381,973	3,102,053	20,562,188
Interest expense	(1,673,086)	(6,434,535)	(486,781)	(8,594,402)
Net interest income	405,076	8,947,438	2,615,272	11,967,786
Allowance for loan impairment	140,410	(4,846,745)	–	(4,706,335)
Net interest income after allowance for loan impairment	545,486	4,100,693	2,615,272	7,261,451
Fee and commission income	1,075,836	3,544,475	–	4,620,311
Net gains from transactions with available-for-sale investment securities	–	–	7,036	7,036
Segment results	1,621,322	7,645,168	2,622,308	11,888,798

Segment information for the reportable segments for the year ended 31 December 2009:

	Retail banking	*Corporate banking*	*Investment banking*	*Total*
Segment assets				
Amounts due from other banks	–	1,495,790	–	1,495,790
Loans and advances to customers	8,879,957	82,907,816	–	91,787,773
Available-for-sale investment securities	–	–	27,650,766	27,650,766
Held-to-maturity investment securities	–	–	10,622,625	10,622,625
As at 31 December 2009	8,879,957	84,403,606	38,273,391	131,556,954
Segment liabilities				
Amounts due to credit institutions	–	22,353,951	–	22,353,951
Amounts due to customers	37,220,180	116,867,346	–	154,087,526
Debt securities issued	–	–	5,607,716	5,607,716
At 31 December 2009	37,220,180	139,221,297	5,607,716	182,049,193

For the year ended 31 December 2009	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Interest income	1,839,690	11,108,374	1,037,129	13,985,193
Interest expense	(1,180,661)	(3,834,019)	(649,800)	(5,664,480)
Net interest income	659,029	7,274,355	387,329	8,320,713
Allowance for loan impairment	(409,755)	(2,475,690)	–	(2,885,445)
Net interest income after allowance for loan impairment	249,274	4,798,665	387,329	5,435,268
Fee and commission income	1,609,081	1,540,536	84	3,149,701
Segment results	1,858,355	6,339,201	387,413	8,584,969

Reconciliation of income and expenses, assets and liabilities for reportable segments:

	2010	*2009*
Total reportable segment assets	**231,051,562**	131,556,954
Cash and cash equivalents	**42,273,136**	80,029,706
Assets held for sale	**1,351,558**	1,245,691
Current income tax assets	**63,434**	71,704
Property and equipment	**6,977,303**	4,861,780
Intangible assets	**392,796**	218,380
Other assets	**1,112,137**	1,627,834
Total assets	**283,221,926**	219,612,049
Total reportable segment liabilities	**241,853,118**	182,049,193
Current tax liability	–	231,632
Deferred income tax liability	**517,378**	136,328
Other liabilities	**959,858**	532,291
Total liabilities	**243,330,354**	182,949,444

(In thousands of Tenge, unless otherwise is stated)

23. Segment analysis (continued)

	Year ended 31 December	
	2010	*2009*
Total reportable segment income	**11,888,798**	8,584,969
Fee and commission expense	**(557,026)**	(366,996)
Net gains from transactions with derivative financial instruments	**–**	1,556,926
Net gains/(losses) from foreign currency:		
- dealing	**1,894,719**	1,463,821
- translation difference	**34,092**	(1,829,659)
Other income	**77,337**	26,415
Depreciation and amortisation	**(429,792)**	(291,026)
Administrative and other operating expenses	**(7,491,746)**	(6,095,591)
Other operating provisions	**(2,002,043)**	(303,991)
Profit before income tax expense	**3,414,339**	2,744,868
Income tax expense	**(810,488)**	(586,605)
Profit for the year	**2,603,851**	2,158,263
Other segment information		
Capital expenditures (including advances paid for property and equipment)	**2,426,599**	1,445,452

All of the revenue mainly comes from Kazakhstan customers.

24. Financial commitments and contingencies

Legal actions and claims

In the ordinary course of business, the Bank is subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in this financial statement for any of the contingent liabilities.

Tax contingencies

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

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, 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.

