The present consolidated financial statements of JSC «BTA Bank» for the 2010 accounting period are subject to approval of the General Meeting of the shareholders. In case of amendments in the consolidated financial statements as a result of consideration of the General Meeting of the shareholders, the statements shall be amended accordingly and final text of the consolidated financial statements will be brought to your attention.

JSC BTA Bank and subsidiaries

Consolidated Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditors' report

To the Shareholders and Board of Directors of JSC BTA Bank

We have audited the accompanying consolidated financial statements of JSC BTA Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statements of comprehensive income, 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group 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]

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Group's total liabilities exceeded its total assets by KZT 104,513 million as at 31 December 2010. This condition, along with other matters described in Note 2, indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

29 April 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

(Millions of tenge)

	Note	*2010*	*2009*
Assets			
Cash and cash equivalents	8	**100,790**	78,215
Obligatory reserves	9	**40**	145
Trading securities	10	**82,257**	115,784
Amounts due from credit institutions	11	**25,177**	31,444
Derivative financial assets	12	**4,795**	25,980
Investment securities:			
- available-for-sale	13	**21,110**	19,019
- held-to-maturity	13	**7,321**	–
Loans to customers	14	**787,618**	1,040,773
Bonds of NWF Samruk-Kazyna	15	**142,017**	175,907
Bonds of NWF Samruk-Kazyna pledged under repurchase agreement	15	**388,946**	336,339
Investments in associates	16	**90,326**	85,088
Property and equipment		**10,664**	9,911
Goodwill	17	**3,786**	1,841
Current corporate income tax asset	19	**5,366**	5,708
Deferred corporate income tax assets	19	**159,735**	5,267
Other assets		**65,762**	37,238
Total assets		**1,895,710**	1,968,659
Liabilities			
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	20	**450,025**	406,595
Amounts due to credit institutions	21	**155,644**	836,384
Derivative financial liabilities	12	**1**	3,974
Amounts due to customers	22	**683,301**	655,963
Debt securities issued	23	**672,650**	1,668,602
Provisions	18	**1,192**	59,127
Other liabilities		**37,410**	27,834
Total liabilities		**2,000,223**	3,658,479
Equity deficit			
Issued capital: common shares	24	**1,187,023**	515,551
Additional paid-in capital	15, 36	**(130,029)**	(38,798)
Treasury shares		**(8,260)**	(6,383)
Available-for-sale investment securities revaluation reserve		**(713)**	(2,352)
Foreign currency translation reserve		**(651)**	(448)
Accumulated deficit		**(1,156,236)**	(2,144,271)
Equity attributable to:			
Shareholders of the parent		**(108,866)**	(1,676,701)
Non-controlling interest		**4,353**	(13,119)
Total equity deficit		**(104,513)**	(1,689,820)
Total liabilities and equity		**1,895,710**	1,968,659

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

Anvar Saidenov — Chairman of the Board

Alma Maxutova — Chief Accountant

29 April 2011

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

(Millions of tenge)

	Note	*2010*	*2009*
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Total liabilities and equity		**1,895,710**	1,968,659

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

Anvar Saidenov Chairman of the Board

Alma Maxutova Chief Accountant

29 April 2011

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2010

(Millions of tenge)

	Note	*2010*	*2009*
Interest income			
Loans to customers		**147,076**	189,523
Bonds of NWF Samruk-Kazyna		**11,290**	11,338
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements		**23,484**	17,213
Investment securities		**2,732**	2,490
Amounts due from credit institutions		**7,419**	5,756
		192,001	226,320
Trading securities		**4,866**	11,405
		196,867	237,725
Interest expense			
Amounts due to the Government and the National Bank of the Republic of Kazakhstan		**(28,831)**	(22,195)
Amounts due to credit institutions		**(19,378)**	(48,047)
Amounts due to customers		**(43,794)**	(45,810)
Debt securities issued		**(117,379)**	(141,611)
		(209,382)	(257,663)
Net interest expense before impairment		**(12,515)**	(19,938)
Impairment charge on interest bearing assets	11, 14	**(45,717)**	(754,254)
Net interest expense		**(58,232)**	(774,192)
Net fees and commissions	26	**12,014**	19,650
Net trading loss	27	**(25,383)**	(2,965)
Gains less losses from foreign currencies:			
- dealing		**12,736**	3,052
- translation differences		**6,413**	(326,398)
Net income from insurance operations		**1,347**	2,688
Share in income of associates	3	**4,250**	4,690
Excess of the acquirer's share in net fair value of identifiable assets and liabilities of acquiree over the cost	6	**10,169**	–
Loss from decline in value of inventory		**(1,123)**	(4,473)
Gain / (loss) from disposal of subsidiaries	7	**38,590**	(3,075)
Other income		**2,637**	4,165
Non-interest income/(loss)		**61,650**	(302,666)
Personnel expenses	29	**(20,717)**	(22,226)
Other operating expenses	29	**(39,902)**	(24,388)
Depreciation and amortisation		**(3,832)**	(4,886)
Taxes other than income tax		**(5,038)**	(3,836)
Loss from realization of collateral		**(3,826)**	–
Impairment charge on investments	28	**(956)**	(38,876)
Other impairment and provisions	18	**54,596**	62,451
Obligatory insurance of individuals' deposits		**(3,141)**	(2,051)
Other expenses		**(3,930)**	(3,238)
Non-interest loss		**(26,746)**	(37,050)
Gain from restructuring	36	**853,914**	–
Income/(loss) before corporate income tax benefit/(expense)		**830,586**	(1,113,908)
Corporate income tax benefit/(expense)	19	**155,679**	(626)
Net income/(loss) after corporate income tax benefit/(expense)		**986,265**	(1,114,534)
Attributable to:			
Equity holders of the parent		**988,035**	(1,086,625)
Non-controlling interest		**(1,770)**	(27,909)
Net income/(loss)		**986,265**	(1,114,534)
Basic and diluted income/(loss) per share (in tenge)	30	**59.16**	(33,192.71)

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

(Millions of tenge)

	Notes	*2010*	*2009*
Net income/(loss) for the reporting period		**986,265**	(1,114,534)
Other comprehensive income/(loss):			
Fair value change of available-for-sale investment securities		**(15)**	(6,568)
Release of available-for-sale investment securities revaluation reserve on disposal of previously revalued assets	27	**(1,049)**	2,192
Impairment of available-for-sale investment securities		**3,358**	2,764
Share of changes recognized directly in equity of an associate	16	**(632)**	372
Foreign exchange revaluation		**(264)**	580
Other comprehensive income/(loss) for the reporting period, net of tax		**1,398**	(660)
Total comprehensive income/(loss) for the reporting period		**987,663**	(1,115,194)
Attributable to:			
- Equity holders of the parent		**989,471**	(1,087,365)
- Non-controlling interest		**(1,808)**	(27,829)
		987,663	(1,115,194)

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

(Millions of tenge)

	Equity attributable to equity holders of the Parent								
	Issued capital: common shares	*Additional paid-in capital*	*Treasury shares*	*Available-for-sale investment securities revaluation reserve*	*Foreign currency translation reserve*	*Accumulated deficit*	*Total*	*Non-controlling interest*	*Total equity deficit*
1 January 2009	303,456	–	(1,568)	(1,112)	(948)	(1,057,646)	(757,818)	15,039	(742,779)
Total comprehensive loss	–	–	–	(1,240)	500	(1,086,625)	(1,087,365)	(27,829)	(1,115,194)
Issue of common shares (Note 24)	212,095	–	–	–	–	–	212,095	–	212,095
Additional paid-in capital	–	(38,798)	–	–	–	–	(38,798)	–	(38,798)
Net purchase of treasury shares	–	–	(4,815)	–	–	–	(4,815)	–	(4,815)
Contribution of non-controlling interests to subsidiaries' equity	–	–	–	–	–	–	–	619	619
Disposal of a subsidiary	–	–	–	–	–	–	–	(1,191)	(1,191)
Purchase of non-controlling interest	–	–	–	–	–	–	–	(292)	(292)
Change of non-controlling interest from redistribution of participation share	–	–	–	–	–	–	–	535	535
31 December 2009	515,551	(38,798)	(6,383)	(2,352)	(448)	(2,144,271)	(1,676,701)	(13,119)	(1,689,820)

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2010

(Millions of tenge)

	Equity attributable to equity holders of the Parent								
	Issued capital-common shares	*Additional paid-in capital*	*Treasury shares*	*Available-for-sale investment securities revaluation reserve*	*Foreign currency translation reserve*	*Accumulated deficit*	*Total*	*Non-controlling interest*	*Total equity deficit*
1 January 2010	**515,551**	**(38,798)**	**(6,383)**	**(2,352)**	**(448)**	**(2,144,271)**	**(1,676,701)**	**(13,119)**	**(1,689,820)**
Total comprehensive income	**–**	**–**	**–**	**1,639**	**(203)**	**988,035**	**989,471**	**(1,808)**	**987,663**
Issue of common shares (Note 24)	**671,472**	**–**	**–**	**–**	**–**	**–**	**671,472**	**–**	**671,472**
Additional paid-in capital (Notes 15, 36)	**–**	**(91,231)**	**–**	**–**	**–**	**–**	**(91,231)**	**–**	**(91,231)**
Net purchase of treasury shares	**–**	**–**	**(3,990)**	**–**	**–**	**–**	**(3,990)**	**–**	**(3,990)**
Acquisition of subsidiaries	**–**	**–**	**(95)**	**–**	**–**	**–**	**(95)**	**3,332**	**3,237**
Disposal of a subsidiary	**–**	**–**	**2,208**	**–**	**–**	**–**	**2,208**	**15,948**	**18,156**
31 December 2010	**1,187,023**	**(130,029)**	**(8,260)**	**(713)**	**(651)**	**(1,156,236)**	**(108,866)**	**4,353**	**(104,513)**

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

(Millions of tenge)

	Note	*2010*	*2009*
Cash flows from operating activities:			
Interest received		**106,744**	152,908
Interest paid		**(142,798)**	(182,906)
Income received/(loss paid) on foreign currencies dealing		**4,970**	(10,819)
Income received/(loss paid) on transactions with securities		**685**	(750)
Fees and commissions received		**7,797**	15,655
Fees and commissions paid		**(5,773)**	(1,732)
Cash received from insurance operations		**8,576**	8,574
Cash paid for insurance operations		**(2,325)**	(4,947)
Cash paid to employees		**(19,152)**	(20,095)
Cash paid for obligatory deposits insurance		**(3,141)**	(2,051)
Operating expenses paid		**(47,223)**	(41,046)
Net cash used in operating activities before changes in operating assets and liabilities		**(91,640)**	(87,209)
Net increase/decrease in cash from operating assets and liabilities			
Net decrease in obligatory reserves		**105**	66,477
Net (increase)/decrease in trading securities		**(2,444)**	1,119
Net decrease in amounts due from credit institutions		**47,387**	15,490
Net decrease in loans to customers		**101,442**	57,448
Net decrease/(increase) in other assets		**954**	(688)
Net increase in due to the Government and the National Bank of the Republic of Kazakhstan		**43,111**	404,529
Net (decrease)/increase in derivative financial instruments		**(381)**	383
Net decrease in amounts due to credit institutions		**(55,192)**	(114,238)
Net increase/(decrease) in amounts due to customers		**93,819**	(321,896)
Net increase/(decrease) in other liabilities		**1,510**	(7,535)
Net cash from operating activities before corporate income tax		**138,671**	13,880
Corporate income tax paid		**(1,048)**	(1,049)
Net cash from operating activities after corporate income tax		**137,623**	12,831
Cash flows from investment activities:			
Purchase of available-for-sale investment securities		**(10,050)**	(17,943)
Disposal of available-for-sale investment securities		**12,116**	9,505
Purchase of bonds of NWF Samruk-Kazyna		**–**	(645,000)
Acquisition of held-to-maturity investments securities		**(1,570)**	–
Redemption of held-to-maturity investment securities		**1,708**	–
Purchase of non-controlling interest		**–**	(292)
Investments in associates		**–**	(3,269)
Net cash received from acquisition of subsidiaries	6	**5**	–
Cash of disposed subsidiaries	7	**(12,437)**	(1,996)
Dividends received from associates	16	**423**	–
Purchase of property and equipment		**(2,571)**	(4,531)
Proceeds from disposal of property and equipment		**780**	2,359
Net cash used in investing activities		**(11,596)**	(661,167)
Cash flows from financing activities:			
Net proceeds from debt securities issued		**–**	647,075
Repayment of debt securities issued		**(102,853)**	(223,127)
Proceeds from issue of common shares		**–**	212,095
Contribution of non-controlling interest to subsidiaries' equity		**–**	619
Purchase of treasury shares		**(846)**	(5,956)
Proceeds from sale of treasury shares		**344**	1,141
Net cash (used in)/from financing activities		**(103,355)**	631,847
Effect of exchange rate changes on cash and cash equivalents		**(97)**	6,811
Net increase/(decrease) in cash and cash equivalents		**22,575**	(9,678)
Cash and cash equivalents at the beginning of the year		**78,215**	87,893
Cash and cash equivalents at the end of the year	8	**100,790**	78,215

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2010

(Millions of tenge)

	Note	*2010*	*2009*
Non-cash transactions:			
Write-off of liabilities under the Restructuring plan	36	**(1,576,288)**	–
Conversion of debt securities issued to common shares	36	**(671,472)**	–
Recognition of new financial instruments at fair value	36	**722,374**	–
Modification of terms of debt securities issued	36	**100,974**	–
Modification of terms of bonds of NWF Samruk-Kazyna	15	**(9,743)**	–
Business combinations	6	**11,551**	
Deconsolidation of subsidiary	7	**66,523**	(2,112)
Purchase of treasury shares		**(3,488)**	–
Collateral obtained for repayment of loans to customers		**41,403**	2,768
Reclassification of available-for-sale investment securities to held-to-maturity investment securities		**5,039**	–
Reclassification of available-for-sale investment securities to investments in associates		**–**	2,546

The accompanying notes on pages 8 to 69 are an integral part of these consolidated financial statements.

(Millions of tenge)

1. Principal activities

JSC BTA Bank and its subsidiaries (the "Group") provide retail and corporate banking services, insurance services, leasing and other financial services in Kazakhstan, Armenia, Belorussia, Georgia, the Russian Federation, and Ukraine. The parent company of the Group is BTA Bank (the "Bank"), a joint stock company. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 3 lists the Bank's subsidiaries and associates.

The address of the Bank's registered office is: 97 Zholdasbekov Street, Samal-2, Almaty, 050051, the Republic of Kazakhstan.

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. In addition, the Group is authorized to accept pension fund deposits. The Bank has a primary listing in the Kazakhstan Stock Exchange ("KASE"). Its head office is located in Almaty, Kazakhstan. As of 31 December 2010 the Bank had 22 regional branches and 227 cash settlement units (as at 31 December 2009, the Bank had 22 regional branches and 230 cash settlement units), located throughout Kazakhstan and representative offices in Shanghai, China; Moscow, Russia; Dubai, United Arab Emirates; London, Great Britain; and Kiev, Ukraine.

National Welfare Fund Samruk-Kazyna is the parent (the "Parent" or the "Controlling shareholder") of the Group. Ultimate shareholder of the Group is the Government of the Republic of Kazakhstan.

Below is the list of major shareholders as at 31 December:

	2010,%	*2009,%*
Shareholders:		
Common shares:		
NWF Samruk-Kazyna JSC	**81.48**	75.10
KT Asia Investment Group B.V.	—	2.40
Drey Associates Limited	—	2.40
Strident Energy Limited	—	2.38
InvestCapital Company LLP	—	0.70
Yassy Invest LLP	—	1.79
Agroinvest LLP	—	1.78
CP-CreditPrive SA	—	1.68
Other	**18.52**	11.77
	100.00	100.00

No dividends to common shareholders were paid during 2010 and 2009.

2. Going concern

As at 31 December 2009 the amounts drawn by the Group under bond programs and loan facilities amounted to KZT 2,504,986 million. In accordance with the contractual terms of these bond programs and loan facilities, the Bank was required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank was required to maintain a certain level of credit rating from major international rating agencies. As at 31 December 2009 the Bank was in breach of capital adequacy and lending exposure ratios. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies were decreased to default levels.

In April 2009, the Bank suspended its payments on principal and in July 2009 on interest payments. Starting from February 2009, the Controlling shareholder and the Bank's current management have been taking measures to improve the liquidity and enabling the Group to continue its operations, including, but not limited, to the following:

a) In March 2009, the Controlling shareholder purchased the Bank's bonds totalling KZT 645 billion;

b) In 2009 and 2010, significant funds were placed on current accounts with the Group by entities owned by the Controlling shareholder;

c) The Bank is an active participant of governmental programs. Under Governmental anti-crisis programs the Group received KZT 40 billion to refinance mortgage loans and KZT 22 billion to finance medium and small size entities. Furthermore the Bank is a key financial institution for realization of stabilization and support of a real sector of economy.

d) On 16 October 2009 the ruling of the specialized financial court of Almaty city concerning the restructuring of the Bank came into the legal force. In accordance with the law of the Republic of Kazakhstan "On banks and bank activities" the decision on Bank restructuring was recognized reasonable and competent in meeting all legislation requirements.

(Millions of tenge)

e) In December 2009 restructuring proceedings that have been commenced in respect of the Bank before the Specialised Financial Court in Almaty have been recognized in Great Britain as a main foreign proceeding. This recognition was granted by order of the High Court of Justice of England and Wales on 18 December 2009.

