# JSC BTA Bank and subsidiaries

## Consolidated Financial Statements

*Year ended 31 December 2009*
*Together with Independent Auditors' Report*

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# INDEPENDENT AUDITORS' REPORT

To the shareholders and Board of Directors of JSC BTA Bank

We have audited the accompanying consolidated financial statements of JSC BTA Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statements of comprehensive income, changes in equity and 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 consolidated 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 consolidated financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

ERNST & YOUNG

*Opinion*

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

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Group incurred a net loss amounting to KZT 1,114,534 million during the year ended 31 December 2009 and, as of that date, the Group's total liabilities exceeded its total assets by KZT 1,689,820 million. These conditions, along with other matters described in Note 2, including current defaults under debt agreements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

5 May 2010

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## INDEPENDENT AUDITORS' REPORT



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 31 December 2009

*(Millions of Kazakhstani Tenge)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | **78,215** | 87,893 |
| Obligatory reserves | 8 | **145** | 64,054 |
| Trading securities | 9 | **115,784** | 128,150 |
| Amounts due from credit institutions | 10 | **31,444** | 85,174 |
| Derivative financial assets | 11 | **25,980** | 21,650 |
| Available-for-sale investment securities | 12 | **19,019** | 20,482 |
| Loans to customers | 13 | **1,040,773** | 1,617,063 |
| Bonds of NWF Samruk-Kazyna | 14 | **512,246** | – |
| Investments in associates | 15 | **85,088** | 72,371 |
| Property and equipment | | **9,911** | 13,704 |
| Goodwill | 16 | **1,841** | 37,421 |
| Current income tax asset | 18 | **5,708** | 5,505 |
| Deferred tax assets | 18 | **5,267** | 5,046 |
| Other assets | | **37,238** | 35,688 |
| **Total assets** | | **1,968,659** | 2,194,201 |
| | | | |
| **Liabilities** | | | |
| Amounts due to the Government and central banks | 19 | **406,595** | 1,718 |
| Amounts due to credit institutions | 20 | **836,384** | 803,366 |
| Amounts due to customers | 21 | **655,963** | 886,052 |
| Derivative financial liabilities | 11 | **3,974** | 18,789 |
| Debt securities issued | 22 | **1,668,602** | 1,087,726 |
| Provisions | 17 | **59,127** | 104,893 |
| Other liabilities | | **27,834** | 34,436 |
| **Total liabilities** | | **3,658,479** | 2,936,980 |
| | | | |
| **Equity deficit** | 23 | | |
| Issued capital: common shares | | **515,551** | 303,456 |
| Additional paid-in capital | 14, 22 | **(38,798)** | – |
| Treasury shares | | **(6,383)** | (1,568) |
| Available-for-sale investment securities revaluation reserve | | **(2,352)** | (1,112) |
| Foreign currency translation reserve | | **(448)** | (948) |
| Accumulated deficit | | **(2,144,271)** | (1,057,646) |
| Equity attributable to: | | | |
| Shareholders of the parent | | **(1,676,701)** | (757,818) |
| Non-controlling interest | | **(13,119)** | 15,039 |
| **Total equity deficit** | | **(1,689,820)** | (742,779) |
| **Total liabilities and equity** | | **1,968,659** | 2,194,201 |

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

Anvar Saidenov — Chairman of the Board

Alma Maxutova — Chief Accountant

5 May 2010

*The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF INCOME
## For the year ended 31 December 2009

*(Millions of Kazakhstani Tenge)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Interest income** | | | |
| Loans | | **189,523** | 366,037 |
| Bonds of NWF Samruk-Kazyna | | **28,551** | |
| Investment securities, held for sale | | **2,490** | 2,766 |
| Deposits in other banks | | **5,756** | 17,833 |
| | | **226,320** | 386,636 |
| Trading securities | | **11,405** | 9,831 |
| | | **237,725** | 396,467 |
| **Interest expense** | | | |
| Amounts due to the Government of RK and central banks | | **(22,195)** | (82) |
| Deposits and loans from credit institutions | | **(48,047)** | (56,663) |
| Due to customers | | **(45,810)** | (55,748) |
| Debt securities issued | | **(141,611)** | (95,888) |
| | | **(257,663)** | (208,381) |
| **Net interest income before impairment** | | **(19,938)** | 188,086 |
| Impairment charge | 10,13 | **(754,254)** | (1,094,300) |
| **Net interest income** | | **(774,192)** | (906,214) |
| Fee and commission income | 25 | **21,382** | 30,334 |
| Fee and commission expense | 25 | **(1,732)** | (1,179) |
| **Fees and commissions** | 25 | **19,650** | 29,155 |
| Net trading loss | 26 | **(2,965)** | (29,769) |
| Gains less losses from foreign currencies: | | | |
| - dealing | | **3,052** | 1,665 |
| - translation differences | | **(326,398)** | (10,870) |
| Income from insurance operations | | **2,688** | 2,100 |
| Share of income/ (loss) of associates | 3 | **4,690** | (15,448) |
| Loss on disposal of subsidiaries | 6 | **(3,075)** | (11,252) |
| Other impairment charge | 27 | **(38,876)** | (69,855) |
| Inventory write-off | | **(4,473)** | (2,396) |
| Other income | | **4,165** | 5,792 |
| **Non interest loss** | | **(361,192)** | (130,033) |
| Salaries and other employee benefits | 28 | **(22,226)** | (26,597) |
| Other administrative and operating expenses | 28 | **(24,388)** | (27,414) |
| Depreciation and amortisation | | **(4,886)** | (4,435) |
| Taxes other than income tax | | **(3,836)** | (4,163) |
| Other provisions | 17 | **62,451** | (113,130) |
| Obligatory insurance of individuals' deposits | | **(2,051)** | (2,102) |
| Other expenses | | **(3,238)** | (3,184) |
| **Non interest income/ (expense)** | | **1,826** | (181,025) |
| **Loss before income tax expense** | | **(1,113,908)** | (1,188,117) |
| Income tax (expense)/ benefit | 18 | **(626)** | 67 |
| **Net loss after income tax expenses** | | **(1,114,534)** | (1,188,050) |
| Attributable to: | | | |
| Equity holders of the parent | | **(1,086,625)** | (1,187,584) |
| Non-controlling interest | | **(27,909)** | (466) |
| **Net loss** | | **(1,114,534)** | (1,188,050) |
| **Basic and diluted loss per share (in Kazakhstani Tenge)** | 29 | **(33,193)** | (143,526) |

*The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## For the year ended 31 December 2009

*(Millions of Kazakhstani Tenge)*

| | *2009* | *2008* |
|---|---|---|
| **Net loss for the reporting period** | **(1,114,534)** | (1,188,050) |
| **Other comprehensive income:** | | |
| Fair value change of available-for-sale investment securities | **(6,568)** | (46,887) |
| Release of available-for-sale investment securities revaluation reserve on disposal of previously revalued assets | **2,192** | 3,930 |
| Impairment of available-for-sale investment securities | **2,764** | 42,610 |
| Share of changes recognized directly in equity of an associate | **372** | (627) |
| Foreign exchange revaluation | **580** | (1,190) |
| **Other comprehensive income for the reporting period, net of tax** | **(660)** | (2,164) |
| **Total comprehensive income for the reporting period** | **(1,115,194)** | (1,190,214) |
| Attributable to: | | |
| - Equity holders of the parent | **(1,087,365)** | (1,189,553) |
| - Non-controlling interest | **(27,829)** | (661) |
| | **(1,115,194)** | (1,190,214) |

*The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 December 2009

*(Millions of Kazakhstani Tenge)*

| | *Equity attributable to equity holders of the Parent* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Issued capital-common shares* | *Treasury stock* | *Available-for-sale securities revaluation reserve* | *Foreign currency translation reserve* | *Accumulated loss* | *Total* | *Non-controlling interest* | *Total equity* |
| **1 January 2008** | 303,427 | (555) | (195) | 104 | 129,938 | 432,719 | 19,312 | 452,031 |
| Total comprehensive loss | – | – | (917) | (1,052) | (1,187,584) | (1,189,553) | (661) | (1,190,214) |
| Issue of common shares | 29 | | – | – | – | 29 | – | 29 |
| Purchase of treasury shares | – | (5,508) | – | – | – | (5,508) | – | (5,508) |
| Sale of treasury shares | – | 4,495 | – | – | – | 4,495 | – | 4,495 |
| Non-controlling interest arising on acquisition | – | – | – | – | – | – | 15 | 15 |
| Acquisition of Non-controlling interest | – | – | – | – | – | – | (3,627) | (3,627) |
| **31 December 2008** | 303,456 | (1,568) | (1,112) | (948) | (1,057,646) | (757,818) | 15,039 | (742,779) |

| | *Equity attributable to equity holders of the Parent* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Issued capital-common shares* | *Additional paid-in capital* | *Treasury stock* | *Available-for-sale securities revaluation reserve* | *Foreign currency translation reserve* | *Accumulated loss* | *Total* | *Non-controlling interest* | *Total equity* |
| **1 January 2009** | **303,456** | **–** | **(1,568)** | **(1,112)** | **(948)** | **(1,057,646)** | **(757,818)** | **15,039** | **(742,779)** |
| Total comprehensive loss | **–** | **–** | **–** | **(1,240)** | **500** | **(1,086,625)** | **(1,087,365)** | **(27,829)** | **(1,115,194)** |
| Issue of common shares (Note 23) | **212,095** | **–** | **–** | **–** | **–** | **–** | **212,095** | **–** | **212,095** |
| Additional paid-in capital (Note 14, 22) | **–** | **(38,798)** | **–** | **–** | **–** | **–** | **(38,798)** | **–** | **(38,798)** |
| Purchase of treasury shares | **–** | **–** | **(5,956)** | **–** | **–** | **–** | **(5,956)** | **–** | **(5,956)** |
| Issue of treasury shares | **–** | **–** | **1,141** | **–** | **–** | **–** | **1,141** | **–** | **1,141** |
| Contribution of non-controlling interests to subsidiaries equity | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **619** | **619** |
| Disposal of subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,191)** | **(1,191)** |
| Purchase of non-controlling interest | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(292)** | **(292)** |
| Change of non-controlling interest from redistribution of participation share | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **535** | **535** |
| **31 December 2009** | **515,551** | **(38,798)** | **(6,383)** | **(2,352)** | **(448)** | **(2,144,271)** | **(1,676,701)** | **(13,119)** | **(1,689,820)** |

*The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS
## For the year ended 31 December 2009

*(Millions of Kazakhstani Tenge)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Interest received | | **152,908** | 299,195 |
| Interest paid | | **(182,906)** | (213,316) |
| (Loss)/ income received from foreign currencies dealing | | **(10,819)** | 1,665 |
| (Loss)/ income received from transactions with securities | | **(750)** | 129 |
| Fee and commission received | | **15,655** | 29,257 |
| Fee and commission paid | | **(1,732)** | (1,174) |
| Cash paid for insurance operations | | **(4,947)** | (5,108) |
| Cash received from insurance operations | | **8,574** | 9,859 |
| Cash paid to employees | | **(20,095)** | (24,910) |
| Cash paid for obligatory deposits insurance | | **(2,051)** | (2,102) |
| Operating expenses paid | | **(41,046)** | (30,045) |
| **Nat (decrease)/ increase in cash from operating activities before changes in operating assets and liabilities** | | **(87,209)** | 63,450 |
| **Net increase/decrease in cash from operating assets and liabilities** | | | |
| Net decrease in obligatory reserves | | **66,477** | 125,369 |
| Net decrease / (increase) in trading securities | | **1,119** | (38,519) |
| Net decrease in due from credit institutions | | **15,490** | 10,018 |
| Net (increase)/ decrease in loans to customers | | **53,333** | (326,165) |
| Net increase in other assets, including prepaid taxes | | **(688)** | (16,917) |
| Net increase in due to the Government and central banks | | **404,529** | 5,694 |
| Net increase/ (decrease) in derivative financial instruments | | **383** | (2,961) |
| Net (decrease) / increase in due to credit institutions | | **(114,238)** | 25,133 |
| Net (decrease)/ increase in due to customers | | **(321,896)** | 197,629 |
| Income tax paid | | **(1,049)** | (10,370) |
| Net (decrease)/ increase in other liabilities | | **(7,535)** | 4,750 |
| **Net cash received from operating activities** | | **12,831** | 37,111 |
| **Cash flows from investing activities** | | | |
| Purchase of available-for-sale investment securities | | **(17,943)** | (58,061) |
| Disposal of available-for-sale investment securities | | **9,505** | 26,905 |
| Purchase of bonds of NWF Samruk-Kazyna | | **(645,000)** | – |
| Acquisition of non-controlling interest | | **(292)** | (8,970) |
| Investment in associates | | **(3,269)** | (33,690) |
| Cash of disposed subsidiaries | 6 | **(1,996)** | (15,170) |
| Acquisition of subsidiaries, less cash received | | **–** | 26,625 |
| Dividends received from associates | | **–** | 658 |
| Purchase of property and equipment | | **(4,531)** | (5,251) |
| Proceeds from disposal of property and equipment | | **2,359** | 1,102 |
| **Net cash used in investing activities** | | **(661,167)** | (65,852) |
| **Cash flows from financing activities** | | | |
| Net proceeds from from debt securities issued | | **647,075** | 118,828 |
| Redemption of debt securities | | **(223,127)** | (96,657) |
| Proceeds from issue of common shares | | **212,095** | 29 |
| Contribution to subsidiaries by non-controlling interest | | **619** | – |
| Purchase of treasury shares | | **(5,956)** | (5,508) |
| Proceeds from sale of treasury shares | | **1,141** | 4,495 |
| **Net cash received from financing activities** | | **631,847** | 21,187 |
| Effect of exchange rate changes on cash and cash equivalents | | **6,811** | (4,276) |
| **Net decrease in cash and cash equivalents** | | **(9,678)** | (11,830) |
| Cash and cash equivalents at the beginning of the year | | **87,893** | 99,723 |
| **Cash and cash equivalents at the end of the year** | 7 | **78,215** | 87,893 |
| | | | |
| **Non-cash transactions:** | | | |
| Reclassification of available-for-sale investment securities to investments in associates | | **2,546** | 6,785 |
| Deconsolidation of subsidiary | | **(2,112)** | (13,288) |

*The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements.*

*(Millions of Kazakhstani Tenge)*

## 1. Principal activities

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

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

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. In addition, the Group is authorized to accept pension fund deposits. The Bank has a primary listing in the Kazakhstani Stock Exchange ("KASE"). Certain of the Group's debt securities are listed on the Luxemburg Stock Exchange and London Stock Exchange with a secondary listing on the KASE. Its head office is located in Almaty, Kazakhstan. As of 31 December 2009 the Bank had 22 regional branches and 230 cash settlement units (as at 31 December 2008, the Bank had 22 regional branches and 279 cash settlement units), located throughout Kazakhstan and representative offices in Shanghai, China; Moscow, Russia; Kiev, Ukraine; Dubai, United Arab Emirates; London, Great Britain.

National Welfare Fund Samruk-Kazyna is the ultimate parent (the "Parent" or the "Controlling shareholder") of the Group.

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

| | ***2009*** | ***2008*** |
|---|---|---|
| **Shareholders:** | *%* | *%* |
| **Common shares:** | | |
| NWF Samruk-Kazyna JSC | **75.10** | 0 |
| KT Asia Investment Group B.V. | **2.40** | 9.66 |
| Drey Associates Limited | **2.40** | 9.65 |
| Strident Energy Limited | **2.38** | 9.56 |
| InvestCapital Company LLP | **0.70** | 8.14 |
| SMKK LLP | **–** | 7.77 |
| Yassy Invest LLP | **1.79** | 7.19 |
| Agroinvest LLP | **1.78** | 7.15 |
| CP-CreditPrive SA | **1.68** | 6.74 |
| Makta Aral Company LLP | **–** | 6.67 |
| Other less than 5% | **11.77** | 27.47 |
| | **100.00** | 100.00 |

As described in more detail in Note 2, in accordance with Law of the Republic of Kazakhstan on Bank and banking activities in February 2009 Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "FMSA") made an offer to the Government of the Republic of Kazakhstan to purchase a majority interest in BTA Bank JSC. The purchase was carried out through an additional emission. As part of this emission, the Government represented by the Controlling shareholder purchased 25,246,343 shares at the price of KZT 8,401 per share that resulted in KZT 212,095 million invested to the Bank's equity and the share of the controlling shareholder in the Bank's equity amounted to 75.10%.