(In thousands of Tenge, unless otherwise is stated)

24. Financial commitments and contingencies (continued)

Commitments and contingencies

As at 31 December 2010 and 2009, financial commitments and contingencies of the Bank comprise:

Credit related commitments	***2010***	***2009***
Undrawn loan facilities	**18,642,298**	3,333,052
Guarantees issued	**14,026,483**	4,631,911
Import letters of credit	**4,827,509**	363,351
	37,496,290	8,328,314
Operating lease commitments		
Not later than 1 year	**412,075**	509,488
Later than 1 year but not later than 5 years	**1,248,315**	761,635
Later than 5 years	**249,479**	95,369
	1,909,869	1,366,492
Liabilities on capital expenditures	**–**	4,050,000
Less: provisions for guarantees	**(314,629)**	(45,727)
Financial commitments and contingencies (before provision)	**39,091,530**	9,649,079
Less: Funds held as security against guarantees and letters of credit	**(600,435)**	(1,022,307)
Financial commitments and contingencies	**38,491,095**	8,626,772

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

25. Risk management

Introduction

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

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. Risk control is organised in each business unit including control over the subject to risk areas as compared to the settled limits, and estimation of the risk of new products and structured transactions.

Financial Department

Financial Department is responsible for managing the Bank's assets and liabilities and the overall financial structure. Financial Department and Treasury Department are 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.

25. Risk management (continued)

Introduction (continued)

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 Risk Committee, and the head of each business division. 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 and geographic 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 on a quarterly basis, 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.

A monthly briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks (additional information is provided below).

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. The Bank manages established risk concentration.

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.

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.

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Introduction (continued)

Credit-related commitments risks

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

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

	Note	*Maximum exposure 2010*	*Maximum exposure 2009*
Cash and cash equivalents (excluding cash on hand)		**38,351,560**	76,836,300
Amounts due from other banks		**744,222**	1,495,790
Loans and advances to customers		**168,288,891**	91,787,773
Available-for-sale investment securities (excluding equity securities)		**52,300,741**	27,648,366
Held-to-maturity investment securities		**9,715,308**	10,622,625
Other financial assets		**605,112**	969,105
		270,005,834	209,359,959
Financial commitments and contingencies	24	**39,091,530**	13,699,079
Total credit risk exposure		**309,097,364**	223,059,038

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

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 loan-related statement of financial position lines, based on the Bank's credit rating system.

	Neither past due nor impaired	*Past due but not impaired*	*Individually impaired*	*Total*
As at 31 December 2010				
Cash and cash equivalents (excluding cash on hand)	**38,351,560**	–	–	**38,351,560**
Amounts due from other banks	**744,222**	–	–	**744,222**
Loans and advances to customers	**152,653,371**	**1,527,084**	**24,369,495**	**178,549,950**
Available-for-sale investment securities (excluding equity securities)	**52,300,741**	–	–	**52,300,741**
Held-to-maturity investment securities	**9,715,308**	–	–	**9,715,308**
Other financial assets	**9,648**	–	**1,190,928**	**1,200,576**
Total	**253,774,850**	**1,527,084**	**25,560,423**	**280,862,357**

	Neither past due nor impaired	*Past due but not impaired*	*Individually impaired*	*Total*
Aa at 31 December 2009				
Cash and cash equivalents (excluding cash on hand)	76,836,300	–	–	76,836,300
Amounts due from other banks	1,495,790	–	–	1,495,790
Loans and advances to customers	93,289,494	205,423	4,102,550	97,597,467
Available-for-sale investment securities (excluding equity securities)	27,648,366	–	–	27,648,366
Held-to-maturity investment securities	10,622,625	–	–	10,622,625
Other financial assets	16,363	–	1,190,928	1,207,291
Total	209,908,938	205,423	5,293,478	215,407,839

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Introduction (continued)

