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**JSC Industrial and Commercial Bank of China Almaty
Financial Statements**

*Year ended 31 December 2010
Together with Independent Auditors' Report*

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of JSC Industrial and Commercial Bank of China Almaty

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

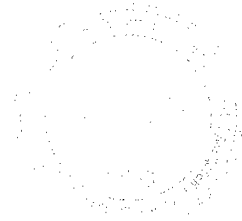


Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Bank of China Almaty as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Zhemaletdinov Evgeny
Auditor/General Director
Ernst & Young LLP



State Audit 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

21 January 2011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

(In thousands of tenge)

	<i>Notes</i>	<i>2010</i>	<i>2009</i>
Assets			
Cash and cash equivalents	5	11,612,021	12,853,269
Obligatory reserves	6	179,264	195,515
Loans to customers	7	152,567	303,767
Held-to-maturity securities	8	3,891,777	3,423,545
Property and equipment	9	512,064	22,198
Intangible assets	10	5,000	2,978
Current income tax assets	11	–	18,271
Deferred income tax assets	11	1,686	1,036
Other assets	12	145,572	5,239
Total assets		16,499,951	16,825,818
Liabilities			
Amounts due to credit institutions		–	14,856
Amounts due to customers	13	10,913,443	11,639,553
Current income tax liabilities	11	7,000	–
Other liabilities		3,544	3,169
Total liabilities		10,923,987	11,657,578
Equity			
Share capital	14	3,934,049	3,934,049
General reserve	14	1,234,191	29,750
Retained earnings		407,724	1,204,441
Total equity		5,575,964	5,168,240
Total liabilities and equity		16,499,951	16,825,818

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

Zhang Rongbao



Acting Chairman of the Board

Tatiana Maurer

Chief Accountant

21 January 2011

The accompanying notes on pages 5 to 28 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(In thousands of tenge)

	<i>Notes</i>	<i>2010</i>	<i>2009</i>
Interest income			
Securities		234,591	164,010
Cash and cash equivalents		49,478	51,211
Loans to customers		22,767	3,767
Amounts due from credit institutions		3,728	–
		<u>310,564</u>	<u>218,988</u>
Interest expense			
Amounts due to customers		(6,184)	(11,941)
		<u>(6,184)</u>	<u>(11,941)</u>
Net interest income		<u>304,380</u>	<u>207,047</u>
Net fee and commission income	16	237,993	225,152
Net gains from foreign currencies:			
- dealing		157,517	82,399
- translation differences		1,303	7,617
Other income		806	452
Non-interest income		<u>397,619</u>	<u>315,620</u>
Personnel expenses	17	(148,183)	(96,184)
Other operating expenses	17	(83,687)	(97,061)
Depreciation and amortisation	9, 10	(8,540)	(11,098)
Taxes other than income tax		(4,737)	(879)
Non-interest expense		<u>(245,147)</u>	<u>(205,222)</u>
Profit before income tax expense		456,852	317,445
Income tax expense	11	(49,128)	(38,727)
Comprehensive income for the year		<u>407,724</u>	<u>278,718</u>

The accompanying notes on pages 5 to 28 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(In thousands of tenge)

	<i>Note</i>	<i>Share capital</i>	<i>General reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
31 December 2008		1,417,387	29,750	925,723	2,372,860
Issue of share capital		2,516,662	–	–	2,516,662
Comprehensive income for the year		–	–	278,718	278,718
31 December 2009		3,934,049	29,750	1,204,441	5,168,240
Comprehensive income for the year		–	–	407,724	407,724
Allowances for general reserve	14	–	1,204,441	(1,204,441)	–
31 December 2010		3,934,049	1,234,191	407,724	5,575,964

The accompanying notes on pages 5 to 28 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(In thousands of tenge)

