

**National Bank of the Republic of
Kazakhstan**

Consolidated Financial Statements
for the year ended 31 December 2010

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Independent Auditors' Report

To the Management Board of the National Bank of the Republic of Kazakhstan

We have audited the accompanying consolidated financial statements of the National Bank of the Republic of Kazakhstan and its subsidiaries (the "National Bank"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 the requirements of the Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan", 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 about 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 auditor's 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 National Bank as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation described in Note 2, which was established by management in order to satisfy the requirements of the Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan".

Other Matter

The consolidated financial statements of the National Bank as at and for the year ended 31 December 2009 were audited by other auditors whose report dated 11 March 2010 expressed unmodified opinion on those statements.

Abibullayeva E. Sh.
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No.0000288 of 11 November 1996



KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Nigay A. N.
General Director of KPMG Audit LLC
acting on the basis of the Charter



11 March 2011

National Bank of the Republic of Kazakhstan
Consolidated Income Statement for the year ended 31 December 2010

	Note	2010 KZT'000	2009 KZT'000
Interest income	4	90,303,963	73,475,473
Interest expense	4	(18,564,638)	(19,641,630)
Net interest income		71,739,325	53,833,843
Fee and commission income	5	8,271,732	9,254,335
Fee and commission expense	6	(533,527)	(729,761)
Net fee and commission income		7,738,205	8,524,574
Net loss on financial instruments at fair value through profit or loss	7	(7,270,343)	(3,685,768)
Net gain on available-for-sale financial assets	8	8,277,685	16,900,754
Income/(expense) from associates	22	139,361	(790,247)
Other operating income	9	4,009,832	2,460,022
Operating income		84,634,065	77,243,178
Recoveries/(losses) from impairment	10	2,024,111	(10,666,595)
Banknotes and coins production expenses	11	(4,222,748)	(3,336,740)
Funding of third parties	12	(2,520,167)	(2,631,327)
Personnel expenses	13	(9,550,110)	(9,120,245)
Depreciation and amortisation		(1,779,584)	(1,749,402)
Other general administrative expenses	14	(4,125,575)	(3,443,764)
Gain from disposal of subsidiary		-	180,000
Profit before income tax		64,459,992	46,475,105
Income tax expense	15	(1,402,777)	(1,725,082)
Profit for the year		63,057,215	44,750,023
Profit attributable to:			
- Holders of the Bank		62,728,357	44,012,304
- Non-controlling interests		328,858	737,719
Profit for the year		63,057,215	44,750,023

The consolidated financial statements as set out on pages 5 to 62 were approved by the Management Board of the National Bank on 11 March 2011:



Marchenko G. A.
Governor

Shalgimbayeva N.T.
Chief Accountant

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	2010 KZT'000	2009 KZT'000
Profit for the year	63,057,215	44,750,023
Other comprehensive income, net of income tax		
Net gain on foreign currency and precious metals	93,007,889	435,935,864
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	833,389	(10,190,808)
- Impairment transferred to profit or loss	-	10,126,616
- Net change in fair value transferred to profit or loss	(8,277,685)	(16,900,754)
Revaluation of property and equipment	-	(88,307)
Other comprehensive income for the year, net of income tax	85,563,593	418,882,611
Total comprehensive income for the year	148,620,808	463,632,634
Total comprehensive income attributable to:		
- Holder of the National Bank	148,279,582	462,887,958
- Non-controlling interests	341,226	744,676
Total comprehensive income for the year	148,620,808	463,632,634

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Financial Position as at 31 December 2010

	Note	2010 KZT'000	2009 KZT'000
ASSETS			
Cash on hand in foreign currency	16	12,859,841	34,787,626
Gold	17	450,214,406	371,258,998
Placements with banks and other financial institutions	18	780,360,779	1,376,860,862
Financial instruments at fair value through profit or loss	19	50,644	1,220,261
Reverse repurchase agreements	20	465,807,648	586,451,722
Available-for-sale financial assets	21	3,149,717,950	1,799,391,017
Held-to-maturity investments		-	400,000
Investments in associates	22	681,562	542,201
Property, equipment and intangible assets	23	30,694,318	29,485,544
Current tax asset		700,386	29,489
Deferred tax asset		84,188	73,211
Other assets	24	6,784,095	7,624,919
Total assets		4,897,955,817	4,208,125,850
LIABILITIES			
Currency in circulation	25	1,306,496,601	1,048,045,523
Due to banks and other financial institutions	26	992,971,564	1,353,735,461
Financial instruments at fair value through profit or loss	19	4,331,404	2,494,822
Current accounts of the National Fund of the Republic of Kazakhstan	27	123,427,766	121,589,299
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	28	203,470,122	134,497,784
Customer accounts	29	470,409,169	322,173,670
Debt securities issued	30	886,424,403	463,183,949
Reserves of guarantee funds	31	52,508,963	33,542,786
Current tax liability		20,506	900,601
Deferred tax liability		918,216	684,581
Other liabilities	32	3,828,955	4,318,413
Total liabilities		4,044,807,669	3,485,166,889
EQUITY			
Share capital	33	20,000,000	20,000,000
Capital reserve	33	133,331,094	114,899,473
Reserve for general banking risks	33	10,153,302	9,091,502
Revaluation surplus for property and equipment		15,210,315	15,234,730
Revaluation reserve for available-for-sale financial assets		1,110,145	8,566,809
Revaluation reserve for foreign currency and precious metals		613,929,080	520,921,191
Retained earnings		54,652,412	29,824,682
Total equity attributable to equity holders of the National Bank		848,386,348	718,538,387
Non-controlling interests		4,761,800	4,420,574
Total equity		853,148,148	722,958,961
Total liabilities and equity		4,897,955,817	4,208,125,850

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Cash Flows for the year ended 31 December 2010

	2010 KZT'000	2009 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before taxation and non-controlling interests	64,459,992	46,475,105
<i>Adjustments for:</i>		
Depreciation and amortisation	2,525,171	2,489,438
(Recoveries)/losses from impairment	(2,024,111)	10,666,595
Loss on disposal of property and equipment and intangible assets	67,457	77,014
Amortisation of discount on debt securities issued	13,464,234	8,992,968
Amortisation of premium on available-for-sale investments	26,099,892	1,716,154
Unrealised loss on financial instruments at fair value through profit or loss	4,280,760	1,274,561
(Income)/expense from associates	(139,361)	790,247
Gain from disposal of subsidiary	-	(180,000)
Cash flow from operating activities before changes in operating assets and liabilities	108,734,034	72,302,082
(Increase)/decrease in operating assets		
Gold	21,045,109	8,980,989
Placements with banks and other financial institutions	(22,317,361)	(11,239,241)
Financial instruments at fair value through profit or loss	1,168,527	9,737,704
Reverse repurchase agreements	120,644,074	(190,449,532)
Available-for-sale financial assets	(1,369,137,126)	(650,350,988)
Held-to-maturity investments	400,000	521,272
Other assets	777,838	(2,323,352)
Increase/(decrease) in operating liabilities		
Currency in circulation	258,451,078	60,975,632
Due to banks and other financial institutions	(358,275,464)	378,601,325
Financial instruments at fair value through profit or loss	(2,509,852)	(3,357,245)
Current accounts of the National Fund of the Republic of Kazakhstan	1,838,467	121,588,188
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	51,223,130	88,140,039
Customer accounts	148,663,727	159,987,360
Reserves of guarantee funds	16,809,555	14,880,397
Other liabilities	(446,904)	2,366,749
Net cash (used in)/provided from operating activities before income tax paid	(1,022,931,168)	60,361,379
Income tax paid	(2,731,111)	(890,724)
Cash flows (used in)/from operations	(1,025,662,279)	59,470,655
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(3,943,044)	(4,358,712)
Sales of property and equipment and intangible assets	141,642	201,057
Cash flows used in investing activities	(3,801,402)	(4,157,655)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	3,295,485,087	1,446,647,459
Repayment of debt securities issued	(2,885,708,867)	(1,288,421,304)
Investments in capital of subsidiaries	-	399,601
Cash flows from financing activities	409,776,220	158,625,756
Net (decrease)/increase in cash and cash equivalents	(619,687,461)	213,938,756
Effect of changes in exchange rates on cash and cash equivalents	(24,391,657)	297,447,098
Cash and cash equivalents as at the beginning of the period	1,318,082,718	806,696,864
Cash and cash equivalents as at the end of the period (Note 16)	674,003,600	1,318,082,718

Amount of interest, paid and received during the year ended 31 December 2010, is KZT 18,574,325 thousand and KZT 80,282,279 thousand, correspondingly.