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

	Less than 30 days	*31 to 90 days*	*Over 90 days*	*Total*
At 31 December 2010				
Loans and advances to customers				
Commercial loans to legal entities	13	38,707	173,368	212,088
Specialised loans to legal entities	5,493	–	73,477	78,970
Consumer and other loans to individuals	26,735	21,849	1,087,171	1,135,755
Mortgage loans to individuals	49,757	5,387	38,239	93,383
Car loans to individuals	3,003	841	3,044	6,888
Total	85,001	66,784	1,375,299	1,527,084

At 31 December 2009	*Less than 30 days*	*31 to 90 days*	*Over 90 days*	*Total*
Loans and advances to customers				
Commercial loans to legal entities	181,408	–	–	181,408
Consumer and other loans to individuals	8,436	–	–	8,436
Mortgage loans to individuals	15,579	–	–	15,579
Total	205,423	–	–	205,423

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

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

	2010	*2009*
Loans and advances to customers		
Specialised loans to legal entities	11,911	2,959,936
Corporate loans to legal entities	11,638,884	6,584,790
Consumer and other loans to individuals	5,823	142,971
Mortgage loans to individuals	8,712	–
Car loans to individuals	9	–
Total	11,665,339	9,687,697

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no 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.

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

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Introduction (continued)

Below is the geographical concentration of the Bank's financial assets and liabilities:

	Kazakhstan	*Other countries*	*Total*
Assets			
Cash and cash equivalents	31,206,162	11,066,974	42,273,136
Amounts due from other banks	–	744,222	744,222
Loans and advances to customers	168,276,530	12,361	168,288,891
Investment securities:			
- available-for-sale	44,295,115	8,008,026	52,303,141
- held-to-maturity	8,275,539	1,439,769	9,715,308
Assets held for sale	1,351,558	–	1,351,558
Current income tax assets	63,434	–	63,434
Other assets	618,514	–	618,514
Total assets	254,086,852	21,271,352	275,358,204
Liabilities			
Amounts due to credit institutions	6,669,208	22,602,638	29,271,846
Amounts due to customers	195,834,028	3,147,680	198,981,708
Debt securities issued	13,599,564	–	13,599,564
Other liabilities	573,094	–	573,094
Total liabilities	216,675,894	25,750,318	242,426,212
Net position	37,410,958	(4,478,966)	32,931,992

Below is the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2009:

	Kazakhstan	*Other countries*	*Total*
Assets			
Cash and cash equivalents	72,175,456	7,854,250	80,029,706
Amounts due from other banks	–	1,495,790	1,495,790
Loans and advances to customers	91,783,696	4,077	91,787,773
Investment securities:			
- available-for-sale	20,351,072	7,299,694	27,650,766
- held-to-maturity	8,037,657	2,584,968	10,622,625
Assets held for sale	1,245,691	–	1,245,691
Current income tax assets	71,704	–	71,704
Other assets	1,122,809	–	1,122,809
Total assets	194,788,085	19,238,779	214,026,864
Liabilities			
Amounts due to credit institutions	6,158,152	16,195,799	22,353,951
Amounts due to customers	152,304,197	1,783,329	154,087,526
Debt securities issued	5,607,716	–	5,607,716
Current tax liability	231,632	–	231,632
Other liabilities	442,704	–	442,704
Total liabilities	164,744,401	17,979,128	182,723,529
Net position	30,043,684	1,259,651	31,303,335

Assets and liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and property and equipment have been allocated based on the country in which they are physically held. Other countries comprise, mainly, Russian Federation, USA and European Union countries.

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

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, entered into agreements on credit facilities it could use to meet cash requirements.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December, based on contractual undiscounted repayment obligations, except for trading derivatives, which are shown at fair value in a separate column. 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.