(Millions of tenge)

2. Going concern (continued)

f) On 16 September 2010 the Bank completed the restructuring process of its financial liabilities, in accordance to the decision of the Specialized financial court of Almaty dated 31 August 2010. As a result, the Group's external debt amounting to US Dollar 11.6 billion was settled by cash of US Dollar 945 million, new senior debt of US Dollar 3,242 million, new subordinated debt of US Dollar 773 million and revolving committed trade finance facility of US Dollar 698 million as well as recovery notes, which provide the holders with 50% of the qualified bad assets, which the Bank recovers in the future (Note 36). As a result of the restructuring the Group's regulatory capital increased to comply with the FMSA requirements.

g) On 27 October 2010, rating agency Standard&Poor's has increased the Bank's rating from "D" to "B-" on long-term rating in foreign currency and on 10 December 2010, rating agency Fitch has increased the Bank's rating from "RD" to "B-" on long-term credit rating of issuer's default in foreign currency.

The increase in ratings reflects improvement of the Bank's solvency as the result of completion of debt restructuring as well as current financial support, which the Bank obtains from the Government of the Republic of Kazakhstan.

However, despite a successful completion of the Bank's financial liabilities restructuring process, which has resulted in a considerable recovery of the Group's equity and the Bank's regulatory capital, the Group continues to run a capital deficit totaling KZT 104,513 million as at 31 December 2010.

The Bank's management has started implementing a new business model. The implementation is on its early stage, preventing the Bank's management from objectively measuring the Bank's actual results compared to plan. Thus, there is still a material uncertainty with respect to achieving targets and objectives included in the Bank's new business model.

Combination of the above circumstances indicates that there is still an uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

These consolidated financial statements of the Group were prepared based on the going concern principle, assuming ongoing adequate support from the Bank's Controlling shareholder.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary if adequate additional resources are not available and/or the Bank is unable to continue as a going concern.

3. Basis of preparation

Statement of compliance

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

General

These financial statements are presented in millions of Kazakh tenge ("KZT" or "tenge"), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Group's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group. Significant foreign currency positions are maintained as they are necessary to meet customers' requirements, manage foreign currency risks and achieve a proper assets and liabilities structure of the Group. Transactions in other currencies are treated as transactions in foreign currencies.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, trading securities and derivative contracts as required by IAS 39 "Financial Instruments: Recognition and Measurement."

Reclassifications:

Reclassification of the 2009 amounts to comply with presentation of 2010 was as follows:

31 December 2009	*As presented earlier*	*Reclassification*	*As reclassified*	*Comments*
Statement of Financial Position				
Bonds of NWF Samruk-Kazyna	512,246	(336,339)	175,907	Reclassification from bonds of NWF Samruk-Kazyna to bonds of NWF Samruk-Kazyna pledged under repurchase agreement
Bonds of NWF Samruk-Kazyna pledged under repurchase agreement	–	336,339	336,339	

(Millions of tenge)

3. Basis of preparation (continued)

Consolidated subsidiaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	*Holding, % 31 December 2010*	*2009*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Subsidiary of JSC BTA Bank BTA Securities	**100.00%**	100.00%	Kazakhstan	17.10.97	Securities trading and asset management	13.12.97
JSC Accumulative Pension Fund BTA Kazakhstan Subsidiary of JSC BTA Bank	**86.05%**	86.05%	Kazakhstan	11.12.97	Pension Fund	16.09.98
JSC Subsidiary Mortgage Company of JSC BTA Bank BTA Ipoteka	**100.00%**	100.00%	Kazakhstan	20.11.00	Consumer mortgage lending	20.11.00
JSC Subsidiary Life Insurance Company of BTA Bank BTA Life	**100.00%**	100.00%	Kazakhstan	22.07.99	Life insurance	30.03.01
JSC Subsidiary Insurance Company of BTA Bank BTA Zabota	**–**	98.17%	Kazakhstan	10.09.96	General insurance	04.04.01
TuranAlem Finance B.V.	**100.00%**	100.00%	Netherlands	22.05.01	Capital markets	22.05.01
LLC Subsidiary of JSC BTA Bank TuranAlem Finance	**100.00%**	100.00%	Russia	22.06.04	Capital markets	28.09.04
JSC Subsidiary of JSC BTA Bank Insurance Company London-Almaty	**99.53%**	99.53%	Kazakhstan	20.11.97	Property and liability insurance	05.08.04
BTA Finance Luxembourg S.A.	**86.11%**	86.11%	Luxemburg	05.01.06	Capital markets	06.03.06
JSC Subsidiary Company of BTA Bank BTA Insurance	**99,98%**	100.00%	Kazakhstan	08.09.98	Property and liability insurance	21.12.06
TemirCapital B.V.	**100.00%**	100.00%	Netherlands	29.05.01	Capital markets	29.12.06
CJSC BTA Bank	**99.71%**	99.29%	Belorussia	25.04.02	Bank activities	30.10.08
JSC Accumulative Pension Fund Ular-Umit	**75.00%**	–	Kazakhstan	23.01.98	Pension fund	13.01.10
JSC Insurance Company Atlanta-Polis	–	–	Kazakhstan	06.06.95	Property and liability insurance	25.03.10
LLP Titan Inkassatsiya	**100.00%**	–	Kazakhstan	22.08.02	Encashment	05.01.10
JSC Pension Asset Management Company Zhetysu	**75.00%**	–	Kazakhstan	05.03.98	Pension assets investment management	14.01.10
JSC Temirbank	**0.07%**	70.51%	Kazakhstan	26.03.92	Bank activities	29.12.06
Logopark Hagibey LLC	**100.00%**	–	Ukraine	26.10.07	Logistics business	01.07.10
First Kazakh Securitization Company	**–**	–	Netherlands	08.12.05	Securitization of financial assets	–
Second Kazakh Securitization Company	**–**	–	Netherlands	25.09.07	Securitization of financial assets	–

In January 2010, the Bank obtained 75.00% share in equity of JSC Accumulative Pension Fund Ular-Umit ("Ular-Umit") and 75.00% share in equity of JSC Pension Asset Management Company Zhetysu ("Zhetysu") in connection with the discharge of liabilities to the Bank of certain clients of the Group. The main activity of Ular-Umit is attraction of pension contributions and managing pension payments to its depositors. The main activity of Zhetysu is pension assets investment management.

In January 2010, the Bank obtained 100% share in LLP Titan Incassatsiya ("Titan Incassatsiya"). The main activity of Titan Incassatsiya is encashment and transfer of banknotes, coins and valuables.

On 25 March 2010, the Bank obtained 75.28% share in equity of JSC Insurance Company Atlanta-Polis ("Atlanta-Polis") by the decision of Specialized regional court of Almaty in consideration with the partial discharge of liabilities to the Bank of LLP NSK-Capital. The main activity of Atlanta-Polis is insurance.

In May 2010, the Parent has purchased unallocated shares from JSC Temirbank ("Temirbank") totaling 75,933 thousand shares, as the result of which the Bank's share has decreased to 14.02 % of the total allocated shares of Temirbank. In June 2010 Temirbank has declared an additional issue of 20,000,000 thousand shares, of which the Parent has purchased 15,905,000 thousand shares. The Bank did not use its pre-emptive right in respect of this additional emission that led to further decrease of the Bank's share in Temirbank's equity to 0.07%.

During 2010, the Bank acquired 100.00% share in equity of Logopark Hagibey LLC as the result of forfeiture of pledged property of one borrower. The main activity of Logopark Hagibey LLC is logistics.

On 6 November 2010, the FMSA took decision to issue permission for voluntary reorganization through joining of Atlanta-Polis and JSC Subsidiary Insurance Company of BTA Bank, BTA Zabota ("BTA Zabota") to JSC Subsidiary Company of BTA Bank, BTA Insurance ("BTA Insurance"). On 10 December 2010 BTA Insurance within restructuring of the Group's insurance business based on transfer act assumed property, rights and liabilities of Atlanta-Polis and BTA Zabota.

(Millions of tenge)

3. Basis of preparation (continued)

Consolidated subsidiaries (continued)

Although the Group did not own any shares in First Kazakh Securitisation Company and Second Kazakh Securitisation Company as at 31 December 2010 and 2009 and for the years then ended, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries, because at those dates the Group controlled and benefited directly from operations of these entities.

Associates accounted for under equity method

The following associates are accounted for under the equity method and included into investments in associates:

2010 Associate	*Holding, %*	*Country*	*Activities*	*Share in net income/ (loss)*	*Total assets*	*Total liabilities*	*Equity*
BTA Bank PJSC	**49.99%**	**Ukraine**	**Bank**	**55**	**71,012**	**42,573**	**28,439**
BTA Bank JSC	**49.00%**	**Georgia**	**Bank**	**(277)**	**8,780**	**6,135**	**2,645**
BTA Bank CJSC	**48.93%**	**Armenia**	**Bank**	**16**	**3,345**	**1,233**	**2,112**
JSCB BTA Kazan OJSC	**47.32%**	**Russia**	**Bank**	**38**	**67,862**	**57,229**	**10,633**
SK Leasing JSC	**45.00%**	**Kazakhstan**	**Leasing**	**(121)**	**3,197**	**1,618**	**1,579**
Temir Leasing JSC	**26.92%**	**Kazakhstan**	**Leasing**	**8**	**3,669**	**1,746**	**1,923**
Oranta NJSIC	**30.39%**	**Ukraine**	**Insurance**	**48**	**21,381**	**6,529**	**14,852**
Sekerbank	**33.98%**	**Turkey**	**Bank**	**4,483**	**1,103,699**	**976,682**	**127,017**
AMT Bank LLC	**22.26%**	**Russia**	**Bank**	**–**	**219,074**	**167,968**	**51,106**

In January 2010 BTA Bank Open Joint Stock Company (Ukraine) was renamed to BTA Bank Public Joint Stock Company (Ukraine).

In March 2010 BTA Bank Limited Liability Company (Russia) was renamed to AMT Bank Limited Liability Company (Russia).

In April 2010 Sekerbank announced dividends on common shares of KZT 8,436 million. In May 2010 dividends of KZT 423 million were paid in cash. The remaining part of dividends of KZT 8,013 million was paid in July 2010, in the form of common shares.

In 2010 JSC Subsidiary of JSC BTA Bank BTA Securities ("BTA Securities JSC") has transferred 254,840,310 common shares of Sekerbank comprising 33.98% of Sekerbank's total placed common shares to the Parent for trust management. However, BTA Securities has retained the right of ownership and control over these shares.

In September 2010 BTA ORIX Leasing Joint Stock Company was renamed to SK Leasing Joint Stock Company.

2009 Ассоциированная компания	*Holding, %*	*Country*	*Activities*	*Share in net income/ (loss)*	*Total assets*	*Total liabilities*	*Equity*
BTA Bank OJSC	49.99%	Ukraine	Bank	(126)	58,270	30,938	27,332
BTA Bank JSC	49.00%	Georgia	Bank	(124)	12,992	9,652	3,340
BTA Bank CJSC	48.93%	Armenia	Bank	(19)	3,307	1,306	2,001
JSCB BTA Kazan OJSC	47.32%	Russia	Bank	57	54,592	43,764	10,828
BTA ORIX Leasing JSC	45.00%	Kazakhstan	Leasing	(124)	4,193	2,345	1,848
Temir Leasing JSC	45.80%	Kazakhstan	Leasing	20	3,222	1,300	1,922
Oranta NJSIC	30.39%	Ukraine	Insurance	–	22,219	7,830	14,389
Sekerbank	33.98%	Turkey	Bank	5,006	909,678	788,890	120,788
BTA Bank LLC	22.26%	Russia	Bank	–	223,129	163,306	59,823

4. Summary of significant accounting policies

Changes in accounting policies

In 2010 the Group has implemented the following revised IFRS standards and new Interpretations. The effects of these changes are noted below:

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

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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

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

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

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

Improvements to IFRSs

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

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose 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 Group as the annual impairment test is performed before aggregation.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Acquisition of subsidiaries (continued)

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations under common control transactions

Business combinations under common control transactions are accounted for using the pooling of interests method. A business combination under common control transaction considers the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. The only adjustments that are made are to harmonise accounting policies;
- No 'new' goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity;
- The consolidated income statement reflects the results of the combining entities prospectively from the date of combination.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in statement of income, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition of financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group 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 Group 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.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

'Day 1' profit

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

Trading securities

Trading securities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 consolidated statement of financial position.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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 Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Kazakhstan (the "NBK") – excluding obligatory reserves, and amounts due from other financial institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves

Obligatory reserves represent mandatory reserve deposits and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statements.

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially measured in accordance with financial instruments recognition policy and subsequently measured at their fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as net trading gain/(loss) or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as a separate derivative and recorded at fair value if their risks and economic characteristics are not closely related to the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use the asset.

I. Finance – Group as lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

II. Operating – Group as lessee

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

III. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax authorities, and of the jurisdictions in which the Group has offices, branches or subsidiaries.

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 laws that have been enacted or substantively enacted at the reporting date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan also has various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Impairment of financial assets

The Group 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.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Allowances for impairment of financial assets

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group 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 Group 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 risk 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 consolidated statement of 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 Group. 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 consolidated statement of 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 Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

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

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

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

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Allowances for impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 consolidated statement of income.

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitised financial assets may be retained by the Group and are primary classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group'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 consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Property and equipment

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

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in other administrative and operating expenses.

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

	Years
Buildings	40
Furniture and fixtures	4-10
Computers	4
Office equipment	8
Land	–
Construction in process	–

Depreciation on assets under construction is charged only when the assets are available for use and transferred into relevant property and equipment categories.

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

Expenses related to repairs and renewals are recorded in the consolidated income statement and included in other operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the consolidated statement of income.

Goodwill

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in goodwill. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 "*Operating Segments*".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Amounts due to Government and central banks, credit institutions and customers

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group 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 Government and central banks, credit institutions and to customers and initially recognised at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of income.

Provisions

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

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and benefits in consolidated statements of income. The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Equity

Issued capital

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

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

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

Trust activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Recognition of income and expenses

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

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale investments, 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 Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

The Group 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 asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Underwriting income (loss)

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition costs.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the consolidated statement of financial position.

Losses and loss adjustments are charged to the consolidated statement of income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recognised in income as incurred.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses are included in the consolidated statement of financial position within other liabilities and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. The resulting adjustments are reflected in income for the current period.

(Millions of tenge)

4. Summary of significant accounting policies (continued)

Reinsurance

In the ordinary course of business, the Group cedes insurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the consolidated statement of financial position within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains less losses from foreign currencies dealing. The official KASE exchange rates as at 31 December 2010 and 2009 were KZT 147.5 and KZT 148.46 to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into tenge at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Small and medium business and Investing activity.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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

(Millions of tenge)

4. Summary of significant 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 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. A requirement relating to accounting of changes in fair value specified by credit risk was introduced with respect to financial liabilities through profit or loss using fair value measurement in other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on consolidated financial statements of the Group.

- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.

- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim consolidated financial statements of the Group.

- 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 Group.

Amendments to IFRS 7 "Financial Instruments: Disclosures"

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

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

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. According to amendments, deferred tax on investment property carried at fair value and on non-amortized assets in the scope of IAS 16 application to which the revaluation model is applied shall be determined based on assumption that the carrying amount shall be reimbursed through asset realization. The Group now evaluates the impact of the adoption of these amendments.

(Millions of tenge)

5. Significant accounting judgements and estimates

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Special purpose entities

Although the Group did not own any direct shares in the capital of First Kazakh Securitization Company and Second Kazakh Securitization Company for the purposes of these consolidated financial statements, they were treated as subsidiaries, in accordance with SIC-12 "Consolidation – Special Purpose Entities", since the Group controlled and benefited directly from these entities' operations.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regard to these consolidated financial statements relate to the allowances for impairment of assets, reserves for insurance claims, income taxes, fair values of securities, and other provisions. These estimates are based on information available as at the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments

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

Allowance for impairment of loans and receivables

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

During 2009, the quality of the Bank's loan portfolio continued to deteriorate as a result of the following circumstances and actions taken before the current management of the Bank were appointed by the National Welfare Fund Samruk-Kazyna - a controlling shareholder of the Bank:

- A number of significant borrowers, primarily registered outside Kazakhstan, who during 2008 continued servicing their debt in accordance with terms of loan agreements, ceased servicing their loans in 2009, did not allow the Bank to monitor collateral or failed to provide information about their financial performance.
- A number of borrowers, whom the Bank had communications at the beginning of 2009, ceased to communicate with the Bank.
- Collateral on certain borrowers, which was considered for calculation of allowances as at 31 December 2008, become no longer available in 2009, due to cancellation of encumbrances by borrowers and further resale to third parties or pledge under other loans from other banks.

The Bank concluded that the loss event on those loans occurred during 2009 since:

- practice of lending through off-shore companies allowed these borrowers to break the link to final borrowers and helped to dishonor the loan and collateral agreements, whereby, most of the borrowers and pledgers are different legal entities.
- in the beginning of 2009 certain loans to non-residents were issued to finance start-up projects without proper economic expertise of the borrowers' ability to serve the loan.
- During 2009 the Bank suspended further financing of investment loans issued earlier, which were assessed as unimpaired as at 31 December 2008.

(Millions of tenge)

5. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Allowance for impairment of loans and receivables (continued)

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers has not been possible and there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and has created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral. As a result of the above, in 2009 the Bank has recorded an impairment loss on loans in the amount of KZT 706,944 million.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was KZT 3,786 million (as at 31 December 2009 – KZT 1,841 million). More details are provided in Note 17.