As of 31 December 2009 members of the Board of Directors and Management Board owned 37 ordinary shares or 0.0001% of issued capital (31 December 2008 – 111 shares or 0.0013 %).

No dividends to common shareholders were paid during 2009 and 2008.

## 2. Going concern

During the fourth quarter of 2008 there was a significant deterioration in the consolidated financial position of BTA Bank and its subsidiaries principally resulting from loss events related to loan portfolio. This led to a breach by the Bank and the Group of certain prudential requirements including those related to capital adequacy set by the Financial Markets Supervision Agency (the "FMSA"). In addition, in February 2009 Kazakh Tenge has devaed against US dollar by 23%. This also has negatively affected the Bank and its customers, resulting in further deterioration of the Bank's assets. As a result of these loss events the Group's total liabilities as at 31 December 2009 exceeded its total assets by KZT 1,689,820 million (31 December 2008: KZT 742,779 million) and the Group has reported a net loss amounting to KZT 1,114,534 million for the year then ended. This led the Bank to non-compliance of certain ratios, including capital adequacy ratio as calculated in accordance with Basel Capital Accord 1988 requirements.

As at 31 December 2009 the amounts drawn by the Group under bond programs and loan facilities amounted to KZT 2,504,986 million (31 December 2008: KZT 1,891,092 million). In accordance with the contractual terms of these bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

*(Millions of Kazakhstani Tenge)*

## 2. Going concern (continued)

As at 31 December 2009 and 2008 the Bank was in breach of capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

In April 2009 the Bank suspended its payments on principal and in July on interest payments. The Group, with the support of the Controlling shareholder is in the process of restructuring its debts. After the debt restructuring, the controlling shareholder has committed to provide to the Bank sufficient funds to enable the Bank to both repay interest and principal in accordance with restructured maturities and to continue the Bank's operations.

Starting from February 2009, the controlling shareholder and the management of the Bank have been executing several initiatives aimed at improving liquidity and enabling the Group to continue its operations including, but not limited, to the following:

(a) In March 2009, the controlling shareholder purchased the Bank's bonds totaling KZT 645 billion;

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

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

(d) On 21 September 2009 the Bank signed a Memorandum of Understanding with the Creditors' Steering Committee on debt restructuring.

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

    The Bank was prescribed to present to and approve with Creditors the restructuring plan which would be considered satisfactory for all creditors on restructuring of the Bank's debt. The aim of restructuring was also to satisfy FMSA regulative requirements on capital adequacy on the moment of restructuring and fair offset of debt to creditors of the Bank.

(f) On 7 December 2009 the Bank signed with its creditors a commercial term sheet on debt restructuring ("Term sheet"). According to the Term sheet the Group's external debt amounting to US Dollar 11.6 billion will be settled by cash of US Dollar 1 billion, new senior debt of US Dollar 3,067 million, new subordinated debt of US Dollar 797 million and revolving committed trade finance facility of US Dollar 700 million as well as recovery notes, which provide the holders with 50% of the qualified bad assets, which the Bank recovers in the future. As a result of the restructuring it is expected that the Group's regulatory capital will be increased to comply with FMSA requirements.

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

Because of the negative events described above there is a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. Therefore, the Bank may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements of the Group have been prepared on a going concern basis that contemplates the realization of restructuring of its long-term debt and continued adequate support from the controlling shareholder of the Bank.

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

## 3. Basis of preparation

### Statement of compliance

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

*(Millions of Kazakhstani Tenge)*

## 3. Basis of preparation (continued)

### General

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

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

### Consolidated subsidiaries

The consolidated financial statements include the following subsidiaries:

| | *Holding, % 31 December* | | | | | |
|---|---|---|---|---|---|---|
| ***Subsidiary*** | ***2009*** | ***2008*** | ***Country*** | ***Date of incorporation*** | ***Industry*** | ***Date of acquisition*** |
| JSC Subsidiary of JSC BTA Bank - BTA Securities | **100.00%** | 100.00% | Kazakhstan | 17.10.97 | Securities trading and asset management | 13.12.97 |
| JSC Subsidiary of JSC BTA Bank Accumulative Pension Fund BTA Kazakhstan | **86.05%** | 95.20% | Kazakhstan | 11.12.97 | Pension Fund | 16.09.98 |
| JSC BTA Ipoteka Subsidiary Mortgage company of JSC BTA | **100.00%** | 100.00% | Kazakhstan | 20.11.00 | Consumer mortgage lending | 20.11.00 |
| JSC Subsidiary Life Insurance company of BTA - BTA Zhizn | **100.00%** | 100.00% | Kazakhstan | 22.07.99 | Life and annuity insurance | 30.03.01 |
| JSC Subsidiary insurance company of BTA Bank JSC BTA Zabota | **98.17%** | 98.17% | Kazakhstan | 10.09.96 | Medical insurance | 04.04.01 |
| «TuranAlem Finance B.V.» | **100.00%** | 100.00% | Netherlands | 22.05.01 | Capital markets | 22.05.01 |
| LLC Subsidiary of JSC BTA Bank TuranAlem Finance | **100.00%** | 100.00% | Russia | 22.06.04 | Capital markets | 28.09.04 |
| JSC Subsidiary of JSC BTA Insurance Company London-Almaty | **99.54%** | 99.54% | Kazakhstan | 20.11.97 | Property and liability insurance | 5.08.04 |
| «BTA Finance Luxembourg S.A.» | **86.11%** | 86.11% | Luxemburg | 05.01.06 | Capital markets | 06.03.06 |
| JSC Subsidiary company of BTA - BTA Insurance | **100.00%** | 100.00% | Kazakhstan | 08.09.98 | Property and liability insurance | 21.12.06 |
| JSC Subsidiary of JSC BTA TemirBank | **70.51%** | 69.85% | Kazakhstan | 26.03.92 | Bank activities | 29.12.06 |
| «TemirCapital B.V.» | **100.00%** | 100.00% | Netherlands | 29.05.01 | Capital markets | 29.12.06 |
| CJSC BTA Bank | **–** | 71.00% | Kyrgyzstan | 02.12.96 | Bank activities | 19.11.07 |
| BTA Bank CJSC» | **99.29%** | 99.29% | Belorussia | 25.04.02 | Bank activities | 30.10.08 |
| First Kazakh Securitization Company | **–** | – | Netherlands | 08.12.05 | Securitization of financial assets | – |
| Second Kazakh Securitization Company | **–** | – | Netherlands | 25.09.07 | Securitization of financial assets | – |

In December 2008, JSC Accumulative Pension Fund BTA Kazakhstan, the Bank's subsidiary, authorized to issue 5,000,000 common shares. As at 31 December 2008, 3,841,585 common shares were issued and paid by the Bank. As a result the Group's share in JSC Accumulative Pension Fund BTA Kazakhstan increased to 95.20%. Gain from increase of Group's share amounted to KZT 843 million.

In February and March 2009 JSC Accumulative Pension Fund BTA Kazakhstan placed the remaining 1,158,415 common shares of which 553,185 were purchased by BTA Bank. As a result BTA Bank's share in Pension Fund BTA Kazakhstan decreased to 86.05%.

On 28 December 2009 on the basis of the decision of Bishkek regional court, Kyrgyz Republic, the court marshal levied execution upon shares of BTA Bank CJSC owned by the Bank, and therefore, Bank's management decided to deconsolidate BTA Bank CJSC as at the end of 2009. The loss from derecognition of BTA Bank CJSC amounted to KZT 3,075 million. Refer to Note 24.

In connection with completion of securitization transactions, special purpose entity DPR Finance Company was liquidated as at the end of 2009.

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## 3. Basis of preparation (continued)

**Consolidated subsidiaries (continued)**

In October 2008, the Bank finalized the acquisition of additional 50.3% equity interest in BTA Bank CJSC (Belorussia) (former Astanaeximbank CJSC) for KZT 3,501 million. As a result of the acquisition the Bank's interest in BTA Bank CJSC (Belorussia) increased to 99.29%, which provided the Bank with effective control and enabled the Bank to treat BTA Bank CJSC (Belorussia) as a subsidiary starting from November 2008. BTA Bank CJSC (Belorussia) was incorporated as a closed joint stock company and operates in Belorussia. Refer to Note 6 for the fair value of the identifiable assets and liabilities acquired and goodwill arising at the date of acquisition. Before the Group took over the effective control over the operations of CJSC BTA Bank (Belorussia), it was accounted as an associate under equity method.

In 2008 the Group increased its share in TemirBank JSC from 64.32% to 69.85%. In 2009 the Group acquired additional 0.66% share in TemirBank JSC for KZT 292 million.

Although the Group did not own any shares in First Kazakh Securitisation Company and Second Kazakh Securitisation Company as at 31 December 2009 and 2008 and for the years then ended, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries, because at those dates the Group controlled and benefited directly from operations of these entities.

**Associates accounted for under equity method**

The following associates are accounted for under the equity method and included into other assets:

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

In December 2008 the Bank purchased additional 40.038% share in BTA Bank OJSC (Ukraine) for KZT 27,301 million. As a result the Bank's interest in BTA Bank OJSC (Ukraine) increased to 49.99%, which provided the Bank with significant influence on operations of BTA Bank OJSC (Ukraine) and enabled the Bank to treat BTA Bank OJSC (Ukraine) as an associated bank.

In December 2009 the Bank purchased additional 16.38% share in Oranta NJSIC OJSC for KZT 2,516 million, as a result the Group's equity interest in Oranta increased to 30.39% from 14.01% as at 31 December 2009, which provided the Bank with significant influence on operations of Oranta and enabled the Bank to account for these investments under the equity method.

In July 2008, the Group acquired additional 38.64% of the statutory fund in BTA Bank LLC (Russia), which resulted in increase of the Group's interest to 52.84% and provided the Group with a controlling interest. In November 2008, BTA Bank LLC (Russia) issued additional shares in the amount of RUR 7,200 million (equivalent of KZT 31,968 million). The Bank did not use its preemptive right to purchase these shares. As a result the Bank's share in BTA Bank LLC (Russia) decreased to 22.26% resulting in a loss from deemed disposal in the amount of KZT 12,095 million.

In November 2008, the Group acquired an additional equity interest in TemirLeasing JSC, as a result the Group's equity interest in TemirLeasing JSC increased to 45.63%.

| *2008* Associates | Holding, % | Country | Activities | Share in net income / loss | Total assets | Total liabilities | Equity |
|---|---|---|---|---|---|---|---|
| BTA Bank LLC (Russia) | 22.26% | Russia | Bank | (18,827) | 196,389 | 236,125 | (39,736) |
| BTA Bank JSC (Ukraine) | 49.99% | Ukraine | Bank | – | 35,418 | 11,607 | 23,811 |
| BTA Bank JSC (Georgia) | 49.00% | Georgia | Bank | 48 | 11,542 | 8,530 | 3,012 |
| BTA Bank CJSC (Armenia) | 48.93% | Armenia | Bank | (195) | 5,202 | 3,030 | 2,172 |
| JSCB BTA Kazan OJSC | 47.32% | Russia | Bank | 376 | 37,770 | 28,943 | 8,827 |
| BTA ORIX Leasing JSC | 45.00% | Kazakhstan | Leasing | 34 | 6,047 | 3,922 | 2,125 |
| Temir Leasing JSC | 45.63% | Kazakhstan | Leasing | 41 | 4,070 | 1,874 | 2,196 |
| Sekerbank | 33.98% | Turkey | Bank | 3,185 | 653,616 | 578,808 | 74,808 |

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## 4. Summary of significant accounting policies

### Changes in accounting policies

In 2009 the Group has implemented the following revised IFRS standards and new Interpretations. The effect of these changes are noted below:

*Early adoption of amendments to IFRS 3 "Business combinations" and amendment to IAS 27 "Consolidated and Separate financial statements"*

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively.

The Group has elected to early adopt these amendments starting from 1 January 2009. In accordance with these amendments total comprehensive loss is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. As a result, total comprehensive loss of the Group's subsidiaries in the amount of KZT 27,829 million were attributed to non-controlling interests.

*IFRS 7 "Financial Instruments: Disclosures"*

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided as permitted by the transition provisions of the amendment. The fair value measurement disclosures are presented in Note 31, and the liquidity risk disclosures are not significantly impacted by the amendments.

*IFRS 8 "Operating Segments"*

IFRS 8 is effective for financial years beginning on or after 1 January 2009. This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 "Segment Reporting". Additional disclosures about each of these segments are shown in Note 32, including revised comparative information.

*IAS 1 Presentation of Financial Statements (Revised)*

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

*IAS 23 "Borrowing Costs"(Revised)*

A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group adopted this as a prospective change. No changes were made for borrowing costs incurred to 1 January 2009 that have been expensed.

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## 4. Summary of significant accounting policies (continued)

**Changes in accounting policies (continued)**

*IAS 24 "Related party disclosures" (Revised)*

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

*Improvements to IFRS*

In May 2008 International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group, except for the amendment to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as described below.

IAS 20 has been amended to require that loans received from the government that have a below-market rate of interest be recognized and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognised in the statement of financial position. This benefit is accounted for in accordance with IAS 20. The amendment is applied prospectively to government loans received on or after 1 January 2009.

The following new or revised standards and interpretations effective from 2009 did not have any impact on the accounting policies, financial position or performance of the Group:

*Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations*

Amendment to IFRS 2 were issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the consolidated financial statements of the Group.

*Amendment to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"*

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the consolidated financial statements of the Group.

*IFRIC 13 "Customer Loyalty Programmes"*

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Group's consolidated financial statements as no such schemes currently exist.

*IFRIC 15 "Agreements for the Construction of Real Estate"*

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Group's consolidated financial statements.

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## 4. Summary of significant accounting policies (continued)

**Changes in accounting policies (continued)**

*IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"*

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Group's consolidated financial statements.

*Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"*

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Group's consolidated financial statements as no reclassifications were made for instruments that contained embedded derivatives.

*IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 was issued in January 2009 and became effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Group as the Group has no transfers of assets from its customers.

**Basis of consolidation**

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

*Acquisition of subsidiaries*

*Business combinations from 1 January 2009*

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

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

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

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

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

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

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## 4. Summary of significant accounting policies (continued)

**Basis of consolidation (continued)**

*Business combinations from 1 January 2009 (continued)*

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

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

*Business combinations prior to 31 December 2008*

The requirements applied previously, had the following differences in comparison to the above mentioned requirements: Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. The excess of the consideration transferred over the Group's share in the net identifiable assets acquired and liabilities assumed was recognized as Goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

**Investments in associates**

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

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

**Financial assets**

*Initial recognition of financial instruments*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

*Date of recognition*

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Day 1' profit*

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

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## 4. Summary of significant accounting policies (continued)

**Financial assets (continued)**

*Trading securities*

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

*Loans and receivables*

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

*Available-for-sale financial investments*

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

*Determination of fair value*

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

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

*Offsetting*

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

### Reclassification of financial assets

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

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

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

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

### Cash and cash equivalents

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

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## 4. Summary of significant accounting policies (continued)

**Obligatory reserves**

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

**Repurchase and reverse repurchase agreements and securities lending**

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

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

**Derivative financial instruments**

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

Derivative instruments embedded in other financial instruments are treated as a separate derivative and recorded at fair value if their risks and economic characteristics are not closely related to the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At 31 December 2008 embedded derivatives held by the Group were not material.

