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JSC Industrial and Commercial Bank of China Almaty
Financial Statements

Year ended 31 December 2009

Together with Independent Auditors' Report

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NOTES TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of JSC Industrial and Commercial Bank of China Almaty, which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Bank of China Almaty as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst & Young LLP

Zhemaletdinov Evgeny
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

8 February 2010

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

(Thousands of Kazakh Tenge)

	Notes	*2009*	*2008*
Assets			
Cash and cash equivalents	5	**12,853,269**	3,431,340
Obligatory reserves	6	**195,515**	81,554
Loans to customers	7	**303,767**	–
Held-to-maturity securities	8	**3,423,545**	2,357,249
Property and equipment	9	**22,198**	15,112
Intangible assets	10	**2,978**	23,162
Current income tax assets	11	**18,271**	–
Deferred income tax assets	11	**1,036**	1,645
Other assets		**5,239**	8,693
Total assets		**16,825,818**	5,918,755
Liabilities			
Amounts due to credit institutions	12	**14,856**	12,087
Amounts due to customers	13	**11,639,553**	3,530,059
Current income tax liabilities	11	**–**	1,882
Other liabilities		**3,169**	1,867
Total liabilities		**11,657,578**	3,545,895
Equity			
Share capital	14	**3,934,049**	1,417,387
Retained earnings		**1,234,191**	955,473
Total equity		**5,168,240**	2,372,860
Total equity and liabilities		**16,825,818**	5,918,755

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

Zhao Guoqiang — Chairman of the Board

Tatiana Maurer — Chief Accountant

8 February 2010

The accompanying notes on pages 5 to 27 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Thousands of Kazakh Tenge)

	Notes	*2009*	*2008*
Interest income			
Securities		**164,010**	121,853
Cash and cash equivalents		**51,211**	140,944
Loans to customers		**3,767**	2,565
		218,988	265,362
Interest expense			
Amounts due to customers		**(11,941)**	(4,245)
		(11,941)	(4,245)
Net interest income		**207,047**	261,117
Fee and commission income	16	**233,874**	206,196
Fee and commission expense	16	**(8,722)**	(3,589)
Net fee and commission income		**225,152**	202,607
Net gains from foreign currencies:			
- dealing		**82,399**	98,930
- translation differences		**7,617**	388
Other income		**452**	369
Non-interest income		**90,468**	99,687
Personnel expenses	17	**(96,184)**	(85,042)
Other operating expenses	17	**(97,061)**	(70,042)
Depreciation and amortisation	9, 10	**(11,098)**	(18,572)
Taxes other than income tax		**(879)**	(1,292)
Non-interest expense		**(205,222)**	(174,948)
Profit before income tax expense		**317,445**	388,463
Income tax expense	11	**(38,727)**	(85,834)
Comprehensive income for the year		**278,718**	302,629

The accompanying notes on pages 5 to 27 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

(Thousands of Kazakh Tenge)

	Note	*Share capital*	*Retained earnings*	*Total equity*
31 December 2007		1,417,387	652,844	2,070,231
Comprehensive income for the year		–	302,629	302,629
31 December 2008		1,417,387	955,473	2,372,860
Issue of share capital	14	**2,516,662**	–	**2,516,662**
Comprehensive income for the year		–	**278,718**	**278,718**
31 December 2009		**3,934,049**	**1,234,191**	**5,168,240**

The accompanying notes on pages 5 to 27 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

(Thousands of Kazakh Tenge)