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 Group 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 Group's tax, currency and customs positions will be sustained.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the reporting claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claim estimates are reassessed for adequacy and changes made are made to the provision. General insurance claims provisions are not discounted for the time value of money.

(Millions of tenge)

6. Business combinations

As described above in Note 3, during 2010 the Bank acquired a 75.00% share in Ular-Umit, 75.00% share in Zhetysu, 75.28% in Atlanta-Polis, 100% share in Titan-Inkassatsiya and 100% share in Logopark Hagibey.

The information on fair value of identifiable assets and liabilities of Ular-Umit, Zhetysu, Atlanta-Polis, Titan-Inkassatsiya and Logopark Hagibey as at the purchase date is presented below:

	Ular Umit	*Zhetysu*	*Atlanta-Polis*	*Titan-Inkassatsiya*	*Logopark Hagibey*	*Total*
Assets						
Cash and cash equivalents	**134**	**62**	**33**	**56**	**–**	**285**
Amounts due from credit institutions	**206**	**–**	**–**	**–**	**–**	**206**
Investments securities	**6,242**	**4,248**	**806**	**–**	**–**	**11,296**
Amounts receivable under reverse repurchase agreements	**–**	**–**	**207**	**–**	**–**	**207**
Trading securities	**–**	**–**	**58**	**–**	**–**	**58**
Property and equipment	**886**	**20**	**107**	**357**	**2,755**	**4,125**
Current income tax asset	**576**	**273**	**–**	**–**	**–**	**849**
Deferred income tax asset	**319**	**757**	**–**	**–**	**–**	**1,076**
Other assets	**206**	**54**	**487**	**147**	**145**	**1,039**
	8,569	**5,414**	**1,698**	**560**	**2,900**	**19,141**
Liabilities						
Accounts payable	**(1,422)**	**(11)**	**–**	**–**	**–**	**(1,433)**
Amounts due to credit institutions	**–**	**–**	**–**	**–**	**(4,845)**	**(4,845)**
Other liabilities	**(184)**	**–**	**(726)**	**(117)**	**–**	**(1,027)**
	(1,606)	**(11)**	**(726)**	**(117)**	**(4,845)**	**(7,305)**
Total identifiable net assets valued at fair value	**6,963**	**5,403**	**972**	**443**	**(1,945)**	**11,836**
Non-controlling interest	**1,741**	**1,351**	**240**	**–**	**–**	**3,332**
Goodwill	**–**	**–**	**–**	**–**	**1,945**	**1,945**
Excess of the acquirer's share in net fair value of identifiable assets and liabilities of acquiree over the cost	**(5,222)**	**(4,052)**	**(452)**	**(443)**	**–**	**(10,169)**
Interest transferred at acquisition	**–**	**–**	**280**	**–**	**–**	**280**

The Bank received share in ownership of Ular-Umit and Zhetysu as a discharge against certain debt before the Bank

Independent estimation of the fair value of identifiable assets and liabilities of acquired companies was not necessary, since the Bank's management believes that the carrying amount of identifiable assets and liabilities, which are liquid and have short maturities, approximately equals to their fair value.

The Group has taken decision to evaluate non-controlling interests in Ular-Umit, Zhetysu and Atlanta-Polis based on proportional share of non-controlling interest in their identifiable net assets.

Consideration transferred at acquisition

Cash paid at acquisition	**280**
Undertaken obligations	**–**
Total consideration transferred	**280**

Analysis of cash flows at acquisition:

Transaction costs at acquisition (included into cash flows from operating activity)	
Net cash acquired in subsidiary (included into cash flows from investing activity)	**285**
Cash paid at acquisition (included into cash flows from investing activity)	**(280)**
Net cash inflow	**5**

Total operating income of the acquired companies for the period from acquisition date till 31 December 2010 amounted to KZT 3,637 million, whereas net income for the same period amounted to KZT 1,983 million. If the business combination had taken place at the beginning of 2010, the total operating income of the Group for 2010 would have been KZT 780 million more at KZT 215,438 million and the net income of the Group for 2010 would have been KZT 276 million more at KZT 986,541 million.

(Millions of tenge)

7. Disposal of subsidiaries

On 28 December 2009 on the basis of the decision of Bishkek regional court, the Kyrgyz Republic, the shares of BTA Bank CJSC ("BTA Bank Kyrgyzstan"), owned by the Bank, were seized, and therefore, the Bank's management decided to deconsolidate BTA Bank CJSC as at the end of 2009. The loss from derecognition of control over BTA Bank CJSC amounted to KZT 3,075 million.

In May 2010 the Parent purchased unallocated shares from Temirbank totaling 75,933 thousand shares, resulting in decrease of the Bank's share to 14.02 % of the total allocated shares of Temirbank. In June 2010 Temirbank has declared an additional issue of 20,000,000 thousand shares, of which the Parent has purchased 15,905,000 thousand shares. The Bank did not use its pre-emptive right in respect of this additional emission that led to further decrease of the Bank's share in Temirbank's equity to 0.07%. At the date of disposal of Temirbank the fair value of the Bank's investment in Temirbank amounted to KZT 452 million.

Below is the carrying value of assets, liabilities and goodwill as at the derecognition date:

	Carrying amount	
	Temirbank	***BTA Bank Kyrgyzstan***
	11 May 2010	***28 December 2009***
Cash and cash equivalents	**12,437**	1,996
Obligatory reserves	**–**	854
Trading securities	**21,991**	–
Amounts due from credit institutions	**2,590**	945
Derivative financial instruments	**308**	–
Investment securities	**–**	1,145
Loans to customers	**187,938**	6,671
Property and equipment	**1,531**	1,434
Other assets	**5,712**	593
Total assets	**232,507**	13,638
Amounts due to the Government	**–**	248
Amounts due to credit institutions	**65,071**	7,560
Amounts due to customers	**184,067**	1,443
Debt securities issued	**35,815**	–
Reserves	**3**	–
Other liabilities	**1,637**	279
Total liabilities	**286,593**	9,530
Net assets value	**(54,086)**	4,108
Investments	**(452)**	–
Non-controlling interest	**15,948**	(1,191)
Group's share in net assets	**(38,590)**	2,917
Goodwill	**–**	158
Gain / (loss) from disposal of subsidiaries	**38,590**	(3,075)
Total cash received	**–**	–
Cash of disposed organizations	**(12,437)**	(1,996)
Total cash outflow	**(12,437)**	(1,996)

8. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	*2009*
Cash on hand	**41,742**	41,492
Current accounts with other financial institutions	**30,746**	22,955
Amounts due from the NBK	**25,219**	–
Reverse repurchase agreements with contractual maturity of 90 days or less	**1,722**	3,706
Loans with contractual maturity of 90 days or less	**674**	1,369
Current accounts with national banks	**487**	7,462
Time deposits with other financial institutions with contractual maturity of 90 days or less	**200**	1,231
Cash and cash equivalents	**100,790**	78,215

(Millions of tenge)

8. Cash and cash equivalents (continued)

The Group has entered into reverse repurchase agreements on the KASE. The subject of these agreements was mainly treasury bills of the Ministry of Finance of the Republic of Kazakhstan and corporate securities of Kazakhstani emitters. Fair value of securities held as collateral under reverse repurchase agreements as at 31 December 2010 was KZT 1,799 million (as at 31 December 2009 – KZT 3,573 million).

As at 31 December 2010 the ten largest balances with banks accounted for 25.39% of total cash and cash equivalents (as at 31 December 2009 – 15.63%).

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Historically, such reserves must be held in either non-interest bearing deposits with the National Bank of Kazakhstan ("NBK") or in physical cash computed based on average balances of the aggregate of non-interest bearing deposits with the NBK and physical cash in national and hard currencies during the period.

By the resolution of the NBK Board dated 30 November 2009 amendments were introduced into the resolution of the NBK dated 23 June 2008 "On setting the obligatory reserve ratio" for the second tier banks for which a debt restructuring is in process. According to these amendments the obligatory reserve ratio for the Bank is set at zero percent for both internal and external liabilities. The zero ratio was valid until the restructuring process was finalized.

On 31 August 2010 Specialized financial court of Almaty made a judicial decision on completion of restructuring financial liabilities of the Bank. On the entry into force of the court's decision the obligatory reserve ratio was reestablished at 1.5% for internal liabilities and 2.5% for external liabilities. As at 31 December 2010 the Bank was in compliance with the minimum reserve requirements for the second-tier banks in the total amount KZT 23,803 million. These funds can be used by the Bank for its current needs.

9. Obligatory reserves

Credit organizations and commercial banks of Belorussia are required to keep non-interest bearing deposits with the National Bank of the Republic of Belarus, the amount of which depends on the volume of borrowings. Minimum reserve requirements are set at 6% and 0% for funds in Belorussian roubles attracted from legal entities and individuals, respectively, and 6% for funds in foreign currencies.

Obligatory reserves as at 31 December 2010 was KZT 40 million (as at 31 December 2009 – KZT 145 million).

10. Trading securities

Trading securities comprise:

	2010	*2009*
Debt securities:		
Corporate bonds	**28,153**	39,359
Sovereign bonds of OECD countries	**8,863**	8,679
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**5,668**	20,642
Bonds of Kazakhstan financial institutions	**5,457**	5,278
Bonds of Kazakhstan non-financial institutions	**5,387**	4,921
Bonds of international financial institutions	**97**	97
Bonds of Kazakhstan state bodies	**13**	–
Treasury bills of the Ministry of Finance of the Russian Federation	**3**	3
	53,641	78,979
Equity securities	**28,616**	36,805
Trading securities	**82,257**	115,784
Subject to repurchase agreements	**–**	4,420

The Groups' counterparties under repurchase agreements have no rights to sell or repledge securities held as collateral under these agreements as at 31 December 2009.

11. Amounts due from credit institutions

As at 31 December amounts due from credit institutions comprise:

	2010	*2009*
Loans	**60,567**	65,249
Deposits	**29,026**	18,652
Amounts due from credit institutions, gross	**89,593**	83,901
Less – Allowance for impairment	**(64,416)**	(52,457)
Amounts due from credit institutions	**25,177**	31,444

(Millions of tenge)

11. Amounts due from credit institutions (continued)

As at 31 December 2010 amounts due from the ten largest credit institutions comprised 72.72% of total amounts due from credit institutions (as at 31 December 2009 – 30.59%).

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2010	*2009*
At 1 January	**52,457**	4,439
Impairment charge	**14,862**	47,310
Write-offs	**(1,980)**	(336)
Disposal of a subsidiary	**(62)**	–
Revaluation	**(861)**	1,044
At 31 December	**64,416**	52,457

12. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at 31 December 2010 and 31 December 2009 and are indicative of neither the market risk nor the credit risk.

	2010			*2009*		
	Notional principal	*Fair value*		*Notional principal*	*Fair value*	
		Assets	*Liabilities*		*Assets*	*Liabilities*
Options	**76,073**	**4,795**	**–**	109,369	14,183	–
Currency swaps	**1,730**	**–**	**(1)**	1,429	–	(1)
Forwards and futures	**347**	**–**	**–**	1,456	–	(33)
Interest rate swaps	**–**	**–**	**–**	255,463	11,797	(3,940)
Total derivative assets/(liabilities)		**4,795**	**(1)**		25,980	(3,974)

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

As at 31 December 2010 and 31 December 2009 the Bank had certain loans that are foreign currencies linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Bank has an option to demand higher payments if the foreign currency specified in the contract will appreciate above a certain floor (floor is generally set at the level of spot rates prevailing on the loans issue date). At the same time, if the foreign currency rates will fall below the floor, interest and principal payments will remain at original level.

The Bank believes that the above feature comprising an embedded foreign currency option is an embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value through profit or loss in the financial statements.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

The number of counterparties of the Bank has taken a privilege to cancel their swap contracts with the Group due to the announcement of a moratorium for payment of principal amount of external liabilities from 20 April 2009 and interest from 22 July 2009. During the first half of 2010 swap contracts for the total notional amount of KZT 255,463 million were early terminated, as a result of which the Group has recognized a loss totalling to KZT 10,325 million in the consolidated statement of income within net trading loss.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

(Millions of tenge)

13. Investment securities

As at 31 December available-for-sale investment securities comprise:

	2010	*2009*
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**9,683**	6,215
Corporate bonds	**8,514**	10,441
Notes of the NBK	**1,054**	940
Bonds of Kazakhstan non-financial institutions	**760**	–
Bonds of Kazakhstan financial institutions	**148**	897
	20,159	18,493
Equity securities	**951**	526
Available-for-sale investment securities	**21,110**	19,019

During 2010 the Group has recognized an impairment loss on available-for-sale investment securities in the amount of KZT 3,358 million (2009 – KZT 2,764 million).

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain financial assets that met the definition of securities out of available-for-sale category to held-to-maturity investments, as the Group has an intention and ability to hold them for the foreseeable future or until maturity.

Held-to-maturity investment securities comprise:

	2010	*2009*
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**3,191**	–
Corporate bonds	**2,520**	–
Bonds of Kazakhstan financial institutions	**963**	–
Bonds of Kazakhstan state bodies	**533**	–
Notes of the NBK	**114**	–
Held-to-maturity investment securities	**7,321**	–

14. Loans to customers

Loans to customers comprise:

	2010	*2009*
Corporate lending	**2,344,957**	2,476,199
Individuals lending	**249,454**	471,537
Small and medium business lending	**161,631**	216,445
Loans to customers, gross	**2,756,042**	3,164,181
Less – Allowance for impairment	**(1,968,424)**	(2,123,408)
Loans to customers	**787,618**	1,040,773

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

	2010	*2009*
Private companies	**2,505,538**	2,684,843
Individuals	**249,454**	471,537
State bodies	**778**	7,574
Other	**272**	227
Loans to customers, gross	**2,756,042**	3,164,181

(Millions of tenge)

14. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Corporate lending 2010	*Small and medium business lending 2010*	*Individuals lending 2010*	*Total 2010*
At 1 January 2010	**1,984,210**	**62,802**	**76,396**	**2,123,408**
Charge/(reversal) for the year	**69,162**	**(28,502)**	**(9,805)**	**30,855**
Amounts written off	**(93,209)**	**–**	**(4,521)**	**(97,730)**
Recoveries	**7,013**	**5,192**	**5,167**	**17,372**
Revaluation	**(12,934)**	**(1,750)**	**(18)**	**(14,702)**
Amount arising from disposal of subsidiaries	**(26,310)**	**(13,295)**	**(51,174)**	**(90,779)**
At 31 December 2010	**1,927,932**	**24,447**	**16,045**	**1,968,424**
Individual impairment	**1,919,479**	**12,464**	**6,164**	**1,938,107**
Collective impairment	**8,453**	**11,983**	**9,881**	**30,317**
	1,927,932	**24,447**	**16,045**	**1,968,424**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,247,613**	**18,717**	**9,255**	**2,275,585**

	Corporate lending 2009	*Small and medium business lending 2009*	*Individuals lending 2009*	*Total 2009*
At 1 January 2009	1,174,310	21,162	21,806	1,217,278
Charge for the year	592,588	55,846	58,510	706,944
Amounts written off	(37,512)	(14,615)	(12,094)	(64,221)
Recoveries	3	180	3,250	3,433
Revaluation	255,056	489	4,961	260,506
Amount arising from disposal of subsidiaries	(235)	(260)	(37)	(532)
At 31 December 2009	1,984,210	62,802	76,396	2,123,408
Individual impairment	1,974,495	35,917	51,173	2,061,585
Collective impairment	9,715	26,885	25,223	61,823
	1,984,210	62,802	76,396	2,123,408
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,274,681	52,845	107,205	2,434,731

Individually impaired loans

During 2010, the quality of the Bank's loan portfolio was affected by continued result of the following circumstances and actions taken before the current management of the Bank were appointed by the controlling shareholder of the Bank:

- Under restructuring process the Bank temporarily ceased financing of investment projects that require significant capital investments. It caused suspension of operating and investment activities of the Bank's borrowers and resulted in deterioration of the credit quality of a number of loans to customers.
- Significant increase of timing of claims within Kazakhstan and beyond has affected the extension of expected periods of recovery by the Bank of problem debts and realization of pledged property.
- Ongoing unfavourable real estate market conditions have increased the periods of sales of pledged property in Kazakhstan and CIS.

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2010, comprised KZT 228,852 million (as at 31 December 2009 – KZT 468,795 million).

(Millions of tenge)

14. Loans to customers (continued)

Individually impaired loans (continued)

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2010, comprised KZT 393,737 million (as at 31 December 2009 – KZT 493,947 million). In accordance with the NBK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The Group took possession of collateral with an estimated value of KZT 25,625 million as at 31 December 2010 (as at 31 December 2009 – KZT 9,988 million). It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claims on loans to customers. In general, the Group does not occupy repossessed properties for business use.

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2010, was KZT 63,005 million (as at 31 December 2009 – KZT 55,345 million).

Derecognition of a loan portfolio

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any default loan. The Group has determined that, as a result of these transactions, substantially all the risks and rewards of the portfolio have not been transferred to KMC. Therefore, the Group continues to recognise these loans as an asset on its consolidated statement of financial position with the corresponding liability recorded in loans from financial institutions for the same amount. As at 31 December 2010, these loans amounted to KZT 6,090 million (as at 31 December 2009 – KZT 6,994 million).