**Leases**

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

***I. Finance – Group as lessor***

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

***II. Operating – Group as lessee***

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

***III. Operating – Group as lessor***

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Taxation**

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted or substantively enacted at the reporting date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Allowances for impairment of financial assets**

*Amounts due from credit institutions and loans to customers*

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

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

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

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Allowances for impairment of financial assets (continued)**

*Amounts due from credit institutions and loans to customers (continued)*

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*Available-for-sale financial investments*

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

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

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

*Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**Derecognition of financial assets and liabilities**

*Financial assets*

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

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

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

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Derecognition of financial assets and liabilities (continued)**

*Financial liabilities*

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

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

*Securitisation*

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

**Financial guarantees**

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

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

**Property and equipment**

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

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

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

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

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

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

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

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

### Goodwill

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

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

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

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

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

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to Government and central banks, credit institutions and to customers and initially recognised at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of income.

### Provisions

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

### Retirement and other benefit obligations

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

### Equity

*Issued capital*

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

*Treasury shares*

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Equity (continued)**

*Dividends*

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

**Contingencies**

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

**Trust activities**

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

**Recognition of income and expenses**

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

*Interest and similar income and expense*

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

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

*Fee and commission income*

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

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

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

*Fee income from providing transaction services*

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

**Underwriting income (loss)**

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Underwriting income (loss) (continued)**

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

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

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

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

**Reserve for insurance losses and loss adjustment expenses**

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

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

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

**Reinsurance**

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

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

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

**Foreign currency translation**

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains less losses from foreign currencies dealing. The official KASE exchange rates as at 31 December 2009 and 2008 were KZT 148.46 and KZT 120.79 to 1 USD, respectively.

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Segment reporting**

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

**Future changes in accounting policies**

*Standards and interpretations issued but not yet effective*

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

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

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

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

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

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

*Improvements to IFRSs*

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

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

*(Millions of Kazakhstani Tenge)*

## 4. Summary of significant accounting policies (continued)

**Future changes in accounting policies (continued)**

*Standards and interpretations issued but not yet effective (continued)*

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

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

*IFRS 9 "Financial Instruments" (first phase)*

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

## 5. Significant accounting judgements and estimates

**Judgments**

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

*Special purpose entities*

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

**Key sources of estimation uncertainty**

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

**Estimation uncertainty**

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

*Allowance for impairment of loans and receivables*

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

*(Millions of Kazakhstani Tenge)*

## 5. Significant accounting judgements and estimates (continued)

**Estimation uncertainty (continued)**

*Allowance for impairment of loans and receivables (continued)*

As described in Note 2, during the fourth quarter of 2008, the quality of the Bank's loan portfolio has significantly deteriorated as a result of circumstances and actions taken before the current management of the Bank were appointed by the controlling shareholder. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. A number of significant borrowers, primarily registered outside Kazakhstan, have ceased servicing their loans, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.

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

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

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

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

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

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, in 2009 the Bank has recorded impairment loss on loans in the amount of KZT 706,944 million (in 2008: KZT 1,090,127 million).

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was KZT 1.841 million (2008 – KZT 37,421 million). More details are provided in Note 16.

*Taxation*

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

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

*(Millions of Kazakhstani Tenge)*

## 5. Significant accounting judgements and estimates (continued)

**Estimation uncertainty (continued)**

*Claims liability arising from insurance contracts*

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

## 6. Disposal of subsidiaries

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

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

| | ***Carrying value*** |
|---|---|
| | ***BTA Bank CJSC Kyrgyzstan*** |
| | ***28 December 2009*** |
| Cash and cash equivalents | **1,996** |
| Due from credit institutions | **945** |
| Obligatory reserves | **854** |
| Investment securities | **1,145** |
| Loans to customers | **6,671** |
| Property and equipment | **1,434** |
| Other assets | **593** |
| **Total assets** | **13,638** |
| | |
| Due to the government | **248** |
| Due to credit organisations | **7,560** |
| Due to customers | **1,443** |
| Other liabilities | **279** |
| **Total liabilities** | **9,530** |
| **Net assets value** | **4,108** |
| Non-controlling interests | **(1,191)** |
| Group's share in fair value of net assets | **2,917** |
| Goodwill | **158** |
| Loss from disposal | **(3,075)** |
| Total cash received | **–** |
| Cash of disposed organization | **(1,996)** |
| Total cash outflow | **(1,996)** |

*(Millions of Kazakhstani Tenge)*

## 7. Cash and cash equivalents

Cash and cash equivalents comprise:

| | *2009* | *2008* |
|---|---|---|
| Cash on hand | **41,492** | 5,248 |
| Current accounts with other financial institutions | **22,955** | 34,931 |
| Current accounts with central banks | **7,462** | 195 |
| Time deposits with other financial institutions with contractual maturity of 90 days or less | **1,231** | 27,200 |
| Reverse repurchase agreements with contractual maturity of 90 days or less | **3,706** | 20,109 |
| Time loans with contractual maturity of less than 90 days from the date of origination | **1,369** | 238 |
| **Cash and cash equivalents, gross** | **78,215** | 87,921 |
| Less – Allowance for impairment | **–** | (28) |
| **Cash and cash equivalents** | **78,215** | 87,893 |

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements was mainly corporate securities issued by Kazakhstani companies. Fair value of the collateral as at 31 December 2009 was KZT 3,573 million (31 December 2008 – KZT 29,406 million).

As at 31 December 2009 balances with ten banks accounted for 15.63% of total cash and cash equivalents (as at 31 December 2008 balances with ten banks accounted for 72.81% of total cash and cash equivalents).

## 8. Obligatory reserves

Obligatory reserves comprise:

| | *2009* | *2008* |
|---|---|---|
| Due from the NBK and national central banks | **145** | 27,601 |
| Cash on hand allocated to obligatory reserves | **–** | 36,453 |
| **Obligatory reserves** | **145** | 64,054 |

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Historically, such reserves must be held in either non-interest bearing deposits with the NBK or in physical cash computed based on average balances of the aggregate of non-interest bearing deposits with the NBK and physical cash in national and hard currencies during the period. The use of such funds is, therefore, subject to certain restrictions.

In 2008 in accordance with the financial markets stability program, the NBK decreased obligatory reserve requirements from 6% to 2% for domestic liabilities, and from 8% to 3% for external debt. Furthermore, since 3 March 2009, minimum reserve requirement for the second tier banks were decreased from 2% to 1.5% for domestic liabilities, and from 3% to 2.5% for other liabilities.

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

*(Millions of Kazakhstani Tenge)*

## 9. Trading securities

Trading securities comprise:

| | *2009* | *2008* |
|---|---|---|
| Debt securities: | | |
| Corporate bonds | **39,359** | 59,979 |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan | **20,642** | 25,019 |
| Sovereign bonds of OECD countries | **8,679** | 3,793 |
| Bonds of Kazakhstan financial institutions | **5,278** | 2,887 |
| Bonds of Kazakhstan non-financial institutions | **4,921** | 4,841 |
| Bonds of international financial organizations | **97** | 80 |
| Treasury bills of the Ministry of Finance of Russian Federation | **3** | 2 |
| Notes of the NBK | **–** | 9,918 |
| | **78,979** | 106,519 |
| Equity securities | **36,805** | 21,631 |
| **Trading securities** | **115,784** | 128,150 |
| Subject to repurchase agreements | **4,420** | 74,590 |

Counterparties of the Group under repurchase agreements do not have the right to sell or re-pledge securities pledged under these agreements.

## 10. Amounts due from credit institutions

As at 31 December, amounts due from credit institutions comprise:

| | *2009* | *2008* |
|---|---|---|
| Loans | **65,249** | 70,224 |
| Deposits | **18,652** | 19,389 |
| **Amounts due from credit institutions, gross** | **83,901** | 89,613 |
| Less – Allowance for impairment | **(52,457)** | (4,439) |
| **Amounts due from credit institutions** | **31,444** | 85,174 |

As at 31 December 2009 amounts due from ten largest credit institutions comprised 30.59% of total amounts due from credit institutions (at 31 December 2008 amounts due from ten largest credit institutions comprised 80.17% ).

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

| | *2009* | *2008* |
|---|---|---|
| **1 January** | **4,439** | 123 |
| Impairment charge | **47,310** | 4,173 |
| Write-offs | **(336)** | – |
| Recovery | **–** | 313 |
| Revaluation | **1,044** | (170) |
| **31 December** | **52,457** | 4,439 |

*(Millions of Kazakhstani Tenge)*

## 11. Derivative financial instruments

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

| | *2009* | | | *2008* | | |
|---|---|---|---|---|---|---|
| | *Notional principal* | *Fair value* | | *Notional principal* | *Fair value* | |
| | | *Assets* | *Liabilities* | | *Assets* | *Liabilities* |
| Currency swaps | **1,429** | **–** | **(1)** | 136,115 | 562 | (472) |
| Forwards and futures | **1,456** | **–** | **(33)** | 27,799 | 799 | (1,420) |
| Interest rate swaps | **255,463** | **11,797** | **(3,940)** | 462,318 | 20,289 | (16,897) |
| Options | **109,369** | **14,183** | **–** | 127,968 | – | – |
| **Total derivative assets/liabilities** | | **25,980** | **(3,974)** | | 21,650 | (18,789) |

*Swaps*

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

*Forwards and futures*

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

*Options*

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

As at 31 December 2009 and 2008 the Bank had certain loans that are foreign currencies linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Bank has an option to demand higher payments if the foreign currency specified in the contract will appreciate above a certain floor (floor is generally set at the level of spot rates prevailing on the loans issue date). At the same time, if the foreign currency rates will fall below the floor, interest and principal payments will remain at original level.

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

## 12. Available-for-sale investment securities

Available-for-sale investment securities as at 31 December comprise:

| | *2009* | *2008* |
|---|---|---|
| Corporate bonds | **10,441** | 15,142 |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan | **6,215** | 2,129 |
| Notes of the NBK | **940** | 218 |
| Bonds of Kazakhstan financial institutions | **897** | 312 |
| Treasury bills of the Ministry of Finance of the Republic of Belorussia | **–** | 912 |
| Treasury bills of the Ministry of Finance of Kyrgyzstan | **–** | 409 |
| | **18,493** | 19,122 |
| Equity securities | **526** | 1,328 |
| Mutual fund shares | **–** | 32 |
| **Available-for-sale investment securities** | **19,019** | 20,482 |

During 2008 the Bank transferred certain available-for-sale investment securities with a carrying amount of KZT 35,402 million under trust management to a company registered in an offshore jurisdiction. Subsequent to 31 December 2008, the Bank received a statement from this company, which indicated that these securities were disposed of in January 2009. No consideration was received by the Bank from this disposal. The Bank initiated an internal investigation with respect to the disposal and passed the information to the Procuracy of the Republic of Kazakhstan and FMSA. Management of the Bank believes that the circumstances above indicate that these securities were not recoverable as at 31 December 2008. Therefore, these securities have been fully written-off as at 31 December 2008.

During 2009 the Group has recognized an impairment loss on equity securities in the amount of KZT 2,764 million (2008 – 42,610).

*(Millions of Kazakhstani Tenge)*

## 13. Loans to customers

Loans to customers comprise:

| | *2009* | *2008* |
|---|---|---|
| Corporate lending | **2,476,199** | 2,071,991 |
| Small and medium business lending | **216,445** | 256,833 |
| Individuals lending | **471,537** | 505,517 |
| **Gross loans to customers** | **3,164,181** | 2,834,341 |
| Less – Allowance for impairment | **(2,123,408)** | (1,217,278) |
| **Loans to customers** | **1,040,773** | 1,617,063 |

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

| | *2009* | *2008* |
|---|---|---|
| Private companies | **2,684,843** | 2,321,272 |
| Individuals | **471,537** | 505,517 |
| State companies | **7,574** | 7,353 |
| Other | **227** | 199 |
| **Loans to customers, gross** | **3,164,181** | 2,834,341 |

*Allowance for impairment of loans to customers*

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

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

| | *Corporate lending 2008* | *Small and medium business lending 2008* | *Individuals lending 2008* | *Total 2008* |
|---|---|---|---|---|
| At 1 January 2008 | 111,502 | 23,231 | 2,310 | 137,043 |
| Charge for the year | 1,067,075 | (824) | 23,876 | 1,090,127 |
| Amounts written off | (1,705) | (2,818) | (6,006) | (10,529) |
| Recoveries | 308 | 1,606 | 2,485 | 4,399 |
| Revaluation | (868) | (33) | (249) | (1,150) |
| Amounts arising on business combination | (2,002) | – | (610) | (2,612) |
| At 31 December 2008 | 1,174,310 | 21,162 | 21,806 | 1,217,278 |
| Individual impairment | 1,141,870 | 9,094 | 15,031 | 1,165,995 |
| Collective impairment | 32,440 | 12,068 | 6,775 | 51,283 |
| | 1,174,310 | 21,162 | 21,806 | 1,217,278 |
| **Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance** | 1,355,897 | 15,637 | 25,846 | 1,397,380 |

*(Millions of Kazakhstani Tenge)*

## 13. Loans to customers (continued)

*Individually impaired loans*

As described in Note 5, during the fourth quarter of 2008 and at the beginning of 2009, the quality of the Bank's loan portfolio has significantly deteriorated as a result of circumstances and actions taken before the current management of the Bank were appointed by the controlling shareholder. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. Consequently all transferred loans are unsecured. A number of significant borrowers, primarily registered outside Kazakhstan, have ceased servicing their loans, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.

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

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

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

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

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

In addition, the ongoing financial crisis and devaluation of tenge by 25% have affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, in 2009 the Bank has recorded impairment loss on loans in the amount KZT 706,944 million.

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2009, comprised KZT 468,795 million (at at 31 December 2008: KZT 141,743 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2009 comprised KZT 493,947 million (at 31 December 2008: KZT 583,015 million). In accordance with the NBK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

*Collateral and other credit enhancements*

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

The main types of collateral obtained are as follows:

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

The Group also obtains guarantees from parent companies for loans to their subsidiaries and civil liability insurance agreements.

*(Millions of Kazakhstani Tenge)*

## 13. Loans to customers (continued)

*Collateral and other credit enhancements (continued)*

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

During the year, the Group took possession of collateral with an estimated value of KZT 3,348 million, which the Group is in the process of selling (at 31 December 2008 – KZT 11,207 million). It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2009 was KZT 55,345 million (at 31 December 2008 – KZT 83,629 million).

*Derecognition of a loan portfolio*

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any default loan. The Group has determined that, as a result of these transactions, substantially all the risks and rewards of the portfolio have not been transferred to KMC. Therefore, the Group continues to recognise these loans as an asset on its consolidated statement of financial position with the corresponding liability recorded in loans from financial institutions for the same amount. As at 31 December 2009 these loans amounted to KZT 6,994 million (2008: KZT 9,082 million).

As at 31 December 2009 loans to customers include loans of KZT 52,427 million, which are pledged as collateral for the mortgage-backed bonds (at 31 December 2008 – KZT 64,917 million).

*Concentration of loans to customers*

As at 31 December 2009 the Group had a concentration of loans represented by KZT 478,875 million due from the ten largest borrowers that comprised 15% of the total gross loan portfolio (2008 – KZT 409,465 million, 14%). Allowances amounting to KZT 437,103 million were recognised against these loans as at 31 December 2009 (at 31 December 2008 – KZT 315,565 million).

As at 31 December 2009 the Group had in the amount of KZT 508,966 million (at 31 December 2008 – KZT 494,799 million), with interest and principal repayable at maturity. Allowances amounting to KZT 391,732 million were recognised against these loans as at 31 December 2009 (at 31 December 2008 – KZT 236,111 million).