Amount of interest, paid and received during the year ended 31 December 2009, is KZT 19,590,435 thousand and KZT 64,735,986 thousand, correspondingly.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Changes in Equity for the year ended 31 December 2010

KZT'000

Attributable to holders of the National Bank

	Share capital	Capital reserve	Reserve for general banking risks	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2009	20,000,000	86,384,133	6,320,981	15,376,637	25,538,712	84,985,327	17,044,639	255,650,429	3,456,297	259,106,726
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	44,012,304	44,012,304	737,719	44,750,023
Other comprehensive income										
Net change in fair value of available-for-sale financial assets	-	-	-	-	(10,197,777)	-	-	(10,197,777)	6,969	(10,190,808)
Loss from impairment transferred to profit or loss	-	-	-	-	10,126,616	-	-	10,126,616	-	10,126,616
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(16,900,742)	-	-	(16,900,742)	(12)	(16,900,754)
Net gain on foreign currency and precious metals	-	-	-	-	-	435,935,864	-	435,935,864	-	435,935,864
Revaluation of property and equipment	-	-	-	(88,307)	-	-	-	(88,307)	-	(88,307)
Depreciation of revaluation reserve of property and equipment	-	-	-	(53,600)	-	-	53,600	-	-	-
Total other comprehensive income	-	-	-	(141,907)	(16,971,903)	435,935,864	53,600	418,875,654	6,957	418,882,611
Total comprehensive income for the period	-	-	-	(141,907)	(16,971,903)	435,935,864	44,065,904	462,887,958	744,676	463,632,634
Transactions with owners, recorded directly in equity										
Transfer to reserve capital	-	28,515,340	2,770,521	-	-	-	(31,285,861)	-	-	-
Issuance of shares of subsidiary	-	-	-	-	-	-	-	-	219,601	219,601
Total transactions with owners	-	28,515,340	2,770,521	-	-	-	(31,285,861)	-	219,601	219,601
Balance as at 31 December 2009	20,000,000	114,899,473	9,091,502	15,234,730	8,566,809	520,921,191	29,824,682	718,538,387	4,420,574	722,958,961

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Changes in Equity for the year ended 31 December 2010

KZT'000	Attributable to holders of the National Bank									
	Share capital	Capital reserve	Reserve for general banking risks	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2010	20,000,000	114,899,473	9,091,502	15,234,730	8,566,809	520,921,191	29,824,682	718,538,387	4,420,574	722,958,961
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	62,728,357	62,728,357	328,858	63,057,215
Other comprehensive income										
Net change in fair value of available-for-sale financial assets	-	-	-	-	820,881	-	-	820,881	12,508	833,389
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(8,277,545)	-	-	(8,277,545)	(140)	(8,277,685)
Net gain on revaluation on foreign currency and precious metals	-	-	-	-	-	93,007,889	-	93,007,889	-	93,007,889
Depreciation of revaluation reserve of property and equipment	-	-	-	(24,415)	-	-	24,415	-	-	-
Total other comprehensive income	-	-	-	(24,415)	(7,456,664)	93,007,889	24,415	85,551,225	12,368	85,563,593
Total comprehensive income for the year	-	-	-	(24,415)	(7,456,664)	93,007,889	62,752,772	148,279,582	341,226	148,620,808
Transactions with owners, recorded directly in equity										
Dividends (Note 33 (b))	-	-	-	-	-	-	(18,431,621)	(18,431,621)	-	(18,431,621)
Transfer to capital reserve	-	18,431,621	1,061,800	-	-	-	(19,493,421)	-	-	-
Total transactions with owners	-	18,431,621	1,061,800	-	-	-	(37,925,042)	(18,431,621)	-	(18,431,621)
Balance as at 31 December 2010	20,000,000	133,331,094	10,153,302	15,210,315	1,110,145	613,929,080	54,652,412	848,386,348	4,761,800	853,148,148

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of the National Bank of the Republic of Kazakhstan (the “NBK”) and its subsidiaries (together referred to as the “National Bank”).

The National Bank of the Republic of Kazakhstan was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan № 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. To accomplish the main goal, functions of the NBK are the following: determine and carry out monetary policy of the country; ensure the functioning of settlement and interbank payment system; exercise foreign currency regulations and supervision; secure financial system stability. NBK implements monetary and credit policies by management of the monetary base and reserves and performs its functions as a bank, financial consultant and agent of the Government of the Republic of Kazakhstan and other state governance bodies.

The address of the NBK’s registered office was 21, Micro District Koktem-3, Almaty 050090. The NBK has 18 branches and 7 subsidiaries located in the Republic of Kazakhstan and 2 representative offices in other countries as at 31 December 2010 and 2009.

The majority of the subsidiaries are registered in the Republic of Kazakhstan. The principal subsidiaries are as follows:

Name	Year of establish- ment	Principal activities	Ownership %	
			2010	2009
RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan”	1994	Coin manufacture	100.00	100.00
RSE “Kazakhstan Centre of Interbanking Settlements of the National Bank of the Republic of Kazakhstan”	1996	Electronic cash transfers	100.00	100.00
RSE “Banking Service Bureau of the National Bank of the Republic of Kazakhstan”	1996	Software maintenance and development	100.00	100.00
JSC “Kazakhstan Fund of Deposits Guarantee”	1999	Individual deposit guarantee	100.00	100.00
RSE “Banknote Factory of National Bank of the Republic of Kazakhstan”	2004	Banknote manufacture	100.00	100.00
JSC “Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO”	2007	Ensuring the smooth functions of IT of the NBK	100.00	100.00
JSC Accumulation Pension Fund “State Accumulated Pension Fund” (“GNPF”)	1997	Management of pension assets of depositors of the fund	90.01	90.01

1 Background, continued

(b) Business environment

The National Bank's operations are primarily located in Kazakhstan. Consequently, the National Bank is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Kazakhstan. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the National Bank. The future business environment may differ from management's assessment

2 Basis of preparation

(a) Statement of compliance

In accordance with the Law of the Republic of Kazakhstan #2155 dated 30 March 1995 "On National Bank of the Republic of Kazakhstan" the NBK determines its accounting policies for itself based on the International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been designed to present fairly the financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank which was approved by the Board of Directors of the National Bank on 26 December 2006 and amended on 20 May 2010 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with certain modifications as described below:

Gold is carried at market value. Gain resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss in the amount exceeding previously accumulated gains on accounts of other comprehensive income in equity.

Contributions received from the participating banks in accordance with the Law of the Republic of Kazakhstan "On the obligatory insurance of deposits placed in the second tier banks of the Republic of Kazakhstan" with amendments as at 31 December 2010 are recognised as reserves of guarantee funds within liabilities.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that gold, financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the National Bank is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. In the opinion of management there are no critical areas of judgement or estimate in the preparation of these consolidated financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the NBK. Control exists when the NBK has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the NBK.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the NBK. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of comprehensive income.

(c) Gold

Refined gold in the consolidated financial statements is recorded at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly on consolidated accounts of other comprehensive income. Losses resulting from revaluation are recognised in profit or loss in the amount exceeding previously accumulated gains on accounts of other comprehensive income in equity.

3 Significant accounting policies, continued

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Gain on foreign currency differences arising on retranslation are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss in the amount exceeding previously accumulated gains on accounts of other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the National Bank in the management of short-term commitments.

(f) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The National Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(i) Classification, continued

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the National Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the National Bank has the positive intention and ability to hold to maturity, other than those that:

- the National Bank upon initial recognition designates as at fair value through profit or loss
- the National Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the National Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the deal date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(iii) *Measurement, continued*

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) *Fair value measurement principles*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the National Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the National Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the National Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third-party market participant would take them into account in pricing a transaction.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(v) *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) *Derecognition*

The National Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the National Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the National Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The National Bank enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the National Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the National Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the National Bank 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 included in gains or losses arising from early retirement of debt.

The National Bank writes off assets deemed to be uncollectible.

3 Significant accounting policies, continued

(f) Financial instruments, continued

(vii) Repurchase and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(viii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the National Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

(g) Currency in circulation

Currency in circulation are recorded in the consolidated statement of financial position at their nominal value.

Currency in circulation are recorded as a liability when cash is issued by the NBK to second tier banks. Banknote and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

3 Significant accounting policies, continued

(h) Reserves of guarantee funds

According to the Law of the Republic of Kazakhstan “On the obligatory insurance of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 12 February 2009) the subsidiary of the NBK, JSC “Kazakhstan Fund of Deposits Guarantee” is due to compensate participating banks’ depositors amounts up to a certain level in case of compulsory liquidation of a participating bank. The National Bank establishes a reserve of guarantee funds to accumulate contributions of the banks that participate in the deposit guarantee scheme.

In accordance with the, National Bank’s accounting policy reserves of guarantee funds represent accumulated contributions received from the participating banks.

(i) Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in equity.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a units of production method over the based on the expected output of the individual assets.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings and constructions	7 to 40 years
- Furniture and equipment	3 to 10 years
- Computer equipment	3 to 5 years
- Motor vehicles	5 to 25 years
- Intangible assets	1 to 10 years

3 Significant accounting policies, continued

(k) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(l) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the National Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The National Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the National Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables 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 objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the National Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

3 Significant accounting policies, continued

(I) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The National Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) *Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) *Non financial assets*

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3 Significant accounting policies, continued

(l) Impairment, continued

(iv) *Non financial assets, continued*

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(m) Provisions

A provision is recognised in the consolidated statement of financial position when the National Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

3 Significant accounting policies, continued

(o) Income and expense recognition, continued

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

(p) Segment reporting

An operating segment is a component of a National Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same National Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(q) Comparative information

The following balances were previously reflected in the consolidated statement of financial position at 31 December 2009:

- At 31 December 2009, an asset of KZT 79,689,826 was presented within placements with banks and other financial institutions, in respect of an additional allocation of Special Drawing Rights received by the Republic of Kazakhstan from the International Monetary Fund (the "IMF"). A corresponding liability for KZT 79,689,826 was presented in due to banks and other financial institutions in respect of this arrangement.
- At 31 December 2009 an asset relating amounts managed on behalf of the National Fund of the Republic of Kazakhstan amounting to KZT 44,921,669 thousand was included within placements with banks and other financial institutions, with an offsetting liability recorded within current accounts of the National Fund of the Republic of Kazakhstan.

