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Subsidiary JSC VTB Bank (Kazakhstan)
Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholder and Board of Directors of Subsidiary JSC VTB Bank (Kazakhstan)

We have audited the accompanying financial statements of Subsidiary JSC VTB Bank (Kazakhstan), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statements of changes in equity and 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 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 Subsidiary JSC VTB Bank (Kazakhstan) 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

Zhemaletdinov Evgeny
Auditor / General Director
Ernst & Young LLP

State Audit Licence 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

25 February 2011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

(Thousands of tenge)

	Notes	2010	2009
Assets			
Cash and cash equivalents	6	**5,287,152**	6,102,947
Trading securities	7	**4,857,731**	3,261,464
Loans to customers	8	**10,325,701**	1,796,042
Property and equipment	9	**774,308**	376,719
Intangible assets	10	**119,165**	84,735
Current income tax assets	11	**31,007**	32,651
Deferred income tax assets	11	**154,825**	21,684
Other assets	12	**121,406**	9,297
Total assets		21,671,295	11,685,539
Liabilities			
Amounts due to credit institutions	13	**90,144**	4,924,742
Amounts due to customers	14	**9,071,036**	768,192
Debt securities issued	15	**3,986,824**	–
Other liabilities	12	**118,130**	27,592
Total liabilities		13,266,134	5,720,526
Equity			
Share capital	17	**9,000,000**	6,040,000
Accumulated deficit		**(594,839)**	(74,987)
Total equity		8,405,161	5,965,013
Total equity and liabilities		21,671,295	11,685,539

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

Gusarov S. N. — Chairman of the Board

Lavrentieva A.V. — Chief Accountant

Қазақстан Республикасы Алматы қаласы Банк ВТБ (Казахстан) АҚ ЕҰ
ВТБ
ДО АО Банк ВТБ (Казахстан) Республика Казахстан город Алматы

25 February 2011

The accompanying notes on pages 5 to 31 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(Thousands of tenge)

	Notes	*2010*	*2009*
Interest income			
Loans to customers		**443,385**	10,278
Amounts due from credit institutions		**2,413**	148,600
		445,798	158,878
Trading securities		**123,264**	106,010
		569,062	264,888
Interest expense			
Amounts due to credit institutions		**(2,724)**	(1,039)
Amounts due to customers		**(32,557)**	–
Debt securities issued		**(5,238)**	–
		(40,519)	(1,039)
Net interest income before impairment		**528,543**	263,849
Impairment charge	8	**(3,973)**	–
Net interest income		**524,570**	263,849
Net fee and commission income / (expense)	16	**109,636**	(4,506)
Net gains from trading securities		**63,366**	46,125
Net gains / (losses) from foreign currencies:			
- dealing		**17,809**	1,101
- translation differences		**1,657**	(768)
Other income		**7,756**	9,972
Non-interest income		**200,224**	51,924
Personnel expenses	19	**(686,889)**	(326,630)
Other operating expenses	19	**(541,028)**	(78,627)
Depreciation and amortisation	9, 10	**(92,634)**	(42,560)
Taxes other than income tax		**(49,714)**	(5,721)
Other expenses		**(5,826)**	(50)
Non-interest expense		**(1,376,091)**	(453,588)
Loss before income tax benefit		**(651,297)**	(137,815)
Income tax benefit	11	**131,445**	21,684
Loss for the year		**(519,852)**	(116,131)
Other comprehensive income for the year		–	–
Total comprehensive loss for the year		**(519,852)**	(116,131)

The accompanying notes on pages 5 to 31 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(Thousands of tenge)

	Share capital	*Retained earnings / (accumulated deficit)*	*Total equity*
31 December 2008	6,040,000	41,144	6,081,144
Total comprehensive loss for the year	–	(116,131)	(116,131)
31 December 2009	6,040,000	(74,987)	5,965,013
Total comprehensive loss for the year	–	**(519,852)**	**(519,852)**
Issue of common shares *(Note 17)*	**2,960,000**	–	**2,960,000**
31 December 2010	**9,000,000**	**(594,839)**	**8,405,161**

The accompanying notes on pages 5 to 31 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(Thousands of tenge)