	<i>Note</i>	<i>2010</i>	<i>2009</i>
Cash flows from operating activities:			
Interest received		259,529	161,426
Interest paid		(7,912)	(9,684)
Fees and commissions received		249,759	233,874
Fees and commissions paid		(11,291)	(8,063)
Gains less losses from dealing in foreign currencies		157,517	82,399
Personnel expenses paid		(147,832)	(96,535)
Operating expenses paid		(88,105)	(81,130)
Cash flows from operating activities before changes in operating assets and liabilities		411,665	282,287
<i>Net decrease / (increase) in operating assets:</i>			
Net decrease / (increase) in obligatory reserves		16,251	(113,961)
Net decrease / (increase) in loans to customers		150,000	(300,000)
Net (increase) / decrease in other assets		(139,878)	4,053
<i>Net (decrease) / increase in operating liabilities:</i>			
Net decrease in amounts due to credit institutions		(14,856)	-
Net (decrease) / increase in amounts due to customers		(721,008)	7,711,096
Net decrease in other liabilities		(419)	(652)
Net cash flows from operating activities before income tax		(298,245)	7,582,823
Income tax paid		(24,507)	(58,271)
Net cash (used in) / from operating activities		(322,752)	7,524,552
Cash flows from investing activities:			
Redemption of held-to-maturity securities		2,07,146	1,050,000
Purchase of held-to-maturity securities		(2,493,418)	(2,062,911)
Purchase of property and equipment	9	(496,776)	(12,673)
Purchase of intangible assets	10	(3,652)	(638)
Net cash used in investing activities		(915,700)	(1,026,222)
Cash flows from financing activities:			
Proceeds from issue of share capital		-	2,516,662
Net cash from financing activities		-	2,516,662
Effect of exchange rates changes on cash and cash equivalents		(2,796)	406,937
Net (decrease) / increase in cash and cash equivalents		(1,241,248)	9,421,929
Cash and cash equivalents at the beginning of the year	5	12,853,269	3,431,340
Cash and cash equivalents at the end of the year	5	11,612,021	12,853,269

The accompanying notes on pages 5 to 28 are an integral part of these financial statements

(In thousands of tenge, unless otherwise is stated)

1. Principal activities

JSC Industrial and Commercial Bank of China Almaty (the “Bank”) provides retail and corporate banking services in Kazakhstan. The Bank was incorporated in the Republic of Kazakhstan on 3 March 1993. The sole shareholder of the Bank is JSC Industrial and Commercial Bank of China (the “Parent”), which was incorporated and operating in the People’s Republic of China. The ultimate shareholder of the Bank is the People’s Republic of China.

The Bank operates under a general banking licence #174 issued on 9 March 2006 by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of Kazakhstan (the “FMSA”).

The Bank accepts deposits from the public, issues loans and transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The registered address of the Bank is 110 Furmanov St., Almaty, 050000, Republic of Kazakhstan. The Bank did not have any branches or subsidiaries as at 31 December 2010 and 2009.

2. Basis of preparation

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

The financial statements have been prepared under the historical cost convention. These financial statements are presented in thousands of tenge (“KZT” or “tenge”), unless otherwise is stated.

3. Summary of significant accounting policies

Changes in accounting policies

During the year the Bank has adopted the following amended and new IFRS and IFRIC interpretations. The impact of such amendments is described below:

IAS 24 “Related party disclosures” (Revised)

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

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

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

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

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively. These amendments did not have any impact on the Bank’s financial statements.

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

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

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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

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

Improvements to IFRSs

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

- ▶ IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. These amendments did not have any impact on the Bank's financial statements.
- ▶ IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- ▶ IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. This amendment did not have any impact on the Bank's financial statements.

Financial assets

Initial recognition

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

Date of recognition

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

Day 1' profit

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

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

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

Loans and receivables

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

Offsetting

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

Cash and cash equivalents

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

Borrowings

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

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

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.

Leases

Operating – Bank as lessee

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

3. Summary of significant accounting policies (continued)

Provision for impairment of financial assets

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

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

Loans to customers

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

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

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

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

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

Held-to-maturity financial investments

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

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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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 Bank's activities. These taxes are included as a component of other operating expenses.

3. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	<i>Years</i>
Buildings	50
Furniture and fixtures	9
Computers and office equipment	4
Leasehold improvements	5
Motor vehicles	5
Land	–

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

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

Intangible assets

Intangible assets include computer software and licences. Intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

Share capital is recognised at the fair value of consideration received or paid. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Contingencies

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

3. Summary of significant accounting policies (continued)

Income and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive 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 of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and exchange rate stated by the Kazakhstan Stock Exchange ("KASE") on the date of the transaction are included in gains less losses from dealing in foreign currencies. As at 31 December 2010 and 2009 the official KASE exchange rates were KZT 147.50 and KZT 148.46 to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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

3. 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 Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

Improvements to IFRSs

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

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

Amendments to IFRS 7 "Financial instruments: disclosures"

In October 2010 the IASB issued amendments to IFRS 7 effective for financial years beginning on or after 1 July 2011. Amendments introduce additional requirements to disclosure of information on assets which were transferred but not derecognized. The Bank expects that these amendments will have no impact on financial position or performance of the Bank.

Amendments to IAS 12 "Income taxes" – Deferred taxes: reimbursement of asset providing the basis for deferred tax

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

4. Significant accounting judgements and 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.

Taxation

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

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2010</i>	<i>2009</i>
Cash on hand	179,377	289,766
Current accounts with the NBRK	2,109,952	18,907
Term deposits with the NBRK up to 90 days	8,000,356	6,201,081
Current accounts with the Parent	278,893	602,520
Current accounts with OECD based banks	1,023,981	5,727,820
Current accounts with local banks	19,462	13,175
	11,612,021	12,853,269

As at 31 December interest rates and maturities of time deposits are as follows:

	<i>2010</i>		<i>2009</i>	
	%	<i>Maturity</i>	%	<i>Maturity</i>
Term deposits with the NBRK up to 90 days	0.50%	2011	0.50%-1.00%	2010

As at 31 December interest rates on current accounts with banks are as follows:

	<i>2010</i>				<i>2009</i>			
	<i>USD</i>	<i>EURO</i>	<i>JPY</i>	<i>CNY</i>	<i>USD</i>	<i>EURO</i>	<i>JPY</i>	<i>CNY</i>
	1-month LIBOR minus	1-month LIBOR minus	1-month LIBOR minus	1-month SHIBOR minus	1-month LIBOR plus 0.15%	1-month LIBOR plus 0.06%	1-month LIBOR plus 0.15%	-
The Parent	0.03%	0.16%	0.09%	5.45%				

6. Obligatory reserves

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either non-interest bearing deposits with the NBRK or in correspondent accounts or in physical cash. The use of such funds is subject to certain restrictions.

As at 31 December 2010, the obligatory reserves are KZT 179,264 thousand (31 December 2009: KZT 195,515 thousand).

7. Loans to customers

As at 31 December 2010 and 2009 loans to customers comprise non-impaired loan issued to one borrower. As at 31 December 2010 this loan was guaranteed by the Parent and shall mature in 2011 (31 December 2009: 2010). Nominal interest rate established by the Bank for the loan is 8% per annum (31 December 2009: 8% per annum).

(In thousands of tenge, unless otherwise is stated)

8. Held-to-maturity securities

As at 31 December held-to-maturity securities comprise:

	2010		2009	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	3,891,777	3,735,359	3,423,545	3,422,972
	3,891,777	3,735,359	3,423,545	3,422,972

As at 31 December 2010 the effective interest rate of treasury bills of the Ministry of Finance of the Republic of Kazakhstan is 3.00%-8.75% per annum (2009: 2.45%-8.75% per annum) and maturity is 2011-2016 (31 December 2009: 2010-2013).

9. Property and equipment

The movements in property and equipment during 2010 and 2009 are as follows:

	<i>Leasehold</i>					<i>Total</i>
	<i>Land and buildings</i>	<i>improvements</i>	<i>Computer equipment</i>	<i>Vehicles</i>	<i>Other</i>	
Cost:						
31 December 2008	49,035	29,572	31,951	23,716	22,788	157,062
Additions	–	–	9,178	–	3,495	12,673
Disposals	–	–	(13,780)	–	–	(13,780)
31 December 2009	49,035	29,572	27,349	23,716	26,283	155,955
Additions	492,844	–	3,243	–	689	496,776
31 December 2010	541,879	29,572	30,592	23,716	26,972	652,731
Accumulated depreciation:						
31 December 2008	(45,253)	(29,172)	(29,780)	(23,716)	(14,029)	(141,950)
Charge	(98)	(264)	(2,205)	–	(2,920)	(5,487)
Disposals	–	–	13,680	–	–	13,680
31 December 2009	(45,351)	(29,436)	(18,305)	(23,716)	(16,949)	(133,757)
Charge	(98)	(136)	(3,670)	–	(3,006)	(6,910)
31 December 2010	(45,449)	(29,572)	(21,975)	(23,716)	(19,955)	(140,667)
Net book value:						
31 December 2010	496,430	–	8,617	–	7,017	512,064
31 December 2009	3,684	136	9,044	–	9,334	22,198

In May 2010 the Bank has purchased an office building with rough furnishing, which was not depreciated in 2010.