During 2010 the National Bank reconsidered the presentation of the above balances, and determined that a net presentation better reflects the substance of the underlying transactions. The comparative information at 31 December 2009 has therefore been adjusted accordingly.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The National Bank plans to adopt these pronouncements when they become effective. The National Bank has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

3 Significant accounting policies, continued

(r) New standards and interpretations not yet adopted, continued

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 KZT'000	2009 KZT'000
Interest income		
Available-for-sale financial assets	48,247,720	36,408,118
Reverse repurchase agreements	40,509,507	34,755,852
Placements with banks and other financial institutions	1,530,576	2,298,430
Other	16,160	13,073
	90,303,963	73,475,473
Interest expense		
Debt securities issued	(13,464,234)	(8,992,968)
Due to banks and other financial institutions	(4,838,324)	(10,402,012)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(262,042)	(246,650)
Other	(38)	-
	(18,564,638)	(19,641,630)
	71,739,325	53,833,843

5 Fee and commission income

	2010 KZT'000	2009 KZT'000
Pension asset management fee	5,803,595	5,336,061
Custody and trust operations fee	2,064,577	3,716,953
Transfer operations	403,560	201,321
	8,271,732	9,254,335

Fee and commission income on pension asset management consists of commission income of GNPF.

Fee and commission income on custody and trust operations consists of income for trust management services provided to the National Fund of the Republic of Kazakhstan, JSC "State Export Credits and Investments Guarantee Corporation", JSC "Kazakhstan Mortgage Company", JSC "Social Insurance State Fund" and other institutions. NBK renders asset management services to these organizations, or invests funds received in various financial instruments in accordance with customers' instructions.

5 Fee and commission income, continued

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of RSE “Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan”.

6 Fee and commission expense

	2010 KZT'000	2009 KZT'000
Trust management services	305,339	482,396
Operations with foreign currencies, securities and stock exchange	120,480	177,702
Custody services	106,278	69,014
Other	1,430	649
	<u>533,527</u>	<u>729,761</u>

7 Net loss on financial instruments at fair value through profit or loss

	2010 KZT'000	2009 KZT'000
Net gain/(loss) on operations with derivative financial instruments in foreign currency and precious metals	2,694,419	(4,510,295)
Net (loss)/gain on operations with other derivative financial instruments	(9,964,762)	824,527
	<u>(7,270,343)</u>	<u>(3,685,768)</u>

8 Net gain on available-for-sale financial assets

	2010 KZT'000	2009 KZT'000
Debt instruments	7,575,208	17,431,465
Equity instruments	702,477	(530,711)
	<u>8,277,685</u>	<u>16,900,754</u>

9 Other operating income

	2010 KZT'000	2009 KZT'000
Sale of coins for collection	1,541,649	1,161,074
Sale of printed products	1,455,059	799,628
Sale of medals, gems and jewellery	500,776	58,743
Rent of property and equipment	63,133	109,983
Sale of inventory	34,953	-
Penalties and fines	18,283	10,524
Transportation services	15,454	97,142
Collection services	12,765	14,442
Other	367,760	208,486
	<u>4,009,832</u>	<u>2,460,022</u>

10 Recoveries/(losses) from impairment

	2010 KZT'000	2009 KZT'000
Available-for-sale financial assets	2,109,177	(10,126,616)
Placements with banks and other financial institutions	(23,651)	-
Other assets	(61,415)	(539,979)
	2,024,111	(10,666,595)

11 Banknotes and coins production expenses

	2010 KZT'000	2009 KZT'000
Coins	2,743,570	1,866,348
Banknotes	1,419,777	1,424,756
Other	59,401	45,636
	4,222,748	3,336,740

12 Funding of third parties

	2010 KZT'000	2009 KZT'000
Funding of the Agency of the Republic of Kazakhstan for regulation and supervision of the financial market and financial institutions	2,421,751	2,527,209
Funding of the Masters' Studies at Kazakh Economic University in the name of T.Ryskulov	98,416	104,118
	2,520,167	2,631,327

In accordance with the Law of the Republic of Kazakhstan, "On state regulation and supervision of the financial market and financial organizations" dated 4 July 2003 № 474, and the Decree of the President of the Republic of Kazakhstan dated 31 December 2003 № 1270 "On further improvement of the system of state management of the Republic of Kazakhstan" the Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial organizations (the "AFS") is funded from the budget of the NBK.

13 Personnel expenses

	2010 KZT'000	2009 KZT'000
Payroll	5,220,847	4,855,186
Bonuses	3,267,892	3,346,742
Social tax	734,856	656,637
Insurance	191,498	166,390
Training	76,514	50,712
Other	58,503	44,578
	9,550,110	9,120,245

14 Other general administrative expenses

	2010 KZT'000	2009 KZT'000
Communication	964,656	508,379
Taxes other than income tax	592,300	527,057
Information and other services	503,044	504,365
Inventory	388,524	572,275
Repair and maintenance of property and equipment	340,102	196,890
Security	210,481	203,931
Utilities	166,444	122,027
Business trips	149,666	99,529
Rent	134,165	102,001
Advertising expenses, announcements and presentations in mass media	127,490	182,419
Operations related expense	102,369	83,439
Transportation	90,792	3,151
Gratuitous assignment of property	63,132	68,820
Insurance of property and equipment	23,666	40,469
Other	268,744	229,012
	4,125,575	3,443,764

15 Income tax expense

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2010 KZT'000	2009 KZT'000
Current tax expense		
Current year	1,190,219	1,678,118
	1,190,219	1,678,118
Deferred tax expense		
Origination and reversal of temporary differences	212,558	46,964
Total income tax expense	1,402,777	1,725,082

The National bank's subsidiaries applicable tax rate in 2010 is the income tax rate of 20% for Kazakhstan companies (2009:20%). In 2009 the Government announced that the income tax rates for Kazakhstan companies were 20% in 2009-2012, 17.5% in 2013 and 15% in later years. These rates were used in the calculation of deferred tax assets and liabilities as at 31 December 2009. In November 2010 the Government cancelled the reduction and announced that the income tax rate will remain at 20%. The 20% tax rate has been used in the calculation of deferred tax assets and liabilities as at 31 December 2010.

Reconciliation of effective tax rate:

	2010 KZT'000	%	2009 KZT'000	%
Profit of subsidiaries before tax	7,347,057	100.00	6,910,684	100.00
Income tax at the applicable tax rate	1,469,411	20.00	1,382,137	20.00
(Non-deductible costs)/non-taxable income	(66,634)	(0.91)	342,945	4.96
	1,402,777	19.09	1,725,082	24.96

16 Cash and cash equivalents

	2010 KZT'000	2009 KZT'000
Cash on hand in foreign currency	12,859,841	34,787,626
Nostro accounts in foreign banks	493,867,546	381,906,497
Accounts with the Bank for International Settlements	125,845,986	900,800,632
Amounts due from foreign banks with the original maturity of less than three months	39,962,571	-
Nostro accounts in Kazakhstan banks	1,467,656	587,963
Cash and cash equivalents in the consolidated statement of cash flows	674,003,600	1,318,082,718

None of cash and cash equivalents are impaired or past due.

17 Gold

	2010 KZT'000	2009 KZT'000
Gold deposits with foreign banks:		
- rated from AA- to AA	190,639,400	110,330,148
- rated from A to A+	55,908,330	153,449,111
- not rated	67,537,852	-
	314,085,582	263,779,259
Gold bullion in NBK depository	136,128,824	107,479,739
	450,214,406	371,258,998

18 Placements with banks and other financial institutions

	2010 KZT'000	2009 KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	476,249,324	341,524,547
- rated from AA- to AA+	11,476,623	22,704,155
- rated from A- to A+	5,078,671	17,563,885
- rated from BBB- to BBB+	754,998	-
- not rated	513,116	323,462
Total nostro accounts with foreign banks	494,072,732	382,116,049
Receivables on operations in foreign currency		
- rated from AA- to AA+	20,088,552	129
- rated from A- to A+	8,336,932	-
- not rated	140	485
Total receivables on operations in foreign currency	28,425,624	614
Accounts with the Bank for International Settlements	125,845,986	900,800,632
Accounts with the International Monetary Fund	83,068,755	84,802,173
Deposits - rated A+	39,962,571	-
Total placements with foreign banks and other financial institutions	771,375,668	1,367,719,468
Receivables from Kazakhstan banks and other financial institutions		
Nostro accounts with Kazakhstan banks		
- rated from B+	49,540	64,976
- rated below B+	1,320,334	381,704
- not rated	97,782	141,283
Total nostro accounts with Kazakhstan banks	1,467,656	587,963
Deposits with Kazakhstan banks		
- rated from B+	946,900	-
- rated below B+	1,235,368	3,300,000
- not rated	2,543,330	1,050,000
Total deposits with Kazakhstan banks	4,725,598	4,350,000
Receivables from Kazakhstan banks and insurance organisations - not rated	2,156,662	40
Receivables from the Ministry of Finance of the Republic of Kazakhstan	635,195	4,203,391
Total receivables from Kazakhstan banks and other financial institutions	8,985,111	9,141,394
	780,360,779	1,376,860,862

18 Placements with banks and other financial institutions, continued

As at 31 December 2010 the National Bank has balances with 2 banks and other financial institutions (2009: 2 banks and other financial institutions), whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 600,577,509 thousand (2009: KZT 1,240,310,560 thousand).