	Notes	*2010*	*2009*
Cash flows from operating activities			
Interest received		**433,495**	192,273
Interest paid		**(9,541)**	(1,039)
Fees and commissions received		**116,770**	4,573
Fees and commissions paid		**(16,359)**	(10,168)
Gains less losses from trading securities		**43,009**	74,749
Realised gains less losses from dealing in foreign currencies		**17,809**	1,101
Personnel expenses paid		**(615,728)**	(309,408)
Other operating expenses paid		**(584,396)**	(84,095)
Cash flows used in operating activities before changes in operating assets and liabilities		**(614,941)**	(132,014)
Net (increase) / decrease in operating assets			
Trading securities		**(1,549,878)**	(3,222,990)
Loans to customers		**(8,424,097)**	(1,790,525)
Other assets		**(109,796)**	17,711
Net (decrease) / increase in operating liabilities			
Amounts due to credit institutions		**(4,834,598)**	4,924,742
Amounts due to customers		**8,277,104**	768,192
Other liabilities		**(5,556)**	(49,195)
Net cash flows (used in) / from operating activities before income tax		**(7,261,762)**	515,921
Income tax paid		**(52)**	(32,651)
Net cash (used in) / from operating activities		**(7,261,814)**	483,270
Cash flows from investing activities			
Purchase of property and equipment	9	**(457,035)**	(296,439)
Purchase of intangible assets	10	**(53,080)**	(59,496)
Net cash used in investing activities		**(510,115)**	(355,935)
Cash flows from financing activities			
Proceeds from issue of debt securities		**3,994,477**	–
Proceeds from issue of share capital		**2,960,000**	–
Net cash from financing activities		**6,954,477**	–
Effect of exchange rate changes on cash and cash equivalents		**1,657**	(768)
Net (decrease) / increase in cash and cash equivalents		**(815,795)**	126,567
Cash and cash equivalents, 1 January	6	**6,102,947**	5,976,380
Cash and cash equivalents, 31 December	6	**5,287,152**	6,102,947

The accompanying notes on pages 5 to 31 are an integral part of these financial statements

1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking licence №1.1.259 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") on 22 May 2009.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The registered address of the Bank is 28, Timiryazeva Str., Almaty, 050040, Kazakhstan. As at 31 December 2010 the Bank has 5 branches throughout Kazakhstan (Almaty, Astana, Ust'-Kamenogorsk, Pavlodar, and Karaganda). The Bank did not have any branches as at 31 December 2009.

The Bank is a member of the deposit insurance system. The system operates under the laws of the Republic of Kazakhstan and is governed by the FMSA. Insurance covers the Bank's liabilities to individual depositors for an amount up to 5 million Kazakh tenge for each individual in the event of business failure and revocation of the banking licence.

As at 31 December 2010 and 2009, the sole shareholder of the Bank is OJSC Bank VTB (Russia) (the "Parent"). The ultimate shareholder is the Government of the Russian Federation.

2. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets at classified as trading securities as required by IAS 39 "Financial Instruments: Recognition and Measurement".

These financial statements are presented in thousands of tenge ("tenge" or "KZT") unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

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

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to early adopt the revised IAS 24 from 1 January 2010 (Note 23). The revised standard had no effect on the Bank's financial statements.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank discloses this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Bank as the annual impairment test is performed before aggregation.

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, and, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

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 statement of comprehensive income. 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 statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

Trading securities

Financial assets classified as held for trading are included in the category 'trading securities'. Financial assets are classified as trading securities if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

3. Summary of accounting policies (continued)

Financial assets (continued)

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

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

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

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from 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.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

3. Summary of accounting policies (continued)

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.

Loans to customers

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

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated based on 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.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of 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 statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are disclosed as taxes other than income tax in the statement of comprehensive income.

3. Summary of accounting policies (continued)

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
Furniture and fixtures	8
Leasehold improvements	10
Computers and office equipment	4-7
Motor vehicles	7
Other	4-10

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

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

Intangible assets

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

Share capital

Ordinary shares are classified as equity. Share capital is measured at fair value of consideration received. 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, Financial markets and General management.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading, 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.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar income and expense (continued)

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 of time*

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

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currencies, transfer operations or cash operations – are recognised on completion of the underlying transaction.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The market exchange rates at 31 December 2010 and 2009 were KZT 147.5 and KZT 148.46 to USD 1, respectively. The exchange rate at 25 February 2011 was KZT 146.02 to USD 1.

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 an 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.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 "Financial Instruments"

In November 2009, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank is currently evaluating the impact of the adoption of the new Standard and is considering 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. IFRIC 19 is not expected to have any material impact on the Bank's financial statements.

Improvements to IFRSs

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

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. The Bank expects that these amendments to IFRS 3 will have no impact on the 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.

4. Significant accounting judgments and estimates

Estimation uncertainty

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

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.

(Thousands of tenge, unless otherwise indicated)

5. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Financial markets	Representing operations on interbank and securities market.
General management	Representing general management of the Bank's activities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the financial statements. Income taxes are managed on a general basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2010 or 2009.