	On demand and less than 1 month	*1 - 6 months*	*6 months - 1 year*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	*Total*
Liabilities							
Amounts due to credit institutions	**18,923,589**	**1,372,621**	**3,214,930**	**–**	**288,104**	**7,632,374**	**31,431,618**
Amounts due to corporate customers	**76,351,302**	**43,524,635**	**17,641,761**	**31,019,346**	**111,215**	**1,530**	**168,649,789**
Amounts due to individuals	**14,345,928**	**5,614,732**	**4,131,490**	**11,701,606**	**2,033,188**	**131**	**37,827,075**
Debt securities issued	**–**	**344,181**	**2,598,236**	**–**	**–**	**17,805,643**	**20,748,060**
Total liabilities	**109,620,819**	**50,856,169**	**27,586,417**	**42,720,952**	**2,432,507**	**25,439,678**	**258,656,542**

The analysis by remaining maturities may be summarised as follows as at 31 December 2009:

	On demand and less than 1 month	*1 - 6 months*	*6 months - 1 year*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	*Total*
Liabilities							
Amounts due to credit institutions	15,002,438	448,696	67,467	1,163,264	–	5,882,160	22,564,025
Amounts due to corporate customers	63,026,142	34,505,770	17,667,026	755,748	380	523	115,955,589
Amounts due to individuals	6,723,898	6,233,268	4,102,337	20,322,269	3,470,328	88	40,852,188
Debt securities issued	240,191	99,195	3,397,690	3,584,741	–	–	7,321,817
Total liabilities	84,992,669	41,286,929	25,234,520	25,826,022	3,470,708	5,882,771	186,693,619

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

	Less than 1 month	*1 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2010	**1,546,281**	**19,301,183**	**16,270,055**	**378,771**	**37,496,290**
2009	790,711	5,245,266	2,282,398	353,341	8,671,716

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

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Liquidity risk and funding management (continued)

The analysis by remaining maturities may be summarised as follows as at 31 December 2010:

	On demand and less than 1 month	*1 - 6 months*	*6 months - 1 year*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	*Without maturity*	*Total*
Assets								
Cash and cash equivalents	42,273,136	–	–	–	–	–	–	42,273,136
Amounts due from other banks	–	–	744,222	–	–	–	–	744,222
Loans and advances to customers	2,827,111	31,523,772	48,047,018	22,205,066	27,597,332	36,088,592	–	168,288,891
Available-for-sale investment securities	–	5,828,597	3,904,911	11,907,241	15,816,988	14,843,004	2,400	52,303,141
Held-to-maturity investment securities	–	1,042,422	–	3,001,358	5,671,528	–	–	9,715,308
Assets held for sale	–	1,351,558	–	–	–	–	–	1,351,558
Current income tax assets	–	–	–	–	–	–	63,434	63,434
Property and equipment	–	–	–	–	–	–	6,977,303	6,977,303
Intangible assets	–	–	–	–	–	–	392,796	392,796
Other assets	137,611	19,557	899,219	55,750	–	–	–	1,112,137
Total assets	45,237,858	39,765,906	53,595,370	37,169,415	49,085,848	50,931,596	7,433,933	283,221,926
Liabilities								
Amounts due to credit institutions	18,917,790	1,372,620	3,205,464	–	251,875	5,524,097	–	29,271,846
Amounts due to corporate customers	76,338,771	42,968,522	16,965,622	27,474,903	111,215	1,530	–	163,860,563
Amounts due to individuals	14,343,690	5,504,848	3,925,147	9,875,662	1,471,667	131	–	35,121,145
Debt securities issued	–	344,182	2,423,530	–	–	10,831,852	–	13,599,564
Deferred income tax liability	–	–	–	–	–	–	517,378	517,378
Other liabilities	185,496	317,062	457,300	–	–	–	–	959,858
Total liabilities	109,785,747	50,507,234	26,977,063	37,350,565	1,834,757	16,357,610	517,378	243,330,354
Net position as at 31 December 2010	(64,547,889)	(10,741,328)	26,618,307	(181,150)	47,251,091	34,573,986	6,918,555	39,891,572
Aggregate liquidity gap at 31 December 2010	(64,547,889)	(75,289,217)	(48,670,910)	(48,852,060)	(1,600,969)	32,973,017	39,891,572	

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2010, the Bank had cumulative negative liquidity gap in the amount of KZT 48,670,910 thousand within 1 year. Management has an action plan in place to meet these obligations including disposal of its investment securities available-for-sale, interbank borrowings at local and international money markets, use of released obligatory reserves and other measures including extending deposits of its large and old customers.

