

Subsidiary Hypothecary Organization of JSC BTA Bank JSC
BTA Ipoteka

Consolidated Financial Statements

*For the year ended 31 December 2009
Together with Independent Auditors' Report*

CONTENTS

INDEPENDENT AUDITORS' REPORT

Consolidated statement of financial position.....	1
Consolidated statement of consolidated income	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flow	4

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities.....	5
2. Basis of preparation	5
3. Summary of significant accounting policies	6
4. Significant accounting judgments and estimates	18
5. Cash and cash equivalents	19
6. Due from financial institutions.....	19
7. Derivative financial assets.....	19
8. Loans to customers.....	19
9. Inventory	21
10. Investment securities held to maturity	21
11. Property and equipment	22
12. Intangible assets.....	22
13. Taxation	23
14. Other assets.....	24
15. Amounts due to credit institutions	25
16. Debt securities issued	26
17. Equity	26
18. Commitments and contingencies.....	27
19. Net fee and commission expense.....	28
20. Personnel and other operating expenses.....	28
21. Risk management	28
22. Fair values of financial instruments	35
23. Maturity analysis of assets and liabilities	37
24. Related party transactions.....	37
25. Capital adequacy.....	39
26. Subsequent events.....	39

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management Board of Subsidiary Hypothecary Organization of JSC BTA Bank JSC BTA Ipoteka

We have audited the accompanying financial statements of Subsidiary Hypothecary Organization of JSC BTA Bank JSC BTA Ipoteka and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated 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 consolidated 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 auditors consider 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.

Subsidiary Hypothecary Organisation of JSC BTA Bank JSC BTA Ipoteka
2009 Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

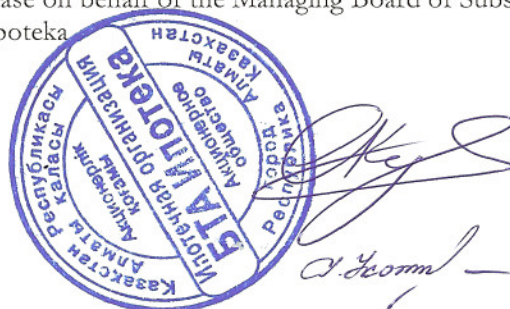
As of 31 December 2009

(Thousands of Kazakhstani tenge)

	Notes	2009	2008
Assets			
Cash and cash equivalents	5	4,453,276	4,670,746
Due from financial institutions	6	1,319,622	2,224,176
Derivative financial assets	7	5,745,810	90,320
Loans to customers	8	66,419,838	85,785,419
Investment securities held-to-maturity	10	843,000	–
Inventories	9	1,678,473	54,950
Property and equipment	11	185,674	271,826
Intangible assets	12	4,705	6,537
Current income tax asset	13	71,877	55,453
Deferred tax asset	13	130,388	2,856
Other assets	14	52,158	146,660
Total assets		80,904,821	93,308,943
Liabilities			
Loans due to financial institutions	15	38,725,001	44,296,098
Debt securities issued	16	33,332,279	38,197,354
Other liabilities		24,852	36,313
Total liabilities		72,082,132	82,529,765
Equity			
Share capital	17	5,615,004	5,615,004
Retained earnings		3,200,471	5,158,304
Total equity attributable to the shareholders of the Group		8,815,475	10,773,308
Minority interest		7,214	5,870
Total equity		8,822,689	10,779,178
Total equity and liabilities		80,904,821	93,308,943

Signed and authorized for release on behalf of the Managing Board of Subsidiary Hypothecary Organization of JSC BTA Bank JSC BTA Ipoteka

Kussainov S.A.



President

Kozhanbayeva G.N.

Chief Accountant

1 April 2010

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

Subsidiary Hypothecary Organisation of JSC BTA Bank JSC BTA Ipoteka
2009 Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Thousands of Kazakhstani tenge)

	<i>Notes</i>	<i>2009</i>	<i>2008</i>
Interest income			
Loans to customers		11,375,987	13,336,189
Due from financial institutions		157,242	377,017
Investment securities		99,829	–
Demand deposit		18,717	28,712
		<u>11,651,775</u>	<u>13,741,919</u>
Interest expense			
Amounts due to financial institutions		(5,149,943)	(5,548,250)
Debt securities issued		(3,051,753)	(4,167,129)
		<u>(8,201,696)</u>	<u>(9,715,378)</u>
Net interest income		3,450,079	4,026,540
Impairment charge on loans	8	(5,735,948)	(1,253,352)
Impairment of charge on investment securities held-to-maturity	10	(796,483)	–
Net interest income after impairment		<u>(3,082,352)</u>	<u>2,773,188</u>
Net fee and commission expense	19	(54,831)	(22,581)
Gains less losses from foreign currencies		(2,684,588)	(149,290)
Net income from derivatives	7	5,655,490	90,320
Income from debt extinguishment	16	814,013	–
Losses from disposal of assets	9, 10	(1,314,303)	(210,955)
Other operating income		14,726	8,411
Non-interest income		<u>2,430,507</u>	<u>(284,095)</u>
Personnel expenses	20	(762,081)	(835,892)
Depreciation and amortization	11, 12	(68,330)	(67,352)
Other operating expenses	20	(521,205)	(893,793)
Taxes other than income tax		(50,644)	(104,014)
Non-interest expense		<u>(1,402,260)</u>	<u>(1,901,051)</u>
Comprehensive (loss)/income before income tax expense		<u>(2,054,105)</u>	<u>588,041</u>
Income tax (expense)/benefit	13	96,272	(188,393)
Total comprehensive (loss)/income for the year		<u>(1,957,833)</u>	<u>399,648</u>