Carrying amount of fully amortised assets that are in use as at 31 December 2010 is KZT 71,628 thousand (31 December 2009: KZT 74,317 thousand).

*(In thousands of tenge, unless otherwise is stated)***10. Intangible assets**

The movements in intangible assets during 2010 and 2009 are as follows:

	<i>Licences</i>	<i>Software</i>	<i>Total</i>
Cost:			
31 December 2008	25,407	28,638	54,045
Additions	186	452	638
Disposals	(18,272)	(24,100)	(42,372)
31 December 2009	7,321	4,990	12,311
Additions	1,465	2,187	3,652
31 December 2010	8,786	7,177	15,963
Accumulated depreciation:			
31 December 2008	(18,746)	(12,137)	(30,883)
Charge	(2,590)	(3,021)	(5,611)
Disposals	15,411	11,750	27,161
31 December 2009	(5,925)	(3,408)	(9,333)
Charge	(786)	(844)	(1,630)
31 December 2010	(6,711)	(4,252)	(10,963)
Net book value:			
31 December 2010	2,075	2,925	5,000
31 December 2009	1,396	1,582	2,978

Carrying value of fully amortized assets being used as at 31 December 2010 amounted to KZT 2,539 thousand (31 December 2009: KZT 2,254 thousand).

11. Taxation

The income tax expense comprises:

	<i>2010</i>	<i>2009</i>
Current income tax charge	49,778	38,118
Deferred tax (benefit) / charge – origination and reversal of temporary differences	(650)	609
Income tax expense	49,128	38,727

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with changes to tax legislation in 2010, as at 31 December 2010 and subsequently applied corporate income tax rate is 20.0%. The legislation as in effect in 2009 supposed decrease in rate to 17.5% in 2013 and to 15.0% in 2014.

The reconciliation between the income tax expense in the accompanying financial statements and profit before income tax expense multiplied by the statutory tax rate for the periods ended 31 December is as follows:

	<i>2010</i>	<i>2009</i>
Profit before corporate income tax expense	456,852	317,445
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	91,370	63,489
Tax exempt income:		
Government securities	(46,918)	(32,802)
Non-deductible expenses:		
Non-banking expenses	4,620	2,971
Representation expenses	660	560
Write-off of intangible asset	–	3,042
Difference due to change in tax rates	(604)	1,467
Income tax expense	49,128	38,727

As at 31 December 2010 current income tax liabilities amounts to KZT 7,000 thousand. As at 31 December 2009 current income tax assets amounted to KZT 18,271 thousand.

11. Taxation (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprise the following at 31 December:

	<i>2008</i>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<i>2009</i>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<i>2010</i>
Tax effect of deductible temporary differences:					
Property and equipment and intangible assets	1,645	(609)	1,036	650	1,686
Deferred tax assets	1,645	(609)	1,036	650	1,686

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

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

12. Other assets

As at 31 December other assets comprise:

	<i>2010</i>	<i>2009</i>
Advances and other prepayments on property and equipment	139,984	938
Materials	1,743	1,092
Deferred expenses	1,181	1,758
Other	2,664	1,451
Other assets	145,572	5,239

13. Amounts due to customers

As at 31 December the amounts due to customers include the following:

	<i>2010</i>	<i>2009</i>
Current accounts	10,874,475	11,532,001
Term deposits	38,968	107,552
Amounts due to customers	10,913,443	11,639,553

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

	<i>2010</i>	<i>2009</i>
Current accounts:		
Commercial entities	9,026,692	9,738,732
Governmental entities	1,097,533	916,186
Individuals	750,250	877,083
	10,874,475	11,532,001
Term deposits:		
Individuals	38,968	107,552
	38,968	107,552
Amounts due to customers	10,913,443	11,639,553

13. Amounts due to customers (continued)

As at 31 December 2010, the Bank's ten largest customers account for 87% of the total amounts due to customers (31 December 2009: 89%).