19 Financial instruments at fair value through profit or loss

Derivative financial instruments

The fair values of derivative instruments held as at 31 December 2010 and as at 31 December are set out in the following table:

	2010 KZT'000	2009 KZT'000
Assets		
Forward operations	33,792	328,801
Futures operations	16,852	-
Swap operations	-	891,460
	50,644	1,220,261
Liabilities		
Forward operations	(1,026,983)	(59,142)
Futures operations	(3,304,421)	-
Swap operations	-	(2,435,680)
	(4,331,404)	(2,494,822)
	(4,280,760)	(1,274,561)

The tables below summarizes, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions as at 31 December 2010 and 2009 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/notional amount KZT'000		Weighted-average contracted exchange rates	
	2010	2009	2010	2009
Forward operations – for the period of less than 3 months				
Buy USD sell Euro	67,861,837	-	1.3145	-
Buy JPY sell AUD	13,236,327	2,378,374	83.1010	82.0695
Sell Gold buy USD	-	16,408,542	-	1,105.2501
Buy Gold sell USD	-	16,259,933	-	1,095.2400
Buy GBP sell USD	-	9,104,800	-	1.5888
Buy Euro sell USD	-	8,985,900	-	1.4347
Buy USD sell GBP	-	6,910,161	-	1.6050
	81,098,164	60,047,710		

19 Financial instruments at fair value through profit or loss, continued

Derivative financial instruments, continued

	Contract/notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2010	2009	2010	2009
Futures operations - for the period from 3 to 12 months				
Purchase of securities denominated in USD	131,812,331	-	123.4313	-
Sale of securities denominated in USD	59,040,544	-	109.4844	-
Purchase of securities denominated in GBP	27,385,668	-	119.9600	-
	218,238,543	-		
Swap operations - for the period from 3 to 12 months				
Buy KZT sell KRW	-	43,590,127	-	7.8500
	-	43,590,127		
	299,336,707	103,637,837		

20 Reverse repurchase agreements

	2010 KZT'000	2010 KZT'000
Kazakhstan banks:		
- rated BBB	465,807,648	-
- rated BBB-	-	180,915,400
- rated D	-	405,536,322
	465,807,648	586,451,722

As at 31 December 2010 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 417,083,982 thousand (2009: KZT 417,627,858 thousand).

21 Available-for-sale financial assets

	2010 KZT'000	2009 KZT'000
Debt instruments		
Foreign investments		
Government bonds		
US Government Treasury bills	1,211,873,155	700,031,462
German Government Treasury bills	362,323,439	108,108,245
Italian Government Treasury bills	270,377,109	114,583,183
Japanese Government Treasury bills	253,281,738	134,081,105
British Government Treasury bills	242,257,385	137,390,598
French Government bonds	153,264,050	78,707,049
Australian Government Treasury bills	147,907,156	70,959,290
Spanish Government Treasury bills	96,486,585	41,809,327
Netherlands Government Treasury bills	62,438,195	26,686,978
Belgian Government Treasury bills	43,971,312	22,584,327
Austrian Government bonds	10,886,098	4,949,558
Finnish Government bonds	5,051,840	5,535,701
Korean Government Treasury bills	-	50,165,623
Greek Government Treasury bills	-	24,213,976
Portuguese Government Treasury bills	-	8,591,556
Irish Government Bonds	-	2,732,575
Total government bonds	2,860,118,062	1,531,130,553
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	74,783,461	60,114,083
Total investments in debt securities of international governmental and nongovernmental financial institutions	74,783,461	60,114,083
Corporate bonds of international companies		
rated AAA	-	11,265,768
rated AAAe	-	10,106,833
rated AA+/*-	16,140,758	-
rated AA+	-	17,777,543
rated A+	24,058,204	22,765,973
rated B+	225,677	886,827
rated B	9,812,035	10,506,487
rated D	-	16,515,681
not rated	10,463,972	5,603,417
Total corporate bonds of international companies	60,700,646	95,428,529
Impairment allowance	-	(10,126,616)
Total net corporate bonds of international companies	60,700,646	85,301,913
Total foreign investments	2,995,602,169	1,676,546,549

21 Available-for-sale financial assets, continued

	2010 KZT'000	2009 KZT'000
Kazakhstan investments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	146,178,583	121,524,762
Debt securities of Kazakhstan state financial organisations	6,852,188	1,317,011
Total Kazakhstan investments	153,030,771	122,841,773
Total investments in debt instruments	3,148,632,940	1,799,388,322
Equity investments		
corporate shares	1,085,010	2,695
Total equity investments	1,085,010	2,695
Total available-for-sale financial assets	3,149,717,950	1,799,391,017

The entire amount of impairment loss in 2009 relates to defaulted bonds of BTA Bank JSC.

During the year ended 31 December 2009 the NBK identified objective evidence of impairment in respect of these investments. As a result cumulative loss of KZT 10,126,616 thousand previously recognised in other comprehensive income was reclassified to profit or loss. Subsequent further declines in the fair value of these investments were recognised in profit or loss.

As at 31 December 2010 following the restructuring of corporate bonds of BTA Bank JSC and TuranAlem Finance BV, the NBK received new securities that were recognised at fair value. As a result reversal of impairment loss of KZT 2,109,177 thousand was recognised.

Analysis of movements in the impairment allowance

Movements in the impairment allowance on available-for-sale financial assets for the year ended 31 December 2010 are as follows:

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	10,126,616	-
Net (recovery)/charge	(2,109,177)	10,126,616
Write-offs	(8,017,439)	-
Balance at the end of the year	-	10,126,616

22 Investments in associates

The NBK's share of profit in its equity accounted investee for the year was KZT 139,361 thousand (2009: KZT 140,177 thousand). During the year 2009 the NBK incurred losses on disposal of associate of KZT 930,424 thousand.

In 2010 and 2009 the NBK did not receive dividends from its investments in its equity accounted investee.

The following table is the summarized financial information in respect of the associate not corrected for share of the National Bank:

	2010	2009
Share controlled, %	49.79	49.79
	KZT'000	KZT'000
Assets	1,391,484	1,105,523
Liabilities	22,725	16,638
Revenue	775,326	721,118
Profit for the year	279,898	281,536

The reporting date of the associate is 31 December.

23 Property, equipment and intangible assets

KZT'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Intangible assets	Total
<i>Cost/revalued amount</i>							
Balance at 1 January 2010	19,941,650	12,349,118	2,566,698	910,551	899,419	3,078,349	39,745,785
Additions	78	1,963,478	35,191	15,532	1,705,661	223,104	3,943,044
Disposals	(939,946)	(402,704)	(51,264)	(5,921)	(178,324)	(194,556)	(1,772,715)
Transfers	152,207	404,974	8,266	-	(565,447)	-	-
Balance at 31 December 2010	19,153,989	14,314,866	2,558,891	920,162	1,861,309	3,106,897	41,916,114
<i>Depreciation and amortisation</i>							
Balance at 1 January 2010	2,430,308	4,208,662	1,352,575	540,214	-	1,728,482	10,260,241
Depreciation and amortisation for the year	1,044,174	650,867	319,278	57,311	-	453,541	2,525,171
Disposals	(939,760)	(378,693)	(51,065)	(5,921)	-	(188,177)	(1,563,616)
Transfers	-	591	(591)	-	-	-	-
Balance at 31 December 2010	2,534,722	4,481,427	1,620,197	591,604	-	1,993,846	11,221,796
<i>Carrying amount</i>							
At 31 December 2010	16,619,267	9,833,439	938,694	328,558	1,861,309	1,113,051	30,694,318

23 Property, equipment and intangible assets, continued

KZT'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Intangible assets	Total
<i>Cost/revalued amount</i>							
Balance at 1 January 2009	19,962,956	9,915,692	2,602,618	1,010,597	526,899	3,008,736	37,027,498
Additions	339,555	2,589,304	354,417	121	914,182	161,133	4,358,712
Revaluation	(246,936)	-	-	-	-	-	(246,936)
Disposals	(113,925)	(655,095)	(432,477)	(100,472)	-	(91,520)	(1,393,489)
Transfers	-	499,217	42,140	305	(541,662)	-	-
At 31 December 2009	19,941,650	12,349,118	2,566,698	910,551	899,419	3,078,349	39,745,785
<i>Depreciation and amortisation</i>							
Balance at 1 January 2009	1,409,302	4,014,972	1,434,605	570,024	-	1,457,318	8,886,221
Depreciation and amortisation for the year	1,049,671	724,329	296,532	63,868	-	355,038	2,489,438
Disposals	(28,665)	(530,639)	(378,562)	(93,678)	-	(83,874)	(1,115,418)
Balance at 31 December 2009	2,430,308	4,208,662	1,352,575	540,214	-	1,728,482	10,260,241
<i>Carrying amounts</i>							
At 31 December 2009	17,511,342	8,140,456	1,214,123	370,337	899,419	1,349,867	29,485,544
At 1 January 2009	18,553,654	5,900,720	1,168,013	440,573	526,899	1,551,418	28,141,277

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2010 (2009: nil).

