**JSC SB “KZI Bank”**

Financial Statements

for the year ended 31 December 2009

## Contents

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## Independent Auditors' Report

To the Board of Directors and Management of JSC SB "KZI Bank"

We have audited the accompanying financial statements of JSC SB "KZI Bank" ("the Bank"), which comprise the balance sheet as at 31 December 2009, the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

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

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

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

*Opinion*

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

*Other Matter*

The financial statements of the Bank as at and for the year ended 31 December 2008 were audited by other auditors whose report dated 16 March 2009 expressed an 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

29 March 2010

| | Note | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|---|
| Interest income | 4 | 608,366 | 667,357 |
| Interest expense | 4 | (58,717) | (29,305) |
| **Net interest income** | | **549,649** | **638,052** |
| Fee and commission income | 5 | 287,961 | 241,312 |
| Fee and commission expense | 6 | (12,395) | (10,078) |
| **Net fee and commission income** | | **275,566** | **231,234** |
| Net foreign exchange income | | 54,703 | 98,048 |
| Other operating income | 7 | 4,460 | 1,244 |
| **Operating income** | | **884,378** | **968,578** |
| Impairment losses | 8 | (232,838) | (510,986) |
| General administrative expenses | 9 | (572,582) | (487,209) |
| **Profit/(loss) before taxes** | | **78,958** | **(29,617)** |
| Income tax benefit/(expense) | 10 | 44,767 | (4,072) |
| **Profit/(loss) and total comprehensive income** | | **123,725** | **(33,689)** |
| **Other comprehensive income** | | | |
| Revaluation of property and equipment, net of tax | | 32,944 | - |
| **Other comprehensive income, net of tax** | | **32,944** | **-** |
| **Total comprehensive income** | | **156,669** | **(33,689)** |

The financial statements as set out on pages 5 to 44 were approved by Board of Directors on 29 March 2010.

Ahmet Eroglu
*General Manager*

Raziya Bekeyeva
*Chief Accountant*

The statement of income and comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

| | Note | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | 909,435 | 384,959 |
| Due from the National Bank of the Republic of Kazakhstan | 11 | 1,528,119 | 383,704 |
| Placements with banks | 12 | 1,227,656 | 318,927 |
| Loans to customers | 13 | 3,497,810 | 3,980,027 |
| Held-to-maturity investments | 14 | 2,486,057 | 198,111 |
| Available-for-sale assets | 15 | 7,001 | 7,001 |
| Property, equipment and intangible assets | 16 | 717,457 | 726,633 |
| Current tax assets | | 69,186 | 76,817 |
| Other assets | 17 | 512,828 | 190,706 |
| **Total assets** | | **10,955,549** | **6,266,885** |
| **LIABILITIES** | | | |
| Deposits and balances from banks | 18 | 1,548 | 1,818 |
| Current accounts and deposits from customers | 19 | 5,234,249 | 3,217,575 |
| Deferred tax liabilities | 10 | 51,916 | 110,617 |
| Other liabilities | 20 | 9,955 | 14,411 |
| **Total liabilities** | | **5,297,668** | **3,344,421** |
| **EQUITY** | | | |
| Share capital | 21 | 5,010,000 | 2,066,287 |
| Reserve for general banking risks | | 169,045 | 547,079 |
| Revaluation reserve for property and equipment | | 247,297 | 214,353 |
| Retained earnings | | 231,539 | 94,745 |
| **Total equity** | | **5,657,881** | **2,922,464** |
| **Total liabilities and equity** | | **10,955,549** | **6,266,885** |

| | | | |
|---|---|---|---|
| Commitments and Contingencies | 24, 25 | | |

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest receipts | 608,908 | 669,907 |
| Interest payments | (58,829) | (29,250) |
| Fee and commission receipts | 287,970 | 233,358 |
| Fee and commission payments | (12,395) | (10,078) |
| Net receipts from foreign exchange | (31,599) | 129,005 |
| Other income | - | 1,244 |
| General administrative expenses | (454,365) | (438,950) |
| **(Increase)/decrease in operating assets** | | |
| Obligatory reserves | (19,734) | 510,040 |
| Loans to customers | 245,225 | (595,031) |
| Other assets | (356,965) | (113,938) |
| **(Decrease)/increase in operating liabilities** | | |
| Deposits and balances from banks | (270) | (180,055) |
| Current accounts and deposits from customers | 1,961,035 | (2,649,340) |
| Other liabilities | (7,379) | 1,508 |
| **Net cash provided from/(used in) operating activities before income tax paid** | **2,161,602** | **(2,471,580)** |
| Income tax paid | (14,539) | (76,817) |
| **Cash flows from/(used in) operations** | **2,147,063** | **(2,548,397)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of held-to-maturity investments | (8,851,561) | (4,275,150) |
| Redemption of held-to-maturity investments | 6,571,671 | 5,780,203 |
| Purchases of property, equipment and intingible assets | (36,746) | (52,905) |
| Sales of property and equipment | 6,770 | - |
| **Cash flows (used in)/from investing activities** | **(2,309,866)** | **1,452,148** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of share capital | 2,578,748 | - |
| **Cash flows from financing activities** | **2,578,748** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | **2,415,945** | **(1,096,249)** |
| Effect of changes in exchange rates on cash and cash equivalents | 141,941 | (648,447) |
| Cash and cash equivalents as at the beginning of the year | 1,014,559 | 2,759,255 |
| **Cash and cash equivalents as at the end of the year** (Note 27) | **3,572,445** | **1,014,559** |

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

| | Share capital | Reserve for general banking risks | Revaluation seserve for property and equipment | Retained earnings | Total |
|---|---|---|---|---|---|
| | '000 KZT | '000 KZT | '000 KZT | '000 KZT | '000 KZT |
| **Balance as at 1 January 2008** | 2,066,287 | 281,804 | 214,353 | 393,709 | 2,956,153 |
| Loss and total comprehensive income for the year | - | - | - | (33,689) | (33,689) |
| Transfer | - | 265,275 | - | (265,275) | - |
| **Balance as at 31 December 2008** | **2,066,287** | **547,079** | **214,353** | **94,745** | **2,922,464** |
| **Balance as at 1 January 2009** | 2,066,287 | 547,079 | 214,353 | 94,745 | 2,922,464 |
| **Total comprehensive income** | | | | | |
| Profit for the year | - | - | - | 123,725 | 123,725 |
| Revaluation of property and equipment, net of deferred tax | - | - | 32,944 | - | 32,944 |
| Total other comprehensive income | - | - | 32,944 | - | 32,944 |
| **Total comprehensive income** | - | - | **32,944** | **123,725** | **156,669** |
| Shares issued (Note 21) | 2,943,713 | (364,965) | - | - | 2,578,748 |
| Transfer | - | (13,069) | - | 13,069 | - |
| **Balance as at 31 December 2009** | **5,010,000** | **169,045** | **247,297** | **231,539** | **5,657,881** |

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

# 1 Background

## (a) Principal activities

JSC Subsidiary Bank “KZI Bank” (“the Bank”) was established in the Republic of Kazakhstan as a closed joint-stock company in 1993 under the laws of the Republic of Kazakhstan. On 31 January 2005 the Bank was re-registered as a joint-stock company in accordance with the legislation of the Republic of Kazakhstan.