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

(Thousands of Kazakhstani tenge)

	<i>Equity attributable to the shareholders of Parent</i>			<i>Minority Interest</i>	<i>Total Equity</i>
	<i>Share Capital</i>	<i>Retained Earnings</i>	<i>Total</i>		
31 December 2007	5,615,004	4,758,656	10,373,660	2,808	10,376,468
Total comprehensive income for the year	–	399,648	399,648		399,648
Minority interest on acquisition	–	–	–	3,062	3,062
31 December 2008	5,615,004	5,158,304	10,773,308	5,870	10,779,178
Total comprehensive income for the year	–	(1,957,833)	(1,957,833)		(1,957,833)
Minority interest on acquisition	–	–	–	1,344	1,344
31 December 2009	5,615,004	3,200,471	8,815,475	7,214	8,822,689

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

(Thousands of Kazakhstani tenge)

	<i>Notes</i>	<i>2009</i>	<i>2008</i>
Cash flows from operating activities			
(Loss)/income before income tax		(2,054,105)	588,041
Adjustments for:			
Impairment charge on loans	8	5,735,948	1,253,352
Impairment of investment securities held-to-maturity		796,483	–
Depreciation and amortization	10,12	68,330	67,352
Unrealized options revaluation		(5,655,490)	(90,320)
Unrealized foreign exchange loss/(gain)		2,680,409	141,664
(Gain)/loss on disposal of property and equipment		(1,932)	2,993
(Gain)/loss on disposal of inventories		5,756	–
Loss from disposal of assets		1,314,303	210,956
Income from purchase of own securities		(814,013)	–
Operating cash flows before changes in net operating assets and liabilities		2,075,689	2,174,038
<i>Net decrease/(increase) in operating assets</i>			
Due from financial institutions		904,554	1,972,675
Loans to customers		7,451,043	(145,591)
Other assets		94,502	(13,276)
<i>Net increase/(decrease) in operating liabilities</i>			
Loans due to financial institutions		(5,571,097)	3,052,944
Other liabilities		(10,117)	(80,007)
Net cash flows from operating activities before income taxes		4,944,574	6,960,783
Income tax paid		(47,684)	(240,536)
Net cash flows from operating activities		4,896,890	6,720,247
Cash flows from investing activities			
Purchase of property and equipment	11	(6,704)	(173,631)
Proceeds from sale of property and equipment		28,489	553
Purchase of intangible assets	12	(199)	(1,273)
Purchase of investment securities		(1,639,483)	–
Net cash flows used in investing activities		(1,617,897)	(174,351)
Cash flows from financing activities			
Repayment of debt securities issued		(3,489,425)	(14,969,675)
Proceeds from debt securities issued		–	11,107,434
Proceeds from issue of shares	14	–	–
Net cash flows used in financing activities		(3,489,425)	(3,862,241)
Effect on exchange rate changes on cash and cash equivalents		(7,038)	(20,366)
Net increase/(decrease) in cash and cash equivalents		(217,470)	2,663,289
Cash and cash equivalents at the beginning of the year	5	4,670,746	2,007,457
Cash and cash equivalents at the end of the year	5	4,453,276	4,670,746
Non cash transactions:			
Collateral repossessed as repayment of loans to customers		1,623,472	54,884
Supplementary information:			
Interest received		11,919,405	13,415,378
Interest paid		9,166,428	9,687,674

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

(Thousands of Kazakhstani tenge)

1. Principal activities

Subsidiary Hypothecary Organization of JSC BTA Bank JSC BTA Ipoteka (the "Company") and its subsidiaries (together the "Group") was formed on 20 November 2000 as an open joint stock company under the laws of the Republic of Kazakhstan. The Company operates under a license No 27 issued by the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations ("FMSA") on August 14, 2008 to grant banking loans in cash on the terms of payment, maturity and recoverability.

The Company's main office is in Almaty and it has 15 representative offices throughout Kazakhstan (31 December 2008 – 15), Its registered legal address is Microregion Samal 2, Bld 16, Almaty, Republic of Kazakhstan.

The Company was reregistered as a joint stock company on 18 December 2003. The Company was specialized in providing mortgage lending and related support services.