As at 31 December 2010 loans to customers include loans of KZT 43,254 million, which are pledged as collateral for the mortgage-backed bonds (as at 31 December 2009 – KZT 52,427 million).

During 2010 loans together with the associated allowance in the total amount of KZT 97,730 million were written off as the Group has finished its internal procedures to return assets (2009 – KZT 64,221 million).

Concentration of loans to customers

As at 31 December 2010 the Group had a concentration of loans represented by KZT 465,380 million due from the ten largest borrowers that comprised 16.9% of the total gross loan portfolio (2009 – KZT 478,875 million, 15.1%). Allowances amounting to KZT 423,936 million were recognised against these loans as at 31 December 2010 (as at 31 December 2009 – KZT 437,103 million).

As at 31 December 2010 the Group had loans to customers in the amount of KZT 537,964 million (at 31 December 2009 – KZT 508,966 million), with interest and principal repayable at maturity. Allowances amounting to KZT 449,895 million were recognised against these loans as at 31 December 2010 (as at 31 December 2009 – KZT 391,732 million).

(Millions of tenge)

14. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are made to the following sectors:

	2010	*%*	*2009*	*%*
Real estate investments	**501,768**	**18.2%**	536,224	16.9%
Housing construction	**462,001**	**16.7%**	492,138	15.6%
Oil & gas	**352,715**	**12.8%**	382,103	12.1%
Wholesale trade	**333,232**	**12.1%**	359,531	11.4%
Individuals	**249,454**	**9.0%**	471,537	14.9%
Construction of roads and industrial buildings	**238,497**	**8.6%**	274,311	8.7%
Agriculture	**164,973**	**6.0%**	153,401	4.8%
Energy	**67,505**	**2.4%**	68,895	2.2%
Chemical industry	**65,543**	**2.4%**	64,452	2.0%
Telecommunication	**40,587**	**1.5%**	33,940	1.1%
Food industry	**40,204**	**1.5%**	41,037	1.3%
Transportation	**39,505**	**1.4%**	39,453	1.2%
Retail trade	**37,590**	**1.4%**	49,552	1.6%
Mining	**31,878**	**1.2%**	38,991	1.2%
Metallurgical industry	**28,775**	**1.0%**	28,534	0.9%
Hospitality	**12,833**	**0.5%**	16,102	0.5%
Textile and leather industry	**11,518**	**0.4%**	12,514	0.4%
Production of machinery and equipment	**10,416**	**0.4%**	9,136	0.3%
Production of rubber and plastic articles	**1,480**	**0.1%**	992	0.0%
Financial services	**1,413**	**0.1%**	8,896	0.3%
Publishing	**573**	**0.0%**	645	0.0%
Research & development	**301**	**0.0%**	584	0.0%
Other	**63,281**	**2.3%**	81,213	2.6%
	2,756,042	**100.0%**	3,164,181	100.0%

Loans to individuals are presented as follows:

	2010	*2009*
Mortgage loans	**133,663**	229,778
Consumer loans	**115,791**	241,759
	249,454	471,537

Finance lease receivables

Below is the analysis of finance lease receivables as at 31 December:

2010	*Not later than one year*	*Later than one year and not later than five years*	*Later than five years*	*Total*
Finance lease receivables	**10,913**	**8,602**	**447**	**19,962**
Unearned finance income on finance lease of future periods	**(3,572)**	**(2,131)**	**(147)**	**(5,850)**
Net investment in finance leases	**7,341**	**6,471**	**300**	**14,112**

2009	*Not later than one year*	*Later than one year and not later than five years*	*Later than five years*	*Total*
Finance lease receivables	1,986	17,871	13,123	32,980
Unearned finance income on finance lease of future periods	(94)	(4,506)	(2,741)	(7,341)
Net investment in finance leases	1,892	13,365	10,382	25,639

(Millions of tenge)

15. Bonds of NWF Samruk-Kazyna

As at 31 December 2010 the balance of bonds of NWF Samruk-Kazyna represents non-trading debt securities of the Parent, purchased by the Bank during 2009 at their nominal value of KZT 645,000 million. These debt securities were initially recorded at their fair value of KZT 496,595 million. The difference between the nominal value of these debt securities and their fair value in the amount of KZT 148,405 million was recorded as additional paid-in capital in the Group's consolidated statement of changes in equity.

On 11 August 2010 the Parent significantly modified the terms of these debt securities through prolongation of maturity from the period between 6 and 15 years to 15 years. In accordance with IAS 39, the Bank derecognized previously issued debt securities of the Parent with the carrying value of KZT 511,909 million and recognized new bonds at fair value of KZT 521,562 million. The difference of KZT 9,743 million was recognized in the Group's consolidated statement of changes in equity as additional paid-in-capital.

As at 31 December 2010 the book value of bonds of NWF Samruk-Kazyna was KZT 530,963 million (as at 31 December 2009 – KZT 512,246 million).

As at 31 December 2010 the carrying value of bonds of NWF Samruk-Kazyna, pledged under repurchase agreements amounted to KZT 388,946 million (as at 31 December 2009 – KZT 336,339 million). The NBK has the right to sell or re-pledge these securities during the agreement period. As at 31 December 2010 the fair value of these pledged debt securities was KZT 333,731 million (as at 31 December 2009 – KZT 359,058 million).

16. Investments in associates

Movement in investments in associates was:

	2010	*2009*
Balance, beginning of the period	**85,088**	72,371
Purchase cost	**–**	5,785
Disposal of a subsidiary	**(359)**	–
Reversal of impairment / (Impairment charge)	**2,402**	(676)
Transfer to investments in associates	**–**	2,546
Share in net income of associates	**4,250**	4,690
Dividends received	**(423)**	–
Share of reserve for revaluation of available-for-sale investment securities	**(632)**	372
Investments in associates, end of the year	**90,326**	85,088

In 2010 the Bank reduced the allowance for impairment of investments in PJSC "BTA Bank" (Ukraine) by KZT 2,402 million as a result of valuation of investment based on a five-year period financial plan approved by the management of the associate as well as in connection with mitigation of political risks in Ukraine in 2010.

In April 2010 Sekerbank has declared dividends on common shares at the amount of KZT 8,436 million. In May 2010 dividends in the amount of KZT 423 million were paid in cash. The remaining portion of dividends in the amount of KZT 8,013 million was paid in July 2010 in the form of common shares.

In 2010 BTA Securities JSC has transferred 254,840,310 common shares of Sekerbank comprising 33.98% of Sekerbank's total placed shares to the Parent for trust management. However, BTA Securities JSC has retained the right of ownership and control over these shares.

The following table illustrates summarised financial information as at 31 December of the associates:

Aggregate assets and liabilities of associates	*2010*	*2009*
Total assets	**1,502,019**	1,291,602
Total liabilities	**(1,261,713)**	(1,049,331)
Net assets	**240,306**	242,271

Aggregate profit of associates	*2010*	*2009*
Net profit	**12,672**	9,982

Investments in associates at 31 December 2010 include goodwill of KZT 24,096 million (excess of the cost of the investment over the Group's share in the net fair value of identifiable assets and liabilities of the associate (as at 31 December 2009 – KZT 24,096 million) (Note 3).

(Millions of tenge)

17. Goodwill

The movements in goodwill were as follows:

	2010	*2009*
Cost		
At January 1	**45,384**	45,528
Additions	**1,945**	–
Foreign currency revaluation	**–**	14
Disposal	**(43,543)**	(158)
At 31 December	**3,786**	45,384
Accumulated impairment		
At 1 January	**(43,543)**	(8,107)
Impairment charge	**–**	(35,436)
Disposal	**43,543**	–
At 31 December	**–**	(43,543)
Net book value	**3,786**	1,841

Impairment testing of goodwill

The impairment is largely the result of uncertainties in the Kazakhstan economy, especially in the retail and mortgage sectors and deterioration of the subsidiaries' financial position.

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, which are also reportable segments, for impairment testing as follows:

- Corporate Banking; and
- Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2010	*2009*
Corporate Banking	**2,976**	1,031
Retail Banking	**810**	810
	3,786	1,841

The Group recognized disposal of accumulated impairment of goodwill from acquisition of Temirbank in the amount of KZT 43,543 million as a result of deconsolidation of this subsidiary in 2010.

18. Other impairment and provisions

The movements in allowances for other losses and provisions were as follows:

	Other assets	*Guarantees and letters of credit*	*Other liabilities*	*Total*
As at 1 January 2009	1,387	104,893	–	106,280
Impairment charge / (reversal)	8,145	(70,596)	–	(62,451)
Write-offs	(1,055)	(3)	–	(1,058)
Recoveries	13	–	–	13
Revaluation	(12)	24,833	–	24,821
As at 31 December 2009	8,478	59,127	–	67,605
Impairment charge / (reversal)	**6,258**	**(61,823)**	**969**	**(54,596)**
Write-offs	**(9,424)**	**–**	**–**	**(9,424)**
Recoveries	**98**	**3,143**	**–**	**3,241**
Revaluation	**37**	**(221)**	**–**	**(184)**
Disposal of a subsidiary	**(291)**	**(3)**	**–**	**(294)**
As at 31 December 2010	**5,156**	**223**	**969**	**6,348**

Allowances for impairment of assets are deducted from the related assets.

(Millions of tenge)

19. Taxation

The corporate income tax expense comprises:

	2010	*2009*
Current corporate income tax charge	**1,390**	847
Deferred tax benefit- origination and reversal of temporary differences	**(157,069)**	(221)
Corporate income tax (benefit) / expense	**(155,679)**	626

The Bank and its subsidiaries, other than TuranAlem Finance B.V. ("TAF B.V."), TemirCapital B.V ("TK B.V."), LLC Subsidiary of JSC BTA Bank TuranAlem Finance ("TAF"), CJSC BTA Bank (Belorussia), BTA Finance Luxembourg S.A., Logopark Hagibey, First Kazakh Securitization Company and Second Kazakh Securitization Company are subject to taxation in the Republic of Kazakhstan. TAF B.V., TK B.V., First Kazakh Securitization Company and Second Kazakh Securitization Company are subject to taxation in the Netherlands. TAF is subject to income tax in the Russian Federation. BTA Finance Luxembourg S.A. is subject to income tax in Luxembourg. CJSC BTA Bank (Belorussia) is subject to income tax in Belorussia, Logopark Hagibey is subject to income tax in Ukraine.
The tax rate for the Bank and its subsidiaries, other than the insurance companies, and the abovementioned subsidiaries, on income differing from nontaxable income from state and other qualified securities, amounted to 20% in 2010 and 2009. The tax legislation effective in 2009 envisaged a decrease in the income tax rate to 17.5% in 2013 and to 15% in 2014. In accordance with the change to income tax legislation in 2010 income tax rate was fixed at 20%.

As at 31 December 2010 and 2009, the Group had current income tax assets in the amount of KZT 5,366 million and KZT 5,708 million, respectively.

A reconciliation between income tax expense in the consolidated financial statements and income before taxes multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2010	*2009*
Accounting profit before income tax	**830,586**	(1,113,908)
Statutory rate of corporate income tax	**20%**	20%
Theoretical corporate income tax expense / (benefit) at the statutory rate	**166,117**	(222,782)
Non taxable gain from restructuring	**(170,783)**	–
(Non taxable income) / non-deductible loss on state securities and securities officially listed at KASE	**(9,239)**	1,365
(Non taxable income) / non-deductible loss on disposal of subsidiaries	**(7,718)**	615
Non taxable share in income of associates	**(850)**	(938)
Income of subsidiaries taxed at different rates	**(313)**	(17)
Non-deductible interest expense	**7,194**	24,472
Non-deductible loss from interest rate instruments	**2,065**	–
Non-deductible business expenses	**680**	573
Loss from decline in value of inventory	**225**	895
Non-deductible impairment charge	**6,453**	16,020
Differences arising from changes in tax rates	**3,956**	(16,920)
Change in unrecognised deferred tax assets	**(158,109)**	185,851
Impairment loss on goodwill	**–**	7,087
Other permanent differences	**4,643**	4,405
Corporate income tax (benefit) / expense	**(155,679)**	626

(Millions of tenge)

19. Taxation (continued)

Deferred corporate income tax assets and liabilities, and their movement for respective years comprised the following at 31 December:

	2008	*Origination and reversal of temporary differences in the statement of income*	*2009*	*Origination and reversal of temporary differences in the statement of income*	*Disposal of a subsidiary*	*Business combi-nations*	*2010*
Tax effect of deductible temporary differences:							
Allowances for loan impairment	194,559	(184,272)	10,287	**39,628**	**–**	**–**	**49,915**
Tax losses carry forward	–	351,206	351,206	**(61,566)**	**(11,391)**	**–**	**278,249**
Fair value measurement of securities	6,438	(4,896)	1,542	**176**	**–**	**–**	**1,718**
Interest written-off	1,684	29,682	31,366	**4,864**	**–**	**–**	**36,230**
Property and equipment	56	(56)	–	**532**	**–**	**–**	**532**
Other	1,432	803	2,235	**10,084**	**(65)**	**1,076**	**13,330**
Gross deferred corporate income tax assets	204,169	192,467	396,636	**(6,282)**	**(11,456)**	**1,076**	**379,974**
Unrecognised deferred corporate income tax assets	(192,315)	(185,851)	(378,166)	**158,109**	**–**	**–**	**(220,057)**
Deferred corporate income tax assets	11,854	6,616	18,470	**151,827**	**(11,456)**	**1,076**	**159,917**
Tax effect of taxable temporary differences:							
Allowances for impairment	–	(7,691)	(7,691)	**–**	**7,691**	**–**	**–**
Fair value measurement of securities	(6,804)	2,190	(4,614)	**4,552**	**62**	**–**	**–**
Property and equipment	–	(517)	(517)	**491**	**26**	**–**	**–**
Other	(4)	(377)	(381)	**199**	**–**	**–**	**(182)**
Deferred corporate income tax liabilities	(6,808)	(6,395)	(13,203)	**5,242**	**7,779**	**–**	**(182)**
Deferred corporate income tax asset	5,046	221	5,267	**157,069**	**(3,677)**	**1,076**	**159,735**

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The main taxes include value added tax, income tax, social taxes, and others. Often, different opinions regarding legal interpretation exist both among and within government authorities; thus creating uncertainties and areas of conflict. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take different positions with regard to interpretive issues.

The deferred income tax assets as at 31 December 2009 and 2010 were mainly comprised of losses carried forward as a result of allowance for bad debts.

In accordance with IAS 12 a deferred tax asset was recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available in future against which the deductible temporary difference can be utilized.

20. Amounts due to the Government and the National Bank of the Republic of Kazakhstan

Amounts due to the Government and the NBK comprise the following:

	2010	*2009*
Loans from the NBK	**449,756**	405,487
Amounts due to the Government of the Republic of Kazakhstan:		
Interest bearing – KZT denominated	**249**	1,002
Interest bearing – USD denominated	**20**	20
Interest bearing – EUR denominated	**–**	86
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	**450,025**	406,595

Loans from the NBK represent repurchase agreements under the pledge of debt securities of the Parent. As at 31 December 2010 the fair value of these debt securities was KZT 333,731 million (as at 31 December 2009 – KZT 359,058 million).

(Millions of tenge)

21. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	*2009*
Revolving Committed Trade Finance Facility	**92,784**	–
Loans from Kazakhstan banks and financial institutions	**41,587**	190,438
Loans from other banks and financial institutions	**11,821**	19,293
Loans from OECD based banks and financial institutions	**6,972**	442,778
Syndicated bank loans	**–**	163,053
Other loans	**–**	18,429
	153,164	833,991
Interest-bearing placements from Kazakhstan banks	**1,750**	1,600
Loro accounts	**710**	772
Interest-bearing placements from non OECD banks	**20**	21
	2,480	2,393
Amounts due to credit institutions	**155,644**	836,384
Subject to repurchase agreements	**–**	4,430

As at 31 December 2009 the fair value of the securities pledged under the repurchase agreements amounted to KZT 4,420 million (Note 10).

On 16 September 2010 the Bank successfully completed the process of restructuring its financial liabilities, in accordance to the decision of the Specialized financial court of Almaty dated 31 August 2010. Within the framework of restructuring of its financial liabilities to creditors, the Bank canceled all its previously issued debt securities and other liabilities, and in substitution, among other things, issued new financial liabilities.

In accordance with the contractual terms of these bonds programs and loan facilities the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. After completion of its restructuring process in 2010, the Bank is in compliance with the regulatory ratios, except for open currency position ratio and ratio of domestic placements.

22. Amounts due to customers

Amounts due to customers include balances on customer current accounts, time deposits, and certain other liabilities. Amounts due to customers include the following as at 31 December:

	2010	*2009*
Time deposits	**552,237**	373,802
Current accounts	**124,270**	270,221
Guarantees and restricted deposits	**6,794**	11,940
Amounts due to customers	**683,301**	655,963

Guarantee and restricted deposits represent customer's collateral under letters of credit and guarantees issued by the Bank on behalf of clients.

As at 31 December 2010 the Bank's ten largest customers accounted for approximately 47.70% of the total amounts due to customers (as at 31 December 2009 – 56.61%).