Included in term deposits are deposits of individuals in the amount of KZT 38,968 thousand (31 December 2009: KZT 107,552 thousand). In accordance with the Civil Code of Republic of Kazakhstan, the Bank 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 on it is not paid or is paid based on far less interest rate, depending upon conditions specified in the agreement.

An analysis of customer accounts by economic sector follows:

	<i>2010</i>	<i>%</i>	<i>2009</i>	<i>%</i>
Oil transportation	5,696,752	52.2%	3,647,318	31.3%
Governmental entities	1,097,533	10.1%	916,186	7.9%
Trade	1,065,454	9.8%	1,040,364	8.9%
Hotel business	882,502	8.1%	22,575	0.2%
Individuals	789,218	7.2%	984,635	8.5%
Mining	599,043	5.5%	4,453,726	38.3%
Construction	172,283	1.6%	381,018	3.3%
Agriculture	160,306	1.5%	3	0.0%
Oil and gas	3,655	0.0%	2,842	0.0%
Transportation and communication	2,083	0.0%	44,486	0.4%
Education	84	0.0%	90	0.0%
Other	444,530	4.0%	146,310	1.2%
	10,913,443	100.0%	11,639,553	100.0%

14. Equity

In accordance with decision of the Parent dated 15 January 2009, the Bank increased the number of shares to be placed from 2,273 to 6,270 shares. As at 31 December 2010 and 2009, the Bank had 6,270 issued and fully paid shares. Each common share is entitled to one vote and equal rights to obtain dividends. All shares are tenge denominated and have a nominal value of KZT 627,440 each. During 2010 and 2009 no dividends were declared or distributed.

In accordance with local legislation and the NBRK rules the Bank allocates funds from retained earnings to make a general bank reserve to cover unforeseen risks and future losses. The funds from general bank reserve could be allocated only upon the shareholder's official authorization.

15. Commitments and contingencies**Political and economic environment**

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

Legal actions and claims

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

Tax contingencies

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

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

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

*(In thousands of tenge, unless otherwise is stated)***15. Commitments and contingencies (continued)****Financial commitments and contingencies**

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

Credit related commitments	<i>2010</i>	<i>2009</i>
Guarantees	900,615	–
Letters of credit	745,367	–
	1,645,982	–
Less – cash held as security against letters of credit	(46,217)	–
Financial commitments and contingencies	1,599,765	–

In 2010 the Bank has issued guarantees and letters of credit to the third parties totaling KZT 1,645,982 thousand. These guarantees and letters of credit are secured by collateral in the form of cash on current account at the amount of KZT 46,217 thousand and Parent's guarantee at the amount of KZT 1,599,765 thousand.

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

16. Net fee and commission income

Net fee and commission income for the year ended 31 December comprises:

	<i>2010</i>	<i>2009</i>
Transfer operations	217,518	210,592
Cash operations	27,736	20,890
Guarantees and letters of credit	2,398	1,027
Other	2,107	1,365
Fee and commission income	249,759	233,874
Custody activities	(9,790)	(5,775)
Transfer operations	(1,579)	(1,547)
Other	(397)	(1,400)
Fee and commission expenses	(11,766)	(8,722)
Net fee and commission income	237,993	225,152

17. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<i>2010</i>	<i>2009</i>
Salaries and bonuses	134,303	87,312
Social tax	13,880	8,872
Personnel expenses	148,183	96,184
Rent	17,082	17,082
Professional services	10,718	9,601
Security	9,342	8,717
Cash collection expenses	6,779	5,570
Business trip expenses	6,494	5,963
Communication services	6,396	8,419
Office supplies	3,872	2,340
Information technology service	3,822	10,563
Representation expenses	6,129	2,798
Deposit insurance	1,953	1,833
Utilities	1,800	3,106
Transportation	1,369	1,261
Translation and notary services	756	1,033
Training	684	274
Insurance expenses	544	516
Membership fee	830	838
Write-off of intangible asset	–	15,211
Other	5,117	1,936
Other operating expenses	83,687	97,061

(In thousands of tenge, unless otherwise is stated)

18. Risk management

Introduction

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

Risk management structure

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

Management Board

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

Risk Management and Law Compliance Department.