Loans are made to the following sectors:

| | *2009* | *%* | *2008* | *%* |
|---|---|---|---|---|
| Real estate investments | **536,224** | **16.9%** | 435,188 | 15.4% |
| Housing construction | **492,138** | **15.6%** | 415,536 | 14.7% |
| Individuals | **471,537** | **14.9%** | 505,517 | 17.8% |
| Oil & Gas | **382,103** | **12.1%** | 314,970 | 11.1% |
| Wholesale trade | **359,531** | **11.4%** | 298,573 | 10.5% |
| Construction of roads and industrial buildings | **274,311** | **8.7%** | 206,066 | 7.3% |
| Agriculture | **153,401** | **4.8%** | 142,819 | 5.0% |
| Energy | **68,895** | **2.2%** | 84,266 | 3.0% |
| Chemical industry | **64,452** | **2.0%** | 62,783 | 2.2% |
| Retail trade | **49,552** | **1.6%** | 62,116 | 2.2% |
| Food industry | **41,037** | **1.3%** | 40,152 | 1.4% |
| Transport | **39,453** | **1.2%** | 51,087 | 1.8% |
| Mining | **38,991** | **1.2%** | 35,580 | 1.3% |
| Telecommunication | **33,940** | **1.1%** | 25,244 | 0.9% |
| Metallurgical industry | **28,534** | **0.9%** | 25,374 | 0.9% |
| Hospitality | **16,102** | **0.5%** | 13,903 | 0.5% |
| Textile and leather industry | **12,514** | **0.4%** | 11,241 | 0.4% |
| Production of machinery and equipment | **9,136** | **0.3%** | 12,259 | 0.4% |
| Financial services | **8,896** | **0.3%** | 12,968 | 0.5% |
| Production of rubber and plastic articles | **992** | **0.0%** | 894 | 0.0% |
| Publishing | **645** | **0.0%** | 1,059 | 0.0% |
| Research & development | **584** | **0.0%** | 818 | 0.0% |
| Other | **81,213** | **2.6%** | 75,928 | 2.7% |
| | **3,164,181** | **100.0%** | 2,834,341 | 100.0% |

*(Millions of Kazakhstani Tenge)*

## 13. Loans to customers (continued)

*Concentration of loans to customers (continued)*

Loans to individuals are presented as follows:

| | *2009* | *2008* |
|---|---|---|
| Consumer loans | **241,759** | 271,387 |
| Mortgage loans | **229,778** | 234,130 |
| | **471,537** | 505,517 |

*Finance lease receivable*

Below is the analysis of finance lease receivables as at 31 December 2009:

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

| *2008* | *Not later than one year* | *Later than one year and not later than five years* | *Later than five years* | *Total* |
|---|---|---|---|---|
| Finance lease receivables | 4,278 | 15,531 | 2,887 | 22,696 |
| Unearned finance income on finance lease of future periods | (125) | (4,667) | (757) | (5,549) |
| **Net investment in finance leases** | 4,153 | 10,864 | 2,130 | 17,147 |

## 14. Bonds of NWF Samruk-Kazyna

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

As at 31 December 2009 426,251 thousands of these debt securities were pledged under repurchase agreements with the NBK for the one month term with the renewal right. The fair value of these debt securities as at 31 December 2009 amounted to KZT 359,058 million. NBK has the right to sell or re-pledge these securities, during the agreement period.

## 15. Investments in associates

Movement in investments in associates was:

| | *2009* | *2008* |
|---|---|---|
| Balance, beginning of the period | **72,371** | 67,767 |
| Purchase cost | **5,785** | 34,298 |
| Disposal cost | **–** | (608) |
| Impairment charge | **(676)** | (19,138) |
| Transfer to/ from investments in associates | **2,546** | 6,785 |
| Share in net income/(loss) of associates | **4,690** | (15,448) |
| Dividends received | **–** | (658) |
| Share of reserve for revaluation of securities of associates | **372** | (627) |
| **Investments in associates, end of the year** | **85,088** | 72,371 |

In March 2009 the Group acquired 33,978,708 shares in its associate Shekerbank to the amount of KZT 3,269 million by purchasing additional issued shares to maintain the equity interest of 33,98%.

As at 31 December 2008 investment in Oranta NJSIC OJSC (Ukraine) in the amount of KZT 881 million was included into available-for-sale investment securities. In December 2009 as the result of an additional issue of common shares of Oranta NJSIC OJSC the Bank invested KZT 1,665 million to maintain the equity interest of 14.01% and acquired an additional share of 16.38% in the equity of Oranta NJSIC OJSC for KZT 2,516 million. As the result, the Group's share in the equity of Oranta

*(Millions of Kazakhstani Tenge)*

## 15. Investments in associates (continued)

NJSIC OJSC increased from 14.01% to 30.39% as at 31 December 2009, which provided the Bank with significant influence over the activity of Oranta NJSIC OJSC and enabled the Bank to record the investment by using the equity method.

In October 2008 the Bank finalized the acquisition of an additional 50.3% equity interest in BTA Bank CJSC (Belorussia) (former Astanaeximbank CJSC) for KZT 3,501 million. As a result of the acquisition the Bank's interest in BTA Bank CJSC (Belorussia) increased to 99.29%, which provided the Bank with effective control and enabled the Bank to treat BTA Bank CJSC (Belorussia) as a subsidiary starting from November 2008.

On 7 November 2008 BTA Bank LLC (Russia) issued additional shares in the amount of RUR 7,200 million (equivalent of KZT 31,968 million). The Bank did not use its preemptive right to purchase these shares. As a result the Bank's share in BTA Bank LLC (Russia) decreased from 52.84% to 22.26%. As a result, the Bank has lost effective control over BTA Bank LLC (Russia), but retained significant influence. This allowed the Bank to consider BTA Bank LLC (Russia) as an associate. The carrying amount of investment at the date BTA Bank LLC (Russia) became an associate was KZT 18,938 million, before any share in loss.

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

| ***Aggregated assets and liabilities of associates*** | ***2009*** | ***2008*** |
|---|---|---|
| Total assets | **1,291,602** | 950,054 |
| Total liabilities | **(1,049,331)** | (872,839) |
| **Net assets** | **242,271** | 77,215 |

| ***Aggregated profit of associates*** | ***2009*** | ***2008*** |
|---|---|---|
| Net profit/(loss) | **9,982** | (103,923) |

Investments in associates at 31 December 2009 include goodwill of KZT 24,096 million (excess of the cost of the investment over the Group's share in the net fair value of identifiable assets and liabilities of the associate (2008 – KZT 23,944 million)). For general information, refer to Note 3.

## 16. Goodwill

The movements in goodwill were as follows:

| | ***2009*** | ***2008*** |
|---|---|---|
| **Cost** | | |
| **January 1** | **45,528** | 37,557 |
| Additions | – | 6,173 |
| Acquisition through business combinations | – | 12,567 |
| Foreign currency revaluation | **14** | (1,891) |
| Disposal | **(158)** | (8,878) |
| **31 December** | **45,384** | 45,528 |
| **Accumulated impairment** | | |
| **1 January** | **(8,107)** | – |
| Impairment charge | **(35,436)** | (8,107) |
| **31 December** | **(43,543)** | (8,107) |
| **Net book value:** | **1,841** | 37,421 |

*Impairment testing of goodwill*

The impairment is largely the result of uncertainties in the Kazakhstan economy, especially in the retail and mortgage sectors and deterioration of the subsidiaries' financial position. The Group performed an impairment test of goodwill as at 31 December 2009 and recognized an impairment loss of KZT 35,436 million on goodwill from acquisition of Temirbank JSC.

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

- Corporate Banking; and
- Retail Banking.

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

| | ***31 December 2009*** | ***31 December 2008*** |
|---|---|---|
| Corporate Banking | **1,031** | 12,771 |
| Retail Banking | **810** | 24,650 |
| | **1,841** | 37,421 |

*(Millions of Kazakhstani Tenge)*

## 16. Goodwill (continued)

*Key assumptions used in value in use calculations*

The recoverable amount of each cash generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The following rates are used by the Group:

| | Temirbank | | | |
|---|---|---|---|---|
| | Corporate Banking | | Retail Banking | |
| | *2009, %* | *2008, %* | *2009, %* | *2008, %* |
| Discount rate | **13.96** | 12.66 | **13.96** | 12.66 |
| Projected growth rate | **5.00** | 2.00 | **5.00** | 2.00 |

The calculation of value in use for both Corporate and Retail Banking units is most sensitive to the following assumptions:
- Interest margins;
- Discount rates;
- Market share during the budget period;
- Current local Gross Domestic Product (GDP); and
- Local inflation rates.

*Interest margins*

Interest margins are based on effective interest rates charged during 2009. These are increased over the budget period for anticipated inflation rates.

*Discount rates*

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are used to calculate present value of future cash flows expected to receive from cash generating units. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

*Market share assumptions*

These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period. Management expects the Group's share of the Retail Banking and Corporate Banking markets, including customer deposits, to be stable over the budget period.

*Projected growth rates, GDP and local inflation rates*

Assumptions are based on published industry research.

*Sensitivity to changes in assumptions*

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount of segments will not result in an additional impairment of goodwill.

## 17. Other impairment and provisions

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

| | *Other assets* | *Guarantees and letters of credit* | *Total* |
|---|---|---|---|
| As at 31 December 2007 | 360 | 10,577 | 10,937 |
| Impairment charge | 1,435 | 95,397 | 96,832 |
| Write-offs | (476) | – | (476) |
| Recoveries | 74 | – | 74 |
| Revaluation | (6) | (1,081) | (1,087) |
| As at 31 December 2008 | 1,387 | 104,893 | 106,280 |
| Impairment charge | **8,145** | **(70,596)** | **(62,451)** |
| Write-offs | **(1,055)** | **(3)** | **(1,058)** |
| Recoveries | **13** | **–** | **13** |
| Revaluation | **(12)** | **24,833** | **24,821** |
| **As at 31 December 2009** | **8,478** | **59,127** | **67,605** |

Allowances for impairment of assets are deducted from the related assets. Other provisions comprise allowances for letters of credit and guarantees.

*(Millions of Kazakhstani Tenge)*

## 18. Taxation

The corporate income tax expense comprises:

| | 2009 | 2008 |
|---|---|---|
| Current tax charge | **847** | 4,297 |
| Deferred tax charge- origination and reversal of temporary differences | **(221)** | (4,364) |
| **Income tax (benefit) / expense** | **626** | (67) |

The Bank and its subsidiaries, other than TuranAlem Finance B.V. ("TAF BV"), Temir Capital B.V ("TK BV"), TuranAlem Finance ("TAF"), BTA Bank (Belorussia), BTA Luxembourg, First Kazakh Securitization Company and Second Kazakh Securitization Company are subject to taxation in the Republic of Kazakhstan. TAF BV, TK BV, First Kazakh Securitization Company and Second Kazakh Securitization Company are subject to taxation in the Netherlands. TAF is subject to income tax in the Russian Federation. BTA Luxembourg is subject to income tax in Luxembourg. BTA Bank (Belorussia) is subject to income tax in Belorussia.

The tax rate for the Bank and its subsidiaries, other than the insurance company, on income differing from taxable income from state and other qualified securities amounted to 20% in 2009 and 30% in 2008. In accordance with changes to tax legislation in 2009, as at 31 December 2009 the corporate income tax rate of 20.0% has decreased to 17.5% and 15.0% in 2013 and 2014 years, respectively. Tax legislation effective as at 31 December 2008 stipulated a decrease in tax rate to 17.5% in 2010 and to 15.0% in 2011.

As at 31 December 2009 and 2008 the Group had current income tax assets in the amount of 5,708 million and 5,505 million tenge, respectively.

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

| | 2009 | 2008 |
|---|---|---|
| **Accounting profit before income tax** | **(1,113,908)** | (1,188,117) |
| Statutory rate of corporate income tax | **20%** | 30% |
| | | |
| **Theoretical income tax benefit at the statutory rate** | **(222,782)** | (356,435) |
| Non-deductible impairment charge | **16,020** | 23,411 |
| Non-deductible interest expenses | **24,472** | – |
| Non-deductible losses from disposal of subsidiaries | **615** | 3,376 |
| Non-deductible business expenses | **573** | 1,110 |
| Impairment loss on goodwill | **7,087** | 2,432 |
| Write-down of inventories | **895** | 719 |
| Non-deductible loss/ (non taxable income) on state securities and securities officially listed at KASE | **1,365** | (496) |
| (Non taxable income)/ non-deductible loss from associates | **(938)** | 4,634 |
| Income of subsidiaries taxed at different rates | **(17)** | (2,347) |
| Differences arising from changes in tax rates | **(16,920)** | 131,997 |
| Change in unrecognised deferred tax assets | **185,851** | 192,315 |
| Other permanent differences | **4,405** | (783) |
| **Income tax expense/(benefit)** | **626** | (67) |

*(Millions of Kazakhstani Tenge)*

## 18. Taxation (continued)

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

| | *2007* | *Origination and reversal of temporary differences in statement of income* | *Origination and reversal of temporary differences in equity* | *2008* | *Origination and reversal of temporary differences in statement of income* | *Origination and reversal of temporary differences in equity* | *2009* |
|---|---|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences:** | | | | | | | |
| Allowances for loan impairment | 4,906 | 189,653 | – | 194,559 | **(184,272)** | **–** | **10,287** |
| Tax losses carry forward | – | – | – | – | **351,206** | **–** | **351,206** |
| Fair value measurement of securities | 1,644 | 4,783 | 11 | 6,438 | **(4,896)** | **–** | **1,542** |
| Interest written-off | – | 1,684 | – | 1,684 | **29,682** | **–** | **31,366** |
| Property and equipment | – | 56 | – | 56 | **(56)** | **–** | **–** |
| Other | 1,015 | 417 | – | 1,432 | **803** | **–** | **2,235** |
| **Gross deferred tax assets** | 7,565 | 196,593 | 11 | 204,169 | **192,467** | **–** | **396,636** |
| Unrecognised deferred tax assets | – | (192,315) | – | (192,315) | **(185,851)** | **–** | **(378,166)** |
| **Deferred tax asset** | 7,565 | 4,278 | 11 | 11,854 | **6,616** | **–** | **18,470** |
| **Tax effect of taxable temporary differences:** | | | | | | **–** | |
| Allowances for impairment | (1,647) | 1,647 | – | – | **(7,691)** | **–** | **(7,691)** |
| Fair value measurement of securities | (4,529) | (2,263) | (12) | (6,804) | **2,190** | **–** | **(4,614)** |
| Property and equipment | (702) | 702 | – | – | **(517)** | **–** | **(517)** |
| Other | (4) | – | – | (4) | **(377)** | **–** | **(381)** |
| **Deferred tax liability** | (6,882) | 86 | (12) | (6,808) | **(6,395)** | **–** | **(13,203)** |
| **Deferred tax asset** | 683 | 4,364 | (1) | 5,046 | **221** | **–** | **5,267** |

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

The deferred tax asset as at 31 December 2009 was mainly comprised of losses carried forward as a result of allowance for bad debts.

In accordance with IAS 12 a deferred tax asset was recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available in future against which the deductible temporary difference can be utilized. As at 31 December 2009 deferred tax asset in the amount of KZT 378,166 million was not recognized as due to restructuring the Group was not able to reliably assess whether it will be able to generate future taxable income against which these temporary differences could be utilized.

*(Millions of Kazakhstani Tenge)*

## 19. Amounts due to the Government of RK and central banks

Amounts due to the Government and central banks consist of the following:

| | *2009* | *2008* |
|---|---|---|
| Loans from the NBK | **405,487** | 28 |
| Amounts due to the Government: | | |
| Interest bearing – KZT denominated | **1,002** | 1,292 |
| Interest bearing – USD denominated | **20** | 193 |
| Interest bearing – EUR denominated | **86** | 136 |
| Interest bearing – KGS denominated | **–** | 55 |
| Loans from the National Bank of Kyrgyzstan | **–** | 14 |
| **Amounts due to the Government of RK and central banks** | **406,595** | 1,718 |

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

## 20. Amounts due to credit institutions

Amounts due to credit institutions com:

| | *2009* | *2008* |
|---|---|---|
| Loans from OECD based banks and financial institutions | **442,778** | 451,737 |
| Loans from Kazakh banks and financial institutions | **190,438** | 126,434 |
| Syndicated bank loans | **163,053** | 156,617 |
| Loans from other banks and financial institutions | **19,293** | 24,201 |
| Pass-through loans | **18,429** | 17,278 |
| | **833,991** | 776,267 |
| Interest-bearing placements from Kazakh banks | **1,600** | 21,112 |
| Loro accounts | **772** | 2,503 |
| Interest-bearing placements from non OECD banks | **21** | 3,484 |
| | **2,393** | 27,099 |
| **Amounts due to credit institutions** | **836,384** | 803,366 |
| | | |
| Subject to repurchase agreements | **4,430** | 65,472 |

As at 31 December 2009 the fair value of the securities pledged under the repurchase agreements amounted to KZT 4,420 million (at 31 December 2008 – KZT 74,590 million). Refer to Note 9.