The bank is regulated by the National Bank of the Republic of Kazakhstan (“the NBRK”) and the Agency of the Republic of Kazakhstan on regulation and supervision of financial markets and financial organisations (the “FMSA”) under the license #163 dated 29 December 2007.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

The registered office of the Bank is located at 132, Klochkova street, Almaty, Republic of Kazakhstan.

As at 31 December 2009, the Bank has 2 branches: in Astana and Shymkent, Republic of Kazakhstan.

## (b) Shareholders

The Bank’s major shareholder is T.C. Ziraat Bankasi A.S. (“the Shareholder” or “the Parent Bank”) located in Turkey, Ankara. The activities of the Bank are closely linked with the requirements of the Shareholder and determination of the pricing of the Bank’s services to the Parent Bank is undertaken in conjunction with other Shareholder banks. Related party transactions are detailed in Note 26.

The following shareholders owned the issued shares of the Bank:

| **Shareholders** | **31 December 2009, %** | **31 December 2008, %** |
|---|---|---|
| T.C. Ziraat Bankasi A.S. | 97.33 | 93.89 |
| Basak Groupama Sigorta A.S. | 1.04 | 2.15 |
| T. Emlak Bankasi A.S. Munsam Sosyal Guvenlik Ve Yardim Yakfi | 0.62 | 1.28 |
| Licorne Gestion | 0.27 | - |
| Emlak Pazarlama Proje Yonetim ve Servisi A.S. | 0.74 | 1.52 |
| Bankacilik Duzenleme ve Denetleme Kurumu | - | 0.61 |
| Worms Bank-Tour Voltaire | - | 0.55 |
| **Total** | **100.00** | **100.00** |

## (c) Kazakhstan business environment

The Republic of Kazakhstan is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Republic of Kazakhstan involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

# 2 Basis of preparation

### (a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

### (b) Basis of measurement

The financial statements are prepared on the historical cost basis except that land and buildings are stated at revalued amounts.

### (c) Functional and presentation Currency

The functional currency of the 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 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 financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Note 13 – loan impairment estimates;
- Note 16 – land and buildings revaluation estimates.

# 3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

### (a) Foreign currency transactions

Transactions in foreign currency are translated to KZT at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in 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.

### (b) Cash and cash equivalents

The Bank considers cash, the correspondent account with the NBRK, the deposits with the NBRK with original maturities of less than three months and nostro accounts with other banks to be cash and cash equivalents. The minimum reserve requirement is not considered to be a cash equivalent due to restrictions on its withdrawability.

# 3 Significant accounting policies, continued

## (c) 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;
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated 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.

*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 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 Bank has the positive intention and ability to hold to maturity, other than those that:

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

*Available-for-sale assets* are those 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 statement of the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(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.

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. Amortised cost is calculated using the effective interest rate method. 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. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

### *(iv) Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

### *(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;

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(v) Gains and losses on subsequent measurement, continued*

- a gain or loss on an available-for-sale 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 asset is recognised as earned 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) Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized 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.

### *(vii) Derecognition*

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### *(viii) Offsetting*

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

## (d) Property and equipment

### *(i) Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and 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.

# 3 Significant accounting policies, continued

## (d) Property and equipment, continued

### *(i) Owned assets, continued*

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and 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 an item of land or buildings 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.

### *(ii) Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives 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 | up to 50 years |
| Computers | 2 to 3 years |
| Other | 4 to 10 years |

## (e) Intangible assets

Intangible assets that are acquired by the Bank 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 life of intangible assets is 7 years.

## (f) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## (g) Impairment

### *(i) Financial assets carried at amortised cost*

Financial assets carried at amortised cost consist principally of loans, held-to-maturity investments and other receivables. The 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.

# 3 Significant accounting policies, continued

## (g) Impairment, continued

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

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 by the Bank on terms that the 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 Bank, or economic conditions that correlate with defaults in the group.

The 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 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 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 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.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The 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 assets that are not carried at fair value because their fair value can not 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 recognized in profit or loss and can not be reversed.

# 3 Significant accounting policies, continued

## (g) Impairment, continued

### *(iii) Non-financial assets*

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. 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.

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.

## (h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

## (i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

***Dividends***

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Kazakh legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

## (j) Taxation

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.

# 3 Significant accounting policies, continued

## (j) Taxation, continued

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 provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at 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.

## (k) Income and expense recognition

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

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

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

## (l) Changes in accounting policy

Starting from 1 January 2009 the Bank adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of income and comprehensive income that also includes all non-owner changes in equity, such as the revaluation of property and equipment.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

## (m) 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 2009*, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank’s operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these new standards on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods 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.

# 3 Significant accounting policies, continued

## (m) New Standards and Interpretations not yet adopted, continued

- 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 Bank 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 financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

# 4 Net interest income

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 570,770 | 612,890 |
| Held-to-maturity investments | 35,521 | 44,971 |
| Amounts receivable under reverse repurchase agreements | 1,166 | - |
| Placements with banks | 909 | 9,496 |
| | **608,366** | **667,357** |
| **Interest expense** | | |
| Current accounts and deposits from customers | (52,625) | (24,570) |
| Deposits and balances from banks | (6,021) | (634) |
| Amounts receivable under repurchase agreements | (71) | (4,101) |
| | **(58,717)** | **(29,305)** |

# 5 Fee and commission income

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| Settlement operations | 147,894 | 134,590 |
| Cash withdrawals | 84,273 | 62,523 |
| Guarantee and letter of credit issuance | 35,933 | 33,181 |
| Remittance services | 5,484 | 1,739 |
| Safe operations | 3,873 | 2,630 |
| Other | 10,504 | 6,649 |
| | **287,961** | **241,312** |

# 6 Fee and commission expense

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Settlement | 9,628 | 8,179 |
| Other | 2,767 | 1,899 |
| | **12,395** | **10,078** |

# 7 Other operating income

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Net gain from sale of property and equipment | 1,905 | - |
| Other | 2,555 | 1,244 |
| | **4,460** | **1,244** |

# 8 Impairment losses

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Loans to customers | 228,384 | 511,007 |
| Other assets | 4,454 | (21) |
| | **232,838** | **510,986** |

# 9 General administrative expenses

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Wages, salaries and related taxes | 330,880 | 260,824 |
| Depreciation and amortisation | 38,517 | 40,360 |
| Taxes other than on income | 37,457 | 18,348 |
| Security | 32,509 | 29,580 |
| Communications and information services | 25,929 | 27,213 |
| Professional services | 18,202 | 24,948 |
| Repairs and maintenance | 18,127 | 15,783 |
| Insurance | 9,392 | 5,319 |
| Membership fees | 7,480 | 6,817 |
| Rent | 7,047 | 8,537 |
| Representation | 6,473 | 6,645 |
| Money collection | 4,893 | 3,526 |
| Business trips | 4,347 | 6,798 |
| Transportation | 4,264 | 3,970 |
| Advertising and marketing | 3,902 | 1,305 |
| Office supplies | 3,770 | 4,411 |
| Training | 2,629 | 2,296 |
| Other | 16,764 | 20,529 |
| | **572,582** | **487,209** |

# 10 Income tax (benefit)/expense

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| **Current tax expense** | | |
| Current year | 11,718 | - |
| Underprovided in prior years | 10,452 | - |
| | **22,170** | **-** |
| **Deferred tax (benefit)/expense** | | |
| Origination and reversal of temporary differences | (66,937) | 4,072 |
| **Total income tax (benefit)/expense** | **(44,767)** | **4,072** |

The applicable tax rate for current tax is 20% (2008: 30%).