The Risk Management and Law Compliance Department (here and after the "Department") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

The Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products.

Assets and Liabilities Management Committee

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

Internal Audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board 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.

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

Risk mitigation

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

18. Risk management (continued)**Introduction (continued)***Excessive risk concentration*

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

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

Credit risk

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

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

Credit-related commitments risks

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

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

	<i>Note</i>	<i>Gross maximum exposure 2010</i>	<i>Gross maximum exposure 2009</i>
Cash and cash equivalents (excluding cash on hand)	5	11,432,644	12,563,503
Obligatory reserves	6	179,264	195,515
Loans to customers	7	152,567	303,767
Held-to-maturity securities	8	3,891,777	3,423,545
Other assets		2,041	1,792
Financial commitments and contingencies	15	1,645,982	–
Total credit risk exposure		17,304,275	16,488,122

Credit quality per class of financial assets

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

<i>Notes</i>	<i>Neither past due nor impaired</i>		<i>Total 2010</i>
	<i>High grade 2010</i>	<i>Standard grade 2010</i>	
Loans to customers	7	–	152,567
Held-to-maturity securities	8	3,891,777	–
Total		3,891,777	152,567

<i>Notes</i>	<i>Neither past due nor impaired</i>		<i>Total 2009</i>
	<i>High grade 2009</i>	<i>Standard grade 2009</i>	
Loans to customers	7	–	303,767
Held-to-maturity securities	8	3,423,545	–
Total		3,423,545	303,767

(In thousands of tenge, unless otherwise is stated)

18. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

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

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

18. Risk management (continued)**Credit risk (continued)**

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

	<i>2010</i>			
	<i>Kazakhstan</i>	<i>OECD</i>	<i>China</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	10,309,147	1,023,981	278,893	11,612,021
Obligatory reserves	179,264	–	–	179,264
Loans to customers	152,567	–	–	152,567
Held-to-maturity securities	3,891,777	–	–	3,891,777
Other monetary assets	2,041	–	–	2,041
	14,534,796	1,023,981	278,893	15,837,670
Liabilities:				
Amounts due to customers	10,913,443	–	–	10,913,443
Current income tax liabilities	7,000	–	–	7,000
Other monetary liabilities	3,544	–	–	3,544
	10,923,987	–	–	10,923,987
Net assets and liabilities position	3,610,809	1,023,981	278,893	4,913,683
	<i>2009</i>			
	<i>Kazakhstan</i>	<i>OECD</i>	<i>China</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	6,522,929	5,727,820	602,520	12,853,269
Obligatory reserves	195,515	–	–	195,515
Loans to customers	303,767	–	–	303,767
Held-to-maturity securities	3,423,545	–	–	3,423,545
Current income tax assets	18,271	–	–	18,271
Other monetary assets	1,792	–	–	1,792
	10,465,819	5,727,820	602,520	16,796,159
Liabilities:				
Amounts due to credit institutions	–	–	14,856	14,856
Amounts due to customers	11,639,553	–	–	11,639,553
Other monetary liabilities	3,169	–	–	3,169
	11,642,722	–	14,856	11,657,578
Net assets and liabilities position	(1,176,903)	5,727,820	587,664	5,138,581

Liquidity risk and funding management

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash inflow.

*(In thousands of tenge, unless otherwise is stated)***18. Risk management (continued)****Liquidity risk and funding management (continued)***Analysis of financial liabilities by remaining contractual maturities*

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

Financial liabilities	2010		
	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
Amounts due to customers	10,906,753	7,144	10,913,897
Total undiscounted financial liabilities	10,906,753	7,144	10,913,897

Financial liabilities	2009		
	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
Amounts due to customers	11,551,134	90,258	11,641,392
Amounts due to credit institutions	14,856	–	14,856
Total undiscounted financial liabilities	11,565,990	90,258	11,656,248

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

Amounts due to customers comprise time deposits of individuals. In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor (See Note 13).

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 Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank 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 to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010.