*Financial covenants*

In accordance with the contractual terms of loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies. As at 31 December 2009 and 2008 the Bank was in breach of capital adequacy, lending exposure and cross default covenants on these loan facilities. As at 31 December 2009 and the date of authorization of these consolidated financial statements the Bank was in the process of restructuring these debts.

## 21. Amounts due to customers

The amounts due to customers included balances in customer current accounts, time deposits, and certain other liabilities, and include the following:

| | *2009* | *2008* |
|---|---|---|
| Time deposits | **373,802** | 684,330 |
| Current accounts | **270,221** | 179,658 |
| Guarantee and restricted deposits | **11,940** | 22,064 |
| **Amounts due to customers** | **655,963** | 886,052 |

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

*(Millions of Kazakhstani Tenge)*

## 21. Amounts due to customers (continued)

At 31 December 2009, the Bank's ten largest customers accounted for approximately 56.61% of the total amounts due to customers (2008 – 34.80%).

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

| | *2009* | *2008* |
|---|---|---|
| **Time deposits:** | | |
| Commercial entities | **32,016** | 201,240 |
| Individuals | **151,318** | 262,644 |
| Governmental entities | **184,448** | 218,209 |
| Non-commercial entities | **6,020** | 2,237 |
| **Current accounts:** | | |
| Commercial entities | **66,057** | 124,350 |
| Individuals | **29,314** | 33,864 |
| Governmental entities | **173,132** | 20,371 |
| Non-commercial entities | **1,718** | 1,073 |
| **Guarantees and other restricted deposits:** | | |
| Commercial entities | **8,557** | 10,762 |
| Individuals | **3,345** | 10,837 |
| Governmental entities | **37** | 463 |
| Non-commercial entities | **1** | 2 |
| **Amounts due to customers** | **655,963** | 886,052 |

Included in time deposits are deposits of individuals in the amount of KZT 151,318 million (2008 – KZT 262,644 million). In accordance with the Civil Code of the Republic of Kazakhstan, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

An analysis of customer accounts by sector follows:

| | *2009* | *%* | *2008* | *%* |
|---|---|---|---|---|
| Individuals | **183,977** | **28.00%** | 307,345 | 34.70% |
| Oil and gas production | **183,478** | **28.00%** | 233,290 | 26.30% |
| Amounts due to Samruk Kazyna | **160,454** | **24.50%** | – | – |
| Construction | **25,405** | **3.90%** | 49,060 | 5.50% |
| Non-credit financial organizations | **19,635** | **3.00%** | 19,226 | 2.20% |
| Wholesale trading | **18,668** | **2.80%** | 81,303 | 9.20% |
| State administration bodies | **13,035** | **2.00%** | 28,501 | 3.20% |
| Research and development | **5,772** | **0.90%** | 11,594 | 1.30% |
| Transportation | **3,328** | **0.50%** | 33,113 | 3.70% |
| Wholesale trading | **3,320** | **0.50%** | 4,265 | 0.50% |
| Chemical processing | **2,845** | **0.40%** | 1,480 | 0.20% |
| Agriculture | **2,484** | **0.40%** | 3,887 | 0.40% |
| Machinery and equipment production | **1,975** | **0.30%** | 5,873 | 0.70% |
| Education | **1,945** | **0.30%** | 7,014 | 0.80% |
| Energy | **1,454** | **0.20%** | 30,788 | 3.50% |
| Textile and leather industry | **1,065** | **0.20%** | 1,607 | 0.20% |
| Mining | **849** | **0.10%** | 1,912 | 0.20% |
| Food industry | **759** | **0.10%** | 1,091 | 0.10% |
| Metallurgy | **749** | **0.10%** | 11,475 | 1.30% |
| Entertainment | **517** | **0.10%** | 1,241 | 0.10% |
| Communication | **411** | **0.10%** | 5,425 | 0.60% |
| Hotel and hospitality | **155** | **0.00%** | 353 | 0.00% |
| Other | **23,683** | **3.60%** | 46,209 | 5.30% |
| | **655,963** | **100.0%** | 886,052 | 100.0% |

*(Millions of Kazakhstani Tenge)*

## 22. Debt securities issued

As at 31 December debt securities issued consisted of the following:

| | *2009* | *2008* |
|---|---|---|
| KZT bonds with fixed rate | **578,684** | 28,358 |
| USD bonds with fixed rate | **501,749** | 411,068 |
| USD and KZT subordinated bonds with fixed rate | **165,334** | 174,271 |
| EUR bonds with fixed rate | **120,618** | 85,844 |
| JPY bonds with floating rate | **70,938** | 57,598 |
| USD perpetual financial instruments with fixed rate | **68,699** | 54,623 |
| USD bonds with floating rate | **53,048** | 165,251 |
| KZT bonds with floating rate | **49,956** | 39,555 |
| GBP bonds with fixed rate | **41,422** | 34,926 |
| JPY bonds with fixed rate | **32,748** | 26,609 |
| CHF bonds with floating rate | **29,654** | 23,147 |
| KZT subordinated bonds with floating rate | **22,762** | 21,756 |
| RUR bonds with fixed rate | **15,268** | 12,555 |
| PLZ bonds with floating rate | **–** | 8,162 |
| PLZ bonds with fixed rate | **11,558** | – |
| RUR deposit certificate | **14** | 19 |
| | **1,762,452** | 1,143,742 |
| USD treasury bonds held by Group | **(3,615)** | (1,359) |
| KZT treasury bonds held by Group | **(4,297)** | (3,061) |
| USD and KZT treasury subordinated bonds held by Group | **(64,053)** | (22,365) |
| | **1,690,487** | 1,116,957 |
| Plus unamortized premium | **124** | 622 |
| Less unamortized cost of issuance | **(663)** | (699) |
| Less unamortized discount | **(21,346)** | (29,154) |
| **Debt securities issued** | **1,668,602** | 1,087,726 |

On 23 January 2009 the Bank has repaid, at maturity, its notes for the total amount of USD 250,000 thousand, issued under the Bank's Global Medium Term Notes Program.

In March 2009 TemirCapital B.V., the Bank's subsidiary, repaid its notes at maturity in the amount of USD 150,000 thousand.

In March 2009 the Group issued debt securities at the nominal value of KZT 645,000 million at a below market interest rate, purchased by the Parent. Fair value at the initial recognition date of these securities amounted to KZT 535,393 million. The difference between the nominal value and the fair value at the initial recognition date of KZT 109,607 million was recognized within Additional paid-in-capital as transaction with the Shareholder of the Group.

In June 2009 DPR Finance Company, the Bank's subsidiary, repaid its notes for the total amount of USD 750,000 thousand.

During 2009 the Group purchased its own bonds with the carrying value of KZT 44,998 million for KZT 34,602 million. The gain on repurchase of own bonds in the amount of KZT 10,396 million was recognized in the consolidated income statement.

As at 31 September 2009 and 31 December 2008 subordinated notes are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

In accordance with the terms of the debt securities issued, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies. As at 31 December 2009 and 31 December 2008, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on debt securities issued. As at 31 December 2009 and the date of authorization of these consolidated financial statements the Bank was in the process of restructuring these debts.

*(Millions of Kazakhstani Tenge)*

## 23. Equity

As at 31 December 2009 and 2008 share capital comprises:

| | Common shares | | | Non-redeemable CPS | | |
|---|---|---|---|---|---|---|
| | Number of authorized shares | Number of shares issued | Placement value (KZT million) | Number of authorized shares | Number of shares issued | Placement value (KZT million) |
| 31 December 2007 | 8,370,158 | 8,370,158 | 303,427 | – | – | – |
| Increase in issued capital | 467 | 467 | 29 | 100,000 | – | – |
| 31 December 2008 | 8,370,625 | 8,370,625 | 303,456 | 100,000 | – | – |
| **Increase in issued capital** | **29,915,425** | **25,246,343** | **212,095** | **–** | **–** | **–** |
| **31 December 2009** | **38,286,050** | **33,616,968** | **515,551** | **100,000** | **–** | **–** |

Issued capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of the Bank following the combination of Turan Bank and Alem Bank.

As at 31 December 2009 the Group held 1,517,088 shares of the Bank as treasury shares (2008 –30,586).

At an Extraordinary General Meeting of the Bank held on 22 February 2007, the Bank's shareholders approved the eleventh issue of its common shares and the subsequent increase of the Bank's share capital by the KZT equivalent of USD 1.5 billion, which was registered on 19 March 2007 by FMSA. As a result, in 2007 the Bank increased the number of authorised shares by 3,007,575 common shares. During 2008 the Bank issued 467 common shares at placement value of KZT 62,178 per share totalling KZT 29 million, which were fully issued and paid in 2008.

At an Extraordinary General Meeting of the Bank held on 14 May 2008, the Bank's shareholders approved the issue of 100,000 convertible cumulative preferred shares ("CPS"), which was registered on 9 June 2008 by the FMSA. As at 31 December 2009 and 2008 no CPS were issued.

In February 2009 according to the decision of the Government the number of authorized shares was increased by 29,915,425 shares. As at 31 December 2009 the Government represented by National Welfare Fund Samruk-Kazyna JSC purchased 25,246,343 shares at KZT 8,401 per share to the total amount of KZT 212,095 million.

*Dividends on CPS*

The dividends on convertible preferred shares authorised in 2008 were established at the rate of 11.00% per annum of placement value of shares. No convertible preferred shares were outstanding as at 31 December 2009 and 2008. Accordingly, no dividends on CPS were accrued or paid.

*Unrealised gains (losses) on investment securities available-for-sale*

This reserve records fair value changes on available-for-sale investments.

*Foreign currency translation reserve*

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

Movements in treasury stock were presented as follows:

| | |
|---|---|
| 31 December 2007 | 7,522 |
| Number of purchased treasury shares | 215,937 |
| Number of sold treasury share | (192,873) |
| 31 December 2008 | 30,586 |
| Number of purchased treasury shares | **1,579,740** |
| Number of sold treasury share | **(93,238)** |
| **31 December 2009** | **1,517,088** |

*(Millions of Kazakhstani Tenge)*

## 24. Commitments and contingencies

### Political and economic environment

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

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

Also, the borrowers may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group. Due to the fall in prices in global and Kazakhstani securities markets, the Group may face a significant decrease in the fair value of securities pledged as collateral against loans extended by the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. Also refer to Note 2.

### Legal actions and claims

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

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities mentioned above Also refer to Note 35.

**"BTA Bank" (Kyrgyzstan)**

The Bank is in the process of a legal dispute with CJSC Investment Holding Company ("IHC"), a Kyrgyzstan registered entity. The total amount of this dispute is GBP 30,418,144 equivalent to KZT 7,400 million.

In June 2009, Central Asia Investment Company ("CAIC"), a Kyrgyzstan registered entity and a 100% subsidiary of IHC, obtained a loan from its parent, IHC, of GBP 8,670,000 with an intended use to purchase Kyrgyzstan state securities. CAIC, in violation of the intended purpose of the loan from its parent, used these funds to purchase bonds of TuranAlem Finance B.V. (TAF B.V.), the Bank's subsidiary, at significant discount on the market. The nominal value of purchased bonds was GBP 28,395,000 and accrued interest was GBP 2,023,144. CAIC defaulted on its loan payable to IHC. As a result, IHC filed a lawsuit against BTA Bank, BTA Bank Kyrgyzstan and TAF B.V. claiming a repayment of the full nominal value and interest accrued on bonds of TAF B.V. In accordance with the decision of Bishkek's district court, Bishkek's municipal Court of appeals and the Supreme Court of Kyrgyzstan dated 11 September 2009 the Bank is obliged to pay the full amount and IHC started to collect the funds from the Bank, a guarantor on bonds of TAF B.V., including the Bank's shares in BTA Bank Kyrgyzstan and amounts due to the Bank by BTA Bank Kyrgyzstan.

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

In December 2009, an officer of the court foreclosed on shares held by the Bank in BTA Bank Kyrgyzstan, which resulted in loss of control over "BTA Bank" CJSC (Kyrgyzstan). Therefore, the management of the Bank decided to deconsolidate "BTA Bank" CJSC (Kyrgyzstan) as at 31 December 2009.

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

On 5 November 2009 the Bank with support of its controlling shareholder has filed a claim with the Kyrgyzstan government for compensation of GBP 30,418,144 and USD 38,891,000 for damages incurred as a result of illegal acts of Kyrgyz legal and government entities.

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## 24. Commitments and contingencies (continued)

**Tax contingencies**

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

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2009. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

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

| | ***2009*** | ***2008*** |
|---|---|---|
| Undrawn loan commitments | **431,767** | 363,490 |
| Commercial letters of credit | **42,652** | 139,524 |
| Guarantees | **77,239** | 175,196 |
| | **551,658** | 678,210 |
| **Operating lease commitments** | | |
| Not later than 1 year | **1,348** | 1,199 |
| Later than 1 year but not later than 5 years | **1,661** | 3,065 |
| Later than 5 years | **2,747** | 5,881 |
| | **5,756** | 10,145 |
| Less: cash collateral (Note 21) | **(11,940)** | (22,064) |
| Less: provisions (Note 17) | **(59,127)** | (104,893) |
| **Commitments and contingencies** | **486,347** | 561,398 |

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

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

**Trust activities**

The Group provides custody services for third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at 31 December 2009 such securities held in this capacity were KZT 242,835 million (2008 – KZT 294,852 million).

In addition, the Group manages certain pension funds through its specialised subsidiary. Below presented are statements of net assets available for pension benefits as well as changes in net assets available for pension benefits at 31 December of the pension fund under management.