During the year ended 31 December 2009 the Bank revised its tax returns for 2005-2008 years and additional income taxes were accrued due to the reduction of tax-deductable expenses on loan loss provisions on loans to customers.

### Reconciliation of effective tax rate:

| | 2009 '000 KZT | % | 2008 '000 KZT | % |
|---|---|---|---|---|
| **Profit/(loss) before taxes** | **78,958** | **100.00** | **(29,617)** | **100.00** |
| Income tax (benefit)/expenses at the applicable tax rate | 15,791 | 20.00 | (8,885) | 30.00 |
| Non-taxable income | (7,451) | (9.40) | (5,782) | 19.52 |
| Underprovided in prior years | 10,452 | 13.24 | - | - |
| Error in prior year estimation of deferred tax | (63,559) | (80.50) | - | - |
| Change in tax rate | - | - | 18,739 | (63.27) |
| | **(44,767)** | **(56.70)** | **4,072** | **(13.75)** |

### Deferred tax asset and liability

The Bank's applicable tax rate in 2009 is the income tax rate of 20% for Kazakhstan companies (2008: 30%). With effect from 1 January 2009, the income tax rate for Kazakhstan companies is reduced to 20% in 2009, 17.5% in 2010 and 15% in 2011. These rates were announced by the Government in 2008 and were used in the calculation of deferred tax assets and liabilities as at 31 December 2008. During 2009 the Government postponed the reduction in the income tax rate for 2010. In accordance with the changes the income tax rate will remain at 20% for 2010 - 2012 and will be decreased to 17.5% for 2013 and to 15% for later years. These rates are used in the calculation of deferred tax assets and liabilities as at 31 December 2009.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2009 and 2008.

## 10 Income tax (benefit)/expense, continued

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows:

| ’000 KZT | Balance 1 January 2009 | Recognised in profit or loss | Recognised in equity | Balance 31 December 2009 |
|---|---|---|---|---|
| Property, equipment and intangible assets | 115,944 | (85,642) | 8,236 | 38,538 |
| Loans to customers | - | 14,238 | - | 14,238 |
| Other liabilities | (5,327) | 4,467 | - | (860) |
| | **110,617** | **(66,937)** | **8,236** | **51,916** |

| | Balance 1 January 2008 | Recognised in profit or loss | Balance 31 December 2008 |
|---|---|---|---|
| Property, equipment and intangible assets | 109,656 | 6,288 | 115,944 |
| Loans to customers | 431 | (431) | - |
| Other liabilities | (3,542) | (1,785) | (5,327) |
| | **106,545** | **4,072** | **110,617** |

## 11 Due from the National Bank of the Republic of Kazakhstan

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Nostro account | 724,956 | 119 |
| Time deposit | 803,163 | 383,585 |
| | **1,528,119** | **383,704** |

## 12 Placements with banks

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Nostro account with other banks | | |
| - with rating from AA- to AA+ | 2,072 | - |
| - with rating from A- to A+ | 1,186,663 | 280,126 |
| - with rating BBB | 5,237 | 8,306 |
| - with rating from BB- to BB+ | 13,306 | 30,495 |
| - with rating from B- to B+ | 20,378 | - |
| | **1,227,656** | **318,927** |

Financial assets are graded according to the current credit ratings that have been issued by Standard and Poor’s Rating Agency. The highest possible rating is AAA.

**Concentration of placements with banks**

As at 31 December 2009 and 2008 the Bank has one and three banks, respectively, whose balances exceeded 10% of total placements with banks. The gross value of these balances as of 31 December 2009 and 2008 are KZT 1,150,638 thousand and KZT 302,118 thousand, respectively.

# 13 Loans to customers

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| **Loans to legal entities** | | |
| Loans to large corporates | 150,152 | - |
| Loans to small and medium size companies | 2,091,925 | 2,471,383 |
| **Total loans to legal entities** | **2,242,077** | **2,471,383** |
| | | |
| **Loans to individuals** | | |
| Consumer loans | 1,065,104 | 1,195,805 |
| Mortgage loans | 461,630 | 422,528 |
| Auto loans | 23,503 | 43,026 |
| Other | 447,982 | 370,879 |
| **Total loans to individuals** | **1,998,219** | **2,032,238** |
| | | |
| **Gross loans to customers** | **4,240,296** | **4,503,621** |
| Impairment allowance | (742,486) | (523,594) |
| **Net loans to customers** | **3,497,810** | **3,980,027** |

Movements in the loan impairment allowance for the year ended 31 December are as follows:

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| Balance at the beginning of the year | 523,594 | 17,159 |
| Net charge for the year | 228,384 | 511,007 |
| Recovery | - | 2,750 |
| Write-offs | (55,509) | - |
| Effect of foreign currency translation | 46,017 | (7,322) |
| **Balance at the end of the year** | **742,486** | **523,594** |

As at 31 December 2009, interest accrued on impaired loans amount to KZT 18,762 thousand (2008: KZT 17,777 thousand).

# 13 Loans to customers, continued

## (a) Credit quality of the loans to legal entities portfolio

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2009:

| | Gross loans '000 KZT | Impairment '000 KZT | Net loans '000 KZT | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to large corporates** | | | | |
| Loans without individual signs of impairment | 61,040 | (2,693) | 58,347 | 4.4 |
| Impaired loans: | | | | |
| - not overdue | - | - | - | - |
| - overdue less than 90 days | 89,112 | (89,112) | - | 100.0 |
| Total impaired loans | 89,112 | (89,112) | - | 100.0 |
| **Total loans to large corporates** | **150,152** | **(91,805)** | **58,347** | **61.1** |
| **Loans to small and medium size companies** | | | | |
| Loans without individual signs of impairment | 1,526,536 | (67,377) | 1,459,159 | 4.4 |
| Impaired loans: | | | | |
| - not overdue | 131,897 | (24,279) | 107,618 | 18.4 |
| - overdue less than 90 days | 166,764 | (108,539) | 58,225 | 65.1 |
| - overdue more than 90 days and less than 1 year | 124,346 | (33,505) | 90,841 | 26.9 |
| - overdue more than 1 year | 142,382 | (19,245) | 123,137 | 13.5 |
| Total impaired loans | 565,389 | (185,568) | 379,821 | 32.8 |
| **Total loans to small and medium size companies** | 2,091,925 | (252,945) | 1,838,980 | 12.1 |
| **Total loans to legal entities** | **2,242,077** | **(344,750)** | **1,897,327** | **15.4** |

During the year ended 31 December 2009 the Bank renegotiated loans to legal entities that would otherwise be past due or impaired of KZT 221,515 thousand (31 December 2008: KZT 44,286 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. These renegotiated loans are included in loans without individual signs of impairment in the tables above.