2010	*Corporate banking*	*Retail banking*	*Financial markets*	*General management*	*Total*
Interest income	421,409	21,976	130,212	–	573,597
Interest expense	(25,740)	(6,817)	(12,497)	–	(45,054)
Net interest income before impairment	395,669	15,159	117,715	–	528,543
Impairment charge	–	(3,973)	–	–	(3,973)
Net interest income	395,669	11,186	117,715	–	524,570
Fee and commission income	112,407	7,200	713	–	120,320
Fee and commission expense	–	–	(10,684)	–	(10,684)
Net gains from trading securities	–	–	63,366	–	63,366
Net gains from foreign currencies	–	4,425	13,384	1,657	19,466
Other income	4,760	934	–	2,062	7,756
Non-interest income	117,167	12,559	66,779	3,719	200,224
Net operating income	512,836	23,745	184,494	3,719	724,794
Personnel and other operating expenses	(64,470)	(14,896)	(24,339)	(1,124,212)	(1,227,917)
Depreciation and amortisation	–	–	–	(92,634)	(92,634)
Other expenses	–	–	–	(55,540)	(55,540)
Income / (loss) before income tax benefit	448,366	8,849	160,155	(1,268,667)	(651,297)
Income tax benefit	–	–	–	131,445	131,445
Income / (loss) for the year	448,366	8,849	160,155	(1,137,222)	(519,852)
Segment assets	9,904,372	426,025	10,145,310	1,195,588	21,671,295
Segment liabilities	8,625,833	449,327	4,082,509	108,465	13,266,134
Other segment information					
Capital expenditures	–	–	–	471,573	471,573

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

2009	*Corporate banking*	*Retail banking*	*Financial markets*	*General management*	*Total*
Interest income	10,278	–	254,610	–	264,888
Interest expense	–	–	(1,039)	–	(1,039)
Net interest income before impairment	10,278	–	253,571	–	263,849
Impairment charge	–	–	–	–	–
Net interest income	10,278	–	253,571	–	263,849
Fee and commission income	5,266	38	367	–	5,671
Fee and commission expense	–	–	(10,177)	–	(10,177)
Net gains from trading securities	–	–	46,125	–	46,125
Net gain / (loss) from foreign currencies	–	–	1,101	(768)	333
Other income	–	–	–	9,972	9,972
Non-interest income / (loss)	5,266	38	37,416	9,204	51,924
Net operating income / (loss)	15,544	38	290,987	9,204	315,773
Personnel and other operating expenses	(31,442)	–	(11,990)	(361,825)	(405,257)
Depreciation and amortisation	–	–	–	(42,560)	(42,560)
Other expenses	–	–	–	(5,771)	(5,771)
Income / (loss) before income tax benefit	(15,898)	38	278,997	(400,952)	(137,815)
Income tax benefit	–	–	–	21,684	21,684
Income / (loss) for the year	(15,898)	38	278,997	(379,268)	(116,131)
Segment assets	1,796,042	–	9,364,767	524,730	11,685,539
Segment liabilities	759,422	8,770	4,924,742	27,592	5,720,526
Other segment information					
Capital expenditures	–	–	–	296,439	296,439

Geographic information

Segment information for the main geographical segments of the Bank for the years ended 31 December 2010 and 2009 is set out below:

	2010			*2009*		
	Kazakhstan	*Other countries*	*Total*	*Kazakhstan*	*Other countries*	*Total*
Revenues	**689,382**	**–**	**689,382**	270,559	–	270,559
Non-current assets	**893,473**	**–**	**893,473**	461,454	–	461,454

Non-current assets represent property and equipment and intangible assets.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	*2009*
Cash on hand	**309,070**	25,877
Current accounts with the NBRK	**4,929,209**	6,016,805
Current accounts with other credit institutions	**48,873**	60,265
	5,287,152	6,102,947

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on current account with the NBRK or as physical cash and are computed based on average monthly balances of the aggregate of cash balances on current accounts with the NBRK or physical cash in national and hard currencies during the period of reserves creation.

As at 31 December 2010, obligatory reserves comprise KZT 233,315 thousand (31 December 2009 – KZT 134,645 thousand).