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## 24. Commitments and contingencies (continued)

**Trust activities (continued)**

*Statement of Net Assets Available for Pension Benefits*

As at 31 December net assets available for pension benefits comprise:

| | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **1,535** | 2,228 |
| Amounts due from credit institutions: | | |
| - Time deposits with maturity over 90 days or past due | **–** | 6,107 |
| - Reverse repurchase agreements | **–** | 612 |
| Available-for-sale investment securities: | | |
| - Sovereign bonds of the Republic of Kazakhstan | **799** | 17,388 |
| - Corporate bonds | **48,332** | 54,381 |
| - Corporate shares | **41,226** | 29,783 |
| Investment securities, held to maturity: | | |
| - Agency bonds | **396** | 460 |
| - Government bonds of the Republic of Kazakhstan | **51,078** | – |
| - Corporate bonds | **62,804** | 66,887 |
| Accrued investment income | **1,684** | 1,996 |
| Other receivables | **–** | 181 |
| **Total assets** | **207,854** | 180,023 |
| | | |
| **Liabilities** | | |
| Commissions payable to pension funds | **(114)** | (83) |
| Other liabilities | **(6)** | (8) |
| **Net assets available for pension benefits** | **207,734** | 179,932 |

*Statement of Changes in Net Assets Available for Pension Benefits*

During the year ended 31 December changes in net assets available for pension benefits comprise:

| | 2009 | 2008 |
|---|---|---|
| **Net income** | **8,767** | 11,784 |
| | | |
| **Additions:** | | |
| - Obligatory contributions | **35,708** | 30,715 |
| - Voluntary contributions | **1** | 2 |
| - Transfers between funds, net | **(11,788)** | 14,945 |
| - Penalties for delay | **189** | 213 |
| | **24,110** | 45,875 |
| **Benefits paid to participants** | | |
| - Retirement | **(2,857)** | (1,712) |
| - Death or disability | **(822)** | (603) |
| - Expatriation | **(824)** | (638) |
| - Withholding taxes | **(248)** | (185) |
| - Insurance policy | **(324)** | (12) |
| | **(5,075)** | (3,150) |
| | | |
| **Net change in assets available for pension benefits** | **27,802** | 54,509 |
| Net assets available for pension benefits, beginning | **179,932** | 125,423 |
| **Net assets available for pension benefits, ending** | **207,734** | 179,932 |

*(Millions of Kazakhstani Tenge)*

## 25. Fees and commissions

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

| | *2009* | *2008* |
|---|---|---|
| Letters of credit and guarantees issued | **5,066** | 9,893 |
| Settlement and cash operations | **5,883** | 7,633 |
| Transfer operations | **5,381** | 5,193 |
| Foreign currency trading | **1,210** | 2,898 |
| Asset management fees | **2,788** | 3,161 |
| Brokerage services | **235** | 479 |
| Other | **819** | 1,077 |
| **Fee and commission income** | **21,382** | 30,334 |
| Letter of credit and guarantees issued | **(540)** | – |
| Transfer operations | **(584)** | (542) |
| Brokerage services | **(235)** | (211) |
| Foreign currency trading | **(70)** | (52) |
| Custodian services | **(45)** | (49) |
| Other | **(258)** | (325) |
| **Fee and commission expense** | **(1,732)** | (1,179) |
| **Net fee and commission income** | **19,650** | 29,155 |

## 26. Net trading loss

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

| | *2009* | *2008* |
|---|---|---|
| Securities : | | |
| Trading securities | **(16,825)** | (13,649) |
| Available-for-sale investment securities | **(2,192)** | (3,930) |
| Income from purchase of own debt securities issued | **10,396** | 11,198 |
| Interest rate instruments | **5,656** | (23,388) |
| | **(2,965)** | (29,769) |

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

## 27. Other impairment charge

Other impairment charge for 2009 and 2008 comprised the following:

| | *2009* | *2008* |
|---|---|---|
| Impairment charge on goodwill (Note 16) | **(35,436)** | (8,107) |
| Impairment charge on available-for-sale investment securities (Note 12) | **(2,764)** | (42,610) |
| Impairment charge on investments in associates | **(676)** | (19,138) |
| | **(38,876)** | (69,855) |

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## 28. Salaries and other administrative and operating expenses

Salaries and other employee benefits and administrative and other operating expenses comprise:

| | *2009* | *2008* |
|---|---|---|
| Salaries and bonuses | **(19,541)** | (23,722) |
| Social security costs | **(2,043)** | (2,010) |
| Other payments | **(642)** | (865) |
| **Salaries and other employee benefits** | **(22,226)** | (26,597) |
| | | |
| Legal services and consultancy | **(6,276)** | (1,499) |
| Occupancy and rent | **(5,655)** | (7,056) |
| Repair and maintenance of property and equipment | **(1,682)** | (2,548) |
| Security | **(1,366)** | (1,572) |
| Communications | **(1,363)** | (1,639) |
| Penalties | **(1,317)** | (427) |
| Plastic cards | **(1,000)** | (767) |
| Agency services | **(961)** | (1,047) |
| Encashment | **(951)** | (909) |
| Marketing and advertising | **(936)** | (3,984) |
| Transportation expenses | **(509)** | (2,077) |
| Business travel and related expenses | **(433)** | (1,041) |
| Data processing | **(413)** | (346) |
| Office supplies | **(254)** | (445) |
| Postal charges | **(169)** | (191) |
| State duties and customs | **(112)** | (294) |
| Representation | **(55)** | (99) |
| Insurance | **(29)** | (59) |
| Trainings | **(17)** | (100) |
| Participation in forums, seminars and conferences | **(11)** | (43) |
| Loss on disposals of property and equipment | **(3)** | (12) |
| Other | **(876)** | (1,259) |
| **Administrative and other operating expenses** | **(24,388)** | (27,414) |

## 29. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2009 and 2008.

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

| | *2009* | *2008* |
|---|---|---|
| Net loss attributable to common shareholders for basic earnings per share | **(1,086,625)** | (1,187,584) |
| Weighted average number of common shares for basic and diluted earnings per share | **32,736,858** | 8,274,330 |
| Basic and diluted loss per share (in Kazakhstani Tenge) | **(33,193)** | (143,526) |

## 30. Risk management policies

**Introduction**

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

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

*Risk management structure*

*The Board of Directors*

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

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## 30. Risk management policies (continued)

**Introduction (continued)**

*Risk Committee*

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

*Risk Management Unit*

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

*Risk monitoring*

Risk Monitoring Units control over compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

*Internal audit function*

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

*Risk measurement and reporting systems*

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

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

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

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

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

*Risk mitigation*

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

The Group actively uses collateral to reduce its credit risks (see below for more detail).

*Excessive risk concentration*

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

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

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## 30. Risk management policies (continued)

### Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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

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

During 2008, the regional credit committee was chaired by the former Chairman of the Board of Directors. This created a conflict of interest, as the regional credit committee reports to the Managing Board, which in its turn reports to the Board of Directors. Therefore, the control from Managing Board was not effective and potentially contributed to the issuance of loans to off-shore companies, which became uncollectible in 2008 and for which the Bank has created an allowance as at 31 December 2008 (Refer to Note 13). In 2009 the Bank dismissed the credit committees in Russia, Armenia, Belorussia, Georgia and Ukraine and established a new regional credit committee, which reports to the Management Board of the Bank. The new members of the regional credit committee include one Deputy Chairman of the Management Board, managing directors and directors of departments of the Bank.

*Derivative financial instruments*

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

*Credit-related commitments risks*

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

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

| | *Note* | *Gross maximum exposure 2009* | *Gross maximum exposure 2008* |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 7 | **36,723** | 82,645 |
| Obligatory reserves (excluding cash on hand) | 8 | **145** | 27,601 |
| Trading securities (excluding equity securities) | 9 | **78,979** | 106,519 |
| Amounts due from credit institutions | 10 | **31,444** | 85,174 |
| Derivative financial assets | 11 | **25,980** | 21,650 |
| Available-for-sale investment securities (excluding equity securities) | 12 | **18,493** | 19,122 |
| Loans to customers | 13 | **1,040,773** | 1,617,063 |
| Bonds of NWF Samruk-Kazyna | 14 | **512,246** | – |
| Other assets | | **27,057** | 23,000 |
| | | **1,771,840** | 1,982,774 |
| Financial commitments and contingencies | 24 | **492,531** | 573,317 |
| **Total credit risk exposure** | | **2,264,371** | 2,556,091 |

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 13.

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## 30. Risk management policies (continued)

*Credit quality per class of financial assets*

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

| | | 2009 | | |
|---|---|---|---|---|
| | **Note** | ***Neither past due nor impaired*** | ***Past due or individually impaired*** | ***Total*** |
| Loans to customers | 13 | | | |
| Corporate lending | | **189,842** | **2,286,357** | **2,476,199** |
| Small and medium business lending | | **158,139** | **58,306** | **216,445** |
| Individuals lending | | **350,116** | **121,421** | **471,537** |
| **Total** | | **698,097** | **2,466,084** | **3,164,181** |

| | | 2008 | | |
|---|---|---|---|---|
| | **Note** | ***Neither past due nor impaired*** | ***Past due or individually impaired*** | ***Total*** |
| Loans to customers | 13 | | | |
| Corporate lending | | 702,587 | 1,369,404 | 2,071,991 |
| Small and medium business lending | | 234,748 | 22,085 | 256,833 |
| Individuals lending | | 468,695 | 36,822 | 505,517 |
| **Total** | | 1,406,030 | 1,428,311 | 2,834,341 |

Past due loans to customers include those that are only past due by a few days. An analysis of past due but not impaired loans, by age, is provided below.

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

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

| | Less than 30 days | |
|---|---|---|
| | ***2009*** | ***2008*** |
| Loans to customers | | |
| Corporate lending | **11,676** | 13,507 |
| Small and medium business lending | **5,461** | 6,448 |
| Individuals lending | **14,217** | 10,976 |
| **Total** | **31,354** | 30,931 |

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2009 was KZT 55,345 million (2008 - KZT 83,629 million). See 'Collateral and other credit enhancements' in Note 13 for the details of types of collateral held.

See Note 13 for more detailed information with respect to the allowance for impairment of loans to customers.

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

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

| | ***2009*** | ***2008*** |
|---|---|---|
| **Loans to customers** | | |
| Corporate lending | **479,744** | 234,372 |
| Small and medium business lending | **20,807** | 5,202 |
| Individuals lending | **20,266** | 1,982 |
| | **520,817** | 241,556 |
| Amounts due from credit institutions | **15** | 1,922 |
| Trade securities | **671** | – |
| **Total** | **521,503** | 243,478 |

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## 30. Risk management policies (continued)

*Impairment assessment*

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

*Individually assessed allowances*

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. Note 5 and 13 explain in detail the effects of such circumstances.

*Collectively assessed allowances*

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

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

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

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

| | *2009* | | | |
|---|---|---|---|---|
| | *Kazakhstan* | *OECD* | *CIS and other non OECD countries* | *Total* |
| **Assets:** | | | | |
| Cash and cash equivalents | **61,071** | **13,080** | **4,064** | **78,215** |
| Obligatory reserves | **–** | **–** | **145** | **145** |
| Trading securities | **55,740** | **23,183** | **56** | **78,979** |
| Amounts due from credit institutions | **7,758** | **1,672** | **22,014** | **31,444** |
| Derivative financial assets | **14,182** | **11,798** | **–** | **25,980** |
| Available-for-sale investment securities | **18,195** | **11** | **287** | **18,493** |
| Loans to customers | **828,816** | **104,255** | **107,702** | **1,040,773** |
| Samruk-Kazyna bonds | **512,246** | **–** | **–** | **512,246** |
| Other assets (monetary) | **25,631** | **452** | **974** | **27,057** |
| | **1,523,639** | **154,451** | **135,242** | **1,813,332** |
| **Liabilities:** | | | | |
| Amounts due to the Government and central banks | **406,595** | **–** | **–** | **406,595** |
| Amounts due to credit institutions | **192,090** | **588,429** | **55,865** | **836,384** |
| Amounts due to customers | **641,333** | **5,934** | **8,696** | **655,963** |
| Debt securities issued | **728,565** | **924,590** | **15,447** | **1,668,602** |
| Derivative financial liabilities | **–** | **3,940** | **34** | **3,974** |
| Provisions | **6,894** | **10,233** | **42,000** | **59,127** |
| Other liabilities | **27,646** | **134** | **54** | **27,834** |
| | **2,003,123** | **1,533,260** | **122,096** | **3,658,479** |
| **Net position** | **(479,484)** | **(1,378,809)** | **13,146** | **(1,845,147)** |
| **Net position of instruments not recognised in the statement of financial position** | **357,877** | **66,354** | **133,183** | **557,414** |

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## 30. Risk management policies (continued)

| | 2008 | | | |
|---|---|---|---|---|
| | *Kazakhstan* | *OECD* | *CIS and other non OECD countries* | *Total* |
| **Assets:** | | | | |
| Cash and cash equivalents | 26,489 | 41,949 | 19,455 | 87,893 |
| Obligatory reserves | 62,953 | – | 1,101 | 64,054 |
| Trading securities | 94,086 | 12,433 | – | 106,519 |
| Amounts due from credit institutions | 23,277 | – | 61,897 | 85,174 |
| Derivative financial assets | 445 | 20,937 | 268 | 21,650 |
| Available-for-sale investment securities | 14,829 | – | 4,293 | 19,122 |
| Loans to customers | 915,099 | 253,163 | 448,801 | 1,617,063 |
| Other assets (monetary) | 18,794 | 1,093 | 3,113 | 23,000 |
| | 1,155,972 | 329,575 | 538,928 | 2,024,475 |
| **Liabilities:** | | | | |
| Amounts due to the Government and central banks | 1,472 | – | 246 | 1,718 |
| Amounts due to credit institutions | 152,328 | 588,622 | 62,416 | 803,366 |
| Amounts due to customers | 859,216 | 15,512 | 11,324 | 886,052 |
| Debt securities issued | 216,850 | 858,302 | 12,574 | 1,087,726 |
| Derivative financial liabilities | 2,375 | 16,391 | 23 | 18,789 |
| Provisions | 2,347 | 28,491 | 74,055 | 104,893 |
| Other liabilities | 22,784 | 1,163 | 10,489 | 34,436 |
| | 1,257,372 | 1,508,481 | 171,127 | 2,936,980 |
| **Net position** | (101,400) | (1,178,906) | 367,801 | (912,505) |
| **Net position of instruments not recognised in the statement of financial position** | 388,567 | 87,103 | 212,685 | 688,355 |

### Liquidity risk and funding management

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

1. conformity with the liquidity norms established by the regulatory bodies; and
2. liquidity management by means of the "financial pool method" and "fund conversion method".

Under the "financial pool method" the Group's monetary assets are considered as one pool, which are split to the primary and the secondary sources for liquidity purposes. The primary source consists of cash and balances on correspondent accounts, and the secondary source consists of highly liquid assets, which have high turnover and readily available for sale. The primary and the secondary sources are considered as not profit bearing and profit bearing, respectively.

"Fund conversion method" is the distribution of all financing sources depending on the accounts' turnover and reserve requirement for financing of the related assets.

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

The Management regularly monitors high-liquid assets that may be disposed at any time. The Bank builds portfolio consisting of high-liquid assets, predominantly debt financial instruments issued by the states with high credit ratings. On 30 November 2009 the Management Board of the National Bank of Kazakhstan introduced amendments providing for decrease in minimal allowance requirements rates for the Bank to 0%, both for domestic and external liabilities. This rate will be effective until the end of restructuring process.

As at 31 December 2009, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 2,504,986 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

*(Millions of Kazakhstani Tenge)*

## 30. Risk management policies (continued)

**Liquidity risk and funding management (continued)**

In April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, this resulted in that syndicated loans, Eurobonds and other certain liabilities became callable by the lenders.

Due to the Bank's inability to early repay all its debt as called by creditors, the bank decided to suspend all payments of principal on external liabilities, starting from 20 April 2009. Also, starting from 22 July 2009 the Bank has suspended payment of interest on external liabilities.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2010.

*Analysis of financial liabilities by remaining contractual maturities*

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on undiscounted repayment obligations.

| Financial liabilities as at 31 December 2008 | *Within one year* | *More than one year* | *Total* |
|---|---|---|---|
| Amounts due to the Government and central banks | 217 | 1,902 | 2,119 |
| Amounts due to credit institutions | 698,139 | 127,258 | 825,397 |
| Derivative financial instruments | 16,689 | 2,100 | 18,789 |
| Amounts due to customers | 680,055 | 300,393 | 980,448 |
| Debt securities issued | 769,514 | 637,713 | 1,407,227 |
| Provisions | 54,294 | 50,599 | 104,893 |
| Other liabilities | 34,957 | 1,306 | 36,263 |
| **Total undiscounted financial liabilities** | 2,253,865 | 1,121,271 | 3,375,136 |

As discussed in Note 2, there has been a significant deterioration in the Group's financial position principally resulting from the loss events related with the loan portfolio described in Note 5. This has lead to a breach, by the Bank and the Group, of certain prudential requirements including those related to capital adequacy set by the FMSA. As a result of these loss events the Group's total liabilities as at 31 December 2009 exceeded its total assets by KZT 1,689,820 million (2008: KZT 742,779 million ) and the Group has reported a net loss amounting to KZT 1,114,534 million for the year then ended (2008: KZT 1,188,050 million).

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

| | *On demand* | *Less than month* | *1 to 3 months* | *3 to 12 months* | *1 to 3 years* | *Over 3 years* | *Total* |
|---|---|---|---|---|---|---|---|
| ***2009*** | **37,723** | **7,683** | **31,144** | **129,051** | **142,325** | **203,732** | **551,658** |
| ***2008*** | 14,694 | 21,095 | 39,854 | 192,546 | 249,788 | 160,233 | 678,210 |

In accordance with terms of debt securities issued the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies.