Amounts due to customers were analysed as follows:

	2010	*2009*
Time deposits:		
Commercial entities	**29,669**	32,016
Individuals	**223,395**	151,318
Governmental entities	**292,310**	184,448
Non-commercial entities	**6,863**	6,020
Current accounts:		
Commercial entities	**74,741**	66,057
Individuals	**32,472**	29,314
Governmental entities	**14,325**	173,132
Non-commercial entities	**2,732**	1,718
Guarantees and other restricted deposits:		
Commercial entities	**3,493**	8,557
Individuals	**3,195**	3,345
Governmental entities	**105**	37
Non-commercial entities	**1**	1
Amounts due to customers	**683,301**	655,963

(Millions of tenge)

22. Amounts due to customers (continued)

Included in time deposits are deposits of individuals in the amount of KZT 223,395 million (as at 31 December 2009 – KZT 151,318 million). In accordance with the Civil Code of the Republic of Kazakhstan, the Group is obliged to repay such deposits upon demand of a depositor. In case 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.

An analysis of customer accounts by sector follows:

	2010	*%*	***2009***	*%*
Amounts due to NWF Samruk-Kazyna	**296,165**	**43.3%**	160,454	24.5%
Individuals	**259,062**	**37.9%**	183,977	28.0%
Wholesale trading	**16,656**	**2.4%**	18,668	2.8%
Construction	**15,528**	**2.3%**	25,405	3.9%
Non-credit financial institutions	**12,145**	**1.8%**	19,635	3.0%
Oil and gas production	**11,299**	**1.7%**	183,478	28.0%
Non-commercial entities	**9,596**	**1.4%**	7,739	1.2%
Research and development	**8,511**	**1.3%**	5,772	0.9%
Machinery and equipment production	**5,348**	**0.8%**	1,975	0.3%
Retail trading	**5,100**	**0.7%**	3,320	0.5%
Transportation	**3,598**	**0.5%**	3,328	0.5%
Agriculture	**2,830**	**0.4%**	2,484	0.4%
Mining	**2,150**	**0.3%**	849	0.1%
Education	**2,017**	**0.3%**	1,945	0.3%
Chemical processing	**1,673**	**0.2%**	2,845	0.4%
Textile and leather industry	**1,307**	**0.2%**	1,065	0.2%
Food industry	**1,167**	**0.2%**	759	0.1%
Energy	**1,145**	**0.2%**	1,454	0.2%
Communication	**1,075**	**0.2%**	411	0.1%
Metallurgy	**916**	**0.1%**	749	0.1%
State administration bodies	**734**	**0.1%**	13,035	2.0%
Entertainment	**632**	**0.1%**	517	0.1%
Hotel and hospitality	**270**	**0.0%**	155	0.0%
Other	**24,377**	**3.6%**	15,944	2.4%
	683,301	**100.0%**	655,963	100.0%

(Millions of tenge)

23. Debt securities issued

Debt securities issued consisted of the following:

	2010	*2009*
KZT bonds with floating rate	**25,213**	49,956
USD bonds with floating rate	**4,318**	53,048
KZT bonds with fixed rate	**513**	578,684
USD bonds with fixed rate	**–**	501,749
USD and KZT subordinated bonds with fixed rate	**–**	165,334
EUR bonds with fixed rate	**–**	120,618
JPY bonds with floating rate	**–**	70,938
USD perpetual financial instruments with fixed rate	**–**	68,699
GBP bonds with fixed rate	**–**	41,422
JPY bonds with fixed rate	**–**	32,748
CHF bonds with floating rate	**–**	29,654
KZT subordinated bonds with floating rate	**–**	22,762
RUR bonds with fixed rate	**–**	15,268
PLZ bonds with fixed rate	**–**	11,558
RUR deposit certificate	**–**	14
	30,044	1,762,452
USD senior notes	**307,376**	–
KZT senior notes	**35,009**	–
USD discount notes	**56,765**	–
EUR discount notes	**86,058**	–
USD subordinated notes	**73,253**	–
EUR subordinated notes	**5,559**	–
KZT subordinated notes with fixed rate	**36,930**	–
USD recovery notes	**119,787**	–
	750,781	1,762,452
USD treasury bonds held by the Group	**(192)**	(3,615)
KZT treasury bonds held by the Group	**(6,214)**	(4,297)
USD and KZT treasury subordinated bonds held by the Group	**(1)**	(64,053)
	744,374	1,690,487
Plus unamortized premium	**16,640**	124
Less unamortized cost of issuance	**(155)**	(663)
Less unamortized discount	**(88,209)**	(21,346)
Debt securities issued	**672,650**	1,668,602

On 16 September 2010 the Bank successfully completed the process of restructuring its financial liabilities, in accordance to the decision of the Specialized financial court of Almaty dated 31 August 2010 (Note 36). Within the framework of restructuring of its financial liabilities to creditors, the Bank canceled all its previously issued bonds and other liabilities, and in substitution, among other things, issued new financial liabilities.

In accordance with the contractual terms of these bonds programs and loan facilities the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. After completion of its restructuring process in 2010, the Bank is in compliance with the regulatory ratios, except for open currency position ratio and ratio of domestic placements.

24. Equity

As at 31 December 2010 and 2009 share capital comprises:

	Common shares			*Non-redeemable convertible preferred shares*	
	Number of authorized shares	*Number of issued shares*	*Placement value in KZT million*	*Number of authorized shares*	*Number of issued shares*
As at 31 December 2008	8,370,625	8,370,625	303,456	100,000	–
Issue of share capital	29,915,425	25,246,343	212,095	–	–
As at 31 December 2009	38,286,050	33,616,968	515,551	100,000	–
Issue of share capital	**55,219,743,695**	**44,175,794,956**	**671,472**	**–**	**–**
As at 31 December 2010	**55,258,029,745**	**44,209,411,924**	**1,187,023**	**100,000**	**–**

In 2008, the Bank's shareholders approved the issue of 100,000 convertible preferred shares ("CPS"). As at 31 December 2009 and 2010 no CPS were issued.

(Millions of tenge)

24. Equity (continued)

In accordance with the restructuring plan, at the Annual General Meeting of Shareholders of the Bank dated 22 June 2010, was decided to increase the number of authorized common shares by 55,219,743,695 common shares. On 23 July 2010 the FMSA registered this additional issue of common shares.

On 19 August 2010 the Bank placed 44,175,794,956 common shares as a result of converting all of the Bank's previously issued debt securities within the Bank's two bond programs belonging to the Parent to the total amount of KZT 671,472 million.

On 20 August 2010 the Bank repurchased its 8,179,148,436 placed common shares from the Parent for the total amount KZT 1, 7,793,485,182 shares of which were allocated during the period from 26 August 2010 to 31 December 2010 to creditors on restructuring without repayment in accordance with the Restructuring Plan, and 385,663,254 shares are subject to allocation after all the documents required by the Restructuring plan are obtained from creditors.

Dividends on CPS

The dividends on CPS authorised in 2008 were established at the rate of 11.0% per annum of placement value of shares. As at 31 December 2010 and 2009, no CPS was outstanding. Accordingly, no dividends on CPS were accrued or paid.

Available-for-sale investment securities revaluation reserve

This reserve includes fair value changes on available-for-sale investment securities.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements in treasury stock were presented as follows:

	Number of shares	*Amount, KZT million*
As at 1 January 2009	30,586	1,568
Number of purchased treasury shares	1,579,740	5,956
Number of sold treasury shares	(93,238)	(1,141)
As at 31 December 2009	1,517,088	6,383
Number of treasury shares purchased from the Parent	**8,179,148,436**	–
Number of treasury shares distributed to creditors in accordance with the Restructuring plan	**(7,793,485,182)**	–
Number of treasury shares obtained as a result of restructuring of debt securities held in subsidiaries' portfolios	**76,113,588**	**4,334**
Number of treasury shares obtained as a result of business combinations	**1,065**	**95**
Number of sold treasury shares	**(420,375)**	**(344)**
Number of treasury shares disposed as a result of disposal of a subsidiary	**(126,026)**	**(2,208)**
As at 31 December 2010	**462,748,594**	**8,260**

25. 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 Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions. While the Kazakhstani Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Besides, such factors as increase in unemployment level in Kazakhstan, reduction in liquidity and profitability of entities and increase in number of insolvency cases both entities and individuals affected the ability of the Group's borrowers to repay the amounts due to the Group. Changes in economic conditions also resulted in decrease in value of collateral on loans and other obligations.

To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

(Millions of tenge)

25. Commitments and contingencies (continued)

Legal actions and claims

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group 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 mentioned above.

"BTA Bank" (Kyrgyzstan)

In June 2009, Central Asia Investment Company ("CAIC"), a Kyrgyzstan registered entity and a 100% subsidiary of CJSC Investment Holding Company ("IHC"), obtained a loan from its parent, IHC, of GBP 8,670,000 with an intended use to purchase Kyrgyzstan state securities. CAIC, in violation of the intended purpose of the loan from its parent, used these funds to purchase bonds of TAF B.V., the Bank's subsidiary, at significant discount on the market. The nominal value of purchased bonds was GBP 28,395,000 and accrued interest was GBP 2,023,143. CAIC defaulted on its loan payable to IHC. As a result, IHC filed a lawsuit against the Bank, CJSC BTA Bank (Kyrgyzstan) and TAF B.V. claiming a repayment of the full nominal value and interest accrued on bonds of TAF B.V. In accordance with the decision of Bishkek's district court, Bishkek's municipal Court of appeals and the Supreme Court of Kyrgyzstan dated 11 September 2009 the Bank is obliged to pay the full amount and IHC started to collect the funds from the Bank, a guarantor on bonds of TAF B.V., including the Bank's shares in CJSC BTA Bank (Kyrgyzstan) and amounts due to the Bank by CJSC BTA Bank (Kyrgyzstan).

This decision was made even though in September 2009 the Bank was in process of negotiating the restructuring of its debts.

In December 2009, an officer of the court foreclosed on shares held by the Bank in CJSC BTA Bank (Kyrgyzstan), belonging to the Bank, which resulted in a loss of control over JSC BTA Bank (Kyrgyzstan).

The management of the Bank believes that the decision of Kyrgyzstan courts was not in compliance with international laws and legislation between the Republic of Kazakhstan and Kyrgyzstan. Moreover, the foreclosure was executed with violations of the Law of Kyrgyzstan.

On 5 November 2009 the Bank with support of its controlling shareholder had filed a claim with the Kyrgyzstan government for compensation of GBP 30,418,143 and USD 38,891,000 for damages incurred as a result of illegal acts of Kyrgyz legal and government entities.

Subsequently, a number of claims were filed to the Provisional Government of the Kyrgyz Republic regarding compensation of damage done.

Currently the National Security Service of Kyrgyz Republic transfers to the court a criminal case on illegal carve-out of shares of CJSC BTA Bank (Kyrgyzstan) that belong to the Bank.

Also, the Bank engaged a legal company - advisor to support arbitration proceedings initiated against the Government of the Kyrgyz Republic regarding compensation of damage done.

As of the date of these consolidated financial statements the management of the Bank could not make a reasonable estimate of possible outcome of this litigation or amount of potential recovery.

Tax contingencies

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

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

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

(Millions of tenge)

25. Commitments and contingencies (continued)

Commitments and contingencies

As at 31 December the Group's commitments and contingencies comprised the following:

	2010	*2009*
Undrawn loan commitments	**109,346**	431,767
Commercial letters of credit	**3,569**	42,652
Guarantees	**29,419**	77,239
	142,334	551,658
Operating lease commitments		
Not later than 1 year	**263**	1,348
Later than 1 year but not later than 5 years	**1,435**	1,661
Later than 5 years	**1,002**	2,747
	2,700	5,756
Less: cash collateral (Note 22)	**(6,794)**	(11,940)
Less: provisions (Note 18)	**(223)**	(59,127)
Commitments and contingencies	**138,017**	486,347

The undrawn 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 Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the Bank, government's and international prime financial organisations' securities, and other assets.

Trust activities

The Group provides custody services for third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at 31 December 2010 such securities held in this capacity were KZT 504,993 million (as at 31 December 2009 – KZT 242,835 million).

26. Fees and commissions

Net fee and commission income for the year ended 31 December was made from the following sources:

	2010	*2009*
Settlement and cash operations	**5,459**	5,883
Transfer operations	**5,333**	5,381
Asset management fees	**2,935**	2,788
Letters of credit and guarantees issued	**1,965**	5,066
Foreign currencies trading	**867**	1,210
Brokerage services	**235**	235
Other	**997**	819
Fee and commission income	**17,791**	21,382
Letter of credit and guarantees issued	**(4,350)**	(540)
Transfer operations	**(346)**	(584)
Brokerage services	**(278)**	(235)
Foreign currencies trading	**(101)**	(70)
Custodian services	**(171)**	(45)
Other	**(531)**	(258)
Fee and commission expense	**(5,777)**	(1,732)
Net fee and commission income	**12,014**	19,650

(Millions of tenge)

27. Net trading loss

Net trading loss for the year ended 31 December comprised the following:

	2010	*2009*
Securities:		
Trading securities	**(17,588)**	(16,825)
Available-for-sale investment securities	**1,049**	(2,192)
Income from purchase of own debt securities issued	**1,481**	10,396
Interest rate instruments	**(10,325)**	5,656
	(25,383)	(2,965)

Securities income/ (loss) includes the effect of buying and selling, and changes in the fair value of trading securities and effect of buying and selling of available-for-sale investment securities. The results of trading and changes in fair value of interest rate swaps are recorded under income from interest rate instruments.

In March 2010 within the Restructuring plan of Alliance Bank JSC, the Bank received common and preferred shares of Alliance Bank JSC in exchange of bonds of Alliance Bank JSC held in the Bank's trading securities portfolio. As a result the Group recognised a loss of KZT 7,052 million in the consolidated statement of income for the year ended 31 December 2010.

28. Impairment charge on investments

Impairment charge for 2010 and 2009 comprised the following:

	2010	*2009*
Impairment charge on available-for-sale investment securities (Note 13)	**(3,358)**	(2,764)
Impairment charge on goodwill (Note 17)	**–**	(35,436)
Reversal of impairment / (impairment charge) on investments in associates (Note 16)	**2,402**	(676)
	(956)	(38,876)

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	**(18,435)**	(19,541)
Social security costs	**(1,920)**	(2,043)
Other payments	**(362)**	(642)
Personnel expenses	**(20,717)**	(22,226)
Legal services and consultancy	**(23,732)**	(6,276)
Rent	**(4,386)**	(5,655)
Agency services	**(1,444)**	(961)
Repair and maintenance of property and equipment	**(1,439)**	(1,682)
Communications	**(993)**	(1,363)
Security	**(990)**	(1,366)
Marketing and advertising	**(925)**	(936)
Plastic cards	**(569)**	(1,000)
Data processing	**(466)**	(413)
Business travel and related expenses	**(455)**	(433)
Transportation expenses	**(346)**	(509)
Office supplies	**(273)**	(254)
Penalties	**(270)**	(1,317)
Postal charges	**(210)**	(169)
Encashment	**(184)**	(951)
Insurance	**(75)**	(29)
State duties and customs	**(65)**	(112)
Representation expenses	**(45)**	(55)
Training expenses	**(32)**	(17)
Participation in forums, seminars and conferences	**(3)**	(11)
Loss on disposals of property and equipment	**(3)**	(3)
Other	**(2,997)**	(876)
Other operating expenses	**(39,902)**	(24,388)

(Millions of tenge)

30. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2010 and 2009.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended 31 December:

	2010	*2009*
Net income/(loss) attributable to common shareholders for basic earnings per share	**988,035**	(1,086,625)
Weighted average number of common shares for basic and diluted earnings per share	**16,700,857,768**	32,736,858
Basic and diluted income / (loss) per share (in tenge)	**59.16**	(33,192.71)

On 8 November 2010 KASE introduced new rules for entities included in the listing, which require to present the book value per share in financial statements of entities included in the listing.

The carrying amount of one common share as at 31 December 2010 and 2009, is as follows:

	2010			*2009*		
Type of shares	*Number of outstanding shares*	*Net assets, KZT million*	*Book value per share, tenge*	*Number of outstanding shares*	*Net assets, KZT million*	*Book value per share, tenge*
Common	**43,746,663,330**	**(105,668)**	**(2.42)**	32,099,880	(1,691,249)	(52,687.08)

The management of the Group believes that the book value per share is calculated in accordance with methodology provided in the KASE Listing rules.

31. Risk management policies

Introduction

The Group as a combination of financial organizations is exposed to certain types of risks. Risk management structure is arranged for prompt identification and assessment of risks associated with one or another line of activity. Management understands the high importance of risk management process as an integral part of day-to-day activities of the Group.

Of particular priority is liquidity risk, credit risk, market risk, the latter being subdivided into trading and non-trading risks and operating risks that could affect the equity and income of the Group.

Risk management structure

The Board of Directors

The risk management process is directly subordinated to and accountable to the Board of Directors. The Board of Directors is responsible for the overall risk management approach and for approving the risk management policies and adoption strategic decisions on risk management.

Risk Committee

The Risk Committee oversees the Group's activities on risk management, adopts managerial decisions as related to approval of normative documents and defining lines of activity of subdivisions.

Risk Management Unit

Risk management units are responsible for identification, assessment and monitoring of risks. Daily activities of these units are governed by internal regulations. Within the Group certain units responsible for management of credit, operating, liquidity and market risks are defined. These units are accountable to the Risk Committee and the Management Board.

Internal audit function

Internal audit is the most important component of internal control, including risk control. Internal audit function regularly examines adequacy of the internal procedures of the Group. The results are submitted to the Board of Directors, the latter adopts relevant decisions to eliminate shortages.

(Millions of tenge)

31. Risk management policies (continued)

Risk management structure (continued)

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

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

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

Risk mitigation

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

The Group 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 Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group'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 Group 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 Group has Credit committees, which are responsible for credit risk management and which set individual limits on borrowers and recommend limits on loan portfolio for further approval by the Management Board. The regional credit committee is responsible for credit risk function over issuance of the loans to the Russian Federation and other CIS countries.