# 13 Loans to customers, continued

## (a) Credit quality of the loans to legal entities portfolio, continued

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2008:

| | Gross loans ’000 KZT | Impairment ’000 KZT | Net loans ’000 KZT | Impairment to gross loans % |
|---|---|---|---|---|
| **Loans to small and medium size companies** | | | | |
| Loans without individual signs of impairment | 1,815,967 | - | 1,815,967 | 0.0 |
| Impaired loans: | | | | |
| - not overdue | - | - | - | - |
| - overdue less than 90 days | 356,709 | (26,580) | 330,129 | 7.5 |
| - overdue more than 90 days and less than 1 year | 275,232 | (190,820) | 84,412 | 69.3 |
| - overdue more than 1 year | 23,475 | (23,475) | - | 100.0 |
| Total impaired loans | 655,416 | (240,875) | 414,541 | 36.8 |
| **Total loans to small and medium size companies** | **2,471,383** | **(240,875)** | **2,230,508** | **9.7** |
| **Total loans to legal entities** | **2,471,383** | **(240,875)** | **2,230,508** | **9.7** |

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower’s markets;
- negative force-majeure events.

The Bank estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to legal entities, management made the following key assumptions:

- historic annual loss rate of 2-3.5%%, with additional 0.5% loss rate due to adverse change in current economic conditions;
- migration rates are constant and can be estimated based on historic loss migration pattern for the past 12 months;
- a discount of between 50% and 70% to the originally appraised value if the property pledged is sold;
- a delay of 24 to 36 months in obtaining proceeds from the foreclosure of collateral.

# 13 Loans to customers, continued

## (a) Credit quality of the loans to legal entities portfolio, continued

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be KZT 18,973 thousand lower/higher (31 December 2008: KZT 22,305 thousand).

### *(i) Analysis of collateral*

The following table provides the analysis of loans to legal entitites portfolio, by types of collateral as at 31 December 2009:

| | 2009 '000 KZT | % of loan portfolio | 2008 '000 KZT | % of loan portfolio |
|---|---|---|---|---|
| Real estate | 1,939,870 | 86.5 | 2,205,455 | 89.2 |
| Guarantees | 43,501 | 1.9 | 38,716 | 1.6 |
| Cash deposits | 36,375 | 1.6 | 74,602 | 3.0 |
| Other collateral | 222,331 | 10.0 | 152,610 | 6.2 |
| **Gross loans to legal entities** | **2,242,077** | **100.0** | **2,471,383** | **100.00** |
| Impairment allowance | (344,750) | | (240,875) | |
| **Net loans to customers** | **1,897,327** | | **2,230,508** | |

The amounts shown in the table above represent the gross value of the loans, and do not necessarily represent the fair value of the collateral. Other collateral includes equipment, vehicles, construction in progress, and other.

Impaired loans with a gross value of KZT 558,112 thousand are secured by collateral with a fair value of KZT 558,490 thousand. For the remaining impaired loans of KZT 96,389 thousand there is no collateral or it is impracticable to determine fair value of collateral.

During the year ended 31 December 2009 the Bank obtained assets with the carring amount of KZT 277,072 thousand by taking control of collateral accepted as security for loans to legal entities. (2008: 160,745 KZT thousand).

### *(ii) Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2009 are as follows:

| | Loans to large corporates '000 KZT | Loans to small and medium size companies '000 KZT | Total '000 KZT |
|---|---|---|---|
| At 1 January 2009 | - | 240,875 | 240,875 |
| Net charge for the year | 91,805 | 10,425 | 102,230 |
| Write-offs | - | (2,623) | (2,623) |
| Effect of foreign currency translation | - | 4,268 | 4,268 |
| **At 31 December 2009** | **91,805** | **252,945** | **344,750** |

# 13 Loans to customers, continued

## (a) Credit quality of the loans to legal entities portfolio, continued

### *(ii) Analysis of movements in the impairment allowance, continued*

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2008 are as follows:

| | Loans to large corporates ’000 KZT | Loans to small and medium size companies ’000 KZT | Total ’000 KZT |
|---|---|---|---|
| At 1 January 2008 | 2,482 | 4,711 | 7,193 |
| Net charge for the year | (2,482) | 233,593 | 231,111 |
| Recovery | - | 2,750 | 2,750 |
| Effect of foreign currency translation | - | (179) | (179) |
| **At 31 December 2008** | **-** | **240,875** | **240,875** |

# 13 Loans to customers, continued

## (b) Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2009:

| | Gross loans '000 KZT | Impairment '000 KZT | Net loans '000 KZT | Impairment to gross loans, % |
|---|---|---|---|---|
| **Consumer loans** | | | | |
| - Not past due | 575,184 | (20,327) | 554,857 | 3.5 |
| - Overdue less than 30 days | 121,900 | (24,721) | 97,179 | 20.3 |
| - Overdue 30-89 days | 26,049 | (10,624) | 15,425 | 40.8 |
| - Overdue 90-179 days | 102,510 | (63,339) | 39,171 | 61.8 |
| - Overdue 180 - 360 days | 134,133 | (130,914) | 3,219 | 97.6 |
| - Overdue more than 360 days | 105,328 | (102,800) | 2,528 | 97.6 |
| **Total consumer loans** | **1,065,104** | **(352,725)** | **712,379** | **33.1** |
| **Mortgage loans** | | | | |
| - Not past due | 339,083 | (40) | 339,043 | 0.0 |
| - Overdue less than 30 days | 32,992 | (23) | 32,969 | 0.0 |
| - Overdue 30-89 days | 24,377 | (58) | 24,319 | 0.2 |
| - Overdue 90-179 days | 52,251 | (2,724) | 49,527 | 5.2 |
| - Overdue 180 - 360 days | 4,871 | (4,865) | 6 | 99.9 |
| - Overdue more than 360 days | 8,056 | (8,047) | 9 | 99.9 |
| **Total mortgage loans** | **461,630** | **(15,757)** | **445,873** | **3.4** |
| **Auto loans** | | | | |
| - Not past due | 12,404 | (1) | 12,403 | 0.0 |
| - Overdue 30-89 days | 600 | (1) | 599 | 0.2 |
| - Overdue 90-179 days | 2,334 | (53) | 2,281 | 2.3 |
| - Overdue 180 - 360 days | 4,145 | (4,073) | 72 | 98.3 |
| - Overdue more than 360 days | 4,020 | (3,950) | 70 | 98.3 |
| **Total auto loans** | **23,503** | **(8,078)** | **15,425** | **34.4** |
| **Other loans** | | | | |
| - Not past due | 268,349 | (134) | 268,215 | 0.0 |
| - Overdue 30-89 days | 80,259 | (77) | 80,182 | 0.1 |
| - Overdue 90-179 days | 79,561 | (8,579) | 70,982 | 10.8 |
| - Overdue 180 - 360 days | 19,813 | (12,386) | 7,427 | 62.5 |
| - Overdue more than 360 days | - | - | - | 0.0 |
| **Total other loans** | **447,982** | **(21,176)** | **426,806** | **4.7** |
| **Total loans to individuals** | **1,998,219** | **(397,736)** | **1,600,483** | **19.9** |