	Note	2009	2008
Cash flows from operating activities:			
Interest received		161,426	125,893
Interest paid		(9,684)	(6,307)
Fees and commissions received		233,874	206,196
Fees and commissions paid		(8,063)	(3,589)
Gains less losses from dealing in foreign currencies		82,399	98,930
Personnel expenses paid		(96,535)	(85,042)
Operating expenses paid		(81,130)	(70,965)
Cash flows from operating activities before changes in operating assets and liabilities		282,287	265,116
Net (increase) / decrease in operating assets:			
Net (increase) / decrease in obligatory reserves		(113,961)	175,388
Net (increase) / decrease in loans to customers		(300,000)	31,769
Net decrease / (increase) in other assets		4,053	(1,579)
Net increase / (decrease) in operating liabilities:			
Net decrease in amounts due to credit institutions		–	(4,149)
Net increase / (decrease) in amounts due to customers		7,711,096	(125,168)
Net decrease in other liabilities		(652)	(248)
Net cash flows from operating activities before income tax		7,582,823	341,129
Income tax paid		(58,271)	(82,964)
Net cash from operating activities		7,524,552	258,165
Cash flows from investing activities:			
Redemption of held-to-maturity securities		1,050,000	2,388,286
Purchase of held-to-maturity securities		(2,062,911)	(3,377,477)
Purchase of property and equipment	9	(12,673)	(1,797)
Purchase of intangible assets	10	(638)	(40)
Net cash used in investing activities		(1,026,222)	(991,028)
Cash flows from financing activities:			
Proceeds from issue of share capital		2,516,662	–
Net cash from financing activities		2,516,662	–
Effect of exchange rates changes on cash and cash equivalents		406,937	6,642
Net increase / (decrease) in cash and cash equivalents		9,421,929	(726,221)
Cash and cash equivalents at the beginning of the year	5	3,431,340	4,157,561
Cash and cash equivalents at the end of the year	5	12,853,269	3,431,340

The accompanying notes on pages 5 to 27 are an integral part of these financial statements

1. Principal activities

JSC Industrial and Commercial Bank of China Almaty (the "Bank") provides retail and corporate banking services in Kazakhstan. The Bank was incorporated in the Republic of Kazakhstan in the form of a branch of Industrial and Commercial Bank of China on 3 March 1993. On 25 March 1994 the branch was reorganised into CJSC Industrial and Commercial Bank of China Almaty. On 5 May 2005 the Bank was re-registered under the name of JSC Industrial and Commercial Bank of China Almaty. The sole shareholder of the Bank is JSC Industrial and Commercial Bank of China (the "Parent"), which was incorporated and operating in the People's Republic of China.

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

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

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

2. Basis of preparation

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

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

3. Summary of significant accounting policies

Changes in accounting policies

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

Improvements in IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Bank.

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. These amendments did not have any impact on the Bank's financial statements.

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 Bank has decided to present comprehensive income in the form of a single statement.

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. These amendments did not have any impact on the Bank's financial statements.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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. These amendments did not have any impact on the Bank's financial statements.

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. These amendments did not have any impact on the Bank's financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – 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 Bank's financial statements.

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

Amendments 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. These amendments did not have any impact on the Bank's financial statements.

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 Bank's financial statements as no such schemes currently exist.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes 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 Bank, as the Bank has no transfers of assets from its customers.

Financial assets

Initial recognition

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

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

'Day 1' profit

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

Held-to-maturity investments

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

Loans and receivables

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

Offsetting

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

Cash and cash equivalents

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

Borrowings

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

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

3. Summary of 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 cash flow statements.

Leases

Operating – Bank as lessee

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

Impairment of financial assets

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

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

Loans to customers

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

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

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

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

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Taxation

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

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

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

3. Summary of accounting policies (continued)

Taxation (continued)

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

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

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

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

	Years
Buildings	50
Furniture and fixtures	9
Computers and office equipment	4
Leasehold improvements	5
Motor vehicles	5

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

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

Intangible assets

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

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

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

Contingencies

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

3. Summary of accounting policies (continued)

Income and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. 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 loan.

- *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.

Foreign currency translation

The 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 at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and exchange rate stated by the Kazakhstan Stock Exchange ("KASE") on the date of the transaction are included in gains less losses from dealing in foreign currencies. As at 31 December 2009 and 2008 the official KASE exchange rates were KZT 148.46 and KZT 120.79 to 1 USD, respectively.

3. Summary of accounting policies (continued)

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 becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Bank expects that this amendment will have no impact on the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3 "Business Combinations" (revised) and IAS 27 "Consolidated and Separate Financial Statements" (revised)

The revised standards were issued in January 2008 and become 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 and will affect only future acquisitions and transactions with minority interests.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions (amendments)

The amendment to IFRS 2 was issued in June 2009 and become 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 Bank expects that this amendment will have no impact on the Bank's 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 the statement of comprehensive income. 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 Bank expects that this interpretation will have no impact on the Bank's financial statements.