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

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 on demand and less than one month in the tables above.

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Liquidity risk and funding management (continued)

The analysis by remaining maturities may be summarised as follows as at 31 December 2009:

	On demand and less than 1 month	*1 - 6 months*	*6 months - 1 year*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	*Without maturity*	*Total*
Assets								
Cash and cash equivalents	41,000,587	–	–	–	–	–	39,029,119	80,029,706
Amounts due from other banks	255,895	1,239,895	–	–	–	–	–	1,495,790
Loans and advances to customers	10,726,431	24,055,964	22,009,297	15,170,868	13,493,043	6,332,170	–	91,787,773
Available-for-sale investment securities	874,887	7,083,717	5,262,986	9,628,810	4,797,966	–	2,400	27,650,766
Held-to-maturity investment securities	–	–	571,473	1,756,850	2,892,652	5,401,650	–	10,622,625
Assets held for sale	–	–	1,245,691	–	–	–	–	1,245,691
Current income tax assets	–	–	71,704	–	–	–	–	71,704
Property and equipment	–	–	–	–	–	–	4,861,780	4,861,780
Intangible assets	–	–	–	–	–	–	218,380	218,380
Other assets	108,662	315,406	1,203,766	–	–	–	–	1,627,834
Total assets	52,966,462	32,694,982	30,364,917	26,556,528	21,183,661	11,733,820	44,111,679	219,612,049
	On demand and less than 1 month	*1 - 6 months*	*6 months - 1 year*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	*Without maturity*	*Total*
Liabilities								
Amounts due to credit institutions	14,971,255	443,416	65,696	836,284	–	6,037,300	–	22,353,951
Amounts due to corporate customers	61,642,198	28,329,102	26,896,046	–	–	–	–	116,867,346
Amounts due to individuals	8,050,868	15,644,981	13,524,331	–	–	–	–	37,220,180
Debt securities issued	195,483	–	2,998,266	2,413,967	–	–	–	5,607,716
Current tax liability	–	–	–	–	–	–	231,632	231,632
Deferred income tax liability	–	–	–	–	–	–	136,328	136,328
Other liabilities	10	286,770	–	245,511	–	–	–	532,291
Total liabilities	84,859,814	44,704,269	43,484,339	3,495,762	–	6,037,300	367,960	182,949,444
Net position as at 31 December 2009	(31,893,352)	(12,009,287)	(13,119,422)	23,060,766	21,183,661	5,696,520	43,743,719	36,662,605
Aggregate liquidity gap as at 31 December 2009	(31,893,352)	(43,902,639)	(57,022,061)	(33,961,295)	(12,777,634)	(7,081,114)	36,662,605	

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices, etc.

The Bank is exposed to market risk related to open currency positions, interest rate risk and securities portfolio subject to general and specific changes on the market. Assets and liabilities committee establishes limits with respect to minimum level of accepted risk and monitors the compliance with those limits on a daily basis.

Currency	*Increase in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*
KZT	100	(24,570)	349,367
USD	100	–	157,423

Currency	*Decrease in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*
KZT	(25)	6,143	(87,342)
USD	(25)	–	(39,356)

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010. Sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2010 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

During the year, open currency position has approximately equal values, considering that the Bank has limits for open currency position and the said position was within the established limit.

Currency	*Increase in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
KZT	100	(26,090)	276,480
USD	100	–	1,862

Currency	*Decrease in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
KZT	(25)	6,523	(69,120)
USD	(25)	–	(466)

Currency risk

Currency risk is the risk of losses due to due to changes in foreign exchange rates when the Bank performs its ordinary activities. Risk of losses arises due to revaluation of bank's position in foreign currencies in monetary terms; The Asset and Liability Management Committee establishes limits with respect to accepted risk by currencies and monitors compliance with these limits on a daily basis. Below is the information on the Bank's currency risk level as at the reporting date:

Currency	*Change in currency rate in % 2010*	*Effect on profit before tax 2010*	*Change in currency rate in % 2009*	*Effect on profit before tax 2009*
USD	+10%	10,283	+15%	9,062
Euro	+10%	66	+15%	3,189