# 13 Loans to customers, continued

## (b) Credit quality of loans to individuals, continued

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2008:

| | Gross loans '000 KZT | Impairment '000 KZT | Net loans '000 KZT | Impairment to gross loans, % |
|---|---|---|---|---|
| **Consumer loans** | | | | |
| - Not past due | 893,271 | (90,646) | 802,625 | 10.1 |
| - Overdue less than 30 days | 62,564 | (4,395) | 58,169 | 7.0 |
| - Overdue 30-89 days | 84,696 | (20,490) | 64,206 | 24.2 |
| - Overdue 90-179 days | 155,274 | (119,083) | 36,191 | 76.7 |
| **Total consumer loans** | **1,195,805** | **(234,614)** | **961,191** | **19.6** |
| **Mortgage loans** | | | | |
| - Not past due | 357,277 | (4,323) | 352,954 | 1.2 |
| - Overdue less than 30 days | - | - | - | 0.0 |
| - Overdue 30-89 days | 45,453 | (8,363) | 37,090 | 18.4 |
| - Overdue 90-179 days | 19,798 | (17,466) | 2,332 | 88.2 |
| **Total mortgage loans** | **422,528** | **(30,152)** | **392,376** | **7.1** |
| **Auto loans** | | | | |
| - Not past due | 32,963 | - | 32,963 | 0.0 |
| - Overdue 90-179 days | 10,063 | (8,997) | 1,066 | 89.4 |
| **Total auto loans** | **43,026** | **(8,997)** | **34,029** | **20.9** |
| **Other loans** | | | | |
| - Not past due | 251,083 | - | 251,083 | 0.0 |
| - Overdue 30-89 days | 119,796 | (8,956) | 110,840 | 7.5 |
| **Total other loans** | **370,879** | **(8,956)** | **361,923** | **2.4** |
| **Total loans to individuals** | **2,032,238** | **(282,719)** | **1,749,519** | **13.9** |

The Bank estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months;
- in respect of mortgage loans, a delay of 24 months in obtaining proceeds from the foreclosureof collateral, which if not compensated by related interest income, and a discount of 30% to the originally appraised value of the property pledged is sold through court procedure.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment on loans to individuals as of 31 December 2009 would be KZT 16,005 thousand lower/higher (31 December 2008: KZT 17,495 thousand).

As at 31 December 2009 included in the loan portfolio are restructured loans to individuals of KZT 195,581 thousand (31 December 2008: nil).

# 13 Loans to customers, continued

## (b) Credit quality of loans to individuals, continued

### *(i) Analysis of collateral*

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Consumer loans are not secured.

Management believes that it is impracticable to estimate the fair value of collateral held in respect of loans to individuals.

### *(ii) Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2009 are as follows:

| | Mortgage loans ’000 KZT | Consumer loans ’000 KZT | Auto loans ’000 KZT | Other loans ’000 KZT | Total ’000 KZT |
|---|---|---|---|---|---|
| At 1 January 2009 | 30,152 | 234,614 | 8,997 | 8,956 | 282,719 |
| Net charge for the year | (22,902) | 148,773 | (1,207) | 1,490 | 126,154 |
| Write-offs | - | (52,886) | - | - | (52,886) |
| Effect of foreign currency translation | 8,507 | 22,224 | 288 | 10,730 | 41,749 |
| **At 31 December 2009** | **15,757** | **352,725** | **8,078** | **21,176** | **397,736** |

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

| | Mortgage loans ’000 KZT | Consumer loans ’000 KZT | Auto loans ’000 KZT | Other loans ’000 KZT | Total ’000 KZT |
|---|---|---|---|---|---|
| At 1 January 2008 | 9,942 | 24 | - | - | 9,966 |
| Net charge for the year | 21,601 | 238,272 | 9,092 | 10,931 | 279,896 |
| Effect of foreign currency translation | (1,391) | (3,682) | (95) | (1,975) | (7,143) |
| **At 31 December 2008** | **30,152** | **234,614** | **8,997** | **8,956** | **282,719** |

# 13 Loans to customers, continued

## (c) Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers located in Kazakhstan who operate in the following economic sectors:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | ’000 KZT | % | ’000 KZT | % |
| Loans to individuals | 1,998,219 | 47.1 | 2,032,238 | 45.1 |
| Trade | 968,207 | 22.8 | 934,832 | 20.8 |
| Construction | 555,473 | 13.1 | 556,972 | 12.4 |
| Manufacturing | 144,675 | 3.4 | 376,300 | 8.4 |
| Food industry | 184,207 | 4.3 | 210,941 | 4.7 |
| Mining/metallurgy | 44,365 | 1.0 | 67,185 | 1.5 |
| Furniture | 31,153 | 0.7 | 35,696 | 0.8 |
| Culture and art | 14,977 | 0.4 | 33,101 | 0.7 |
| Textile industry | 23,426 | 0.6 | 23,568 | 0.5 |
| Printing industry | 27,967 | 0.7 | 16,076 | 0.4 |
| Transport and communication | 36,637 | 0.9 | 15,611 | 0.3 |
| Education | 5,542 | 0.1 | 8,474 | 0.2 |
| Other | 205,448 | 4.8 | 192,627 | 4.3 |
| | **4,240,296** | **100.0** | **4,503,621** | **100.0** |
| Impairment allowance | (742,486) | | (523,594) | |
| | **3,497,810** | | **3,980,027** | |

### Significant credit exposures

As at 31 December 2009 and 2008, the Bank did not have any borrowers or groups of connected borrowers, respectively, whose loan balances exceed 10% of loans to customers.

# 14 Held-to-maturity investments

| | 2009 | 2008 |
|---|---|---|
| | ’000 KZT | ’000 KZT |
| Notes of the National Bank of the Republic of Kazakhstan | 2,486,057 | 198,111 |

# 15 Available-for-sale assets

| | 2009 | 2008 |
|---|---|---|
| | ’000 KZT | ’000 KZT |
| **Equity investments** | | |
| JSC “Central Securities Depository” | 400 | 400 |
| JSC “Kazakhstan Stock Exchange” | 6,601 | 6,601 |
| | **7,001** | **7,001** |

Available-for-sale investments are stated at cost and comprise unquoted equity securities in the financial industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current value. The fair value cannot be reliably determined.