Improvements to IFRS

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 Bank, 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 Bank expects that this amendment will have no impact on the Bank's 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. The Bank expects that this amendment will have no impact on the Bank's financial statements.

(Thousands of Kazakh Tenge)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Improvements to IFRS (continued)

- 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 Bank as the annual impairment test is performed before aggregation.

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

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

IFRS 9 "Financial Instruments"

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

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Taxation

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

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2009	*2008*
Cash on hand	**289,766**	316,322
Current accounts with the NBRK	**18,907**	62,295
Term deposits with the NBRK up to 90 days	**6,201,081**	1,400,671
Current accounts with the Parent	**602,520**	1,628,233
Current accounts with OECD based banks	**5,727,820**	18,352
Current accounts with local banks	**13,175**	5,467
	12,853,269	3,431,340

(Thousands of Kazakh Tenge)

5. Cash and cash equivalents (continued)

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

	2009		2008	
	%	Maturity	%	Maturity
Term deposits with the NBRK up to 90 days	**0.50%- 1.00%**	**2010**	5.25%	2009

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

	2009			2008		
	USD	EURO	JPY	USD	EURO	JPY
The Parent	1-month LIBOR plus 0.15%	1-month LIBOR plus 0.06%	1-month LIBOR plus 0.15%	1-month LIBOR plus 1.36%	1-month LIBOR plus 0.98%	1-month LIBOR plus 0.22%
OECD based banks	–	–	–	Federal fund rate	–	–

6. Obligatory reserves

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

As at 31 December 2009, the obligatory reserves are KZT 195,515 thousand (31 December 2008: KZT 81,554 thousand).

7. Loans to customers

As at 31 December 2009 loans to customers comprise two loans issued to one borrower. Both loans are guaranteed by the Parent and shall mature in 2010. Nominal interest rate established by the Bank for these loans is 8% per annum. The Bank had no any loans issued to customers as at 31 December 2008.

8. Held-to-maturity securities

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

	2009		2008	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**3,423,545**	**3,422,972**	2,357,249	2,360,827
	3,423,545	**3,422,972**	2,357,249	2,360,827

As at 31 December 2009 the effective interest rate of treasury bills of the Ministry of Finance of the Republic of Kazakhstan is 2.45%-8.75% per annum (2008: 7.50%-8.75% per annum) and maturity is 2010-2013 (31 December 2008: 2009-2011).

(Thousands of Kazakh Tenge)

9. Property and equipment

The movements in property and equipment during 2009 and 2008 are as follows:

	Buildings	*Leasehold improve-ments*	*Computer equipment*	*Vehicles*	*Other*	*Total*
Cost:						
31 December 2007	49,035	29,572	30,892	23,716	22,050	155,265
Additions	–	–	1,059	–	738	1,797
31 December 2008	49,035	29,572	31,951	23,716	22,788	157,062
Additions	–	–	**9,178**	–	**3,495**	**12,673**
Disposals	–	–	**(13,780)**	–	–	**(13,780)**
31 December 2009	**49,035**	**29,572**	**27,349**	**23,716**	**26,283**	**155,955**
Accumulated depreciation:						
31 December 2007	(39,369)	(28,452)	(28,532)	(21,346)	(11,374)	(129,073)
Charge	(5,884)	(720)	(1,248)	(2,370)	(2,655)	(12,877)
31 December 2008	(45,253)	(29,172)	(29,780)	(23,716)	(14,029)	(141,950)
Charge	**(98)**	**(264)**	**(2,205)**	–	**(2,920)**	**(5,487)**
Disposals	–	–	**13,680**	–	–	**13,680**
31 December 2009	**(45,351)**	**(29,436)**	**(18,305)**	**(23,716)**	**(16,949)**	**(133,757)**
Net book value:						
31 December 2009	**3,684**	**136**	**9,044**	–	**9,334**	**22,198**
31 December 2008	3,782	400	2,171	–	8,759	15,112

During 2009 the Bank has adjusted the useful life of building from 8 to 50 years. Carrying amount of fully amortised assets that are in use as at 31 December 2009 is KZT 74,317 thousand (31 December 2008: KZT 80,888 thousand).