23 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2010 property and equipment had not been revalued as based on the analysis made by the management there were no significant differences between the carrying amounts and fair values of the buildings.

The carrying value of property and equipment as at 31 December 2010, had the buildings been carried under the cost model would have been KZT 12,509,643 thousand (31 December 2009: KZT 12,001,528).

The last revaluation was made as at 31 December 2007 by LLP “Company KBS Advisory”, an independent appraiser, with the reference to market approach based on analysis of the results of comparable sales of similar property and equipment.

24 Other assets

	2010 KZT'000	2009 KZT'000
Other receivables	2,994,951	4,113,510
Impairment allowance	(450)	(7,384)
Total other financial assets	2,994,501	4,106,126
Inventories	3,584,505	3,326,227
Refined and non-refined precious metals and stones	146,780	68,747
Prepayments for property and equipment	37,391	118,649
Other	20,918	5,170
Total other non-financial assets	3,789,594	3,518,793
Total other assets	6,784,095	7,624,919

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for the year ended 31 December 2010 are as follows:

	2010 KZT'000	2009 KZT'000
Balance at the beginning of the year	7,384	3,867
Net charge	61,415	539,979
Write-offs	(68,349)	(536,462)
Balance at the end of the year	450	7,384

25 Currency in circulation

	2010 KZT'000	2009 KZT'000
Banknotes and coins in circulation	1,307,354,502	1,048,888,299
Less banknotes and coins on hand and in vaults	(857,901)	(842,776)
	1,306,496,601	1,048,045,523

26 Due to banks and other financial institutions

	2010 KZT'000	2009 KZT'000
Due to foreign banks and other financial institutions		
Current accounts of international financial organisations	83,864,449	85,314,867
Other foreign banks	145,904	146,854
OECD-based banks	30,493	2,700,617
Total due to foreign banks and other financial institutions	84,040,846	88,162,338
Due to Kazakhstan banks and other financial institutions		
Vostro accounts		
Largest 10 Kazakhstan banks	129,250,666	212,139,594
Other Kazakhstan banks	275,681,209	378,356,593
Deposits		
Largest 10 Kazakhstan banks	190,027,750	357,287,164
Other Kazakhstan banks	313,971,093	317,789,772
Total due to Kazakhstan banks and other financial institutions	908,930,718	1,265,573,123
	992,971,564	1,353,735,461

As at 31 December 2010 the National Bank has 4 banks (2009: 7 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 368,317,045 thousand (2009: KZT 866,004,916 thousand).

As at 31 December 2010 current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the "IMF") in the amount of KZT 83,068,755 thousand (31 December 2009: KZT 84,802,173 thousand). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 365,700 thousand).

In 2009 the Republic of Kazakhstan received from the IMF an additional allocation of SDRs in the amount of SDR 343,654 thousand. No assets and liabilities arise at the National bank in respect of this allocation.

27 Current accounts of the National Fund of the Republic of Kazakhstan

Current accounts of the National Fund of the Republic of Kazakhstan equal KZT 123,427,766 thousand as at 31 December 2010 (31 December 2009: KZT 121,589,299 thousand). During 2010 and 2009 the National Bank conducted trust management activities over the assets of the National Fund of the Republic of Kazakhstan. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for deposits of the National Fund of the Republic of Kazakhstan in NBK.

28 Current accounts of the Ministry of Finance of the Republic of Kazakhstan

	2010 KZT'000	2009 KZT'000
In national currency	202,713,646	119,651,784
In foreign currency	756,476	14,846,000
	203,470,122	134,497,784

29 Customer accounts

	2010 KZT'000	2009 KZT'000
In national currency	470,339,164	320,937,307
In foreign currency	70,005	1,236,363
	470,409,169	322,173,670

During 2010 and 2009 the National Bank maintained customer accounts in foreign and national currencies. NBK clients' industry is state management, and NBK subsidiaries clients' industries are financial agency services, insurance and liquidation of banks.

As at 31 December 2010, the National Bank has 1 customer (2009: 1 customer), whose balances exceed 10% of equity. These balances as at 31 December 2010 are KZT 373,028,059 thousand (2009: KZT 266,617,814 thousand).

30 Debt securities issued

As at 31 December 2010 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date dd.mm.yy	Maturity date dd.mm.yy	Effective interest rate
KZW1KM062530	41,321,168	30.07.2010	28.01.2011	1.51
KZW1KM062555	58,560,939	13.08.2010	11.02.2011	1.51
KZW1KM062613	36,421,615	24.09.2010	25.03.2011	1.51
KZW1KD912635	33,042,662	08.10.2010	07.01.2011	1.01
KZW1KD912643	21,245,570	15.10.2010	14.01.2011	1.01
KZW1KM062654	85,314,300	22.10.2010	22.04.2011	1.48
KZW1KD912668	59,241,420	29.10.2010	28.01.2011	1.01
KZW1KM062670	69,258,874	05.11.2010	06.05.2011	1.48
KZW1KD912684	45,368,831	12.11.2010	11.02.2011	1.01
KZW1KM062696	124,917,995	19.11.2010	20.05.2011	1.51
KZW1KD912700	33,652,752	26.11.2010	25.02.2011	1.01
KZW1KD912718	79,250,356	03.12.2010	04.03.2011	1.01
KZW1KD912726	11,577,424	10.12.2010	11.03.2011	1.01
KZW1KD932732	64,591,501	15.12.2010	18.03.2011	0.98
KZW1KD912742	50,594,006	24.12.2010	25.03.2011	0.96
KZW1KM062753	72,064,990	31.12.2010	01.07.2011	1.48
	886,424,403			

30 Debt securities issued, continued

As at 31 December 2009 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date dd.mm.yy	Maturity date dd.mm.yy	Effective interest rate
KZW1KM062035	27,841,368	28.08.2009	26.02.2010	2.97
KZW1KM062076	1,175,842	25.09.2009	26.03.2010	3.07
KZW1KD912098	3,708,165	09.10.2009	08.01.2010	2.52
KZW1KD912106	5,283,367	16.10.2009	15.01.2010	2.56
KZW1KD912114	21,165,396	23.10.2009	22.01.2010	2.56
KZW1KM062126	4,654,509	30.10.2009	30.04.2010	3.03
KZW1KD912130	45,140,356	06.11.2009	05.02.2010	2.56
KZW1KD912148	75,486,325	13.11.2009	12.02.2010	2.44
KZW1KD912155	89,850,396	20.11.2009	19.02.2010	2.36
KZW1KM062167	22,507,335	26.11.2009	28.05.2010	2.85
KZW1KD912171	72,062,371	04.12.2009	05.03.2010	2.04
KZW1KD912189	19,608,144	11.12.2009	12.03.2010	2.04
KZW1KD892191	33,621,859	20.12.2009	19.03.2010	2.04
KZW1KD912205	8,498,594	25.12.2009	26.03.2010	2.04
KZW1KM062217	32,579,922	31.12.2009	02.07.2010	2.61
	463,183,949			

31 Reserves of guarantee funds

As at 31 December 2010 reserves of guarantee funds on deposits of individuals were KZT 52,508,963 thousand (31 December 2009: 33,542,786 thousand).

32 Other liabilities

	2010 KZT'000	2009 KZT'000
Other creditors on non-banking activity	1,507,892	1,877,140
Other creditors on banking activity	303,878	129,789
General and administrative expenses payable	90,383	31,302
Other	201	3,379
Total other financial liabilities	1,902,354	2,041,610
Salaries payable	1,380,045	1,772,254
Tax payable (except for corporate income tax)	301,143	249,900
Other prepayments received	239,131	252,229
Payables on purchase of fixed assets	6,282	2,420
Total other non-financial liabilities	1,926,601	2,276,803
Total other liabilities	3,828,955	4,318,413

33 Share capital and treasury shares

(a) Issued capital

The share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. In accordance with the amendments to the Decree dated 18 December 2000 the share capital shall comprise not less than KZT 20,000,000 thousand formed by appropriations of the net income as well as funding from the republican budget. As at 31 December 2010 and as at 31 December 2009, the share capital of the National Bank amounted to KZT 20,000,000 thousand.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should establish a capital reserve in the amount of not less than its share capital. As at 31 December 2010 and as at 31 December 2009, the capital reserve amounted to KZT 133,331,094 thousand, KZT 114,899,473 thousand, respectively. In addition, the reserve for general banking risks is formed by an annual transfer from retained earnings in the amount of 0.5% of the value of certain assets. As at 31 December 2010 and as at 31 December 2009, reserve for general banking risks amounted to KZT 10,153,302 thousand, KZT 9,091,502 thousand, respectively. These reserves are non-distributable.

(b) Dividends

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the Management Board decreed (decree of the Management Board #69 from 26 July 2010) to distribute the retained earnings of the year 2009 and transfer KZT 18,431,621 thousand for capital reserve replenishment, as well as to transfer KZT 18,431,621 thousand to the state budget with one financial year deferral.