Currency	*Change in currency rate in % 2010*	*Effect on profit before tax 2010*	*Change in currency rate in % 2009*	*Effect on profit before tax 2009*
USD	-15%	(15,424)	-10%	(13,594)
Euro	-15%	(100)	-10%	(4,784)

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Currency risk (continued)

Currency position as at 31 December 2010:

	Tenge	*Russian Rouble*	*USD*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	27,835,587	5,540,424	6,852,767	2,042,388	1,970	42,273,136
Amounts due from other banks	–	744,222	–	–	–	744,222
Loans and advances to customers	106,082,714	4,205	61,984,815	217,157	–	168,288,891
Available-for-sale investment securities	34,939,122	987,475	15,742,324	634,220	–	52,303,141
Held-to-maturity investment securities	–	–	8,275,539	1,439,769	–	9,715,308
Assets held for sale	1,351,558	–	–	–	–	1,351,558
Current income tax assets	63,434	–	–	–	–	63,434
Property and equipment	6,977,303	–	–	–	–	6,977,303
Intangibles assets	392,796	–	–	–	–	392,796
Other assets	1,072,197	3,776	31,315	4,849	–	1,112,137
Total assets	178,714,711	7,280,102	92,886,760	4,338,383	1,970	283,221,926
Liabilities						
Amounts due to credit institutions	6,204,406	641	22,196,952	869,847	–	29,271,846
Amounts due to corporate customers	99,134,907	4,416,934	59,477,625	830,322	775	163,860,563
Amounts due to individuals	20,016,785	2,829,557	9,673,742	2,601,061	–	35,121,145
Debt securities issued	13,599,564	–	–	–	–	13,599,564
Deferred income tax liabilities	517,378	–	–	–	–	517,378
Other liabilities	913,426	4,894	22,841	18,697	–	959,858
Total liabilities	140,386,466	7,252,026	91,371,160	4,319,927	775	243,330,354
Net position	38,328,245	28,076	1,515,600	18,456	1,195	39,891,572

Currency position as at 31 December 2009:

	Tenge	*Russian Rouble*	*USD*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	44,062,653	4,712,778	28,612,241	2,641,291	743	80,029,706
Amounts due from other banks		1,495,790				1,495,790
Loans and advances to customers	59,759,819	3,027	31,567,467	457,460		91,787,773
Available-for-sale investment securities	20,351,073	–	6,598,302	701,391	–	27,650,766
Held-to-maturity investment securities	–	–	9,022,545	1,600,080	–	10,622,625
Assets held for sale	1,245,691	–	–	–	–	1,245,691
Current income tax assets	71,704	–	–	–	–	71,704
Property and equipment	4,861,780	–	–	–	–	4,861,780
Intangibles assets	218,380	–	–	–	–	218,380
Other assets	1,070,418	254,787	266,525	36,104	–	1,627,834
Total assets	131,641,518	6,466,382	76,067,080	5,436,326	743	219,612,049
Liabilities						
Amounts due to credit institutions	6,160,777	323	16,059,988	132,863	–	22,353,951
Amounts due to corporate customers	73,436,967	4,638,421	38,087,096	704,862	–	116,867,346
Amounts due to individuals	9,897,334	1,450,779	21,504,772	4,367,295	–	37,220,180
Debt securities issued	5,607,716	–	–	–	–	5,607,716
Current tax liability	231,632	–	–	–	–	231,632
Deferred income tax liabilities	136,328	–	–	–	–	136,328
Other liabilities	490,194	16,045	25,585	54	413	532,291
Total liabilities	95,960,948	6,105,568	75,677,441	5,205,074	413	182,949,444
Net position	35,680,570	360,814	389,639	231,252	330	36,662,605

The Bank monitors, and when required, changes interest rates on financial instruments. The table below shows effective interest rates on the basis of reports that were analysed by key managers of the Bank's business units.