Financing of borrowers is done by thorough procedures of primary selection of borrowers, preliminary structuring of transaction, project assessment, borrower's financial statement analysis and monitoring and control of risks. Decision on financing of borrowers is made by the respective Credit committee depending on the borrower's limit. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions based on requirements of the Kazakhstani regulation. 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 Group to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

The regional credit committee reports to the Management Board. The regional credit committee include one Deputy Chairman of the Management Board, managing directors and directors of departments of the Bank.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

(Millions of tenge)

31. Risk management policies (continued)

Credit risk (continued)

Credit-related commitments risks

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

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

	Note	*Gross maximum exposure 2010*	*Gross maximum exposure 2009*
Cash and cash equivalents (excluding cash on hand)	8	**59,048**	36,723
Obligatory reserves (excluding cash on hand)	9	**40**	145
Trading securities (excluding equity securities)	10	**53,641**	78,979
Amounts due from credit institutions	11	**25,177**	31,444
Derivative financial assets	12	**4,795**	25,980
Investment securities:			
- available-for-sale (excluding equity securities)	13	**20,159**	18,493
- held-to-maturity	13	**7,321**	–
Loans to customers	14	**787,618**	1,040,773
Bonds of NWF Samruk-Kazyna	15	**142,017**	175,907
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	15	**388,946**	336,339
Other assets		**10,772**	27,057
		1,499,534	1,771,840
Financial commitments and contingencies	25	**142,111**	492,531
Total credit risk exposure		**1,641,645**	2,264,371

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 14.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Group's credit rating system. The amounts are shown gross without deduction for impairment.

		2010			
	Note	*Neither past due nor impaired*	*Past due, but not individually impaired*	*Individually impaired*	*Total*
Loans to customers	14				
Corporate lending		**78,291**	**19,053**	**2,247,613**	**2,344,957**
Small and medium business lending		**134,153**	**8,761**	**18,717**	**161,631**
Individuals lending		**238,217**	**1,982**	**9,255**	**249,454**
Total		**450,661**	**29,796**	**2,275,585**	**2,756,042**

		2009			
	Note	*Neither past due nor impaired*	*Past due, but not individually impaired*	*Individually impaired*	*Total*
Loans to customers	14				
Corporate lending		189,842	11,676	2,274,681	2,476,199
Small and medium business lending		158,139	5,461	52,845	216,445
Individuals lending		350,115	14,217	107,205	471,537
Total		698,096	31,354	2,434,731	3,164,181

(Millions of tenge)

31. Risk management policies (continued)

Credit risk (continued)

An analysis of past due but not impaired loans, by age, is provided below.

It is the Group'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 Group's rating policy. The attributable risk ratings are assessed and updated regularly.

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

	2010				
	Less than 30 days	*31 – 90 days*	*91 – 365 days*	*Over 365 days*	*Total*
Loans to customers					
Corporate lending	**7,638**	**–**	**6,704**	**4,711**	**19,053**
Small and medium business lending	**1,059**	**154**	**3,301**	**4,247**	**8,761**
Individuals lending	**1,982**	**–**	**–**	**–**	**1,982**
Total	**10,679**	**154**	**10,005**	**8,958**	**29,796**

	2009				
	Less than 30 days	*31 – 90 days*	*91 – 365 days*	*Over 365 days*	*Total*
Loans to customers					
Corporate lending	11,676	–	–	–	11,676
Small and medium business lending	5,461	–	–	–	5,461
Individuals lending	14,217	–	–	–	14,217
Total	31,354	–	–	–	31,354

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2010 was KZT 63,005 million (as at 31 December 2009 – KZT 55,345 million). See 'Collateral and other credit enhancements' in Note 14 for the details of types of collateral held, and the allowance for impairment of loans to customers.

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

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

	2010	*2009*
Loans to customers		
Corporate lending	**432,140**	479,744
Small and medium business lending	**13,072**	20,807
Individuals lending	**1,183**	20,266
	446,395	520,817
Amounts due from credit institutions	**–**	15
Trading securities	**–**	671
Total	**446,395**	521,503

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group 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. Notes 4 and 14 explain in detail the effects of such circumstances.

(Millions of tenge)

31. Risk management policies (continued)

Credit risk (continued)

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 objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred 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 Group's overall policy.

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

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

	2010			
	Kazakhstan	*OECD*	*CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	**74,179**	**22,098**	**4,513**	**100,790**
Obligatory reserves	**–**	**–**	**40**	**40**
Trading securities	**25,664**	**27,976**	**1**	**53,641**
Amounts due from credit institutions	**17,240**	**1,172**	**6,765**	**25,177**
Derivative financial assets	**4,795**	**–**	**–**	**4,795**
Investment securities:				
- available-for-sale	**19,269**	**–**	**890**	**20,159**
- held-to-maturity	**7,209**	**–**	**112**	**7,321**
Loans to customers	**379,194**	**31,865**	**376,559**	**787,618**
Bonds of NWF Samruk-Kazyna	**142,017**	**–**	**–**	**142,017**
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	**388,946**	**–**	**–**	**388,946**
Other assets (monetary)	**8,802**	**272**	**1,698**	**10,772**
	1,067,315	**83,383**	**390,578**	**1,541,276**
Liabilities:				
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	**450,025**	**–**	**–**	**450,025**
Amounts due to credit institutions	**43,934**	**7,263**	**104,447**	**155,644**
Amounts due to customers	**675,216**	**151**	**7,934**	**683,301**
Debt securities issued	**18,732**	**653,692**	**226**	**672,650**
Derivative financial liabilities	**–**	**–**	**1**	**1**
Provisions	**1,114**	**–**	**78**	**1,192**
Other liabilities	**37,015**	**219**	**176**	**37,410**
	1,226,036	**661,325**	**112,862**	**2,000,223**
Net position	**(158,721)**	**(577,942)**	**277,716**	**(458,947)**
Position on instruments not recognised in the consolidated statement of financial position	**127,270**	**89**	**17,675**	**145,034**

(Millions of tenge)

31. Risk management policies (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

	2009			
	Kazakhstan	***OECD***	***CIS and other countries***	***Total***
Assets:				
Cash and cash equivalents	61,071	13,080	4,064	78,215
Obligatory reserves	–	–	145	145
Trading securities	55,740	23,183	56	78,979
Amounts due from credit institutions	7,758	1,672	22,014	31,444
Derivative financial assets	14,182	11,798	–	25,980
Available-for-sale investment securities	18,195	11	287	18,493
Loans to customers	828,816	104,255	107,702	1,040,773
Bonds of NWF Samruk-Kazyna	175,907	–	–	175,907
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	336,339	–	–	336,339
Other assets (monetary)	25,631	452	974	27,057
	1,523,639	154,451	135,242	1,813,332
Liabilities:				
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	406,595	–	–	406,595
Amounts due to credit institutions	192,090	588,429	55,865	836,384
Amounts due to customers	641,333	5,934	8,696	655,963
Debt securities issued	728,565	924,590	15,447	1,668,602
Derivative financial liabilities	–	3,940	34	3,974
Provisions	6,894	10,233	42,000	59,127
Other liabilities	27,646	134	54	27,834
	2,003,123	1,533,260	122,096	3,658,479
Net position	(479,484)	(1,378,809)	13,146	(1,845,147)
Position on instruments not recognised in the consolidated statement of financial position	357,877	66,354	133,183	557,414

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its obligations when due. Liquidity risk management is one of the main functions in the Group's risk management process. When managing the liquidity risk the Group follows two main directions:

1. conformity with the liquidity norms established by the regulatory bodies; and
2. liquidity management by means of the GAP-analysis, analysis of cash flow and stress testing.

GAP – analysis includes preparation of tables of gaps by remaining contractual maturities of assets and liabilities and calculation of absolute and relative gap between assets and liabilities flows within the relevant period.

Cash flow analysis includes gathering and complex analysis of information about all main cash inflows and outflows in future periods that arise due to changes in the amount of assets and liabilities, equity structure, income and expenses.

The management of the Asset and Liability Management Committee (ALMC) analyzes the operational data on a weekly basis and makes decisions concerning liquidity management. Frequency of the ALMC meetings may vary depending on the situation. ALMC considers the following issues: GAP analysis of the assets and liabilities broken down by maturity and currencies, duration of assets and liabilities and analysis of future cash flows. All business functions and risk management departments are involved in the process of the Group's liquidity management to provide the information support.

The Management regularly monitors high-liquid assets that may be disposed at any time. The Bank builds portfolio consisting of high-liquid assets, predominantly debt financial instruments issued by the states with high credit ratings.

(Millions of tenge)

31. Risk management policies (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2010	***Within one year***	***More than one year***	***Total***
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	**451,426**	**394**	**451,820**
Amounts due to credit institutions	**64,694**	**104,066**	**168,760**
Derivative financial instruments	**1**	**–**	**1**
Amounts due to customers	**322,311**	**774,405**	**1,096,716**
Debt securities issued	**108,667**	**1,062,436**	**1,171,103**
Provisions	**996**	**196**	**1,192**
Other liabilities	**41,394**	**169**	**41,563**
Total undiscounted financial liabilities	**989,489**	**1,941,666**	**2,931,155**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on undiscounted repayment obligations.

Financial liabilities As at 31 December 2009	***Within one year***	***More than one year***	***Total***
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	407,453	1,086	408,539
Amounts due to credit institutions	756,422	104,209	860,631
Derivative financial instruments	3,974	–	3,974
Amounts due to customers	505,800	251,119	756,919
Debt securities issued	1,611,473	355,500	1,966,973
Provisions	31,740	27,387	59,127
Other liabilities	32,442	330	32,772
Total undiscounted financial liabilities	3,349,304	739,631	4,088,935

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	On demand	***Less than 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 3 years***	***Over 3 years***	***Total***
2010	**7,666**	**5,874**	**9,963**	**23,503**	**45,848**	**49,480**	**142,334**
2009	37,723	7,683	31,144	129,051	142,325	203,732	551,658

(Millions of tenge)

31. Risk management policies (continued)

Liquidity risk and funding management (continued)

The tables below summarise an analysis of assets and liabilities according to when they are expected to be recovered or settled:

2010	*Within one year*	*More than one year*	*Total*
Assets:			
Cash and cash equivalents	**100,790**	**–**	**100,790**
Obligatory reserves	**40**	**–**	**40**
Trading securities	**82,257**	**–**	**82,257**
Amounts due from credit institutions	**18,484**	**6,693**	**25,177**
Derivative financial assets	**1,370**	**3,425**	**4,795**
Investment securities:			
- available-for-sale	**7,474**	**13,636**	**21,110**
- held-to-maturity	**2,026**	**5,295**	**7,321**
Loans to customers	**394,738**	**392,880**	**787,618**
Bonds of NWF Samruk-Kazyna	**2,000**	**140,017**	**142,017**
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	**5,477**	**383,469**	**388,946**
Other assets	**9,564**	**1,208**	**10,772**
	624,220	**946,623**	**1,570,843**
Liabilities:			
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	**449,814**	**211**	**450,025**
Amounts due to credit institutions	**60,091**	**95,553**	**155,644**
Derivative financial liabilities	**1**	**–**	**1**
Amounts due to customers	**272,865**	**410,436**	**683,301**
Debt securities issued	**58,163**	**614,487**	**672,650**
Provisions	**996**	**196**	**1,192**
Other liabilities	**36,860**	**550**	**37,410**
	878,790	**1,121,433**	**2,000,223**
Net position	**(254,570)**	**(174,810)**	**(429,380)**
Accumulated gap	**(254,570)**	**(429,380)**	

2009	*Within one year*	*More than one year*	*Total*
Assets:			
Cash and cash equivalents	78,215	–	78,215
Obligatory reserves	145	–	145
Trading securities	115,784	–	115,784
Amounts due from credit institutions	22,865	8,579	31,444
Derivative financial assets	3,698	22,282	25,980
Available-for-sale investment securities	4,708	14,311	19,019
Loans to customers	300,336	740,437	1,040,773
Bonds of NWF Samruk-Kazyna	2,568	173,339	175,907
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	4,909	331,430	336,339
Other assets	25,686	1,371	27,057
	558,914	1,291,749	1,850,663
Liabilities:			
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	405,662	933	406,595
Amounts due to credit institutions	753,540	82,844	836,384
Derivative financial liabilities	3,974	–	3,974
Amounts due to customers	481,526	174,437	655,963
Debt securities issued	1,371,761	296,841	1,668,602
Provisions	31,740	27,387	59,127
Other liabilities	27,702	132	27,834
	3,075,905	582,574	3,658,479
Net position	(2,516,991)	709,175	(1,807,816)
Accumulated gap	(2,516,991)	(1,807,816)	

(Millions of tenge)

31. Risk management policies (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

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 of Group's consolidated income statement to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

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

Currency	*Change in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of equity 2010*
USD	**-170/173**	**1,378/(1,398)**	**33/(33)**
KZT	**-170/173**	**928/(941)**	**698/(708)**
Euro	**-170/173**	**(179)/182**	**–**
Belorussian rouble	**-170/173**	**(87)/88**	**–**

Currency	*Change in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of equity 2009*
Libor:			
USD	-25/100	555/(2,219)	12/(50)
KZT	-25/100	284/(1,138)	87/(349)
Euro	-25/100	(22)/91	–
CHF	-25/100	72/(288)	–
JPY	-25/100	411/(1,643)	–

As at 31 December the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2010		*2009*	
	KZT	*Foreign currency*	*KZT*	*Foreign currency*
Trading securities	**5.1%**	**9.9%**	12.6%	10.4%
Amounts due from credit institutions	**8.3%**	**8.1%**	8.6%	5.0%
Investment securities:				
- available-for-sale	**8.6%**	**11.2%**	15.7%	6.7%
- held-to-maturity	**13.9%**	**14.9%**	–	–
Loans to customers	**13.0%**	**9.8%**	15.6%	17.6%
Bonds of NWF Samruk-Kazyna	**6.8%**	**–**	7.4%	–
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	**6.8%**	**–**	7.4%	–
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	**7.0%**	**4.1%**	7.8%	5.6%
Amounts due to credit institutions	**6.3%**	**3.2%**	9.3%	6.0%
Amounts due to customers	**8.1%**	**7.1%**	8.2%	9.1%
Debt securities issued	**12.4%**	**8.5%**	11.7%	7.8%

(Millions of tenge)

31. Risk management policies (continued)

Market risk (continued)

Currency risk

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

As at 31 December 2010 the Bank did not comply with the regulations set by the FMSA in relation to the currency position.

In December 2010 the Bank provided to the FMSA the action plan on elimination of breaches of prudential regulations until 1 March 2011. This action plan was accepted by the FMSA as a letter of commitment. The undertaken actions resulted in elimination of these breaches by the specified date.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2010 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the consolidated income statement, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2010*	*Effect on profit before tax 2010*	*Change in currency rate in % 2009*	*Effect on profit before tax 2009*
USD	**-2.4/ 2.4**	**7,648/ (7,648)**	-16.6/16.6	113,338/(113,338)
EUR	**-19.4/ 19.4**	**9,922/ (9,922)**	-21.4/21.4	57,631/(57,631)
RUR	**-19.0/ 19.0**	**(6,517)/ 6,517**	-22.6/22.6	8,089/(8,089)
CHF	**-19.6/19.6**	**(77)/77**	-21.8/21.8	6,145/(6,145)
JPY	**-21.2/21.2**	**(39)/39**	-22.7/22.7	56,962/(56,962)
Belorussian rouble	**-21.8/ 21.8**	**(800)/ 800**	–	–
PLZ	**–**	**–**	-27.2/27.2	2,962/(2,962)
GBP	**-21.2/21.2**	**(493)/493**	-23.7/23.7	12,199/(12,199)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Bank's investment and trading portfolios.

The effect on profit and equity (as a result of a change in the fair value of equity instruments through profit or loss and accounted for as available-for-sale at 31 December) due to a reasonably possible change in equity indices using Capital Asset Pricing Model, with all other variables held constant, is as follows:

Market index	*Increase in indices 2010, %*	*Effect on profit before tax 2010*	*Effect on equity 2010*	*Increase in indices 2009, %*	*Effect on profit before tax 2009*	*Effect on equity 2009*
KASE	**25.06**	**278**	**83**	46.21	899	74
MSCI World Index	**16.58**	**3,647**	**–**	23.19	5,792	4
FTSE	**17.31**	**831**		23.29	1,071	–
MICEX	**22.96**	**–**	**8**	47.21	28	–
NYSE	**19.66**	**188**	**–**	60.63	284	–

Market index	*Decrease in indices 2010, %*	*Effect on profit before tax 2010*	*Effect on equity 2010*	*Decrease in indices 2009, %*	*Effect on profit before tax 2009*	*Effect on equity 2009*
KASE	**-25.06**	**(105)**	**22**	-46.21	(589)	(38)
MSCI World Index	**-16.58**	**(3,210)**	**–**	-23.19	(4,791)	(4)
FTSE	**-17.31**	**(867)**	**–**	-23.29	(1,273)	–
MICEX	**-22.96**	**–**	**(9)**	-47.21	(28)	–
NYSE	**-19.66**	**(188)**	**–**	-60.63	(269)	–

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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Millions of tenge)

32. Fair values of financial instruments

The Group 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.

Set out below is a comparison by class of the fair values of the Group's financial instruments that are carried in the financial statements by level of the fair value hierarchy.