(Thousands of tenge, unless otherwise indicated)

7. Trading securities

Trading securities owned comprise:

	2010	*2009*
Treasury bills of the Ministry of Finance	**1,879,631**	1,377,677
Notes of the NBRK	**2,978,100**	1,883,787
	4,857,731	3,261,464

Interest rates and the maturity of debt securities are as follows:

	2010		*2009*	
	%	*Maturity*	*%*	*Maturity*
Treasury bills of the Ministry of Finance	**4.3-6.8**	**2011-2017**	4.9-7.1	2011-2018
Notes of the NBRK	**0.7**	**2011**	2.0	2010

8. Loans to customers

Loans to customers comprise:

	2010	*2009*
Corporate lending	**7,673,852**	1,796,042
Small business lending	**2,225,873**	–
Consumer lending	**429,949**	–
Gross loans to customers	**10,329,674**	1,796,042
Less – Allowance for impairment	**(3,973)**	–
Loans to customers	**10,325,701**	1,796,042

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Consumer lending	*Total*
At 1 January 2010	–	–
Charge for the year	**3,973**	**3,973**
At 31 December 2010	**3,973**	**3,973**
Collective impairment	**3,973**	**3,973**

All loans to customers outstanding as at 31 December 2009 were not impaired.

Collateral and other credit enhancements

The amounts and types of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

As at 31 December 2010 and 2009, loans to customers are secured by inventory, trade receivables and corporate guarantees from parent companies for loans to their subsidiaries. Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2010, the Bank had a concentration of loans represented by KZT 7,715,468 thousand due from the ten largest third party entities (74.7% of gross loan portfolio) (31 December 2009 – KZT 1,796,042 thousand or 100%). No allowance was recognised against these loans.

Gross loans have been extended to the following types of customers:

	2010	*2009*
Private companies	**9,899,725**	1,796,042
Individuals	**429,949**	–
	10,329,674	1,796,042

(Thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are entirely made within Kazakhstan in the following industries:

	2010	*2009*
Wholesale trade	4,359,592	369,647
Production of machinery and equipment	2,440,415	–
Construction of roads and industrial buildings	1,090,552	–
Retail trade	600,459	–
Individuals	429,949	–
Transportation	354,449	1,331,636
Real estate investments	348,839	–
Housing construction	182,698	–
Telecommunication	70,177	–
Other	452,544	94,759
	10,329,674	1,796,042

9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Leasehold improve-ments*	*Computers and office equipment*	*Motor vehicles*	*Assets for installation*	*Other assets*	*Total*
Cost:							
31 December 2008	–	–	74,490	–	–	39,491	113,981
Additions	65,370	82,278	136,361	9,894	–	2,536	296,439
Transfers	–	–	6,039	–	–	(6,039)	–
31 December 2009	65,370	82,278	216,890	9,894	–	35,988	410,420
Additions	**25,910**	**151,916**	**162,229**	**8,916**	**117,377**	**5,225**	**471,573**
Transfer	**(4,963)**	–	**52,342**	–	**(84,115)**	**36,736**	–
31 December 2010	**86,317**	**234,194**	**431,461**	**18,810**	**33,262**	**77,949**	**881,993**
Accumulated depreciation:							
31 December 2008	–	–	–	–		–	–
Depreciation charge	(2,126)	(4,114)	(23,426)	–		(4,035)	(33,701)
31 December 2009	(2,126)	(4,114)	(23,426)	–		(4,035)	(33,701)
Depreciation charge	**(7,721)**	**(7,236)**	**(46,840)**	**(2,158)**		**(10,029)**	**(73,984)**
Transfer	**249**	–	–	–		**(249)**	–
31 December 2010	**(9,598)**	**(11,350)**	**(70,266)**	**(2,158)**		**(14,313)**	**(107,685)**
Net book value:							
31 December 2009	63,244	78,164	193,464	9,894	–	31,953	376,719
31 December 2010	**76,719**	**222,844**	**361,195**	**16,652**	**33,262**	**63,636**	**774,308**

In 2010, the Bank has adjusted the useful life of leasehold improvements from 5 to 10 years.

(Thousands of tenge, unless otherwise indicated)

10. Intangible assets

The movements in intangible assets are as follows:

	Licences	*Computer software*	*Total*
Cost:			
31 December 2008	–	34,098	34,098
Additions	1,053	58,443	59,496
31 December 2009	1,053	92,541	93,594
Additions	**20,261**	**32,819**	**53,080**
31 December 2010	**21,314**	**125,360**	**146,674**
Accumulated amortisation:			
31 December 2008	–	–	–
Amortisation charge	(26)	(8,833)	(8,859)
31 December 2009	(26)	(8,833)	(8,859)
Amortisation charge	**(3,869)**	**(14,781)**	**(18,650)**
31 December 2010	**(3,895)**	**(23,614)**	**(27,509)**
Net book value:			
31 December 2009	1,027	83,708	84,735
31 December 2010	**17,419**	**101,746**	**119,165**

11. Taxation

The corporate income tax expense comprises:

	2010	*2009*
Current tax charge	**–**	–
Current tax charge of prior periods	**1,696**	–
Deferred tax benefit – origination and reversal of temporary differences	**(133,141)**	(21,684)
Corporate income tax benefit	**(131,445)**	(21,684)

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with the changes to the tax legislation in 2010, the corporate income tax rate is fixed at 20% starting from 2010. The tax legislation effective as at 31 December 2009 envisaged a decrease in the corporate income tax rate to 17.5% in 2013 and to 15.0% in 2014.