10. Intangible assets

The movements in intangible assets during 2009 and 2008 are as follows:

	Licences	*Software*	*Total*
Cost:			
31 December 2007	25,407	28,598	54,005
Additions	–	40	40
31 December 2008	25,407	28,638	54,045
Additions	**186**	**452**	**638**
Disposals	**(18,272)**	**(24,100)**	**(42,372)**
31 December 2009	**7,321**	**4,990**	**12,311**
Accumulated depreciation:			
31 December 2007	(16,183)	(9,005)	(25,188)
Charge	(2,563)	(3,132)	(5,695)
31 December 2008	(18,746)	(12,137)	(30,883)
Charge	**(2,590)**	**(3,021)**	**(5,611)**
Disposals	**15,411**	**11,750**	**27,161**
31 December 2009	**(5,925)**	**(3,408)**	**(9,333)**
Net book value:			
31 December 2009	**1,396**	**1,582**	**2,978**
31 December 2008	6,661	16,501	23,162

In December 2009 the Bank has written-off «ABRAXYS» information system. Net carrying value of this system as at the date of write-off amounted to KZT 15,211 thousand.

(Thousands of Kazakh Tenge)

11. Taxation

The corporate income tax expense comprises:

	2009	*2008*
Current tax charge	**38,118**	84,400
Deferred tax charge – origination and reversal of temporary difference	**609**	1,434
Income tax expense	**38,727**	85,834

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with changes to tax legislation in 2009, as at 31 December 2009 corporate income tax rate of 20.0% is decreased to 17.5% and 15.0% only in 2013 and 2014 years, respectively. The legislation as in effect in 2008 supposed decrease in rate to 17.5% in 2010 and to 15.0% in 2011.

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

	2009	*2008*
Profit before income tax expense	**317,445**	388,463
Statutory tax rate	**20%**	30%
Theoretical income tax expense at the statutory rate	**63,489**	116,539
Tax exempt income:		
Government securities	**(32,802)**	(36,556)
Non-deductible expenses:		
Write-off of intangible asset	**3,042**	–
Non-banking expenses	**2,971**	1,269
Difference due to change in tax rates	**1,467**	3,680
Representation expenses	**560**	902
Income tax expense	**38,727**	85,834

As at 31 December 2009 current income tax assets amounts to KZT 18,271 thousand. As at 31 December 2008 current income tax liabilities amounted to KZT 1,882 thousand.

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

	2007	***Origination and reversal of temporary differences in the statement of comprehensive income***	*2008*	***Origination and reversal of temporary differences in the statement of comprehensive income***	*2009*
Tax effect of deductible temporary differences:					
Property and equipment and intangible assets	3,079	(1,434)	1,645	**(609)**	**1,036**
Deferred tax assets	3,079	(1,434)	1,645	**(609)**	**1,036**

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

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

(Thousands of Kazakh Tenge)

12. Amounts due to credit institutions

As at 31 December 2009 and 2008 amounts due to customers comprise the interest-free current account of Urumqi City Commercial Bank.

13. Amounts due to customers

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

	2009	*2008*
Current accounts	**11,532,001**	3,509,917
Term deposits	**107,552**	20,142
Amounts due to customers	**11,639,553**	3,530,059

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

	2009	*2008*
Current accounts:		
Commercial entities	**9,738,732**	2,169,544
Governmental entities	**916,186**	705,554
Individuals	**877,083**	634,819
	11,532,001	3,509,917
Term deposits:		
Individuals	**107,552**	20,142
	107,552	20,142
Amounts due to customers	**11,639,553**	3,530,059

As at 31 December 2009, the Bank's ten largest customers account for 89% of the total amounts due to customers (31 December 2008: 71%).

Included in term deposits are deposits of individuals in the amount of KZT 107,552 thousand (31 December 2008: KZT 20,142 thousand). In accordance with the Civil Code of Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is not paid or is paid based on far less interest rate, depending upon conditions specified in the agreement.