# 16 Property, equipment and intangible assets

| **’000 KZT** | **Land and buildings** | **Computers** | **Vehicles** | **Other** | **Intangible assets** | **Total** |
|---|---|---|---|---|---|---|
| **Cost/revalued amount** | | | | | | |
| At 1 January 2009 | 685,413 | 20,201 | 29,004 | 62,063 | 54,231 | 850,912 |
| Additions | - | 6,389 | 6,168 | 5,421 | 718 | 18,696 |
| Revaluation | 41,180 | - | - | - | - | 41,180 |
| Elimination of accumulated depreciation due to revaluation | (56,006) | - | - | - | - | (56,006) |
| Transfer to other assets | (16,200) | - | (9,470) | - | - | (25,670) |
| Disposals | (57) | (9,762) | (6,314) | (5,747) | (22,477) | (44,357) |
| **At 31 December 2009** | **654,330** | **16,828** | **19,388** | **61,737** | **32,472** | **784,755** |
| | | | | | | |
| **Depreciation and amortisation** | | | | | | |
| At 1 January 2009 | 40,193 | 12,443 | 5,913 | 28,021 | 37,709 | 124,279 |
| Depreciation and amortisation charge | 15,870 | 6,229 | 4,610 | 8,603 | 3,205 | 38,517 |
| Disposals | (57) | (9,704) | (1,507) | (5,747) | (22,477) | (39,492) |
| Elimination of accumulated depreciation due to revaluation | (56,006) | - | - | - | - | (56,006) |
| **At 31 December 2009** | **-** | **8,968** | **9,016** | **30,877** | **18,437** | **67,298** |
| **Carrying amount** | | | | | | |
| As 31 December 2008 | 645,220 | 7,758 | 23,091 | 34,042 | 16,522 | 726,633 |
| **At 31 December 2009** | **654,330** | **7,860** | **10,372** | **30,860** | **14,035** | **717,457** |

| **’000 KZT** | **Land and buildings** | **Computers** | **Vehicles** | **Other** | **Intangible assets** | **Total** |
|---|---|---|---|---|---|---|
| **Cost/revalued amount** | | | | | | |
| At 1 January 2008 | 669,213 | 16,642 | 15,396 | 48,904 | 54,764 | 804,919 |
| Additions | 16,200 | 7,085 | 13,608 | 14,934 | 1,078 | 52,905 |
| Disposals | - | (3,526) | - | (1,775) | (1,611) | (6,912) |
| **At 31 December 2008** | **685,413** | **20,201** | **29,004** | **62,063** | **54,231** | **850,912** |
| | | | | | | |
| **Depreciation and amortisation** | | | | | | |
| At 1 January 2008 | 24,269 | 8,760 | 2,052 | 23,007 | 32,743 | 90,831 |
| Depreciation and amortisation charge | 15,924 | 7,209 | 3,861 | 6,789 | 6,577 | 40,360 |
| Disposals | - | (3,526) | - | (1,775) | (1,611) | (6,912) |
| **At 31 December 2008** | **40,193** | **12,443** | **5,913** | **28,021** | **37,709** | **124,279** |
| **Carrying amount** | | | | | | |
| As 31 December 2007 | 644,944 | 7,882 | 13,344 | 25,897 | 22,021 | 714,088 |
| **At 31 December 2008** | **645,220** | **7,758** | **23,091** | **34,042** | **16,522** | **726,633** |

# 16 Property, equipment and intangible assets, continued

**Revalued assets**

As at 31 December 2009, land and buildings were revaluated based on the results of an independent appraisal performed by the “Atikva Audit Company” LLC. The basis used for the appraisals was market approach. The market approach was based upon an analysis of the results of comparable sales of similar buildings and land.

The carrying value of land and buildings as of 31 December 2009, if the land and buildings would have not been revalued, would be KZT 431,763 thousand (31 December 2008: KZT 452,302 thousand).

# 17 Other assets

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Foreclosed property | 402,617 | 135,166 |
| Debtors on capital expenditure | 59,385 | 41,335 |
| Prepayments | 43,476 | 9,758 |
| Debtors on bank guarantees | 8,920 | - |
| Settlements with employees | 2,071 | 407 |
| Other assets | 866 | 4,093 |
| | **517,335** | **190,759** |
| Impairment allowance | (4,507) | (53) |
| | **512,828** | **190,706** |

**Analysis of movements in the impairment allowance**

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Balance at the beginning of the year | 53 | 74 |
| Net charge (recovery) for the year | 4,454 | (21) |
| **Balance at the end of the year** | **4,507** | **53** |

As at 31 December 2009, included in other assets are overdue receivables of KZT 9,593 thousand (31 December 2008: KZT 1,058 thousand), that are overdue for more than 90 days but less than one year.

# 18 Deposits and balances from banks

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Vostro accounts | - | 401 |
| Term deposit | 1,548 | 1,417 |
| | **1,548** | **1,818** |

# 18 Deposits and balances from banks, continued

**Concentration of deposits and balances from banks**

As at 31 December 2009 and 2008 the Bank has three banks whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2009 and 2008 are KZT 1,548 thousand and KZT 1,818 thousand, respectively.

# 19 Current accounts and deposits from customers

| | 2009<br>'000 KZT | 2008<br>'000 KZT |
|---|---|---|
| Current accounts and demand deposits | | |
| - Retail | 56,044 | 45,553 |
| - Corporate | 2,266,363 | 1,205,785 |
| Term deposits | | |
| - Retail | 1,621,051 | 843,567 |
| - Corporate | 1,290,791 | 1,122,670 |
| | **5,234,249** | **3,217,575** |

As of 31 December 2009, the Bank maintained customer deposit balances of KZT 259,064 thousand (2008: KZT 241,728 thousand) that serves as collateral for loans and off-balance sheet credit instruments granted by the Bank.

**Concentrations of current accounts and customer deposits**

As of 31 December 2009 and 2008, the Bank has one and two customers, respectively, whose balances exceed 10% of total customer accounts. These balances as of 31 December 2009 and 2008 are KZT 996,357 thousand and KZT 710,455 thousand, respectively.

# 20 Other liabilities

| | 2009<br>'000 KZT | 2008<br>'000 KZT |
|---|---|---|
| Payable for services provided | 5,751 | 11,571 |
| Other | 4,204 | 2,840 |
| | **9,955** | **14,411** |

# 21 Shareholders’ equity

## (a) Share capital

As at 31 December 2009 the authorised, issued and outstanding share capital comprises 5,010,000 ordinary shares (2008: 2,066,287 ordinary shares). All shares have a nominal value of KZT 1 thousand.

In accordance with a decision of the shareholders dated 30 January 2009, the Bank issued additional 2,943,713 ordinary shares, which were paid by the Parent Bank for proceeds of KZT 2,578,748 thousand in cash and KZT 364,965 thousand through trasnfer from the reserve for general banking risks. ~~In accordance with a decision of the shareholders dated 30 January 2009, the Bank placed an additional 2,943,713 ordinary shares with the Parent Bank for proceeds of KZT 2,578,748 thousand in cash and KZT 364,965 thousand through trasnfer from the reserve for general banking risks.~~ Currently the Bank is in the process of obtaining the FMSA approval on its shares placements report.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general shareholders meetings.

## (b) Reserve for general banking risks

The reserve for general banking risks is created, as required by the statutory regulations on the Republic of Kazakhstan, for general risks, including future losses and other unforeseen risks or contingencies.