(In thousands of Tenge, unless otherwise is stated)

25. Risk management (continued)

Currency risk (continued)

Below are effective interest rates as at 31 December 2010:

% p.a.	*KZT*	*USD*	*Euro*	*Russian Rouble*
Assets				
Cash and cash equivalents	0.40 - 10.47	0.03 - 6.00	0.05 - 9.75	0.15 - 4.85
Amounts due from other banks	10.34	–	–	2.60 - 11.00
Loans and advances to individuals	10.48 - 49.52	17.18 - 25.18	20.00 - 24.00	16.01
Loans and advances to legal entities	8.33 - 35.00	6.14 - 15.00	6.20 - 10.79	–
Available-for-sale securities	3.95 - 8.98	4.50 - 8.17	0.05	7.43 - 7.44
Held-to-maturity securities	–	5.73 - 15.00	4.65 - 5.36	–
Liabilities				
Amounts due to other banks	2.82 - 6.54	0.50 - 3.22	0.50 - 3.76	–
Amounts due to customers				
- current and settlement accounts	0.10 - 2.00	0.50 - 2.00	–	0.20 - 4.10
- term deposits	0.50 - 10.50	0.50 - 6.20	0.30 - 5.30	1.00 - 6.90
Debt securities issued	8.40 - 11.30	–	–	–

Mark «-» means that the Bank does not have any assets or liabilities denominated in corresponding currency.

Below are effective interest rates as at 31 December 2009:

% p.a.	*KZT*	*USD*	*Euro*	*Russian Rouble*
Assets				
Cash and cash equivalents	0.50– 14.40	0.03 – 15.90	0.10 – 9.80	0.15 – 12.10
Amounts due from other banks	–	9.20	9.20	7.10 – 15.40
Loans and advances to individuals	10.30 – 31.50	10.90 – 24.40	–	–
Loans and advances to legal entities	11.50 – 21.90	5.50 – 18.40	7.50 – 10.70	–
Available-for-sale securities	4.10 – 5.50	5.50 – 7.20	4.70	–
Held-to-maturity securities	–	5.70 – 15.00	4.70 – 5.40	–
Liabilities				
Amounts due to other banks	6.50 – 16.00	0.40 – 5.80	1.30 – 7.00	7.80 – 8.30
Amounts due to customers				
- current and settlement accounts	0.30 – 6.70	0.20 – 2.50	0.30 – 1.76	0.20 – 4.10
- term deposits	1.50 – 14.90	0.50 – 9.90	0.30 – 5.60	1.00 – 8.80
Debt securities issued	11.30 – 12.40	–	–	–

26. Fair values of financial instruments

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

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

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

31 December 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Available-for-sale investment securities	52,300,741	2,400	–	52,303,141
	52,300,741	2,400	–	52,303,141

31 December 2009	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Available-for-sale investment securities	27,648,366	2,400	–	27,650,766
	27,648,366	2,400	–	27,650,766

(In thousands of Tenge, unless otherwise is stated)

26. Fair values of financial instruments (continue)

Financial instruments recorded at fair value

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

Available-for-sale investment securities

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

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.

	2010			*2009*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	**42,273,136**	**42,273,136**	**–**	80,029,706	80,029,706	–
Amounts due from other banks	**744,222**	**744,222**	**–**	1,495,790	1,495,790	–
Loans and advances to customers	**168,288,891**	**168,020,714**	**(268,177)**	91,787,773	91,350,276	(437,497)
Held-to-maturity securities	**9,715,308**	**10,193,484**	**478,176**	10,622,625	10,676,591	53,966
Assets held for sale	**1,351,558**	**1,351,558**	**–**	1,245,691	1,245,691	–
Other financial assets	**605,112**	**605,112**	**–**	969,105	969,105	–
Financial liabilities						
Amounts due to other banks	**29,271,846**	**29,247,864**	**23,982**	22,353,951	22,353,951	–
Amounts due to customers	**198,981,708**	**196,394,413**	**2,587,295**	154,087,526	158,040,166	(3,952,640)
Debt securities issued	**13,599,564**	**14,514,332**	**(914,768)**	5,607,716	5,279,862	327,854
Other financial liabilities	**349,184**	**349,184**	**–**	–	–	–
Total unrecognised change in unrealised fair value			**1,906,508**			(4,008,317)

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

Fixed and variable rate financial instruments

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

(In thousands of Tenge, unless otherwise is stated)

27. 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 Russian Federation, acting through Federal Agency for State Property Management, controls the Bank.