An analysis of customer accounts by economic sector follows:

	2009	*%*	*2008*	*%*
Mining	**4,453,726**	**38.3%**	–	–
Oil transportation	**3,647,318**	**31.3%**	–	–
Trade	**1,040,364**	**8.9%**	617,519	17.5%
Individuals	**984,635**	**8.5%**	654,961	18.6%
Governmental entities	**916,186**	**7.9%**	705,554	20.0%
Construction	**381,018**	**3.3%**	557,726	15.8%
Transportation and communication	**44,486**	**0.4%**	70,908	2.0%
Oil and gas	**2,842**	–	580,591	16.4%
Education	**90**	–	320,000	9.1%
Other	**168,888**	**1.4%**	22,800	0.6%
	11,639,553	**100.0%**	3,530,059	100.0%

14. Equity

In accordance with decision of the Parent dated 15 January 2009, the Bank increased the number of shares to be placed from 2,273 to 6,270 shares. As at 31 December 2009, the Bank had 6,270 issued and fully paid shares. Each common share is entitled to one vote and equal rights to obtain dividends. All shares are Tenge denominated and have a nominal value of KZT 627,440 each. As at 31 December 2009 total paid-in share capital amounted to KZT 3,934,049 thousand (31 December 2008: KZT 1,417,387 thousand). During 2009 and 2008 no dividends were declared or distributed.

(Thousands of Kazakh Tenge)

15. Commitments and contingencies

Political and economic environment

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

The Kazakhstan 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, default of three leading Kazakhstan financial institutions and tighter credit conditions within Kazakhstan. While the Kazakhstan government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank's counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Legal actions and claims

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

Tax contingencies

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

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

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

16. Net fee and commission income

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

	2009	*2008*
Transfer operations	**210,592**	181,595
Cash operations	**20,890**	20,480
Other	**2,392**	4,121
Fee and commission income	**233,874**	206,196
Custody activities	**(5,775)**	(1,916)
Transfer operations	**(1,547)**	(1,349)
Other	**(1,400)**	(324)
Fee and commission expenses	**(8,722)**	(3,589)
Net fee and commission income	**225,152**	202,607

(Thousands of Kazakh Tenge)

17. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2009	*2008*
Salaries and bonuses	**87,312**	78,178
Social tax	**8,872**	6,864
Personnel expenses	**96,184**	85,042
Rent	**17,082**	17,082
Write-off of intangible asset	**15,211**	–
Information technology service	**10,563**	9,870
Professional services	**9,601**	7,367
Security	**8,717**	8,679
Communication services	**8,419**	7,281
Business trip expenses	**5,963**	4,578
Cash collection expenses	**5,570**	2,155
Utilities	**3,106**	1,941
Representation expenses	**2,798**	3,006
Office supplies	**2,340**	1,468
Deposit insurance	**1,833**	644
Transportation	**1,261**	1,348
Other	**4,597**	4,623
Other operating expenses	**97,061**	70,042

18. Risk management

Introduction

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

Risk management structure

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

Management Board

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

Risk Management and Law Compliance Department.

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

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

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

Assets and Liabilities Management Committee

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

18. Risk management (continued)

Introduction (continued)

Internal Audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes.

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

Risk mitigation

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

Excessive risk concentration

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

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

Credit risk

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

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

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

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

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

	Note	*Gross maximum exposure 2009*	*Gross maximum exposure 2008*
Cash and cash equivalents (excluding cash on hand)	5	**12,563,503**	3,115,018
Obligatory reserves	6	**195,515**	81,554
Loans to customers	7	**303,767**	–
Held-to-maturity securities	8	**3,423,545**	2,357,249
Other assets		**1,792**	888
Total credit risk exposure		**16,488,122**	5,554,709

Credit quality per class of financial assets

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

		Neither past due nor impaired		
	Notes	*High grade 2009*	*Standard grade 2009*	*Total 2009*
Loans to customers	7	**–**	**303,767**	**303,767**
Held-to-maturity securities	8	**3,423,545**	**–**	**3,423,545**
Total		**3,423,545**	**303,767**	**3,727,312**

		Neither past due nor impaired		
	Notes	*High grade 2008*	*Standard grade 2008*	*Total 2008*
Held-to-maturity securities	8	2,357,249	–	2,357,249
Total		2,357,249	–	2,357,249

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

Impairment assessment

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

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

The Bank 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.