	2010			*2009*		
	Level 1	***Level 2***	***Level 3***	***Level 1***	***Level 2***	***Level 3***
Financial assets						
Trading securities	**82,257**	**–**	**–**	106,158	9,626	–
Derivative financial assets	**–**	**4,795**	**–**	–	25,980	–
Available-for-sale investment securities	**21,110**	**–**	**–**	18,578	441	–
Financial liabilities						
Derivative financial liabilities	**–**	**1**	**–**	–	3,974	–

Financial instruments recorded at fair value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Trading securities and available-for-sale investment securities

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

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(Millions of tenge)

32. Fair values of financial instruments (continued)

Transfers between levels 1 and 2

In 2010 there were no transfers between level 1 and 2. The following table shows transfers between level 1 and level 2 in 2009, of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

	Transfer from level 1 to level 2 2009
Financial assets	
Trading securities	9,626
Available-for-sale investment securities	441

The above financial assets were transferred from level 1 to level 2 as they ceased to be actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs.

In 2009 there were no transfers from level 2 to level 1.

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 Group's financial instruments that are not carried at fair value in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2010	*Fair value 2010*	*Unrecognised gain/(loss) 2010*
Financial assets			
Cash and cash equivalents	**100,790**	**100,790**	**–**
Obligatory reserves	**40**	**40**	**–**
Amounts due from credit institutions	**25,177**	**26,119**	**942**
Investment securities held-to-maturity	**7,321**	**7,586**	**265**
Loans to customers	**787,618**	**787,618**	**–**
Bonds of NWF Samruk-Kazyna	**142,017**	**150,595**	**8,578**
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	**388,946**	**412,445**	**23,499**
Other assets	**10,772**	**10,772**	**–**
Financial liabilities			
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	**450,025**	**450,025**	**–**
Amounts due to credit institutions	**155,644**	**158,078**	**(2,434)**
Amounts due to customers	**683,301**	**712,451**	**(29,150)**
Debt securities issued	**672,650**	**664,284**	**8,366**
Provisions	**1,192**	**1,192**	**–**
Other liabilities	**37,410**	**37,410**	**–**
Total unrecognised change in unrealised fair value			**10,066**

	Carrying value 2009	*Fair value 2009*	*Unrecognised gain/(loss) 2009*
Financial assets			
Cash and cash equivalents	78,215	78,215	–
Obligatory reserves	145	145	–
Amounts due from credit institutions	31,444	36,829	5,385
Loans to customers	1,040,773	1,040,773	–
Bonds of NWF Samruk-Kazyna	175,907	187,528	11,621
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	336,339	358,559	22,220
Other assets	27,057	27,057	–
Financial liabilities			
Amounts due to the Government and the National Bank of the Republic of Kazakhstan	406,595	406,595	–
Amounts due to credit institutions	836,384	272,209	564,175
Amounts due to customers	655,963	682,744	(26,781)
Debt securities issued	1,668,602	549,187	1,119,415
Provisions	59,127	59,127	–
Other liabilities	27,834	27,834	–
Total unrecognised change in unrealised fair value			1,696,035

(Millions of tenge)

33. Segment analysis

For management purposes, the Group is organised into four operating segments:

Corporate banking – representing other than small and medium size legal entities direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Small and medium business – representing individual entrepreneurs, farm households and small enterprises current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products, as well as customer support electronic systems.

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and cash and foreign currency related services.

Investment activity - representing financial assets and liabilities used for trading or investment purposes, financing, and merger and acquisitions transaction support.

No operating segments have been aggregated to form the above reportable operating segments.

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

Revenue of the investment activities segment includes revenue from transactions with a single external customer in the amount of KZT 42,948 million or 20% of the Group's total revenue in 2010. In 2009, revenue of the investment activities segment includes revenue from transactions with a single external customer in the amount of KZT 28,551 million or 11% of the Group's total revenue in 2009.

(Millions of tenge)

33. Segment analysis (continued)

Segment information for the main reportable operating segments of the Group for the years ended 31 December 2010 and 2009 is set out below:

2010	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	**80,266**	**22,666**	**38,555**	**55,278**	**102**	**–**	**196,867**
Internal interest income	**18,376**	**4,748**	**19,993**	**458,228**	**–**	**(501,345)**	**–**
External interest expense	**(11,085)**	**(4,938)**	**(27,142)**	**(166,048)**	**(169)**	**–**	**(209,382)**
Internal interest expense	**(157,806)**	**(11,356)**	**(20,885)**	**(311,104)**	**(194)**	**501,345**	**–**
Net interest (expense) / income before impairment	**(70,249)**	**11,120**	**10,521**	**36,354**	**(261)**	**–**	**(12,515)**
Impairment of interest earning assets	**(84,024)**	**28,502**	**9,805**	**–**	**–**	**–**	**(45,717)**
Net interest (expense) / income	**(154,273)**	**39,622**	**20,326**	**36,354**	**(261)**	**–**	**(58,232)**
Non-interest income / (expense)	**11,880**	**8,923**	**7,396**	**(14,226)**	**567**	**(4,776)**	**9,764**
Gain from restructuring	**–**	**–**	**–**	**–**	**853,914**	**–**	**853,914**
Depreciation and amortisation	**(1,087)**	**(540)**	**(1,947)**	**(232)**	**(26)**	**–**	**(3,832)**
Non-interest expense	**(29,710)**	**(9,381)**	**(22,114)**	**(15,859)**	**(440)**	**4,776**	**(72,728)**
Other impairment and provisions	**55,961**	**19**	**(1,524)**	**143**	**(3)**	**–**	**54,596**
Share in income of associates	**–**	**–**	**–**	**4,250**	**–**	**–**	**4,250**
Loss from decline in value of inventory	**(1,123)**	**–**	**–**	**–**	**–**	**–**	**(1,123)**
Excess of acquirer's share in net fair value of identified assets and liabilities of acquiree over the cost	**–**	**–**	**–**	**10,169**	**–**	**–**	**10,169**
Gain from disposal of subsidiaries	**–**	**–**	**–**	**38,590**	**–**	**–**	**38,590**
Loss from realization of collateral	**(3,826)**	**–**	**–**	**–**	**–**	**–**	**(3,826)**
Impairment charge on investments	**–**	**–**	**–**	**(956)**	**–**	**–**	**(956)**
Income before corporate income tax benefit	**(122,178)**	**38,643**	**2,137**	**58,233**	**853,751**	**–**	**830,586**
Corporate income tax benefit	**–**	**–**	**–**	**–**	**155,679**	**–**	**155,679**
Net income after corporate income tax benefit	**(122,178)**	**38,643**	**2,137**	**58,233**	**1,009,430**	**–**	**986,265**
Total assets	**524,791**	**111,869**	**233,405**	**987,503**	**173,727**	**(135,585)**	**1,895,710**
Total liabilities	**413,295**	**142,408**	**382,086**	**1,116,091**	**987**	**(54,644)**	**2,000,223**
Other segment information							
Investments in associates	**–**	**–**	**–**	**90,326**	**–**	**–**	**90,326**
Capital expenditures	**52**	**125**	**374**	**29**	**–**	**–**	**580**

(Millions of tenge)

33. Segment analysis (continued)

2009	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	76,627	31,699	58,227	71,032	140	–	237,725
Internal interest income	86,357	4,275	17,400	53,261	–	(161,299)	–
External interest expense	(11,472)	(5,867)	(28,925)	(210,932)	(467)	–	(257,663)
Internal interest expense	(104,763)	(11,561)	(25,751)	(19,224)	–	161,299	–
Net interest income / (expense) before impairment	46,749	18,540	20,957	(105,863)	(327)	–	(19,938)
Impairment charge	(639,898)	(55,846)	(58,510)	–	–	–	(754,254)
Net loss after impairment	(593,149)	(37,300)	(37,553)	(105,863)	(327)	–	(774,192)
Net fee and commission (loss) /income and non-interest income	(240,624)	18,829	17,458	(82,971)	(13,004)	504	(299,808)
Depreciation and amortizations	(561)	(422)	(1,583)	(2,056)	(264)	–	(4,886)
Non-interest expenses	(18,676)	(8,779)	(20,251)	(7,097)	(432)	(504)	(55,739)
Other provisions	63,400	83	(807)	59	(284)	–	62,451
Share in income of associates	–	–	–	4,690	–	–	4,690
Impairment loss of available-for-sale investment securities	–	–	–	(2,764)	–	–	(2,764)
Loss on disposal of subsidiaries	–	–	–	(3,075)	–	–	(3,075)
Impairment loss of investments in associates	–	–	–	(676)	–	–	(676)
Impairment loss on goodwill	(11,627)	–	(23,809)	–	–	–	(35,436)
Loss from decline in value of inventory	(4,473)	–	–	–	–	–	(4,473)
Loss before corporate income tax expense	(805,710)	(27,589)	(66,545)	(199,753)	(14,311)	–	(1,113,908)
Corporate income tax expense	–	–	–	–	(626)	–	(626)
Net loss after corporate income tax	(805,710)	(27,589)	(66,545)	(199,753)	(14,937)	–	(1,114,534)
Total assets	717,017	176,367	406,188	1,962,827	30,502	(1,324,242)	1,968,659
Total liabilities	470,574	121,450	272,448	3,979,470	254	(1,185,729)	3,658,479
Other segment information							
Investments in associates	–	–	–	85,088	–	–	85,088
Capital expenditures	74	120	1,367	60	–	–	1,621

(Millions of tenge)

33. Segment analysis (continued)

Geographical information

Segment information on allocation of the Group's revenues from transactions with external customers and non-current assets on the basis of location of customers and assets, respectively, for the years ended 31 December 2010 and 2009, is set out below:

	Kazakhstan	*OECD*	*Non OECD*	*Total*
2010				
Non-current assets	**39,469**	**–**	**3,079**	**42,548**
Revenue	**187,513**	**9,130**	**18,015**	**214,658**
2009				
Non-current assets	22,364	–	357	22,721
Revenue	168,250	50,876	39,981	259,107

Non-current assets represent property and equipment, intangible assets and repossessed collateral.

34. Related party transactions

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, except those, who are subject to the restriction of the legislation, 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 Government of the Republic of Kazakhstan, acting through JSC NWF Samruk-Kazyna, controls the Group.

The Government of the Republic of Kazakhstan 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 institutions").

The Government of the Republic of Kazakhstan 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 Group 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.

All transactions with the Parent of the Bank and entities under common control of the Kazakhstan Government, and with other government institutions 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:

(Millions of tenge)

34. Related party transactions (continued)

As at 31 December 2010 and 2009, the Group had the following transactions with related parties:

	31 December 2010						*31 December 2009*					
	Share-holders	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*
Cash and cash equivalents												
Deposits at 1 January	**–**	**–**	**788**	**3,695**	**–**	**–**	–	–	695	–	–	–
Deposits placed during the period	**–**	**9,345**	**96**	**112,198**	**–**	**–**	–	47,841	43,025	15,326	–	–
Deposits withdrawn during the period	**–**	**(9,344)**	**(774)**	**(90,675)**	**–**	**–**	–	(47,841)	(42,932)	(11,631)	–	–
Deposits at 31 December	**–**	**1**	**110**	**25,218**	**–**	**–**	–	–	788	3,695	–	–
Interest income	**–**	**–**	**99**	**29**	**–**	**–**	–	–	202	51	–	–
Interest rates	**–**	**–**	**–**	**Up to 7%**	**–**	**–**	–	–	1%-18%	Up to 10%	–	–
Maturities	**–**	**On demand**	**On demand**	**On demand**	**–**	**–**	–	–	On demand	On demand	–	–
Trading securities												
Balance at 1 January	**–**	**48,209**	**–**	**25,563**	**–**	**–**	–	–	–	–	–	–
Securities purchased during the period	**–**	**127,661**	**–**	**5,946**	**–**	**–**	–	115,377	–	53,144	–	–
Securities sold during the period	**–**	**(131,106)**	**–**	**(20,441)**	**–**	**–**	–	(67,168)	–	(27,581)	–	–
Securities at 31 December	**–**	**44,764**	**–**	**11,068**	**–**	**–**	–	48,209	–	25,563	–	–
Interest income	**–**	**3,021**	**–**	**1,006**	**–**	**–**	–	4,598	–	1,244	–	–
Interest rates	**–**	**6%-12%**	**–**	**6%-11%**	**–**	**–**	–	7%-11%	–	4%-9%	–	–
Maturities	**–**	**On demand**	**–**	**On demand**	**–**	**–**	–	On demand	–	On demand	–	–
Amounts due from credit institutions (deposits)												
Deposits at 1 January	–	**–**	**3,233**	–	–	–	–	–	6,359	–	–	–
Deposits placed during the period	–	**57,652**	**7,369**	–	–	–	–	–	11,430	–	–	–
Deposits withdrawn during the period	–	**(57,652)**	**(6,605)**	–	–	–	–	–	(14,556)	–	–	–

(Millions of tenge)

34. Related party transactions (continued)

	31 December 2010						*31 December 2009*					
	Share-holders	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*
Deposits at 31 December, gross	**–**	**–**	**3,997**	**–**	**–**	**–**	–	–	3,233	–	–	–
Less: allowance for impairment	**–**	**–**	**(177)**	**–**	**–**	**–**	–	–	–	–	–	–
Deposits at 31 December, net	**–**	**–**	**3,820**	**–**	**–**	**–**	–	–	3,233	–	–	–
Interest income	**–**	**3,626**	**496**	**–**	**–**	**–**	–	–	700	–	–	–
Interest rates	**–**	**8%**	**10%-12%**	**–**	**–**	**–**	–	–	10%-18%	–	–	–
Maturities	**–**	**–**	**2011-2014**	**–**	**–**	**–**	–	–	2010-2014	–	–	–
Amounts due from credit institutions (loans)												
Loans at 1 January	**–**	**–**	**5,998**	**–**	**–**	**–**	–	–	7,329	–	–	–
Loans issued during the period	**–**	**–**	**5,089**	**–**	**–**	**–**	–	–	7,840	–	–	–
Loans repaid during the period	**–**	**–**	**(6,104)**	**–**	**–**	**–**	–	–	(9,171)	–	–	–
Loans at 31 December, gross	**–**	**–**	**4,983**	**–**	**–**	**–**	–	–	5,998	–	–	–
Less: allowance for impairment	**–**	**–**	**(1,974)**	**–**	**–**	**–**	–	–	(615)	–	–	–
Loans at 31 December, net	**–**	**–**	**3,009**	**–**	**–**	**–**	–	–	5,383	–	–	–
Interest income	**–**	**–**	**437**	**–**	**–**	**–**	–	–	370	–	–	–
Interest rates	**–**	**–**	**7%-11%**	**–**	**–**	**–**	–	–	4%-11%	–	–	–
Maturities	**–**	**–**	**2012-2016**	**–**	**–**	**–**	–	–	2011-2013	–	–	–
Available-for-sale investment securities												
Balance at 1 January	**–**	**897**	**–**	**7,155**	**–**	**–**	–	–	–	–	–	–
Securities purchased during the period	**–**	**–**	**–**	**18,166**	**–**	**–**	–	897	–	11,013	–	–
Securities sold during the period	**–**	**(749)**	**–**	**(13,824)**	**–**	**–**	–	–	–	(3,858)	–	–
Available-for-sale investment securities at 31 December	**–**	**148**	**–**	**11,497**	**–**	**–**	–	897	–	7,155	–	–

(Millions of tenge)

34. Related party transactions (continued)

	31 December 2010						*31 December 2009*					
	Share-holders	***Entities under common control***	***Associates***	***Govern-ment institutions***	***Key manage-ment personnel***	***Other related parties***	***Share-holders***	***Entities under common control***	***Associates***	***Govern-ment institutions***	***Key manage-ment personnel***	***Other related parties***
Interest income	**–**	**8**	**–**	**766**	**–**	**–**	–	62	–	194	–	–
Interest rates	**–**	**6.5%**	**–**	**4%-9%**	**–**	**–**	–	6%-7%	–	4%-9%	–	–
Maturities	**–**	**2015**	**–**	**2011-2019**	**–**	**–**	–	2013-2026	–	2010-2020	–	–
Held-to-maturity investment securities												
Balance at 1 January	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Securities purchased during the period	**–**	**963**	**–**	**4,954**	**–**	**–**	–	–	–	–	–	–
Securities sold during the period	**–**	**–**	**–**	**(1,116)**	**–**	**–**	–	–	–	–	–	–
Held-to-maturity investment securities at 31 December	**–**	**963**	**–**	**3,838**	**–**	**–**	–	–	–	–	–	–
Interest income	**–**	**12**	**–**	**106**	**–**	**–**	–	–	–	–	–	–
Interest rates	**–**	**6%-7%**	**–**	**6%-9%**	**–**	**–**	–	–	–	–	–	–
Maturities	**–**	**2013-2026**	**–**	**2011-2020**	**–**	**–**	–	–	–	–	–	–
Loans to customers												
Loans outstanding at 1 January, gross	**–**	**4,476**	**–**	**7,574**	**585**	**3**	–	–	–	–	1,295	7
Loans issued during the period	**–**	**2,298**	**–**	**2,186**	**110**	**26**	–	15,575	–	9,705	153	7
Loan repayments during the period	**–**	**(6,115)**	**–**	**(8,982)**	**(642)**	**(19)**	–	(11,099)	–	(2,131)	(863)	(11)
Loans outstanding at 31 December, gross	**–**	**659**	**–**	**778**	**53**	**10**	–	4,476	–	7,574	585	3
Less: allowance for impairment	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Loans outstanding at 31 December, net	–	**659**	**–**	**778**	**53**	**10**	–	4,476	–	7,574	585	3