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

	2010	*2009*
Loss before tax	**(651,297)**	(137,815)
Statutory tax rate	**20%**	20%
Theoretical income tax benefit at the statutory rate	**(130,259)**	(27,563)
Non-taxable (income) / loss from government securities	**(4,072)**	5,879
Non-deductible expenses	**1,010**	–
Other permanent differences	**1,876**	–
Income tax benefit	**(131,445)**	(21,684)

As at 31 December 2010, current income tax assets comprised KZT 31,007 thousand (31 December 2009 – KZT 32,651 thousand).

(Thousands of tenge, unless otherwise indicated)

11. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	2008	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2009*	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2010*
Tax effect of deductible temporary differences:					
Tax losses carried forward	–	29,945	29,945	**158,677**	**188,622**
Accrued unused vacation expense	–	3,444	3,444	**2,961**	**6,405**
Accrued bonus expense	–	–	–	**11,006**	**11,006**
Other accrued expenses	–	1,266	1,266	**(378)**	**888**
Deferred tax asset	–	34,655	34,655	**172,266**	**206,921**
Tax effect of taxable temporary differences:					
Property and equipment	–	(12,971)	(12,971)	**(38,017)**	**(50,988)**
Prepaid expenses	–	–	–	**(1,108)**	**(1,108)**
Deferred tax liability	–	(12,971)	(12,971)	**(39,125)**	**(52,096)**
Net deferred tax asset	–	21,684	21,684	**133,141**	**154,825**

Tax losses are carried forward in the Republic of Kazakhstan for the period up to ten years. The Bank believes that tax losses will be utilized.

Kazakhstan currently has a single Tax Code that regulates the main taxation matters. 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 organisations; 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.

12. Other assets and liabilities

As at 31 December other assets comprise:

	2010	*2009*
Rent prepayment	**65,493**	–
Other prepaid expenses	**30,353**	6,360
Prepayments for acquisition of property and equipment	**13,837**	–
Other	**11,723**	2,937
	121,406	9,297

Other liabilities comprise as at 31 December:

	2010	*2009*
Bonuses payable	**55,254**	–
Unused vacation expense	**32,027**	17,221
Accounts payable for acquisition of property and equipment	**14,538**	–
Audit fee payable	**3,276**	2,114
Rent payable	**2,768**	4,214
Taxes payable	**11**	1,861
Other	**10,256**	2,182
	118,130	27,592

(Thousands of tenge, unless otherwise indicated)

13. Amounts due to credit institutions

As at 31 December 2010, amounts due to credit institutions are comprised of the interest-free current account of the Parent.

14. Amounts due to customers

The amounts due to customers includes the following:

	2010	*2009*
Time deposits	**7,846,656**	–
Current accounts	**1,171,445**	768,057
Guarantee and restricted deposits	**52,935**	135
	9,071,036	768,192

Guarantees and restricted deposits represent customers' collateral under loans to customers issued by the Bank.

As at 31 December 2010, the Bank's ten largest customers accounted for KZT 8,199,615 thousand or approximately 90.4% of total amounts due to customers (31 December 2009 – KZT 759,140 thousand or 98.8%).

Included in time deposits are deposits of individuals of KZT 409,544 thousand (31 December 2009 - nil). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

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

	2010	*2009*
Private enterprises	**8,623,531**	759,422
Individuals	**447,505**	8,770
	9,071,036	768,192

An analysis of customer accounts by economic sector follows:

	2010	*2009*
Non-credit financial institutions	**7,275,446**	180,004
Individuals	**447,505**	8,770
Construction	**368,552**	316
Transport and communication	**297,826**	568,764
Oil and gas production	**240,198**	–
Wholesale trade	**212,513**	–
Education	**150,012**	–
Machinery and equipment production	**55,816**	–
Retail trade	**18,475**	461
Other	**4,693**	9,877
	9,071,036	768,192

15. Debt securities issued

Debt securities issued comprise:

	2010	*2009*
Debt securities issued	**3,786,615**	–
Plus unamortised premium	**205,750**	–
Less unamortised cost of issuance	**(5,541)**	–
Debt securities issued	**3,986,824**	–

In December 2010, the Bank issued KZT bonds with an aggregate nominal value of KZT 3,780,000 thousand. The bonds bear interest at a rate of 7% per annum and mature in December 2014.