Collectively assessed allowances

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

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

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

		2009		
	Kazakhstan	***OECD***	***China***	***Total***
Assets:				
Cash and cash equivalents	6,522,929	5,727,820	602,520	12,853,269
Obligatory reserves	195,515	–	–	195,515
Loans to customers	303,767	–	–	303,767
Held-to-maturity securities	3,423,545	–	–	3,423,545
Current income tax assets	18,271	–	–	18,271
Deferred income tax assets	1,036	–	–	1,036
Other assets	1,792	–	–	1,792
	10,466,855	5,727,820	602,520	16,797,195
Liabilities:				
Due to credit institutions	–	–	14,856	14,856
Due to customers	11,639,553	–	–	11,639,553
Other liabilities	3,169	–	–	3,169
	11,642,722	–	14,856	11,657,578
Net assets and liabilities position	(1,175,867)	5,727,820	587,664	5,139,617

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

	2008			
	Kazakhstan	*OECD*	*China*	*Total*
Assets:				
Cash and cash equivalents	1,784,755	18,352	1,628,233	3,431,340
Obligatory reserves	81,554	–	–	81,554
Held-to-maturity securities	2,357,249	–	–	2,357,249
Deferred income tax assets	1,645	–	–	1,645
Other assets	888	–	–	888
	4,226,091	18,352	1,628,233	5,872,676
Liabilities:				
Due to credit institutions	–	–	12,087	12,087
Due to customers	2,143,861	–	1,386,198	3,530,059
Current income tax liabilities	1,882	–	–	1,882
Other liabilities	1,867	–	–	1,867
	2,147,610	–	1,398,285	3,545,895
Net assets and liabilities position	2,078,481	18,352	229,948	2,326,781

Liquidity risk and funding management

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

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

	2008		
Financial liabilities	*Less than 3 months*	*3 to 12 months*	*Total*
Amounts due to customers	3,511,324	20,724	3,532,048
Amounts due to credit institutions	12,087	–	12,087
Total undiscounted financial liabilities	3,523,411	20,724	3,544,135

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

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

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009.

Currency	*Increase in basis points* 2009	*Sensitivity of net interest income* 2009
1-month LIBOR		
US Dollar	1%	6,011
EURO	1%	8
Japanese Yen	1%	6

Currency	*Decrease in basis points* 2009	*Sensitivity of net interest income* 2009
1-month LIBOR		
US Dollar	0.1%	(601)
EURO	0.1%	(1)
Japanese Yen	0.1%	(1)

Currency	*Increase in basis points* 2008	*Sensitivity of net interest income* 2008
1-month LIBOR		
US Dollar	1%	12,106
EURO	1%	8
Japanese Yen	1%	5

Currency	*Decrease in basis points* 2008	*Sensitivity of net interest income* 2008
1-month LIBOR		
US Dollar	1%	(14,180)
EURO	1%	(8)
Japanese Yen	1%	(4)

Currency risk

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

The tables below indicate the currencies to which the Bank had exposure at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kazakh Tenge, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Market risk (continued)

Currency risk (continued)

	2009		2008	
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Increase in currency rate in %*	*Effect on profit before tax*
US Dollar	**14.6**	**(380)**	25.0	1.257
Euro	**13.8**	**111**	10.0	79
Japanese Yen	**15.5**	**99**	18.4	98

	2009		2008	
Currency	*Decrease in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
US Dollar	**0.7**	**18**	0.1	(9)
Euro	**2.5**	**(20)**	2.6	(21)
Japanese Yen	**3.7**	**(24)**	2.1	(12)

Operational risk

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

19. Fair values of financial instruments

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

	2009			2008		
	Carrying value	*Fair value*	*Unrecognised gain*	*Carrying value*	*Fair value*	*Unrecognised loss*
Financial assets						
Cash and cash equivalents	**12,853,269**	**12,853,269**	**–**	3,431,340	3,431,340	–
Obligatory reserves	**195,515**	**195,515**	**–**	81,554	81,554	–
Loans to customers	**303,767**	**303,767**	**–**	–	–	–
Held-to-maturity securities	**3,423,545**	**3,456,141**	**32,596**	2,357,249	2,333,204	(24,045)
Financial liabilities						
Amounts due to credit institutions	**14,856**	**14,856**	**–**	12,087	12,087	–
Amounts due to customers	**11,639,553**	**11,639,553**	**–**	3,530,059	3,530,059	–
Total unrecognised change in unrealised fair value			**32,596**			(24,045)