(c) Capital management

Retained earnings are transferred to the share and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one year.

In case if reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank’s disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year the deficiency is compensated by the State budget with a deferral of one year.

34 Analysis by segment

The National Bank’s operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank has significant foreign currency financial assets as part of its Gold and Foreign Currency Assets Management activities. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

35 Risk management

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The management of the NBK has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board, committees, commissions and related working groups review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on Gold and Foreign Currency Assets Management of the NBK ("the Investment Strategy") approved by the Board on October, 27 2006, the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, its purchasing power, and profitability growth.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, foreign assets investment portfolio, absolute profitability portfolio and gold portfolio.

The operations of the NBK's subsidiaries are also exposed to the number of risks, the most significant are those related to market risks. Risk management procedures of subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' Board of Directors and internal control departments.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and stop-loss limits.

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. In accordance with Investment Strategy, Tracking Error limit is 2% for the years ended 31 December 2010 and 2009.

Tracking Error can be used only when investor manages portfolio against the benchmark portfolio on comparative basis.

35 Risk management, continued

(b) Market risk, continued

As at 31 December 2010 and 2009, the benchmark portfolio for investment portfolio of gold and foreign currency assets is a composite index of:

- Merrill Lynch United States Treasuries 1-3 years – 40%;
- Merrill Lynch European Economic and Monetary Union Direct Governments 1-3 years – 35%;
- Merrill Lynch United Kingdom Gilts 1-3 years – 10%;
- Merrill Lynch Japanese Treasuries 1-3 years – 10%; and
- Merrill Lynch Australian Treasuries 1-3 years – 5%.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2010 Book value	Weighted average effective interest rate, %	31 December 2009 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	314,085,582	0.02	263,779,259	0.04
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- USD	118,335,739	0.20	1,166,908,125	0.03
- EUR	10,108,728	0.18	99,590,680	0.04
- JPY	965,110	0.01	-	-
- GBP	552,420	0.15	-	-
- KZT	1,916	1.50	587,963	1.50
- other foreign currency	821,962	2.87	83,938,831	0.03
<i>Deposits</i>				
- GBP	39,962,571	0.60	-	-
- KZT	4,725,598	7.77	4,350,000	10.56
Reverse repurchase agreements				
- KZT	465,807,648	7.00	586,451,722	7.00
Available-for-sale financial assets				
- USD	1,156,303,334	1.23	804,475,986	1.57
- EUR	1,042,895,090	3.42	479,473,947	4.07
- JPY	252,486,669	1.67	134,081,105	1.38
- GBP	239,567,520	4.84	137,390,599	4.93
- KZT	3,912,285	5.68	122,844,468	7.36
- other foreign currency	146,509,297	5.84	121,124,912	4.82

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates, continued

	31 December 2010 Book value	Weighted average effective interest rate, %	31 December 2009 Book value	Weighted average effective interest rate, %
Held-to-maturity investments				
- KZT	-	-	400,000	8.50
Interest bearing liabilities				
Due to banks and other financial institutions				
<i>Term deposits</i>				
- KZT	503,998,843	0.74	675,076,936	0.67
Debt securities issued				
- KZT	886,424,403	1.27	463,183,949	2.40

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel fall	15,617,494	15,617,494	(14,629,557)	(14,629,557)
300 bp parallel rise	(15,617,494)	(15,617,494)	14,629,557	14,629,557

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	-	(189,448,545)	-	(97,762,605)
300 bp parallel fall	-	139,758,656	-	64,500,288

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

35 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

(ii) Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank does not hedge its exposure to currency risk.

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2010 is presented in the table below:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
Assets									
Cash on hand in foreign currency	-	-	12,560,959	263,793	-	-	-	35,089	12,859,841
Gold	-	450,214,406	-	-	-	-	-	-	450,214,406
Placements with banks and other financial institutions	8,961,461	-	605,942,328	12,101,750	4,915,290	83,273,941	42,621,022	22,544,987	780,360,779
Financial instruments at fair value through profit or loss	33,792	-	16,852	-	-	-	-	-	50,644
Reverse repurchase agreements	465,807,648	-	-	-	-	-	-	-	465,807,648
Available-for-sale financial assets	147,606,976	-	1,299,717,792	1,058,946,904	253,281,738	-	242,257,385	147,907,155	3,149,717,950
Held-to-maturity investments	-	-	-	-	-	-	-	-	-
Investments in associates	681,562	-	-	-	-	-	-	-	681,562
Property, equipment and intangible assets	30,694,318	-	-	-	-	-	-	-	30,694,318
Current tax asset	700,386	-	-	-	-	-	-	-	700,386
Deferred tax asset	84,188	-	-	-	-	-	-	-	84,188
Other assets	6,784,095	-	-	-	-	-	-	-	6,784,095
Total assets	661,354,426	450,214,406	1,918,237,931	1,071,312,447	258,197,028	83,273,941	284,878,407	170,487,231	4,897,955,817
LIABILITIES									
Currency in circulation	1,306,496,601	-	-	-	-	-	-	-	1,306,496,601
Due to banks and other financial institutions	856,475,966	-	45,416,046	7,989,629	1,121	83,068,755	19,907	140	992,971,564
Financial instruments at fair value through profit or loss	1,026,983	-	3,197,125	-	-	-	107,296	-	4,331,404
Current accounts of the National Fund of the Republic of Kazakhstan	123,427,766	-	-	-	-	-	-	-	123,427,766
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	202,713,646	-	-	-	-	-	-	756,476	203,470,122
Customer accounts	468,387,444	-	1,863,107	156,651	-	-	369	1,598	470,409,169
Debt securities issued	886,424,403	-	-	-	-	-	-	-	886,424,403
Reserves of guarantee funds	52,508,963	-	-	-	-	-	-	-	52,508,963
Current tax liability	20,506	-	-	-	-	-	-	-	20,506
Deferred tax liability	918,216	-	-	-	-	-	-	-	918,216
Other liabilities	3,828,935	-	20	-	-	-	-	-	3,828,955
Total liabilities	3,902,229,429	-	50,476,298	8,146,280	1,121	83,068,755	127,572	758,214	4,044,807,669
Net balance sheet position	(3,240,875,003)	450,214,406	1,867,761,633	1,063,166,167	258,195,907	205,186	284,750,835	169,729,017	853,148,148
Net balance sheet and off balance sheet positions	(3,240,875,003)	450,214,406	1,867,761,633	1,063,166,167	258,195,907	205,186	284,750,835	169,729,017	853,148,148

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the currency structure of assets and liabilities at 31 December 2009:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
Assets									
Cash on hand in foreign currency	-	-	34,645,095	113,756	-	-	-	28,775	34,787,626
Gold	-	371,258,998	-	-	-	-	-	-	371,258,998
Placements with banks and other financial institutions	9,141,394	-	1,164,424,680	81,750,753	31,685,014	85,011,724	2,022,337	2,824,960	1,376,860,862
Financial instruments at fair value through profit or loss	328,801	-	-	-	-	-	-	891,460	1,220,261
Reverse repurchase agreements	586,451,722	-	-	-	-	-	-	-	586,451,722
Available-for-sale financial assets	122,844,468	-	804,475,986	479,473,947	134,081,105	-	137,390,599	121,124,912	1,799,391,017
Held-to-maturity investments	400,000	-	-	-	-	-	-	-	400,000
Investments in associates	542,201	-	-	-	-	-	-	-	542,201
Property, equipment and intangible assets	29,485,544	-	-	-	-	-	-	-	29,485,544
Current tax asset	29,489	-	-	-	-	-	-	-	29,489
Deferred tax asset	73,211	-	-	-	-	-	-	-	73,211
Other assets	7,624,411	-	129	-	-	-	379	-	7,624,919
Total assets	756,921,241	371,258,998	2,003,545,890	561,338,456	165,766,119	85,011,724	139,413,315	124,870,107	4,208,125,850
LIABILITIES									
Currency in circulation	1,048,045,523	-	-	-	-	-	-	-	1,048,045,523
Due to banks and other financial institutions	1,069,755,500	-	174,598,477	21,756,267	2,823,044	84,802,173	-	-	1,353,735,461
Financial instruments at fair value through profit or loss	2,494,822	-	-	-	-	-	-	-	2,494,822
Current accounts of the National Fund of the Republic of Kazakhstan	121,589,299	-	-	-	-	-	-	-	121,589,299
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	119,651,784	-	14,846,000	-	-	-	-	-	134,497,784
Customer accounts	320,920,298	-	1,034,792	201,196	-	-	5,296	12,088	322,173,670
Debt securities issued	463,183,949	-	-	-	-	-	-	-	463,183,949
Reserves of guarantee funds	33,542,786	-	-	-	-	-	-	-	33,542,786
Current tax liability	900,601	-	-	-	-	-	-	-	900,601
Deferred tax liability	684,581	-	-	-	-	-	-	-	684,581
Other liabilities	4,188,648	-	90,525	22,852	4	-	14,723	1,661	4,318,413
Total liabilities	3,184,957,791	-	190,569,794	21,980,315	2,823,048	84,802,173	20,019	13,749	3,485,166,889
Net balance sheet position	(2,428,036,550)	371,258,998	1,812,976,096	539,358,141	162,943,071	209,551	139,393,296	124,856,358	722,958,961
Net off balance sheet position	43,590,127	-	-	-	-	-	-	(43,590,127)	-
Net balance sheet and off balance sheet positions	(2,384,446,423)	371,258,998	1,812,976,096	539,358,141	162,943,071	209,551	139,393,296	81,266,231	722,958,961

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

Management of the National Bank believes that given the current economic conditions in Kazakhstan that 10% appreciation and 15% depreciation is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% for appreciation and 15% for depreciation in currency rates as at 31 December 2009, respectively.