## (c) Dividends

In accordance with Kazakhstan legislation the distributable reserves are limited to the balance of retained earnings as recorded in the Bank’s statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. As at 31 December 2009 the Bank had retained earnings, including profit for the current year, of KZT 231,539 thousand (2008: KZT 94,745 thousand).

As at 31 December 2009 no dividends were declared (2008: nil).

# 22 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank’s operations. The major risks faced by the Bank are those related to market risk, which includes interest rate and currency risks, credit risk and liquidity risk.

## (a) Risk management policies and procedures

The Bank’s risk management policies aim to identify, analyse and manage the risks faced by the 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 Board of Directors of the Bank 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 Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

# 22 Risk management, continued

## (a) Risk management policies and procedures, continued

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

## (b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. 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 Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

### *(i) Interest rate risk*

Interest rate risk is the risk that movements in interest rates will affect the Bank's income or the value of its portfolios of financial instruments.

The 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.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 2008 is as follows:

| | **2009 '000 KZT** | **2009 '000 KZT** | **2008 '000 KZT** | **2008 '000 KZT** |
|---|---|---|---|---|
| | **Profit or loss** | **Equity** | **Profit or loss** | **Equity** |
| 100 bp parallel rise | (8,114) | (8,114) | (4,954) | (4,954) |
| 100 bp parallel fall | 8,114 | 8,114 | 4,954 | 4,954 |

### *(ii) Currency risk*

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 30.

# 22 Risk management, continued

## (b) Market risk, continued

### *(ii) Currency risk, continued*

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% change in USD and other foregin currencies to tenge exchange rates is as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Profit or loss '000 KZT | Equity '000 KZT | Profit or loss '000 KZT | Equity '000 KZT |
| 10% appreciation of USD against KZT | 33,158 | 33,158 | (58,514) | (58,514) |
| 10% depreciation of USD against KZT | (33,158) | (33,158) | 58,514 | 58,514 |
| 10% appreciation of other foreign currencies against KZT | 38,327 | 38,327 | (6,642) | (6,642) |
| 10% depreciation of other foreign currencies against KZT | (38,327) | (38,327) | 6,642 | 6,642 |

## (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 Bank. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The Bank's credit policy establishes:

- procedures for review and approval of loan/credit applications;
- methodology for the credit assessment of borrowers (corporate and individuals);
- methodology for the credit assessment of counterparties;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department.

# 22 Risk management, continued

## (c) Credit risk, continued

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

| ASSETS | 2009<br>'000 KZT | 2008<br>'000 KZT |
|---|---|---|
| Cash | 909,435 | 384,959 |
| Due from the National Bank of the Republic of Kazakhstan | 1,528,119 | 383,704 |
| Placements with banks | 1,227,656 | 318,927 |
| Loans to customers | 3,497,810 | 3,980,027 |
| Held-to-maturity investments | 2,486,057 | 198,111 |
| Other assets | 8,920 | - |
| **Total maximum exposure to on balance sheet credit risk** | **9,657,997** | **5,265,728** |

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 13.

The maximum exposure to off balance sheet credit risk at the reporting date is presented in Note 24 - Commitments.

## (d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the 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 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 liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising government securities in issue, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

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;

# 22 Risk management, continued

## (d) Liquidity risk, continued

- managing the concentration and profile of debts;
- maintaining debt financing plans;
- 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 liquidity ratios against regulatory requirements.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the FMSA. The Bank was in compliance with these ratios during the years ended 31 December 2009 and 2008.

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognised loan 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 liability or commitment. The expected cash flows on these financial assets and liabilities and unrecognised loan commitments can vary significantly from this analysis.
The liquidity position as at 31 December 2009 is as follows:

| ’000 KZT | Demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | Total gross amount | Carrying amount |
|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | |
| Deposits and balances from banks | 1,548 | - | - | - | 1,548 | 1,548 |
| Current accounts and deposits from customers | 5,111,953 | 62,423 | 62,392 | - | 5,236,768 | 5,234,249 |
| Other liabilities | 2,670 | - | - | 7,285 | 9,955 | 9,955 |
| **Total liabilities** | **5,116,171** | **62,423** | **62,392** | **7,285** | **5,248,271** | **5,245,752** |
| **Credit related commitments** | **1,378,871** | **-** | **-** | **-** | **1,378,871** | **1,378,871** |

The liquidity position as at 31 December 2008 is as follows:

| ’000 KZT | Demand and less than 1 month | From1 to 3 months | From 3 to 6 months | More than 1 year | Total gross amount | Carrying amount |
|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | |
| Deposits and balances from banks | 1,818 | - | - | - | 1,818 | 1,818 |
| Current accounts and deposits from customers | 2,822,591 | 27,721 | 205,396 | 167,164 | 3,222,872 | 3,217,575 |
| Other liabilities | 13,607 | - | - | 804 | 14,411 | 14,411 |
| **Total** | **2,838,016** | **27,721** | **205,396** | **167,968** | **3,239,101** | **3,233,804** |
| Credit related commitments | 1,087,457 | - | - | - | 1,087,457 | 1,087,457 |

# 22 Risk management, continued

## (d) Liquidity risk, continued

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and short-term state securities for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

# 23 Capital management

The FMSA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSA banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2009, this minimum level of tier 1 capital to total assets is 0.05 and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 0.10. The Bank is in compliance with the statutory capital ratios during the years ended 31 December 2009 and 2008.

The following table shows the composition of the Bank’s capital position calculated in accordance with the requirements of the FMSA, as at 31 December:

| | 2009<br>’000 KZT | 2008<br>’000 KZT |
|---|---|---|
| **Tier 1 capital:** | | |
| Share capital | 5,010,000 | 2,066,287 |
| Retained earnings of prior periods | 107,814 | 13,276 |
| Reserves formed from retained earnings | 120,000 | 484,965 |
| Intangible assets | (10,827) | (13,216) |
| **Total tier 1 capital** | **5,226,987** | **2,551,312** |

| | 2009<br>’000 KZT | 2008<br>’000 KZT |
|---|---|---|
| **Tier 2 capital:** | | |
| Retained earnings of the current period | 4,456 | 48,429 |
| Revaluation reserve | 214,353 | 214,353 |
| General reserves, not higher than 1.25% of total risk weighted assets | 49,046 | 62,114 |
| **Total tier 2 capital** | **267,855** | **324,896** |
| **Total capital** | **5,494,842** | **2,876,208** |
| **Risk weighted assets, contingent liabilities, operational and market risks:** | | |
| Risk weighted assets | 5,312,729 | 5,715,182 |
| Risk weighted contingent liabilities | 129,202 | 962,459 |
| Operational risk | 432,072 | 639,355 |
| Market risk | 45,129 | 8,705 |
| **Total risk weighted assets, contingent liabilities, operational and market risks** | **5,919,132** | **7,325,701** |
| **Tier 1 capital to total assets** | **0.48** | **0.41** |
| **Total capital to risk weighted assets, contingent liabilities, operational and market risks** | **0.93** | **0.39** |

# 23 Capital management, continued

The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

# 24 Commitments

The 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 one year.

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 balance sheet date if counterparties failed completely to perform as contracted.