Currency	Increase in basis points 2010	Sensitivity of net interest income 2010
1-month LIBOR		
US Dollar	1%	(3,431)
EURO	1%	44
Japanese Yen	1%	7
Chinese Yuan	1%	1,105
	Decrease in basis points 2010	Sensitivity of net interest income 2010
Currency		
1-month LIBOR		
US Dollar	0.1%	343
EURO	0.1%	(4)
Japanese Yen	0.1%	(1)
Chinese Yuan	0.1%	(110)

*(In thousands of tenge, unless otherwise is stated)***18. Risk management (continued)****Market risk (continued)***Interest rate risk (continued)*

<i>Currency</i>	<i>Increase in basis points 2009</i>	<i>Sensitivity of net interest income 2009</i>
1-month LIBOR		
US Dollar	1%	6,011
EURO	1%	8
Japanese Yen	1%	6
	<i>Decrease in basis points 2009</i>	<i>Sensitivity of net interest income 2009</i>
1-month LIBOR		
US Dollar	0.1%	(601)
EURO	0.1%	(1)
Japanese Yen	0.1%	(1)

Currency risk

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

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

<i>Currency</i>	<i>2010</i>		<i>2009</i>	
	<i>Increase in currency rate in %</i>	<i>Effect on profit before income tax expense</i>	<i>Increase in currency rate in %</i>	<i>Effect on profit before income tax expense</i>
US Dollar	7.5	1,182	14.6	(380)
EURO	7.8	338	13.8	111
Japanese Yen	8.9	64	15.5	99
Chinese Yuan	0.5	1	–	–
<i>Currency</i>	<i>2010</i>		<i>2009</i>	
	<i>Decrease in currency rate in %</i>	<i>Effect on profit before income tax expense</i>	<i>Decrease in currency rate in %</i>	<i>Effect on profit before income tax expense</i>
US Dollar	0.4	(55)	0.7	18
EURO	2.0	(88)	2.5	(20)
Japanese Yen	2.8	(20)	3.7	(24)
Chinese Yuan	0.4	(0.4)	–	–

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank 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.

19. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2010			2009		
	Carrying value	Fair value	Unrecognised gain	Carrying value	Fair value	Unrecognised loss
Financial assets						
Cash and cash equivalents	11,612,021	11,612,021	–	12,853,269	12,853,269	–
Obligatory reserves	179,264	179,264	–	195,515	195,515	–
Loans to customers	152,567	152,567	–	303,767	303,767	–
Held-to-maturity securities	3,891,777	3,931,412	39,635	3,423,545	3,456,141	32,596
Other assets	2,041	2,041	–	1,792	1,792	–
Financial liabilities						
Amounts due to credit institutions	–	–	–	14,856	14,856	–
Amounts due to customers	10,913,443	10,913,443	–	11,639,553	11,639,553	–
Total unrecognised change in unrealised fair value			39,635			32,596

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

20. Maturity analysis of assets and liabilities

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

	2010			2009		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	11,612,021	–	11,612,021	12,853,269	–	12,853,269
Obligatory reserves	179,264	–	179,264	195,515	–	195,515
Loans to customers	152,567	–	152,567	303,767	–	303,767
Held-to-maturity securities	1,052,940	2,838,837	3,891,777	2,054,015	1,369,530	3,423,545
Property and equipment	–	512,064	512,064	–	22,198	22,198
Intangible assets	–	5,000	5,000	–	2,978	2,978
Current income tax assets	–	–	–	18,271	–	18,271
Deferred income tax assets	–	1,686	1,686	–	1,036	1,036
Other assets	145,572	–	145,572	5,239	–	5,239
Total	13,142,364	3,357,587	16,499,951	15,430,076	1,395,742	16,825,818
Amounts due to credit institutions	–	–	–	14,856	–	14,856
Amounts due to customers	10,913,443	–	10,913,443	11,639,553	–	11,639,553
Current income tax liabilities	7,000	–	7,000	–	–	–
Other liabilities	3,544	–	3,544	3,169	–	3,169
Total	10,923,987	–	10,923,987	11,657,578	–	11,657,578
Net position	2,218,377	3,357,587	5,575,964	3,772,498	1,395,742	5,168,240

*(In thousands of tenge, unless otherwise is stated)***21. 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 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

People’s Republic of China, acting through the Ministry of Finance, controls the Bank.