(Thousands of tenge, unless otherwise indicated)

16. Fees and commissions

Net fee and commission income comprise:

	2010	*2009*
Guarantees issued	**78,602**	3,847
Transfer operations	**17,594**	874
Foreign currency trading	**12,872**	404
Cash operations	**4,715**	179
Letter of credits issued	**1,908**	–
Other	**4,629**	367
Fee and commission income	**120,320**	5,671
Transfer operations	**(4,016)**	(2,241)
Brokerage services	**(1,970)**	(4,734)
Custodian services	**(1,915)**	(2,306)
Other	**(2,783)**	(896)
Fee and commission expense	**(10,684)**	(10,177)
Net fee and commission income / (expense)	**109,636**	(4,506)

17. Share capital

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Placement value*
31 December 2009	604,000	6,040,000
Increase in share capital	**296,000**	**2,960,000**
31 December 2010	**900,000**	**9,000,000**

In accordance to the shareholder's decision dated 28 April 2010, the Bank authorized the issue of 296,000 common shares. All authorized shares have been issued and fully paid by the existing shareholder. No dividends were declared or distributed during 2010 and 2009.

18. Commitments and contingencies

Political and economic environment

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

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

Legal actions and claims

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 these financial statements 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 Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

(Thousands of tenge, unless otherwise indicated)

18. Commitments and contingencies (continued)

Tax contingencies (continued)

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

Because of the uncertainties associated with the Kazakh tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2009. 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.

Financial commitments and contingencies

As at 31 December, the Bank's financial commitments and contingencies comprise the following:

	2010	*2009*
Credit related commitments		
Guarantees	**2,922,922**	115,553
Undrawn loan commitments	**2,818,867**	589,193
Letters of credit	**405,701**	–
	6,147,490	704,746
Operating lease commitments		
Not later than 1 year	**162,195**	261,276
Later than 1 year but not later than 5 years	**341,073**	87,092
	503,268	348,368
Capital expenditure commitments	**3,750**	–
Commitments and contingencies	**6,654,508**	1,053,114

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

The total outstanding contractual amount of undrawn loan commitments, letters of credit, and guarantees does not necessarily represent future cash claims, since the specified liabilities could mature or be cancelled without granting funds to the borrower.

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary.

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	**(630,708)**	(297,056)
Social security costs	**(56,181)**	(29,574)
Personnel expenses	**(686,889)**	(326,630)
Occupancy and rent	**(273,814)**	(5,480)
Marketing and advertising	**(101,932)**	(20,787)
Communications	**(37,216)**	(14,588)
Security	**(30,128)**	(11,974)
Business travel	**(26,503)**	(3,337)
Legal and consultancy	**(11,650)**	(6,068)
Office supplies	**(10,612)**	(2,395)
Repair and maintenance of property and equipment	**(9,971)**	(3,518)
Informational services	**(8,285)**	(481)
Transportation	**(4,450)**	–
Representative expenses	**(3,921)**	(1,397)
Translation services	**(3,301)**	(1,470)
Data processing	**(2,831)**	–
Training	**(956)**	(339)
Other	**(15,458)**	(6,793)
Other operating expenses	**(541,028)**	(78,627)

20. 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. It is also subject to operating risks.

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.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Controlling

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

Bank Treasury

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

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit department who examine both the adequacy of the procedures and the Bank's compliance with procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The 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.

(Thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. 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, exceptions from set risk limits, liquidity rations and changes in risk levels. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Necessity for creation of allowance is assessed monthly. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

Credit risk

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

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

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to 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. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Maximum exposure 2010*	*Maximum exposure 2009*
Cash and cash equivalents (excluding cash on hand)	6	**4,978,082**	6,077,070
Trading securities	7	**4,857,731**	3,261,464
Loans to customers	8	**10,325,701**	1,796,042
Other assets	12	**4,648**	740
		20,166,162	11,135,316
Financial commitments and contingencies	18	**3,328,623**	115,553
Total credit risk exposure		**23,494,785**	11,250,869

The amounts shown above on trading securities 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.

(Thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

		Neither past due nor impaired		
	Notes	*Standard grade 2010*	*Sub-standard grade 2010*	*Total 2010*
Loans to customers	8	9,899,725	425,976	10,325,701
Total		9,899,725	425,976	10,325,701

		Neither past due nor impaired		
	Notes	*Standard grade 2009*	*Sub-standard grade 2009*	*Total 2009*
Loans to customers	8	1,796,042	–	1,796,042
Total		1,796,042	–	1,796,042

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

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

(Thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

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

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

	2010			
	Kazakhstan	*CIS and other non OECD countries*	*OECD*	*Total*
Assets:				
Cash and cash equivalents	**5,242,750**	**28,801**	**15,601**	**5,287,152**
Trading securities	**4,857,731**	–	–	**4,857,731**
Loans to customers	**10,325,701**	–	–	**10,325,701**
Current income tax assets	**31,007**	–	–	**31,007**
Other assets	**4,648**	–	–	**4,648**
	20,461,837	**28,801**	**15,601**	**20,506,239**
Liabilities:				
Amounts due to credit institutions	–	**90,144**	–	**90,144**
Amounts due to customers	**9,071,036**	–	–	**9,071,036**
Debt securities issued	**3,986,824**	–	–	**3,986,824**
Other liabilities	**28,674**	–	–	**28,674**
	13,086,534	**90,144**	–	**13,176,678**
Net assets / (liabilities)	**7,375,303**	**(61,343)**	**15,601**	**7,329,561**

	2009			
	Kazakhstan	*CIS and other non OECD countries*	*OECD*	*Total*
Assets:				
Cash and cash equivalents	6,042,682	1,401	58,864	6,102,947
Trading securities	3,261,464	–	–	3,261,464
Loans to customers	1,796,042	–	–	1,796,042
Current income tax assets	32,651	–	–	32,651
Other assets	740	–	–	740
	11,133,579	1,401	58,864	11,193,844
Liabilities:				
Amounts due to credit institutions	–	4,924,742	–	4,924,742
Amounts due to customers	767,876	316	–	768,192
Other liabilities	1,156	4,214	–	5,370
	769,032	4,929,272	–	5,698,304
Net assets / (liabilities)	10,364,547	(4,927,871)	58,864	5,495,540

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. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

(Thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

	2010			
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Amounts due to credit institutions	**90,144**	**–**	**–**	**90,144**
Amounts due to customers	**1,603,482**	**7,889,719**	**–**	**9,493,201**
Debt securities issued	**–**	**264,600**	**4,573,800**	**4,838,400**
Other liabilities	**28,674**	**–**	**–**	**28,674**
Total undiscounted financial liabilities	**1,722,300**	**8,154,319**	**4,573,800**	**14,450,419**

	2009	
Financial liabilities	***Less than 3 months***	***Total***
Amounts due to credit institutions	4,924,742	4,924,742
Amounts due to customers	768,192	768,192
Other liabilities	5,370	5,370
Total undiscounted financial liabilities	5,698,304	5,698,304

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.

	2010				
	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Financial commitments and contingencies	**4,388,692**	**1,244,503**	**1,021,313**	**–**	**6,654,508**

	2009				
	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Financial commitments and contingencies	766,435	199,587	87,092	–	1,053,114

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

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

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. The market risk for the trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

(Thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Market risk (continued)

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 statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year.

Currency	*Change in basis points 2010*	*Sensitivity of net interest income 2010*	*Change in basis points 2009*	*Sensitivity of net interest income 2009*
KZT	**+100**	**9,988**	+100	65,220
KZT	**-100**	**(9,988)**	-100	(65,220)

Currency risk

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

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

	2010			
Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
USD	**+11.56**	**252**	**-11.56**	**(252)**
EUR	**+16.65**	**4,012**	**-16.65**	**(4,012)**
RUR	**+16.05**	**3,990**	**-16.05**	**(3,990)**

	2009			
Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
USD	+19.5	(6,582)	-19.5	6,582
EUR	+21.8	(3,686)	-21.8	3,686
RUR	+24.3	(190)	-24.3	190

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income
2010	**(15,576)**
2009	(5,058)

(Thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Market risk (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

21. 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; and
- 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

At 31 December 2010	*Level 1*	*Total*
Financial assets		
Trading securities	**4,857,731**	**4,857,731**
	4,857,731	**4,857,731**

At 31 December 2009	*Level 1*	*Total*
Financial assets		
Trading securities	3,261,464	3,261,464
	3,261,464	3,261,464

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 (loss) / gain*	*Carrying value*	*Fair value*	*Unrecognised gain*
Financial assets						
Cash and cash equivalents	**5,287,152**	**5,287,152**	**–**	6,102,947	6,102,947	–
Loans to customers	**10,325,701**	**10,175,713**	**(149,988)**	1,796,042	1,798,624	2,582
Other assets	**4,648**	**4,648**	**–**	740	740	–
Financial liabilities						
Amounts due to credit institutions	**90,144**	**90,144**	**–**	4,924,742	4,924,742	–
Amounts due to customers	**9,071,036**	**8,848,694**	**222,342**	768,192	768,192	–
Debt securities issued	**3,992,365**	**3,992,365**	**–**	–	–	–
Other liabilities	**28,674**	**28,674**	**–**	5,370	5,370	–
Total unrecognised change in unrealised fair value			**72,354**			2,582

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.