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| **Contracted amount** | | |
| Guarantees and letters of credit | 1,378,871 | 1,087,457 |

**Concentrations of guarantees and letters of credit**

As of 31 December 2009 and 2008, the Bank has two customers, whose balances exceed 10% of total guarantees and letters of credit issued. These balances as of 31 December 2009 and 2008 are KZT 787,440 thousand and KZT 758,950 thousand, respectively.

# 25 Contingencies

## (a) Insurance

The insurance industry in the Republic of 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 Bank does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank’s operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank’s operations and financial position.

## (b) Litigation

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

## (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, which 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.

# 25 Contingencies, continued

## (c) Taxation contingencies, continued

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 Bank's financial position, if the authorities were successful in enforcing their interpretations, could be significant.

# 26 Related party transactions

### Control relationships

The Bank's Parent is T.C. Ziraat Bankasi A.S., which produces publicly available financial statements. The party with ultimate control over the Bank is the Government of the Turkish Republic represented by the Secretariat of Treasury of the Turkish Republic.

### Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 9):

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| Members of the Board of Directors and Management Board | 47,268 | 58,528 |

The outstanding balances and average interest rates as at 31 December 2009 and 2008 with members of the Board of Directors and the Management Board are as follows:

| | 2009 '000 KZT | Average Interest Rate | 2008 '000 KZT | Average Interest Rate |
|---|---|---|---|---|
| **Balance Sheet** | | | | |
| **ASSETS** | | | | |
| Loans to customers | 85,802 | 9.0% | 65,219 | 9.4% |
| Current accounts and deposits from customers | 5 | - | 507 | - |

Amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board are as follows:

| | 2009 '000 KZT | 2008 '000 KZT |
|---|---|---|
| **Profit or loss** | | |
| Interest income | 10,680 | 222 |

# 26 Related party transactions, continued

### Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2009 and 2008 and related profit or loss amounts of transactions for the years ended 31 December 2009 and 2008 with related parties are as follows:

| | Parent Bank | | Other related parties* | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | ’000 KZT | ’000 KZT | ’000 KZT | ’000 KZT | ’000 KZT | ’000 KZT |
| **Balance Sheet** | | | | | | |
| **ASSETS** | | | | | | |
| Placements with banks | 12,976 | 22,016 | - | - | 12,976 | 22,016 |
| **LIABILITIES** | | | | | | |
| Current accounts and deposits from customers | - | - | 61,031 | 400,176 | 61,031 | 400,176 |

* Other related parties include entities that are under control of the Government of the Republic of Turkey.

# 27 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

| | 2009 ’000 KZT | 2008 ’000 KZT |
|---|---|---|
| Cash | 909,435 | 384,959 |
| Due from the National Bank of the Republic of Kazakhstan – nostro accounts and deposits with original maturities of less than three months (Note 11) | 1,528,119 | 383,704 |
| Placements with banks – nostro accounts (Note 12) | 1,227,656 | 318,927 |
| Minimum reserve requirements | (92,765) | (73,031) |
| | **3,572,445** | **1,014,559** |

Under Kazakhstan legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either corresponding accounts with the NBRK or in physical cash and maintained based on average monthly balances of the aggregate of deposits. The use of such funds is, therefore, subject to certain restrictions and excluded from cash and cash equivalents.

# 28 Fair value of financial instruments

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. As disclosed in note 15, the fair value of unquoted equity securities available-for-sale with a carrying value of 7,001 thousand can not be determined.

# 28 Fair value of financial instruments, continued

| ASSETS | 2009 ’000 KZT Fair Value | 2009 ’000 KZT Carrying Value | 2008 ’000 KZT Fair Value | 2008 ’000 KZT Carrying Value |
|---|---|---|---|---|
| Cash | 909,435 | 909,435 | 384,959 | 384,959 |
| Due from the National Bank of the Republic of Kazakhstan | 1,528,119 | 1,528,119 | 383,704 | 383,704 |
| Placements with banks | 1,227,656 | 1,227,656 | 318,927 | 318,927 |
| Loans to customers | 3,275,494 | 3,497,810 | 3,700,226 | 3,980,027 |
| Held-to-maturity investments | 2,487,599 | 2,486,057 | 187,256 | 198,111 |
| **LIABILITIES** | | | | |
| Deposits and balances from banks | 1,548 | 1,548 | 1,818 | 1,818 |
| Current accounts and deposits from customers | 5,234,249 | 5,234,249 | 3,217,575 | 3,217,575 |

The estimates of fair value are intended to approximate the amount for which a financial instrument could 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.

# 29 Average effective interest rates

The table below displays the Bank’s interest bearing assets and liabilities as at 31 December 2009 and 2008 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | 2009 Average effective interest rate, % | | 2008 Average effective interest rate, % | |
|---|---|---|---|---|
| | KZT | USD | KZT | USD |
| **Interest bearing assets** | | | | |
| Loans to customers | 13.7 | 13.3 | 13.8 | 13.2 |
| Held-to-maturity investments | 3.0 | - | 6.0 | - |
| **Interest bearing liabilities** | | | | |
| Current accounts and deposits from customers | 1.0 | 3.0 | 2.7 | 3.1 |

# 30 Currency analysis

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

| | KZT '000 KZT | USD '000 KZT | Other currencies '000 KZT | Total '000 KZT |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | 356,805 | 399,283 | 153,347 | 909,435 |
| Due from the National Bank of the Republic of Kazakhstan | 803,163 | 297,056 | 427,900 | 1,528,119 |
| Placements with banks | 128 | 1,126,332 | 101,196 | 1,227,656 |
| Loans to customers | 2,449,800 | 1,042,317 | 5,693 | 3,497,810 |
| Held-to-maturity investments | 2,486,057 | - | - | 2,486,057 |
| Available-for-sale assets | 7,001 | - | - | 7,001 |
| Property, equipment and intangible assets | 717,457 | - | - | 717,457 |
| Current tax assets | 69,186 | - | - | 69,186 |
| Other assets | 508,362 | 4,466 | - | 512,828 |
| **Total assets** | **7,397,959** | **2,869,454** | **688,136** | **10,955,549** |
| **LIABILITIES** | | | | |
| Deposits and balances from banks | 1,548 | - | - | 1,548 |
| Current accounts and deposits from customers | 2,572,733 | 2,453,694 | 207,822 | 5,234,249 |
| Deferred tax liabilities | 51,916 | - | - | 51,916 |
| Other liabilities | 7,450 | 1,282 | 1,223 | 9,955 |
| **Total liabilities** | **2,633,647** | **2,454,976** | **209,045** | **5,297,668** |
| **Net on balance sheet position as at 31 December 2009** | **4,764,312** | **414,478** | **479,091** | **5,657,881** |
| Net off balance sheet position as at 31 December 2009 | (469,841) | (873,374) | (35,656) | (1,378,871) |
| **Net on and off balance sheet positions as at 31 December 2009** | **4,294,471** | **(458,896)** | **443,435** | **4,279,010** |
| Net on and off balance sheet positions as at 31 December 2008 | 2,649,457 | (731,421) | (83,029) | 1,835,007 |