The Russian Federation directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government-related entities"). The Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government. Under these circumstances, the management of the Bank disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge.

During 2010 and 2009, the Bank entered into banking transactions solely with the Parent and entities under common control, including cash settlement and foreign exchange transactions.

All transactions with the Parent and its subsidiaries are entered into in the normal cause of business and priced at market rates.

The volumes of related party transactions, outstanding balances at the year-end and related expense and income for the year are as follows:

	2010			*2009*		
	Parent	*Entities under common control*	*Key management personnel*	*Parent*	*Entities under common control*	*Key management personnel*
Assets						
Cash and cash equivalents	**4,073,315**	–	–	3,794,271	–	–
Amounts due from other banks	–	–	–	1,495,790	–	–
Loans and advances to customers	–	**759,100**	–	–	–	–
Available-for-sale investment securities	–	**2,813,648**	–	–	–	–
Held-to-maturity investment securities	–	**1,439,770**	–	–	–	–
Liabilities						
Amounts due to credit institutions	**18,870,252**	–	–	14,847,579	–	–
Amounts due to customers	–	**2,217**	**53,893**	–	–	40,797

Interest rates on transactions with related parties are as follows:

	2010			*2009*		
	Parent	*Entities under common control*	*Key management personnel*	*Parent*	*Entities under common control*	*Key management personnel*
Cash and cash equivalents						
Interest rates	**3.1%-3.3%**	–	–	4.8%-5.3%	–	–
Amounts due from other banks						
Interest rates	–	–	–	7.0%-10.8%	–	–
Loans and advances to customers						
Interest rates	–	**12.0%-16.0%**	–	–	–	–
Amounts due to credit institutions						
Interest rates	**0.9%-1.0%**	–	–	0.9%	–	–
Amounts due to customers						
Interest rates	–	–	**4.5%-9.0%**	–	–	4.5%-10.0%

(In thousands of Tenge, unless otherwise is stated)

27. Related party disclosures (continued)

The income and expense items with related parties for the years ended 31 December 2010 and 2009 were as follows:

	Year ended 31 December					
	2010			*2009*		
	Parent	*Entities under common control*	*Key management personnel*	*Parent*	*Entities under common control*	*Key management personnel*
Interest income	**114,020**	**336,521**	**–**	137,279	–	–
Interest expense	**(355,754)**	**–**	**(2,992)**	(39,845)	–	(1,328)
Fee and commission expense on guarantee	**(137,683)**	**–**	**–**	(22,406)	–	–

On 29 January 2010, the Bank accepted guarantees from the Parent totalling KZT 13,685,472 thousand as collateral for loans issued by the Bank to a number of companies. As at 31 December 2010, loans guaranteed by the Parent have amounted to KZT 10,367,289 thousand.

Below is the information on compensation to 4 members of key management personnel (2009: 4 members):

	Year ended 31 December	
	2010	*2009*
Short-term bonuses and salary	**238,460**	173,005
Benefits in kind	**18,240**	21,931
Total	**256,700**	194,936

28. Capital adequacy

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

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

FMSA requires banks to maintain a tier 1 capital adequacy ratio (k1) of not less than 5% of all assets and a tier 2 capital adequacy ratio (k2) of not less than 10% of risk-weighted assets, computed based on statutory requirements. As at 31 December 2010 and 2009, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

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

	2010	*2009*
Tier 1 capital	**36,512,086**	34,353,822
Total assets	**283,221,926**	219,612,049
Tier 1 capital ratio	**12.9%**	15.6%

	2010	*2009*
Tier 2 capital	**40,397,775**	38,230,365
Risk weighted assets, commitments and contingencies	**236,564,581**	137,830,197
Tier 2 capital ratio	**17.2%**	27.7%