People’s Republic of China directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as “government-related entities”). The Bank enters into banking transactions with these entities including but not limited to cash settlement and foreign exchange transactions.

Government of People’s Republic of China does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government. Under these circumstances the management of the Bank disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge. These financial statements disclose operations with government entities and entities, in which the government directly owns more than 50% of the share capital. In relation to government-controlled entities, management analyzed the Bank’s transactions with its largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 1) government entities and 2) entities with over 50% of share capital controlled by the government.

All transactions with government entities and entities under the government control are entered into in the normal cause of business and priced at market rates.

The volumes of transactions with government entities and entities under the government control and outstanding balances as at the year end are as follows:

	2010		2009	
	<i>Government entities</i>	<i>Entities with over 50% of share capital controlled by the government</i>	<i>Government entities</i>	<i>Entities with over 50% of share capital controlled by the government</i>
Amounts due to customers as at 1 January	916,186	316,795	700,966	211,726
Receipts on current accounts during the year	3,014,476	10,562,910	2,215,004	8,162,263
Payments on current accounts during the year	(3,102,998)	(10,627,780)	(2,111,945)	(8,155,282)
Foreign exchange difference	(1,437)	(1,159)	112,161	98,088
Amounts due to customers as at 31 December	826,227	250,766	916,186	316,795

21. Related party transactions (continued)

Transactions with nongovernment-related entities

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year ended 31 December are as follows:

	2010			2009		
	Parent	Companies under common control	Key management personnel	Parent	Companies under common control	Key management personnel
Cash and cash equivalents as at 1 January	602,520	5,716,810	–	1,628,233	–	–
Receipts on current accounts during the year	89,627,717	12,959,475	–	60,518,265	15,771,740	–
Payments on current accounts during the year	(89,939,953)	(18,406,261)	–	(61,848,265)	(10,054,930)	–
Foreign exchange difference	(11,391)	(2,483)	–	304,287	–	–
Cash and cash equivalents as at 31 December	278,893	267,541	–	602,520	5,716,810	–
Interest income on current accounts	7,461	–	–	3,332	–	–
Amounts due to credit institutions as at 1 January	–	–	–	–	–	–
Deposits placed during the year	–	500,695	–	–	–	–
Payments on deposits during the year	–	(500,468)	–	–	–	–
Foreign exchange difference	–	(227)	–	–	–	–
Amounts due to credit institutions as at 31 December	–	–	–	–	–	–
Interest income on amounts due to credit institutions	–	3,728	–	–	–	–
Amounts due to customers as at 1 January	–	–	3,847	–	–	1,580
Receipts on current accounts during the year	–	–	37,135	–	–	60,074
Payments on current accounts during the year	–	–	(38,637)	–	–	(57,804)
Foreign exchange difference	–	–	(5)	–	–	(3)
Amounts due to customers as at 31 December	–	–	2,340	–	–	3,847
Interest expense on current accounts	–	–	(4)	–	–	(13)

Compensation of 4 members of key management personnel is comprised of the following:

	2010	2009
Salaries and other short-term benefits	39,022	25,183
Social security expenses	1,555	862
	40,577	26,045

*(In thousands of tenge, unless otherwise is stated)***22. Capital adequacy**

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

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

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

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

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

The Bank's capital adequacy ratio, computed in accordance with the FMSA, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2010 and 2009, comprised:

	<i>2010</i>	<i>2009</i>
Tier 1 capital	<u>5,166,871</u>	<u>4,888,085</u>
Total assets	<u>16,499,951</u>	<u>16,825,818</u>
Tier 1 capital adequacy ratio	31.3%	29.1%
Total capital adequacy ratio	<u>31.3%</u>	<u>29.1%</u>
	<i>2010</i>	<i>2009</i>
Tier 2 capital	<u>5,574,595</u>	<u>5,166,803</u>
Risk weighted assets, contingent and eventual claims and liabilities	<u>2,818,992</u>	<u>3,545,007</u>
Tier 2 capital adequacy ratio	197.8%	145.7%
Total capital adequacy ratio	<u>197.8%</u>	<u>145.7%</u>