(Thousands of tenge, unless otherwise indicated)

21. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits 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.

22. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 20 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010			*2009*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**5,287,152**	**–**	**5,287,152**	6,102,947	–	6,102,947
Trading securities	**4,535,151**	**322,580**	**4,857,731**	3,261,464	–	3,261,464
Loans to customers	**9,411,967**	**913,734**	**10,325,701**	1,796,042	–	1,796,042
Property and equipment	**–**	**774,308**	**774,308**	–	376,719	376,719
Intangible assets	**–**	**119,165**	**119,165**	–	84,735	84,735
Current income tax assets	**31,007**	**–**	**31,007**	32,651	–	32,651
Deferred income tax assets	**–**	**154,825**	**154,825**	–	21,684	21,684
Other assets	**121,406**	**–**	**121,406**	9,297	–	9,297
Total	**19,386,683**	**2,284,612**	**21,671,295**	11,202,401	483,138	11,685,539
Amounts due to credit institutions	**90,144**	**–**	**90,144**	4,924,742	–	4,924,742
Amounts due to customers	**8,469,252**	**601,784**	**9,071,036**	768,192	–	768,192
Debt securities issued	**13,965**	**3,972,859**	**3,986,824**	–	–	–
Other liabilities	**118,130**	**–**	**118,130**	27,592	–	27,592
Total	**8,691,491**	**4,574,643**	**13,266,134**	5,720,526	–	5,720,526
Net	**10,695,192**	**(2,290,031)**	**8,405,161**	5,481,875	483,138	5,965,013

23. 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.

Transactions with government-related entities

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.

(Thousands of tenge, unless otherwise indicated)

23. Related party disclosures (continued)

Transactions with government-related entities (continued)

During 2010 and 2009 the Bank entered into banking transactions solely with the Parent and its subsidiaries 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		
	Parent	*Entities under common control*	*Key management personnel*
Cash and cash equivalents at January 1	**1,401**	**34,252**	**–**
Receipts on current accounts during the year	**7,445,606**	**639,130**	**–**
Payments from current accounts during the year	**(7,422,436)**	**(665,169)**	**–**
Cash and cash equivalents at December 31	**24,571**	**8,213**	**–**
Amounts due to credit institutions at January 1	**4,924,742**	**–**	**–**
Receipts on current accounts during the year	**9,695,164**	**–**	**–**
Payments from current accounts during the year	**(14,529,762)**	**–**	**–**
Amounts due to credit institutions at 31 December	**90,144**	**–**	**–**
Amounts due to customers at January 1	**–**	**–**	**916**
Receipts on current accounts during the year	**–**	**–**	**156,778**
Payments from current accounts during the year	**–**	**–**	**(155,024)**
Amounts due to customers at December 31	**–**	**–**	**2,670**

	2009		
	Parent	*Entities under common control*	*Key management personnel*
Cash and cash equivalents at January 1	–	–	–
Receipts on current accounts during the year	691,864	1,520,061	–
Payments from current accounts during the year	(690,463)	(1,485,809)	–
Cash and cash equivalents at December 31	1,401	34,252	–
Amounts due to credit institutions at January 1	–	–	–
Receipts on current accounts during the year	19,135,142	–	–
Payments from current accounts during the year	(14,210,400)	–	–
Amounts due to credit institutions at 31 December	4,924,742	–	–
Amounts due to customers at January 1	–	–	–
Receipts on current accounts during the year	–	–	27,742
Payments from current accounts during the year	–	–	(26,826)
Amounts due to customers at December 31	–	–	916

Compensation of 9 (2009 – 4) members of key management personnel comprises following:

	2010	*2009*
Salaries and other short-term benefits	**102,100**	39,979
Social security costs	**10,663**	4,200
Total key management personnel compensation	**112,763**	44,179

(Thousands of tenge, unless otherwise indicated)

24. 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 requirements.

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

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

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

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

	2010	*2009*
Tier 1 capital	8,288,773	5,961,941
Total assets	**21,671,295**	11,685,539
Tier 1 capital ratio	38%	51%

	2010	*2009*
Tier 2 capital	8,288,773	5,961,941
Risk weighted assets	**15,087,727**	3,151,356
Tier 2 capital ratio	55%	189%