Losses on loans, derivative financial instruments and securities, existed in 2008 and identified in 2009 by the current management resulted in the following breaches.

As at 31 December 2009, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on certain debt securities issued. Due to breach of covenants described above, amounts due to credit institutions and debt securities issued of KZT 1,153,008 million have become current. As discussed in Note 2, the Bank is in the process of restructuring these debts.

*(Millions of Kazakhstani Tenge)*

## 30. Risk management policies (continued)

### Liquidity risk and funding management (continued)

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

| *2009* | *Within one year* | *More than one year* | *Total* |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | **78,215** | **–** | **78,215** |
| Obligatory reserves | **145** | **–** | **145** |
| Trading securities | **115,784** | **–** | **115,784** |
| Amounts due from credit institutions | **22,865** | **8,579** | **31,444** |
| Derivative financial assets | **3,698** | **22,282** | **25,980** |
| Available-for-sale investment securities | **4,708** | **14,311** | **19,019** |
| Loans to customers | **300,336** | **740,437** | **1,040,773** |
| Samruk-Kazyna bonds | **7,477** | **504,769** | **512,246** |
| Other assets | **25,686** | **1,371** | **27,057** |
| | **558,914** | **1,291,749** | **1,850,663** |
| **Liabilities:** | | | |
| Amounts due to the Government and central banks | **405,662** | **933** | **406,595** |
| Amounts due to credit institutions | **753,540** | **82,844** | **836,384** |
| Derivative financial liabilities | **3,974** | **–** | **3,974** |
| Amounts due to customers | **481,526** | **174,437** | **655,963** |
| Debt securities issued | **1,371,761** | **296,841** | **1,668,602** |
| Provisions | **31,740** | **27,387** | **59,127** |
| Other liabilities | **27,702** | **132** | **27,834** |
| | **3,075,905** | **582,574** | **3,658,479** |
| **Net position** | **(2,516,991)** | **709,175** | **(1,807,816)** |
| **Accumulated gap** | **(2,516,991)** | **(1,807,816)** | |

| *2008* | *Within one year* | *More than one year* | *Total* |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | 87,893 | – | 87,893 |
| Obligatory reserves | 24,173 | 39,881 | 64,054 |
| Trading securities | 128,150 | | 128,150 |
| Amounts due from credit institutions | 71,925 | 13,249 | 85,174 |
| Derivative financial assets | 655 | 20,995 | 21,650 |
| Available-for-sale investment securities | 3,810 | 16,672 | 20,482 |
| Loans to customers | 851,289 | 765,774 | 1,617,063 |
| Other assets | 15,994 | 7,006 | 23,000 |
| | 1,183,889 | 863,577 | 2,047,466 |
| **Liabilities:** | | | |
| Amounts due to the Government and central banks | 125 | 1,593 | 1,718 |
| Amounts due to credit institutions | 708,182 | 95,184 | 803,366 |
| Derivative financial liabilities | 16,689 | 2,100 | 18,789 |
| Amounts due to customers | 536,302 | 349,750 | 886,052 |
| Debt securities issued | 722,510 | 365,216 | 1,087,726 |
| Provisions | 54,294 | 50,599 | 104,893 |
| Other liabilities | 33,930 | 506 | 34,436 |
| | 2,072,032 | 864,948 | 2,936,980 |
| **Net position** | (888,143) | (1,371) | (889,514) |
| **Accumulated gap** | (888,143) | (889,514) | |

### Market risk

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

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## 30. Risk management policies (continued)

### Market risk (continued)

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity of Group's income statement to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2009. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2009 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

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

| *Currency* | *Change in basis points 2008* | *Sensitivity of net interest income 2008* | *Sensitivity of equity 2008* |
|---|---|---|---|
| **LIBOR:** | | | |
| USD | -59/59 | 2,372/(2,372) | 711/(711) |
| KZT | -59/59 | 1,699/(1,699) | 217/(217) |
| EUR | -59/59 | 1,080/(1,080) | – |
| CHF | -59/59 | 177/(177) | – |
| JPY | -59/59 | 804/(804) | – |

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

| | *2009* | | *2008* | |
|---|---|---|---|---|
| | *KZT* | *Foreign currency* | *KZT* | *Foreign currency* |
| Trading securities | **11.3%** | **12.5%** | 9.0% | 7.3% |
| Amounts due from credit institutions | **8.6%** | **5.0%** | 9.7% | 7.9% |
| Available-for-sale investment securities | **14.9%** | **11.9%** | 12.3% | 4.5% |
| Loans to customers | **15.6%** | **17.5%** | 20.3% | 13.2% |
| Bonds of NWF Samruk-Kazyna | **7.3%** | **–** | – | – |
| Amounts due to the Government and central banks | **7.8%** | **5.6%** | 4.1% | 3.5% |
| Amounts due to credit institutions | **9.3%** | **6.0%** | 7.9% | 6.2% |
| Amounts due to customers | **8.2%** | **9.1%** | 10.1% | 7.4% |
| Debt securities issued | **11.6%** | **7.8%** | 11.6% | 8.0% |

*(Millions of Kazakhstani Tenge)*

## 30. Risk management policies (continued)

### Market risk (continued)

*Currency risk*

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2009 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

| *Currency* | *Change in currency rate in % 2009* | *Effect on profit before tax 2009* | *Change in currency rate in % 2008* | *Effect on profit before tax 2008* |
|---|---|---|---|---|
| USD | **-16.6/16.6** | **113,338/(113,338)** | -15.4/15.4 | 61,315/(61,315) |
| EUR | **-21.4/21.4** | **57,631/(57,631)** | -15.2/15.2 | 22,811/(22,811) |
| RUR | **-22.6/22.6** | **8,089/(8,089)** | -8.3/8.3 | 1,043/(1,043) |
| CHF | **-21.8/21.8** | **6,145/(6,145)** | -16.4/16.4 | 3,624/(3,624) |
| JPY | **-22.7/22.7** | **56,962/(56,962)** | -22.4/22.4 | 47,122/(47,122) |
| KGS | **–** | **–** | -15.0/15.0 | (517)/517 |
| PLZ | **-27.2/27.2** | **2,962/(2,962)** | -23.1/23.1 | (2)/2 |
| GBP | **-23.7/23.7** | **12,199/(12,199)** | -23.2/23.2 | 10,892/(10,892) |

*Equity price risk*

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

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

| *Market index* | *Increase in indices 2009, %* | *Effect on profit before tax and equity 2009* | *Effect on capital 2009* | *Increase in indices 2008, %* | *Effect on profit before tax and equity 2008* | *Effect on capital 2008* |
|---|---|---|---|---|---|---|
| KASE | **46.21%** | **899** | **74** | 66.49 | 763 | 10 |
| RTS | **–** | **–** | **–** | 72.77 | 1 | 26 |
| PFTS (Ukraine) | **–** | **–** | **–** | 73.85 | – | 69 |
| MSCI World Index | **23.19%** | **5.792** | **4** | 39.61 | 3.422 | – |
| FTSE | **23.29%** | **1.071** | **–** | 59.35 | 3 | – |
| MICEX | **47.21%** | **28** | **–** | – | – | – |
| NYSE | **60.63%** | **284** | **–** | – | – | – |

| *Market index* | *Decrease in indices 2009, %* | *Effect on profit before tax and equity 2009* | *Effect on capital 2009* | *Decrease in indices 2008, %* | *Effect on profit before tax and equity 2008* | *Effect on capital 2008* |
|---|---|---|---|---|---|---|
| KASE | **-46.21%** | **(589)** | **(38)** | -66.49 | 1,024 | 16 |
| RTS | **–** | **–** | **–** | -72.77 | (5,827) | 27 |
| PFTS (Ukraine) | **–** | **–** | **–** | -73.85 | 601 | 86 |
| MSCI World Index | **-23.19%** | **(4,791)** | **(4)** | -39.61 | (3,151) | – |
| FTSE | **-23.29%** | **(1,273)** | **–** | -59.35 | 4 | – |
| MICEX | **-47.21%** | **(28)** | **–** | – | – | – |
| NYSE | **-60.63%** | **(269)** | **–** | – | – | – |

*(Millions of Kazakhstani Tenge)*

## 30. Risk management policies (continued)

### Operational risk

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

## 31. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Set out below is a comparison by class of the fair values of the Group's financial instruments that are carried in the financial statements by level of the fair value hierarchy. The table does not include the fair values of non-financial assets and non-financial liabilities.

| | *2009* | | | *2008* | | |
|---|---|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Level 1* | *Level 2* | *Level 3* |
| ***Financial assets*** | | | | | | |
| Trading securities | **106,158** | **9,626** | **–** | 128,150 | – | – |
| Derivative financial assets | **–** | **25,980** | **–** | – | 21,650 | – |
| Available-for-sale investment securities | **18,578** | **441** | **–** | 20,482 | – | – |
| ***Financial liabilities*** | | | | | | |
| Derivative financial liabilities | **–** | **3,974** | **–** | – | 18,789 | – |

*Financial instruments recorded at fair value*

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

*Derivatives*

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

*Trading securities and available-for-sale investment securities*

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

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

*Assets for which fair value approximates carrying value*

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

*(Millions of Kazakhstani Tenge)*

## 31. Fair values of financial instruments (continued)

*Fixed rate financial instruments*

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

*Transfers between level 1 and 2*

The following table shows transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value during the year ended 31 December 2009:

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

*Fair value of financial assets and liabilities not carried at fair value*

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

| | *Carrying value 2009* | *Fair value 2009* | *Unrecognised gain/(loss) 2009* |
|---|---|---|---|
| ***Financial assets*** | | | |
| Cash and cash equivalents | **78,215** | **78,215** | **–** |
| Obligatory reserves | **145** | **145** | **–** |
| Amounts due from credit institutions | **31,444** | **36,829** | **5,385** |
| Loans to customers | **1,040,773** | **1,040,773** | **–** |
| Bonds of NWF Samruk-Kazyna | **512,246** | **546,087** | **33,841** |
| Other assets | **27,057** | **27,057** | **–** |
| ***Financial liabilities*** | | | |
| Amounts due to the Government of RK and central banks | **406,595** | **406,595** | **–** |
| Amount due to credit institutions | **836,384** | **272,209** | **564,175** |
| Amounts due to customers | **655,963** | **682,744** | **(26,781)** |
| Debt securities issued | **1,668,602** | **549,187** | **1,119,415** |
| Provisions | **59,127** | **59,127** | **–** |
| Other liabilities | **27,834** | **27,834** | **–** |
| **Total unrecognised change in unrealised fair value** | | | **1,696,035** |

| | *Carrying value 2008* | *Fair value 2008* | *Unrecognised gain/(loss) 2008* |
|---|---|---|---|
| ***Financial assets*** | | | |
| Cash and cash equivalents | 87,893 | 87,893 | – |
| Obligatory reserves | 64,054 | 64,054 | – |
| Amounts due from credit institutions | 85,174 | 92,366 | 7,192 |
| Loans to customers | 1,617,063 | 1,617,063 | – |
| Other assets | 23,000 | 23,000 | – |
| ***Financial liabilities*** | | | |
| Amounts due to the Government of RK and NBK | 1,718 | 1,718 | – |
| Amount due to credit institutions | 803,366 | 794,637 | 8,729 |
| Amounts due to customers | 866,052 | 884,940 | (18,888) |
| Debt securities issued | 1,087,726 | 727,839 | 359,887 |
| Provisions | 104.893 | 104.893 | – |
| Other liabilities | 34.436 | 34.436 | – |
| **Total unrecognised change in unrealised fair value** | | | 356,920 |

*(Millions of Kazakhstani Tenge)*

## 32. Segment analysis

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

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

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

Small and medium business – representing individual entrepreneurs and small enterprises current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

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

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

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

Revenue of the investment activities segment includes revenue from transactions with a single external customer in the amount of KZT 28,551 million or 11% of the Group's total revenue in 2009. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2008.

*(Millions of Kazakhstani Tenge)*

## 32. Segment analysis (continued)

Segment information for the main reportable operating segments of the Group for the years ended 31 December 2009 and 2008 is set out below:

| *2009* | *Corporate banking* | *Small and medium business* | *Retail banking* | *Investing activity* | *Unallocated amounts* | *Elimination* | *Total* |
|---|---|---|---|---|---|---|---|
| External interest income | 76,627 | 31,699 | 58,227 | 71,032 | 140 | – | 237,725 |
| Internal interest income | 86,357 | 4,275 | 17,406 | 53,261 | – | (161,299) | – |
| External interest expense | (11,472) | (5,867) | (28,925) | (210,932) | (467) | – | (257,663) |
| Internal interest expense | (104,763) | (11,561) | (25,751) | (19,224) | – | 161,299 | – |
| **Net interest income before impairment** | 46,749 | 18,546 | 20,957 | (105,863) | (327) | – | (19,938) |
| Impairment charge | (639,898) | (55,846) | (58,510) | – | – | – | (754,254) |
| **Net interest (loss)/income after impairment** | (593,149) | (37,300) | (37,553) | (105,863) | (327) | – | (774,192) |
| Net commission and non-interest income | (240,624) | 18,829 | 17,458 | (82,971) | (13,004) | 504 | (299,808) |
| Depreciation and amortizations | (561) | (422) | (1,583) | (2,056) | (264) | – | (4,886) |
| Non-interest expenses | (18,676) | (8,779) | (20,251) | (7,097) | (432) | (504) | (55,739) |
| Other provisions | 63,400 | 83 | (807) | 59 | (284) | – | 62,451 |
| Share in net income of associate organizations | – | – | – | 4,690 | – | – | 4,690 |
| Impairment loss of available-for-sale investment securities | – | – | – | (2,764) | – | – | (2,764) |
| Loss on disposal of subsidiary | – | – | – | (3,075) | – | – | (3,075) |
| Impairment of investments in associates | – | – | – | (676) | – | – | (676) |
| Impairment loss on goodwill | (11,627) | – | (23,809) | – | – | – | (35,436) |
| Inventory write-off | (4,473) | – | – | – | – | – | (4,473) |
| **Loss before income tax expense** | (805,710) | (27,589) | (66,545) | (199,753) | (14,311) | – | (1,113,908) |
| Income tax expense | – | – | – | – | (626) | – | (626) |
| **Net loss after income tax** | (805,710) | (27,589) | (66,545) | (199,753) | (14,937) | – | (1,114,534) |
| **Total assets** | 717,017 | 176,367 | 406,188 | 1,962,827 | 30,502 | (1,324,242) | 1,968,659 |
| **Total liabilities** | 470,574 | 121,456 | 272,448 | 3,979,476 | 254 | (1,185,729) | 3,658,479 |
| **Other segment information** | | | | | | | |
| Investments in associate | – | – | – | 85,088 | – | – | 85,088 |
| Capital expenditure | 74 | 120 | 1,367 | 60 | – | – | 1,621 |