(Millions of tenge)

34. Related party transactions (continued)

	31 December 2010						*31 December 2009*					
	Share-holders	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*
Interest income	–	**529**	–	**130**	**13**	**2**	–	1,623	–	334	51	1
Interest rates	–	**8%-13%**	–	**15%-19%**	**11%-14%**	**11%-24%**	–	8%-16%	–	8%-22%	12%	–
Maturities	–	**2013-2015**	–	**2011-2015**	**2016-2027**	**2011-2026**	–	2010-2011	–	2010-2014	2016	–
Bonds of NWF Samruk-Kazyna	**142,017**	**–**	**–**	–	**–**	**–**	175,907	–	–	–	–	–
Bonds of NWF Samruk-Kazyna pledged under repurchase agreements	**388,946**	**–**	**–**	**–**	**–**	**–**	336,339	–	–	–	–	–
Interest income on bonds of NWF Samruk-Kazyna	**11,290**	**–**	**–**	**–**	**–**	**–**	11,338	–	–	–	–	–
Interest income on bonds of NWF Samruk-Kazyna pledged under repurchase agreements	**23,484**	**–**	**–**	**–**	**–**	**–**	17,213	–	–	–	–	–
Interest rates	6%	–	–	–	–	–	7%	–	–	–	–	–
Maturities	2024	–	–	–	–	–	2015-2024	–	–	–	–	–
Amounts due to the Government and the NBK												
Amounts at 1 January	**–**	**–**	–	**406,595**	–	–	–	–	–	–	–	–
Amounts received during the period	**–**	**–**	–	**5,361,858**	–	–	–	–	–	407,523	–	–
Amounts paid during the period	**–**	**–**	–	**(5,318,428)**	–	–	–	–	–	(928)	–	–
Amounts due to the Government and the NBK at 31 December	**–**	**–**	–	**450,025**	–	–	–	–	–	406,595	–	–
Interest expenses	**–**	**–**	–	**(28,831)**	–	–	–	–	–	(22,195)	–	–
Interest rates	**–**	**–**	–	**7%**	–	–	–	–	–	7%	–	–
Maturities	**–**	**–**	–	**2011**	–	–	–	–	–	2010	–	–

(Millions of tenge)

34. Related party transactions (continued)

	31 December 2010						31 December 2009					
	Share-holders	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Associates*	*Govern-ment institutions*	*Key manage-ment personnel*	*Other related parties*
Amounts due to credit institutions												
Loans at 1 January	**–**	**41,590**	**994**	**6,994**	**–**	**–**	–	–	6,883	–	–	–
Loans received during the period	**–**	**4,217**	**26,168**	**588**	**–**	**–**	–	138,445	73,974	9,705	–	–
Loans repaid during the period	**–**	**(10,746)**	**(25,300)**	**(1,492)**	**–**	**–**	–	(96,855)	(79,863)	(2,711)	–	–
Loans at 31 December	**–**	**35,061**	**1,862**	**6,090**	**–**	**–**	–	41,590	994	6,994	–	–
Interest expense	**–**	**(2,880)**	**(93)**	**(567)**	**–**	**–**	–	(40)	(232)	(334)	–	–
Interest rates	**–**	**8%-9%**	**8%-14%**	**7%-10%**	**–**	**–**	–	9%	6%-8%	7%-10%	–	–
Maturities	**–**	**2014-2016**	**2011-2012**	**2014-2028**	**–**	**–**	–	2013-2016	2010-2012	2014-2028	–	–
Amounts due to customers												
Deposits at 1 January	**165,829**	**192,345**	**–**	**8,002**	**25**	**7**	6	–	–	–	705	287
Deposits placed during the period	**594,737**	**1,693,831**	**–**	**80**	**136**	**39**	165,829	2,617,811	–	163,454	562	383
Deposits withdrawn during the period	**(464,181)**	**(1,881,775)**	**–**	**(62)**	**(140)**	**(31)**	(6)	(2,425,466)	–	(155,452)	(1,242)	(663)
Deposits at 31 December	**296,385**	**4,401**	**–**	**8,020**	**21**	**15**	165,829	192,345	–	8,002	25	7
Interest expense	**(15,816)**	**(3,250)**	**–**	**(20)**	**–**	**–**	(10,252)	(1,505)	–	(2)	(2)	(6)
Interest rates	**7%-11%**	**1%-12%**	**–**	**1%**	**–**	**–**	8%-10%	4%-12%	–	1%	–	–
Maturities	**2013-2029**	**2011-2017**	**–**	**on demand**	**–**	**–**	2010-2029	2010-2011	–	on demand	–	–
Commitments and guarantees issued at 31 December, gross	**–**	**94**	**112**	**–**	**–**	**–**	–	94	1,165	–	3	–
Less: allowances for impairement	**–**	**–**	**(112)**	**–**	**–**	**–**	–	–	(1.107)	–	–	–
Commitments and guarantees issued at 31 December, net	**–**	**94**	**–**	**–**	**–**	**–**	–	94	58	–	3	–
Interest rates	**–**	**–**	**2%**	**–**	**–**	**–**	–	–	2%	–	–	–
Maturities	**–**	**2011**	**2011**	**–**	**–**	**–**	–	–	2010-2011	–	–	–
Commitments and guarantees received at 31 December	**612.750**	**–**	**–**	**–**	**–**	**–**	–	80	234	–	–	–
Interest rates	**2,1%**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Maturities	**2011**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Commission income	**–**	**–**	**1**	**–**	**–**	**–**	–	–	69	–	–	–
Commission expense	**(4.300)**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Loss from realization of collateral	**–**	**–**	**–**	**(3.826)**	**–**	**–**	–	–	–	–	–	–
Other expenses	**–**	**–**	**–**	**–**	**–**	**–**	–	–	(10)	–	–	–

(Millions of tenge)

34. Related party transactions (continued)

As at 31 December 2010 and for the year then ended, the Group had the following transactions with related parties:

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2010 was KZT 405 million (2009 – KZT 460 million).

Included in the table above are the following transactions with related parties outstanding as at 31 December 2010 and 2009:

- Operations with shareholders including: loans – including provisioning matters, deposit placement, deposits and loans attraction, operations with securities, attraction of guarantees from the Parent;
- Operations with entities under common control include: issuance of loans, deposits placement, deposits and loans attraction, issuance of guarantees, operations with debt securities;
- Operations with associates including: deposits placement, attraction and issuance of loans, and also issuance of guarantees and letter of credits for investment objects;
- Operations with state organizations including: issuance of loans, operations with securities, and also attraction of loans from the Government and the NBK;
- Operations with key management personnel / members of the Board of Directors issuance of loans, including provisioning matters, attraction of deposits and payment of remuneration

35. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the FMSA and the NBK in supervising the Bank.

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

Additionally, in accordance with terms of bonds program and loan agreements, the Bank is required to maintain certain financial ratios, particularly with regard to its capital adequacy under the FMSA requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

As at 31 December 2009 the Bank did not comply with capital adequacy ratio calculated in accordance with Basel Capital Accord 1988 requirements and certain prudential requirements set by the FMSA. As at 31 December 2010 the Bank also did not comply with capital adequacy ratio calculated in accordance with Basel Capital Accord.

Completion of all procedures provided by the Restructuring plan allowed the Bank to comply with the FMSA capital adequacy ratios.

FMSA capital adequacy ratio

FMSA requires banks with over 50% of shares belonging to the national management holding to maintain capital adequacy ratio: k1-1 and k1-2 at least 5%, k2 at least 10%. As at 31 December 2010 risk weighted regulatory assets of the Bank calculated in accordance with FMSA requirements were obtained from the separate financial statements of the Bank prepared in accordance with the FMSA rules.

	2010
Tier 1 capital	**308,210**
Tier 2 capital	**90,237**
Less: deductions from capital	**(50,560)**
Total capital	**347,887**
Total assets	**1,993,994**
Risk weighted assets	**1,799,429**
Less: deductions from assets	**(39,290)**
Capital adequacy ratio (k1-1)	**13.8%**
Capital adequacy ratio (k1-2)	**15.0%**

(Millions of tenge)	
Capital adequacy ratio k2	**19.3%**

(Millions of tenge)

36. Restructuring of financial liabilities

On 16 September 2010 the Bank successfully completed the process of restructuring its debt based on the decision issued on 31 August 2010 by the Specialized financial court of Almaty. Completion of all procedures provided by the Restructuring plan has resulted in restoration of the Bank's regulatory capital as at 31 December 2010, calculated in accordance with the FMSA requirements that allowed the Bank to comply with the FMSA capital adequacy ratios.

As a result of debt restructuring, the Bank canceled all its previously issued bonds and other liabilities, and has paid to creditors USD 945 million, equivalent of KZT 139,010 million, in cash, converted bonds owned by the Parent into common shares (Note 36(a)), and issued new financial liabilities (Note 36(b)).

Restructuring gain

The difference between the carrying value of restructured liabilities, excluding debt securities issued under the first and the second bond programs owned by the Parent, which were converted into the Bank's common shares under the Restructuring plan, and the fair value of new financial instruments and cash payment, was recognized as gain from restructuring on 26 August 2010, the date of restructuring, as follows:

Liabilities included to the Restructuring plan	**2,386,770**
Bonds converted into equity (a)	**(671,472)**
Liabilities included to the Restructuring plan, less converted bonds	**1,715,298**
Fair value of new financial liabilities issued under the Restructuring plan (b)	**(722,374)**
Cash payment to creditors in accordance with the Restructuring plan	**(139,010)**
Restructuring gain	**853,914**

a) Convertible bonds

On 11 August 2010 the Bank significantly modified terms of bonds issued on KASE and owned by the Parent as follows: a) maturity was reduced from the period between 6 and 15 years to 4 years, b) bonds became convertible to common shares. In accordance with IAS 39, the Bank derecognized previously issued bonds with carrying value of KZT 570,498 million and recognized new convertible bonds at fair value of KZT 671,472 million. The difference of KZT 100,974 million was recognized in equity as transaction with the Parent. On 19 August 2010 these bonds were converted into common shares in accordance with the Restructuring plan for the total amount of KZT 671,472 million (Notes 24).

b) New financial liabilities issued within the Restructuring plan

Nominal value and fair value of new financial liabilities issued within the Restructuring plan as at 26 August 2010 (restructuring date) are presented below:

	Nominal value	***Fair value***
USD Senior Notes, 2018	**306,671**	**315,807**
KZT Senior Notes, 2018	**32,604**	**39,253**
USD Discount Notes, 2021	**56,677**	**28,268**
EUR Discount Notes, 2021	**81,714**	**47,089**
USD Subordinated Notes, 2025	**73,139**	**54,510**
EUR Subordinated Notes, 2025	**5,279**	**4,528**
KZT Subordinated Notes, 2025	**7,396**	**7,490**
KZT Subordinated Notes, 2030	**28,000**	**21,498**
USD Recovery Notes	**768,969**	**116,144**
USD Revolving Committed Trade Finance Facility	**102,822**	**87,787**
Total	**1,463,271**	**722,374**

New instruments were allocated among creditors whose claims were restructured within Senior packages 1, 2 and 3, and Junior package 1 in accordance with the terms of Information Memorandum.

New financial liabilities were recognized in the Bank's financial statements at their fair value. For fair value estimation the Bank used discounted future cash flows on these financial instruments. Yield rates on financial instruments of Kazakhstan issuers with similar specified financial liabilities were used as discount rates. For KZT denominated financial liabilities annual discount rate was 11.30%, USD denominated – 11.26%, EUR denominated – 8.79%.

(Millions of tenge)

36. Restructuring of financial liabilities (continued)

b) New financial liabilities issued within the Restructuring plan (continued)

Issued debt securities

- USD Senior Notes – 8-year debt securities, coupon rate – 10.75% per annum for the first five semi-annual payments, 12.5% per annum for subsequent periods. Coupon is paid semi-annually. Notes are redeemed by eight equal semi-annual payments upon expiration of 4 years grace period.
- KZT Senior Notes – 8-year debt securities, coupon rate – 14.75% per annum for the first five semi-annual payments, 16.5% per annum for subsequent periods. Coupon is paid semi-annually. Notes are redeemed by eight equal semi-annual payments upon expiration of 4 years grace period.
- USD Discount Notes – 11-year debt securities, coupon rate – 3.70% per annum for the first 7 years of grace period, 3.30% per annum for subsequent periods. Coupon is paid semi-annually. Notes are redeemed by eight semi-annual payments upon expiration of 7 years grace period. The nature of this instrument is granting original discount of 54.33% from nominal value, which is subject to even accumulation during the life of the instrument.
- EUR Discount Notes – 11-year debt securities, coupon rate – 3.14% per annum for the first 7 years of grace period, 2.74% per annum for subsequent periods. Coupon is paid semi-annually. Notes are redeemed by eight semi-annual payments upon expiration of 7 years grace period. The nature of this instrument is granting original discount of 54.33% from nominal value, which is subject to even accumulation during the life of the instrument.
- USD Subordinated Notes – 15-year debt securities, coupon rate – 7.20% per annum. Coupon is paid semi-annually. Notes are redeemed by ten equal semi-annual payments upon expiration of 10- year grace period.
- Euro Subordinated Notes – 15-year debt securities, coupon rate – 6.75% per annum. Coupon is paid semi-annually. Notes are redeemed by ten equal semi-annual payments upon expiration of 10- year grace period.
- KZT Subordinated Notes – 15-year debt securities, coupon rate – 11.20% per annum. Coupon is paid semi-annually. Notes are redeemed by ten equal semi-annual payments upon expiration of 10 year grace period.
- KZT Subordinated Notes – 20-year debt securities, coupon rate – 8.0% per annum. Coupon is paid semi-annually. Notes are redeemed by ten equal semi-annual payments upon expiration of 15 year grace period.
- Recovery Notes – 10-year debt securities. These notes are free from coupon payments. These notes issued in reference amount of USD 5,221 million, equivalent of KZT 768,897 million, provide the holders with the opportunity to obtain 50% of actual cash proceeds from recovery assets comprising impaired recovery assets, litigation assets and tax assets.

Amounts under recovery notes are to be paid only when fixed specific conditions of such payments are met, particularly when making repayment in cash in excess of net carrying amount of assets less provisions and write offs. Amounts on these notes shall not be paid with respect to reimbursements made in cash, if they do not exceed KZT 36 billion for the period from 1 July 2009 through 31 December 2009, KZT 134 billion for 2010 and KZT 103 billion for 2011. In 2009 and 2010, the amount of repayment did not exceed these limits.

In addition, the reference amount of recovery notes shows a potential amount of payments, which could be received by the holders. Total payments under these notes should not exceed the reference amount. If the reference amount of recovery notes is not reduced to nil until 30 June 2020, the Bank shall appoint independent appraisers to estimate the market value of prospective residual recovery amounts to be paid by the Bank to holders of these notes until 30 June 2022.

The fair value of the recovery notes as at the date of issue was KZT 116,144 million.

As at 31 December 2010 the amortised value of recovery notes amounted to KZT 119,787 million.

Revolving Committed Trade Finance Facility

In accordance with the Restructuring Plan, the Bank has entered into the Revolving Committed Trade Finance Facility in return of creditors claims restructured under Senior package 3.

Revolving Committed Trade Finance Facility provides refinancing of trade financing commitments for 2-year period. As the Bank repays its obligations included into the facility, the amounts of discharged obligations shall be available for the Bank to be used in trade finance transactions. The facility is available from 30 September 2010 to 30 September 2012. The facility is valid until 30 September 2013.

(Millions of tenge)

37. Events after the reporting period

On 6 January 2011, the US Bankruptcy Court Southern District of New York South county approved the Bank's appeal on completion of all proceedings in accordance with Article 15 of United States Bankruptcy Code, and rendered an unlimited court injunction with respect to any actions in the USA that could violate the Bank's Restructuring plan, which was approved by the Almaty Specialised Financial Court.

On 9 February 2011, at the extraordinary general meeting of shareholders the Bank's shareholders decided to include common shares of the Bank into the official listing of KASE. In addition, it was decided to perform listing at Luxembourg Stock Exchange (LuxSE). It was decided to include global depositary receipts (GDR) issued for common shares of the Bank in accordance with the Restructuring plan in proportion of 1:500 into official listing of LuxSE.

On 22 February 2011, GDRs and new Bank bonds, denominated in foreign currency were included into LuxSE listing. From 23 February these securities were accepted for trading on a specialized trading floor.

On 31 March 2011, the Bank repaid in full the first tranche of US Dollars under the Legacy Loan within the framework of Revolving Committed Trade Finance Facility agreement (RCTFF) in accordance with the schedule. As part of the repayment the Bank financed two transactions on the total amount of approximately US Dollars 1 million.

In April 2011 the Bank increased its share ownership in Oranta NJSIC to 35.17%.

On 11 April 2011, the Bank purchased additional shares from non-controlling minority shareholders in Ular-Umit and Zhetysu, increasing its ownership of these organizations to 100%.

On 14 April 2011, joint general shareholders' meeting of Ular-Umit, JSC Accumulative Pension Fund BTA Kazakhstan Subsidiary of JSC BTA Bank and Zhetysu decided to reorganize the Group's subsidiaries by merging JSC Accumulative Pension Fund BTA Kazakhstan Subsidiary of JSC BTA Bank and Zhetysu to Ular Umit.