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

(Thousands of Kazakh Tenge)

20. Maturity analysis of financial assets and liabilities

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

	2009			*2008*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	**12,853,269**	–	**12,853,269**	3,431,340	–	3,431,340
Obligatory reserves	**195,515**	–	**195,515**	81,554	–	81,554
Loans to customers	**303,767**	–	**303,767**	–	–	–
Held-to-maturity securities	**2,054,015**	**1,369,530**	**3,423,545**	1,013,648	1,310,827	2,324,475
Current income tax assets	**18,271**	–	**18,271**	–	–	–
Other assets	**1,792**	–	**1,792**	888	–	888
Total	**15,426,629**	**1,369,530**	**16,796,159**	4,527,430	1,310,827	5,838,257
Financial liabilities						
Amounts due to credit institutions	**14,856**	–	**14,856**	12,087	–	12,087
Amounts due to customers	**11,639,553**	–	**11,639,553**	3,530,059	–	3,530,059
Current income tax liabilities	–	–	–	1,882	–	1,882
Other liabilities	**3,169**	–	**3,169**	1,867	–	1,867
Total	**11,657,578**	–	**11,657,578**	3,545,895	–	3,545,895
Net position	**3,769,051**	**1,369,530**	**5,138,581**	981,535	1,310,827	2,292,362

21. Related party transactions

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2009			*2008*		
	Parent	*Companies under common control*	*Key management personnel*	*Parent*	*Companies under common control*	*Key management personnel*
Cash and cash equivalents as at 1 January	**1,628,233**	–	–	578,853	–	–
Receipts on current accounts during the year	**60,518,265**	**15,771,740**	–	67,170,111	–	–
Payments on current accounts during the year	**(61,848,265)**	**(10,054,930)**	–	(66,130,540)	–	–
Foreign exchange difference	**304,287**	–	–	9,809	–	–
Cash and cash equivalents as at 31 December	**602,520**	**5,716,810**	–	1,628,233	–	–
Interest income on current accounts	**3,332**	–	–	36,586	–	–

(Thousands of Kazakh Tenge)

21. Related party transactions (continued)

	2009			*2008*		
	Parent	*Companies under common control*	*Key management personnel*	*Parent*	*Companies under common control*	*Key management personnel*
Due to customers as at 1 January	–	–	**1,580**	–	–	8,350
Receipts on current accounts during the year	–	–	**60,074**	–	–	15,642
Payments on current accounts during the year	–	–	**(57,804)**	–	–	(22,412)
Foreign exchange difference	–	–	**(3)**	–	–	–
Due to customers as at 31 December	–	–	**3,847**	–	–	1,580
Interest expense on current accounts	–	–	**(13)**	–	–	(1)

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

	2009	*2008*
Salaries and other short-term benefits	**25,183**	17,791
Social security expenses	**862**	661
	26,045	18,452

22. Capital adequacy

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

During the 2009, the Bank had complied in full with all its externally imposed capital requirements.

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

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

The FMSA requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of total assets and a capital adequacy ratio (Tier 2) not less than 10% of risk-weighted assets, computed based on requirement. As at 31 December 2009 and 2008, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's capital adequacy ratio, computed in accordance with the FMSA, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2009 and 2008, comprised:

	2009	*2008*
Tier 1 capital	**4,888,085**	2,068,856
Total assets	**16,825,818**	5,918,755
Tier 1 capital adequacy ratio	**29.1%**	35.0%
Total capital adequacy ratio	**29.1%**	35.0%

	2009	*2008*
Tier 2 capital	**5,166,803**	2,371,484
Risk weighted assets	**3,545,007**	1,134,248
Tier 2 capital adequacy ratio	**145.7%**	209.2%
Total capital adequacy ratio	**145.7%**	209.2%