Appreciation of KZT, as indicated in table below, against following currencies as at 31 December 2010 and 31 December 2009 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	Equity, KZT'000	
	2010	2009
10% appreciation of USD against KZT	186,776,163	181,297,610
15% depreciation of USD against KZT	(280,164,245)	(271,946,414)
10% appreciation of EUR against KZT	106,316,617	53,935,814
15% depreciation of EUR against KZT	(159,474,925)	(80,903,721)
10% appreciation of Troy ounce of gold against KZT	45,021,441	37,125,900
15% depreciation of Troy ounce of gold against KZT	(67,532,161)	(55,688,850)
10% appreciation of GBP against KZT	28,475,084	13,939,329
15% depreciation of GBP against KZT	(42,712,625)	(20,908,994)
10% appreciation of Japanese yen against KZT	25,819,591	16,294,307
15% depreciation of Japanese against KZT	(38,729,386)	(24,441,461)
10% appreciation of SDR against KZT	20,519	20,955
15% depreciation of SDR against KZT	(30,778)	(31,433)
10% appreciation of other currencies against KZT	16,972,902	8,126,623
15% depreciation of other currencies against KZT	(25,459,353)	(12,189,935)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

35 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the National Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

As at 31 December 2010 and 2009 the National Bank was not exposed to price risk.

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks. The National Bank's credit policy is reviewed and approved by the Board.

The National Bank's credit policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the limit of the National Bank's counterparties.

Requests for inclusion in the list of counterparties are received by the National Bank's analysts. Analysts' report on potential counterparty is based on a financial performance and financial position ratios analysis with use of international rating agencies' data. On the basis of this report Investment Committee approves counterparty.

The National Bank analysts conduct daily monitoring of compliance with limits imposed on each individual counterparty. Apart to individual counterpart analysis, the National Bank performs valuation of portfolios in relation to concentration of credit risks.

The National Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

35 Risk management, continued

(c) Credit risk, continued

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2010 KZT'000	2009 KZT'000
ASSETS		
Gold	314,085,582	263,779,259
Placements with banks and other financial institutions	780,360,779	1,376,860,862
Financial instruments at fair value through profit or loss	50,644	1,220,261
Reverse repurchase agreements	465,807,648	586,451,722
Available-for-sale financial assets	3,149,717,950	1,799,391,017
Held-to-maturity investments	-	400,000
Other financial assets	2,994,501	4,106,126
Total maximum exposure	4,713,017,104	4,032,209,247

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

(d) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

35 Risk management, continued

(d) Liquidity risk, continued

The department of Monetary Operations obtains information from the Department of Monetary Operations Accounting related to the liquidity of assets and liabilities and performs analysis of the liquidity position. After this the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold as soon as it possible if required.

According to the Investment Strategy of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the portfolio should not exceed 1 year.
- base currency of the liquidity portfolio is USD.
- the volume of liquidity portfolio should comply with the following parameters:
 - should not fall below USD 1 billion without considering current liabilities
 - should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the 10th working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished through the transfer of assets from the investment portfolio during 5 working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A1 - Standard & Poor's or P1 - Moody's. The maximum term for the deposit should not exceed 1 month.

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

35 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	No maturity	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	910,052,981	-	-	-	83,068,755	993,121,736	992,971,564
Current accounts of the National Fund of the Republic of Kazakhstan	123,427,766	-	-	-	-	123,427,766	123,427,766
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	203,470,122	-	-	-	-	203,470,122	203,470,122
Customer accounts	470,409,169	-	-	-	-	470,409,169	470,409,169
Debt securities issued	154,953,735	380,745,137	280,939,535	72,592,000	-	889,230,407	886,424,403
Other financial liabilities	1,902,354	-	-	-	-	1,902,354	1,902,354
Derivative liabilities							
- Inflow	(81,098,164)	-	-	-	-	(81,098,164)	-
- Outflow	82,120,320	3,287,566	-	-	-	85,407,886	4,331,404
Total liabilities	1,865,238,283	384,032,703	280,939,535	72,592,000	83,068,755	2,685,871,276	2,682,936,782

35 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	No maturity	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	1,268,960,377	-	-	-	84,802,173	1,353,762,550	1,353,735,461
Current accounts of the National Fund of the Republic of Kazakhstan	121,589,299	-	-	-	-	121,589,299	121,589,299
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	134,497,784	-	-	-	-	134,497,784	134,497,784
Customer accounts	322,173,670	-	-	-	-	322,173,670	322,173,670
Debt securities issued	30,195,190	374,527,227	27,465,055	33,000,000	-	465,187,472	463,183,949
Other financial liabilities	2,041,610	-	-	-	-	2,041,610	2,041,610
Derivative liabilities							
- Inflow	(60,177,761)	-	-	-	-	(60,177,761)	-
- Outflow	59,909,565	-	-	72,360	-	59,981,925	2,494,822
Total	1,879,189,734	374,527,227	27,465,055	33,072,360	84,802,173	2,399,056,549	2,399,716,595

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

35 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2010:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash on hand in foreign currency	12,859,841	-	-	-	-	-	12,859,841
Gold	164,836,779	127,612,177	21,636,626	-	-	136,128,824	450,214,406
Placements with banks and other financial institutions	693,792,024	1,150,000	2,350,000	-	-	83,068,755	780,360,779
Financial instruments at fair value through profit or loss	33,792	16,852	-	-	-	-	50,644
Reverse repurchase agreements	465,807,648	-	-	-	-	-	465,807,648
Available-for-sale financial assets	27,238,027	92,841,322	376,389,866	2,379,555,661	273,276,652	416,422	3,149,717,950
Investments in associates	-	-	-	-	-	681,562	681,562
Other financial assets	2,994,501	-	-	-	-	-	2,994,501
Total assets	1,367,562,612	221,620,351	400,376,492	2,379,555,661	273,276,652	220,295,563	4,862,687,331
Liabilities							
Currency in circulation	-	-	-	-	-	1,306,496,601	1,306,496,601
Due to banks and other financial institutions	909,902,809	-	-	-	-	83,068,755	992,971,564
Financial instruments at fair value through profit or loss	3,304,421	1,026,983	-	-	-	-	4,331,404
Current accounts of the National Fund of the Republic of Kazakhstan	123,427,766	-	-	-	-	-	123,427,766
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	203,470,122	-	-	-	-	-	203,470,122
Customer accounts	470,409,169	-	-	-	-	-	470,409,169
Debt securities issued	154,849,368	380,014,482	351,560,553	-	-	-	886,424,403
Reserves of guarantee funds	52,508,963	-	-	-	-	-	52,508,963
Other financial liabilities	1,902,354	-	-	-	-	-	1,902,354
Total liabilities	1,919,774,972	381,041,465	351,560,553	-	-	1,389,565,356	4,041,942,346
Net position	(552,212,360)	(159,421,114)	48,815,939	2,379,555,661	273,276,652	(1,169,269,793)	820,744,985

35 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2009:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Assets							
Cash on hand in foreign currency	34,787,626	-	-	-	-	-	34,787,626
Gold	313,947,971	57,311,027	-	-	-	-	371,258,998
Placements with banks and other financial institutions	1,287,708,689	-	4,350,000	-	-	84,802,173	1,376,860,862
Financial instruments at fair value through profit or loss	328,801	-	891,460	-	-	-	1,220,261
Reverse repurchase agreements	586,451,722	-	-	-	-	-	586,451,722
Available-for-sale financial assets	310,961,978	62,381,356	173,530,637	1,202,486,207	50,030,839	-	1,799,391,017
Held-to-maturity investments	-	400,000	-	-	-	-	400,000
Investments in associates	-	-	-	-	-	542,201	542,201
Other financial assets	4,106,126	-	-	-	-	-	4,106,126
Total assets	2,538,292,913	120,092,383	178,772,097	1,202,486,207	50,030,839	85,344,374	4,175,018,813
Liabilities							
Currency in circulation	-	-	-	-	-	1,048,045,523	1,048,045,523
Due to banks and other financial institutions	1,268,933,288	-	-	-	-	84,802,173	1,353,735,461
Financial instruments at fair value through profit or loss	59,142	-	2,435,680	-	-	-	2,494,822
Current accounts of the National Fund of the Republic of Kazakhstan	121,589,299	-	-	-	-	-	121,589,299
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	134,497,784	-	-	-	-	-	134,497,784
Customer accounts	322,173,670	-	-	-	-	-	322,173,670
Debt securities issued	29,274,702	374,167,479	59,741,768	-	-	-	463,183,949
Reserves of guarantee funds	33,542,786	-	-	-	-	-	33,542,786
Other financial liabilities	2,041,610	-	-	-	-	-	2,041,610
Total liabilities	1,912,112,281	374,167,479	62,177,448	-	-	1,132,847,696	3,481,304,904
Net position	626,180,632	(254,075,096)	116,594,649	1,202,486,207	50,030,839	(1,047,503,322)	693,713,909

36 Commitments

The National Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The National Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The National Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2010 KZT'000	2009 KZT'000
Contracted amount		
Loan and credit line commitments	96,947	98,449
Guarantees and letters of credit	-	2,495
	96,947	100,944

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

37 Contingencies

(a) Insurance

The insurance industry in the Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The National Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the National Bank.