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## 32. Segment analysis (continued)

| *2008* | *Corporate banking* | *Small and medium business* | *Retail banking* | *Investing activity* | *Unallocated amounts* | *Elimination* | *Total* |
|---|---|---|---|---|---|---|---|
| External interest income | 236,914 | 39,874 | 78,033 | 41,682 | (36) | – | 396,467 |
| Internal interest income | 52,093 | 9,649 | 36,964 | 244,688 | – | (343,394) | – |
| External interest expense | (20,811) | (4,792) | (36,524) | (146,143) | (111) | – | (208,381) |
| Internal interest expense | (200,542) | (23,846) | (44,474) | (74,532) | – | 343,394 | – |
| **Net interest income before impairment** | 67,654 | 20,885 | 33,999 | 65,695 | (147) | – | 188,086 |
| Impairment charge | (1,003,422) | (42,364) | (48,071) | (443) | – | – | (1,094,300) |
| **Net interest (loss)/income after impairment** | (935,768) | (21,479) | (14,072) | 65,252 | (147) | – | (906,214) |
| Net commission and non-interest income | 26,042 | 10,830 | 4,680 | (38,415) | 2,834 | (7,898) | (1,927) |
| Depreciation and amortizations | (487) | (432) | (1,212) | (106) | (2,198) | – | (4,435) |
| Non-interest expenses | (26,637) | (12,095) | (20,816) | (7,303) | (4,507) | 7,898 | (63,460) |
| Other provisions | (96,429) | (143) | (149) | (16,331) | (78) | – | (113,130) |
| Share in net loss of associate organizations | – | – | – | (15,448) | – | – | (15,448) |
| Impairment loss of available-for-sale investment securities | – | – | – | (42,610) | – | – | (42,610) |
| Loss on disposal of subsidiary | – | – | – | (11,252) | – | – | (11,252) |
| Impairment of investments in associates | – | – | – | (19,138) | – | – | (19,138) |
| Impairment loss on goodwill | – | – | – | (8,107) | – | – | (8,107) |
| Inventory write-off | (2,396) | – | – | – | – | – | (2,396) |
| **Loss before income tax expense** | (1,035,675) | (23,319) | (31,569) | (93,458) | (4,096) | – | (1,188,117) |
| Income tax benefit | | – | – | – | 67 | – | 67 |
| **Net loss after income tax** | (1,035,675) | (23,319) | (31,569) | (93,458) | (4,029) | – | (1,188,050) |
| **Total assets** | 1,063,977 | 213,297 | 437,161 | 1,391,441 | 312,200 | (1,223,875) | 2,194,201 |
| **Total liabilities** | 701,257 | 152,140 | 372,745 | 2,758,664 | 26,250 | (1,074,076) | 2,936,980 |
| **Other segment information** | | | | | | | |
| Investments in associate | – | – | – | 72,371 | – | – | 72,371 |
| Capital expenditure | 746 | 1,158 | 2,571 | 275 | – | – | 4,750 |

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## 32. Segment an alysis (continued)

*Geographical segments*

Segment information for the main geographical segments of the Group for the years ended 31 December 2009 and 2008 is set out below:

| | *Kazakhstan* | *OECD* | *Non OECD* | *Total* |
|---|---|---|---|---|
| ***2009*** | | | | |
| Non-current assets | **22,364** | **–** | **357** | **22,721** |
| Revenue | **168,250** | **50,876** | **39,981** | **259,107** |
| ***2008*** | | | | |
| Non-current assets | 61,775 | – | 2,236 | 64,011 |
| Revenue | 205,990 | 85,079 | 135,732 | 426,801 |

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

## 33. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties, except those, who are subject to the restriction of the legislation, may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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## 33. Related party transactions (continued)

As at 31 December 2009 and 2008 the Group had the following transactions with related parties

| | 31 December 2009 | | | | | 31 December 2008 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Shareholders* | *Entities under common control* | *Associates* | *Key management personnel* | *Other related parties* | *Shareholders* | *Associates* | *Key management personnel* | *Other related parties* |
| Loans outstanding at 1 January, gross | **–** | **–** | **–** | **1,295** | **7** | – | – | 8,210 | 1,352 |
| Loans issued during the period | **–** | **15,575** | **–** | **153** | **7** | – | – | 1,439 | 2 |
| Loan repayments during the period | **–** | **(11,099)** | **–** | **(863)** | **(11)** | – | – | (8,354) | (1,347) |
| Loans outstanding at 31 December, gross | **–** | **4,476** | **–** | **585** | **3** | – | – | 1,295 | 7 |
| Less: allowance for impairment at 31 December | **–** | **–** | **–** | **–** | **–** | – | – | – | – |
| Loans outstanding at 31 December, net | **–** | **4,476** | **–** | **585** | **3** | – | – | 1,295 | 7 |
| Interest income on loans | **–** | **1,623** | **–** | **51** | **1** | – | – | 553 | 2 |
| | | | | | | | | | |
| Interest rates | **–** | **8%-16%** | **–** | **12%** | **–** | – | – | 12%-19% | 15%-19% |
| Maturities | **–** | **2010-2011** | **–** | **2016** | **–** | – | – | 2010-2016 | 2010-2014 |
| | | | | | | | | | |
| Amounts due from credit institutions (deposits) | | | | | | | | | |
| Deposits at 1 January | **–** | **–** | **6,359** | **–** | **–** | – | 5,096 | – | 5,582 |
| Deposits placed during the period | **–** | **–** | **11,430** | **–** | **–** | – | 24,842 | – | – |
| Deposits withdrawn during the period | **–** | **–** | **(14,556)** | **–** | **–** | – | (23,579) | – | (5,582) |
| Deposits at 31 December | **–** | **–** | **3,233** | **–** | **–** | – | 6,359 | – | – |
| Interest income on amounts due from credit institutions | **–** | **–** | **700** | **–** | **–** | – | 1,319 | – | 1,721 |
| | | | | | | | | | |
| Interest rates | **–** | **–** | **10%-18%** | **–** | **–** | – | 12%-14% | – | 11%-14% |
| Maturities | **–** | **–** | **2010-2014** | **–** | **–** | – | 2009 | – | 2008 |

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## 33. Related party transactions (continued)

| | *31 December 2009* | | | | | *31 December 2008* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Shareholders* | *Entities under common control* | *Associates* | *Key mana-gement personnel* | *Other related parties* | *Shareholders* | *Associates* | *Key mana-gement personnel* | *Other related parties* |
| Amounts due from credit institutions (loans) | | | | | | | | | |
| Loans at 1 January | **–** | **–** | **7,329** | **–** | **–** | – | 9,497 | – | 8,398 |
| Loans placed during the period | **–** | **–** | **7,840** | **–** | **–** | – | 26,394 | – | – |
| Loans withdrawn during the period | **–** | **–** | **(9,171)** | **–** | **–** | – | (28,562) | – | (8,398) |
| Loans at 31 December, gross | **–** | **–** | **5,998** | **–** | **–** | – | 7,329 | – | – |
| Less: allowance for impairment at 31 December | **–** | **–** | **(615)** | **–** | **–** | – | (3,683) | – | – |
| Loans at 31 December, net | **–** | **–** | **5,383** | **–** | **–** | – | 3,646 | – | – |
| Interest income on amounts due from credit institutions | **–** | **–** | **370** | **–** | **–** | – | – | – | – |
| Interest rates | **–** | **–** | **4%-11%** | **–** | **–** | – | 7%-15% | – | 8%-11% |
| Maturities | **–** | **–** | **2011-2013** | **–** | **–** | – | 2009-2013 | – | 2008-2013 |
| Amounts due to credit institutions | | | | | | | | | |
| Loans at 1 January | **–** | **–** | **6,883** | **–** | **–** | – | 430 | – | 558 |
| Loans received during the period | **–** | **138,445** | **73,974** | **–** | **–** | – | 494,489 | – | – |
| Loans repaid during the period | **–** | **(96,855)** | **(79,863)** | **–** | **–** | – | (488,036) | – | (558) |
| Loans at 31 December | **–** | **41,590** | **994** | **–** | **–** | – | 6,883 | – | – |
| Interest expenses on amounts due to credit institutions | **–** | **(40)** | **(232)** | **–** | **–** | – | (189) | – | (17) |
| Interest rates | **–** | **9%** | **6%-8%** | **–** | **–** | – | До 11% | – | – |
| Maturities | **–** | **2013-2016** | **2010-2012** | **–** | **–** | – | On demand - 2009 | – | On demand |
| Bonds of Samruk-Kazyna | **512,246** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Interest income on bonds of NWF Samruk-Kazyna | **28,551** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |

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## 33. Related party transactions (continued)

| | *31 December 2009* | | | | | *31 December 2008* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | ***Shareholders*** | ***Entities under common control*** | ***Associates*** | ***Key management personnel*** | ***Other related parties*** | ***Shareholders*** | ***Associates*** | ***Key management personnel*** | ***Other related parties*** |
| Trading securities | | | | | | | | | |
| Securities at 1 January | **–** | **–** | **–** | **–** | **–** | – | 1,619 | – | – |
| Securities purchased during the period | **–** | **115,377** | **–** | **–** | **–** | – | 416 | – | – |
| Securities sold during the period | **–** | **(67,168)** | **–** | **–** | **–** | – | (2,035) | – | – |
| Securities at 31 December | **–** | **48,209** | **–** | **–** | **–** | – | – | – | – |
| Interest income on financial assets | **–** | **4,598** | **–** | **–** | **–** | – | 147 | – | – |
| Interest rates | **–** | **7%-11%** | **–** | **–** | **–** | – | 9% | – | – |
| Maturities | **–** | **2013-2026** | **–** | **–** | **–** | – | 2008 | – | – |
| Cash and cash equivalents | | | | | | | | | |
| Deposits at 1 January | **–** | **–** | **695** | **–** | **–** | | 1 | | 1,281 |
| Deposits received during the period | **–** | **47,841** | **43,025** | **–** | **–** | – | 859,637 | – | – |
| Deposits repaid during the period | **–** | **(47,841)** | **(42,932)** | **–** | **–** | – | (858,943) | – | (1,281) |
| Deposits at 31 December, gross | **–** | **–** | **788** | **–** | **–** | – | 695 | – | – |
| Less: allowance for impairment at 31 December | **–** | **–** | | **–** | **–** | – | (28) | – | – |
| Deposits at 31 December, net | **–** | **–** | **788** | **–** | **–** | – | 667 | – | – |
| Interest income on deposits up to 90 days | **–** | **–** | **202** | **–** | **–** | – | 64 | – | 9 |
| Interest rates | **–** | **–** | **1%-18%** | **–** | **–** | – | 1%-12% | – | – |
| Maturity | **–** | **–** | **On demand** | **–** | **–** | – | On demand - 2009 | – | On demand |

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## 33. Related party transactions (continued)

| | *31 December 2009* | | | | | *31 December 2008* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Shareholders* | *Entities under common control* | *Associates* | *Key management personnel* | *Other related parties* | *Shareholders* | *Associates* | *Key management personnel* | *Other related parties* |
| Amounts due to customers | | | | | | | | | |
| Deposits at 1 January | 6 | – | – | 705 | 287 | 18 | – | 4,151 | 4,796 |
| Deposits received during the period | – | 2,617,811 | – | 562 | 383 | 668 | – | 48,083 | 1,379 |
| Deposits repaid during the period | (6) | (2,425,466) | – | (1,242) | (663) | (680) | – | (51,529) | (5,888) |
| Deposits at 31 December | – | 192,345 | – | 25 | 7 | 6 | – | 705 | 287 |
| Interest iexpense on amounts due to customers | – | (1,505) | – | (2) | (6) | – | – | (113) | (34) |
| Interest rates | – | 4%-12% | – | – | – | – | – | 9%-13% | 9%-10% |
| Maturities | – | 2010-2011 | – | – | – | On demand | – | 2009-2011 | 2009-2011 |
| Commitments and guarantees issued | – | 94 | 1,165 | 3 | – | – | 9,145 | 3 | – |
| Less: allowance for impairment | – | – | (1,107) | – | – | – | (7,741) | – | – |
| Commitments issued, net | – | 94 | 58 | 3 | – | – | 1,404 | 3 | – |
| Interest rates | – | – | 2% | – | – | – | 2%-3% | – | – |
| Maturities | – | – | 2010-2011 | – | – | – | 2009-2010 | 2009-2010 | – |
| Commitments and guarantees received | – | 80 | 234 | – | – | – | 3,105 | – | – |
| Interest rates | – | – | – | – | – | – | 2% | – | – |
| Maturities | – | – | – | – | – | – | 2009 | – | – |
| Allowance for impairment | – | – | – | – | – | – | (11,542) | – | – |
| Fee and commission income | – | – | 69 | – | – | – | 163 | 1 | 68 |
| Other income | – | – | – | – | – | – | 28 | 1 | – |
| Fee and commission expense | – | – | – | – | – | – | (76) | – | – |
| Other expense | – | – | (10) | – | – | – | (51) | – | – |

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## 33. Related party transactions (continued)

As at 31 December the Group had the following transactions with related parties:

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2009 was KZT 460 million (2008 - KZT 624 million).

As at 31 December 2009 the Bank had no loans issued to the Group management for investment to mutual investment funds, managed by a subsidiary of the Group (2008 - KZT 807 million), all loans are presented by consumer loans.

Included in the table above are the following transactions with related parties outstanding as at 31 December 2009 and 2008:

- Operations with associates such as: loans - including provisioning matters, due from credit institutions (loans issued and deposits placed) with the Group and guarantees and letters of credit to investees, and mutual investments.
- Shareholders: loans - including provisioning matters, deposits placed with the Group.
- Members of Board of Directors: loans - including provisioning matters, deposits attracted with the Group, total remuneration paid during the period.

## 34. Capital adequacy

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

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

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

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, eurobonds and certain other facilities as at 31 December 2009. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2010.

## 35. Subsequent events

Purchase of shares of Accumulated Pension Fund Ular-Umit JSC, Zhetusy Pension Asset Management Company JSC and Atlanta-Police Insurance Company JSC

In January 2010 the Bank obtained a 74.99% share in Accumulated pension fund Ular-Umit JSC ("Ular-Umit") and 74.99% share in Zhetysu Pension asset management company JSC ("Zhetysu") in connection with the discharge of liabilities to the Bank of LLP Astana Stroiservice, LLP Kazakhstan Standart Invest and LLP Logistic Technopark CM.

On 25 March 2010 the Bank obtained 3,416 shares of Atlanta-Police Insurance Company JSC ("Atlanta-Police"). Its share in the Bank's equity amounted to 75.28%.

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## 35. Subsequent events (continued)

The fair value of the identifiable assets and liabilities of Ular-Umit, Zhetysu and Atlanta as at the date of acquisition were:

| | *Ular-Umit* | *Zhetysu* | *Atlanta-Police* |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and cash equivalents | 79 | 53 | 33 |
| Amounts due from credit institutions | 208 | – | – |
| Investment securities | 6,392 | 4,296 | 806 |
| Receivables on reverse repo agreements | – | – | 207 |
| Trading securities | – | – | 58 |
| Property and equipment | 1,415 | 15 | 107 |
| Current income tax asset | 584 | 271 | – |
| Deferred tax asset | – | 505 | – |
| Other assets | 477 | 136 | 485 |
| | **9,155** | **5,276** | **1,696** |
| **Liabilities** | | | |
| Accounts payable | (1,471) | (12) | – |
| Assessed reserves | – | (243) | – |
| Other liabilities | (343) | (1) | (726) |
| | **(1,814)** | **(256)** | **(726)** |
| **Total identifiable net assets at fair value** | **7,341** | **5,020** | **970** |
| Non-controling interest measured at fair value | (1,836) | (1,256) | (240) |
| Goodwill arising on acquisition | 2,062 | 1,866 | (450) |
| **Purchase consideration transferred** | **7,567** | **5,650** | **280** |

In February 2010, the Bank appealed to the US bankruptcy court under jurisdiction of New York state in order to recognise the Bank's restructuring process as legitimate inside the US. This appeal was made in accordance with US legislation regulating bankruptcy issues. It was made after the positive Order of High court of Justice of England and Wales, made on 18 December 2009, on recognising the process of restructuring the Bank's financial debt as legitimate in the territory of England and Wales, and aimed at obtaining international recognition of legitimacy of the Bank's restructuring process by countries that ratified the 1997 UNCITRAL Model Law on Cross-Border Insolvency.

On 18 April 2010 the Bank has signed with its creditors a final Term sheet. In accordance with Term sheet, the Group's external debt amounting to USD 12.2 billion will be settled by cash of USD 1 billion, new senior debt of USD 2,877 million, new subordinated debt of USD 800 million and revolving committed trade finance facility of USD 700 million as well as recovery notes, which provide the holders with 50% of the qualified bad assets, which the Bank recovers in the future. As a result of the restructuring it is expected that the Group's regulatory capital will be increased to comply with FMSA requirements.