37 Contingencies, continued

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

38 Funds management, trust and custody activities

(a) Funds management and trust activities

The National Bank provides trust services to trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2010 and 2009 total amount of assets that National Bank holds and manages for its clients is KZT 446,011,091 thousand and KZT 1,535,720,515 thousand, respectively.

As at 31 December 2010 and 2009 total amount of assets that National Bank holds and manages for the National Fund of the Republic of Kazakhstan is KZT 5,098,527,845 thousand and KZT 4,009,528,878 thousand, respectively. A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

(b) Custody activities

The National Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the National Bank and are not recognised in the consolidated statement of financial position.

39 Related party transactions

(a) Transactions with the members of the Board of Directors and the Management Board

The remuneration to the members of the National Bank's Management Board and the Board of Directors for the years ended 31 December 2010 and 2009 comprised KZT 374,551 thousand and KZT 274,912, respectively. The remuneration consists of salary and other payments.

39 Related party transactions, continued

(b) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows.

	Associates		State companies and organisations		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position					
ASSETS					
Placements with banks and other financial institutions	-	-	635,195	-	635,195
Reverse repurchase agreements	-	-	465,807,648	7.00	465,807,648
Available-for-sale financial assets	-	-	154,083,684	6.65	154,083,684
Investments in associates	681,562	-	-	-	681,562
Property, equipment and intangible assets	-	-	2,760	-	2,760
Current tax asset	-	-	700,386	-	700,386
Deferred tax asset	-	-	84,188	-	84,188
Other assets	1,578	-	1,840,214	-	1,841,792
LIABILITIES					
Due to banks and other financial institutions	-	-	179,408,784	0.88	179,408,784
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	123,427,766	-	123,427,766
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	203,470,122	-	203,470,122
Customer accounts	101	-	470,331,907	-	470,332,008
Debt securities issued	-	-	36,499,902	-	36,499,902
Current tax liability	-	-	20,506	-	20,506
Deferred tax liability	-	-	918,216	-	918,216
Other liabilities	-	-	903,296	-	903,296
Consolidated income statement					
Interest income	-		49,180,184		49,180,184
Interest expense	-		(1,444,686)		(1,444,686)
Fee and commission income	10,138		2,405,649		2,415,787

39 Related party transactions, continued

(b) Transactions with other related parties, continued

	Associates		State companies and organisations		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
Fee and commission expense	(482)		(322,574)		(323,056)
Net gain on available-for-sale financial assets	-		1,416		1,416
Gain from associates	139,361		-		139,361
Other operating income	4,835		2,509,105		2,513,940
Banknotes and coins production expenses	-		(24,035)		(24,035)
Funding of third parties	-		(2,520,167)		(2,520,167)
Personnel expenses	-		(716,194)		(716,194)
Other general administrative expenses	392		(976,490)		(976,098)

The outstanding balances and the related average interest rates as at 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with other related parties are as follows.

	Associates		Other		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position					
ASSETS					
Placements with banks and other financial institutions	-	-	4,203,391	-	4,203,391
Reverse repurchase agreements	-	-	586,451,722	7.00	586,451,722
Available-for-sale financial assets	-	-	129,230,839	6.95	129,230,839
Held-to-maturity investments	-	-	400,000	8.50	400,000
Investments in associates	542,201	-	-	-	542,201
Current tax asset	-	-	29,489	-	29,489
Deferred tax asset	-	-	73,211	-	73,211
Other assets	1,001	-	970,988	-	971,989
LIABILITIES					
Due to banks and other financial institutions	-	-	304,162,814	0.40	304,162,814
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	121,589,299	-	121,589,299

39 Related party transactions, continued

(b) Transactions with other related parties, continued

	Associates		Other		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	134,497,784	-	134,497,784
Customer accounts	14	-	292,438,430	-	292,438,444
Debt securities issued	603,502	-	14,103,486	-	14,706,988
Current tax liability	-	-	900,601	-	900,601
Deferred tax liability	-	-	684,581	-	684,581
Other liabilities	-	-	4,183,125	-	4,183,125
Consolidated income statement					
Interest income	-		42,703,139		42,703,139
Interest expense	(3,283)		(298,783)		(302,066)
Fee and commission income	95,669		3,074,750		3,170,419
Fee and commission expense	(116,007)		(249,706)		(365,713)
Net gain on available-for- sale financial assets	-		63,193		63,193
Loss from associates	(790,247)		-		(790,247)
Other operating income	64		1,094,660		1,094,724
Banknotes and coins production expenses	-		(18,688)		(18,688)
Funding of third parties	-		(2,631,327)		(2,631,327)
Personnel expenses	-		(50,712)		(50,712)
Other general administrative expenses	350		(868,356)		(868,006)

40 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

KZT'000	Designated at fair value	Loans and receivables	Available-for- sale	Other amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	12,859,841	-	-	12,859,841	12,859,841
Gold	-	450,214,406	-	-	450,214,406	450,214,406
Placements with banks and other financial institutions	-	780,360,779	-	-	780,360,779	780,360,779
Financial instruments at fair value through profit or loss	50,644	-	-	-	50,644	50,644
Reverse repurchase agreements	-	465,807,648	-	-	465,807,648	465,807,648
Available-for-sale financial assets	-	-	3,149,717,950	-	3,149,717,950	3,149,717,950
Investments in associates	-	681,562	-	-	681,562	681,562
Other financial assets	-	2,994,501	-	-	2,994,501	2,994,501
	50,644	1,712,918,737	3,149,717,950	-	4,862,687,331	4,862,687,331
Currency in circulation	-	-	-	1,306,496,601	1,306,496,601	1,306,496,601
Due to banks and other financial institutions	-	-	-	992,971,564	992,971,564	992,971,564
Financial instruments at fair value through profit or loss	4,331,404	-	-	-	4,331,404	4,331,404
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	123,427,766	123,427,766	123,427,766
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	203,470,122	203,470,122	203,470,122
Customer accounts	-	-	-	470,409,169	470,409,169	470,409,169
Debt securities issued	-	-	-	886,424,403	886,424,403	887,259,610
Reserves of guarantee funds	-	-	-	52,508,963	52,508,963	52,508,963
Other financial liabilities	-	-	-	1,902,354	1,902,354	1,902,354
	4,331,404	-	-	4,037,610,942	4,041,942,346	4,042,777,553

40 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2009:

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available-for- sale	Other amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	34,787,626	-	-	34,787,626	34,787,626
Gold	-	-	371,258,998	-	-	371,258,998	371,258,998
Placements with banks and other financial institutions	-	-	1,376,860,862	-	-	1,376,860,862	1,376,860,862
Financial instruments at fair value through profit or loss	1,220,261	-	-	-	-	1,220,261	1,220,261
Reverse repurchase agreements	-	-	586,451,722	-	-	586,451,722	586,451,722
Available-for-sale financial assets	-	-	-	1,799,391,017	-	1,799,391,017	1,799,391,017
Held-to-maturity investments	-	400,000	-	-	-	400,000	407,490
Investments in associates	-	-	542,201	-	-	542,201	542,201
Other financial assets	-	-	4,106,126	-	-	4,106,126	4,106,126
	1,220,261	400,000	2,374,007,535	1,799,391,017	-	4,175,018,813	4,175,026,303
Currency in circulation	-	-	-	-	1,048,045,523	1,048,045,523	1,048,045,523
Due to banks and other financial institutions	-	-	-	-	1,353,735,461	1,353,735,461	1,353,735,461
Financial instruments at fair value through profit or loss	2,494,822	-	-	-	-	2,494,822	2,494,822
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	121,589,299	121,589,299	121,589,299
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	134,497,784	134,497,784	134,497,784
Customer accounts	-	-	-	-	322,173,670	322,173,670	322,173,670
Debt securities issued	-	-	-	-	463,183,949	463,183,949	463,240,061
Reserves of guarantee funds	-	-	-	-	33,542,786	33,542,786	33,542,786
Other financial liabilities	-	-	-	-	2,041,610	2,041,610	2,041,610
	2,494,822	-	-	-	3,478,810,082	3,481,304,904	3,481,361,016

40 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(b) Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	50,644	50,644
- Derivative liabilities	-	(4,331,404)	(4,331,404)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,934,565,835	214,067,105	3,148,632,940
- Equity investments	-	1,085,010	1,085,010
	2,934,565,835	210,871,355	3,145,437,190

The table below analyses financial instruments measured at fair value at 31 December 2009, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	1,220,261	1,220,261
- Derivative liabilities	-	(2,494,822)	(2,494,822)
Available-for-sale financial assets			
- Debt and other fixed income instruments	1,606,310,824	193,077,498	1,799,388,322
- Equity investments	-	2,695	2,695
	1,606,310,824	191,805,632	1,798,116,456