The ongoing crisis has continued to negatively affect the recoverability of the Company's loans during 2009. As a result, the Company has incurred additional significant losses from impairment of its loan portfolio, which lead the Company to breach prudential ratios set by the FMSA for financial institutions. The Company was not able to remedy the noncompliance and on the 2 October 2009 the FMSA suspended the Company's license for lending operations. The Company's Board of Directors has decided to change the Company's business strategy from a lending institution to an asset restructuring and recovery company, for which no FMSA license is required. Consequently, on the 25 March 2010 the Company has initiated the process on voluntarily returning its license for lending operations. As at the reporting date, the details of the new business strategy are not yet finalised.

As of 31 December 2009 and 2008, the sole shareholders of the Company (outstanding stock) is BTA Bank JSC. The Company is under the ultimate control of the Government of the Republic of Kazakhstan represented by "National Welfare Fund "Samruk-Kazyna" JSC starting from February 2009.

2. Basis of preparation

General

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

These consolidated financial statements are presented in thousands of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated.

The consolidated financial statements are prepared under the historical cost convention, except as disclosed in the accounting policies below.

Consolidated subsidiaries

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

(Thousands of Kazakhstani tenge)

2. Basis of preparation (continued)

Reclassifications

The following reclassifications have been made to 2008 balances to conform to the 2009 presentation.

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>	<i>Comments</i>
Consolidated statement of financial position:				
Due from credit institutions	2,224,440	(264)	2,224,176	Reclassification of derivative assets from amounts due from credit institutions and loans to customers
Loans to customers	85,875,475	(90,056)	85,785,419	
Derivative financial assets	—	90,320	90,320	Reclassification of repossessed collateral to inventories
Other assets	201,610	(54,950)	146,660	
Inventories	—	54,950	54,950	
Consolidated statement of income:				
Due to credit institutions	(5,417,067)	(131,183)	(5,548,250)	Reclassification of expenses on debt securities issued to expenses on amounts due to credit institutions
Debt securities issued	(4,298,311)	131,183	(4,167,129)	
Gains less losses from foreign currencies	(58,970)	(90,320)	(149,290)	Reclassification of gains less losses on derivatives from gains and losses from foreign currencies
Options revaluation	—	90,320	90,320	
Interest income on loans	13,125,233	210,955	13,336,189	Reclassification of interest income on loans to losses from disposal of assets
Losses from disposal of assets	—	(210,955)	(210,955)	

3. Summary of significant accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

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.

IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"

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.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Improvements to IFRS (continued)

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 as a single statement of comprehensive income..

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.

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.

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.

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 Group' consolidated financial statements.

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. These amendments did not have any impact on the Group' consolidated financial statements.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Improvements to IFRS (continued)

IFRS 8 "Operating Segments"

IFRS 8 became effective for annual periods 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 impact on the financial position or performance of the Group. The Group determined that the operating segments are the same as the business segments previously identified under *IAS 14 'Segment Reporting'*,

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 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.

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.

3. Summary of significant accounting policies (continued)

Subsidiaries

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 intra-group 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.

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 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 trade date i.e, the date that the Group 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 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 consolidated income statement when the inputs become observable, or when the instrument is derecognized.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets 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 and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group 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. Gains and losses are recognised in the consolidated income statement 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 consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. *

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income 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 other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

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 and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

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 held for trading and are recorded at fair value. The 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 when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Borrowings

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 credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process,

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement

Leases

i. Operating - Group 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.

ii. 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 recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised 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.

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.

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 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.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

If there is 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 consolidated income statement. 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 income statement.

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.

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

Held-to-maturity financial investments

For held-to-maturity investments the Group 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 consolidated income statement.

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 consolidated income statement.

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.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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 under a 'pass-through' arrangement; 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.

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 transfer.

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 income statement.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

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.

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 included as a component of other operating expenses.

Property and equipment

Property and equipment is 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:

	<u>Years</u>
Buildings	10.0
Furniture and fixtures	6.7
Computers and office equipment	3.0
Motor vehicles	4.0

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 capitalization.

Intangible assets

Intangible assets include computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised 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 amount of obligation can be made.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Retirement and other benefit obligations

The Group 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 Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases 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.

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 recognised in the consolidated 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 consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

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 securities classified as trading or available-for-sale, 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.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

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 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.

Dividend income

Revenue is recognised when the Groups' right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Kazakhstani Tenge, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional 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 consolidated income statement 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 certain transaction and the market exchange rate quoted by KASE on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at 31 December 2009 and 2008 were 148,46 KZT and 120,79 KZT 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 Kazakhstani 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

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.

(Thousands of Kazakhstani tenge)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that 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 rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards 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

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.

(Thousands of Kazakhstani tenge)

3. 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"

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.

4. Significant accounting judgments and estimates

Judgments

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

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

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment 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 judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Kazakhstani tenge)

5. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	<i>2009</i>	<i>2008</i>
Cash on hand	211	3
Current accounts with financial institutions	3,035,303	2,186,579
Demand deposits with Royal Bank of Scotland	1,417,762	2,484,164
Cash and cash equivalents	4,453,276	4,670,746

6. Due from financial institutions

Due from financial institutions as at 31 December comprise:

	<i>2009</i>	<i>2008</i>
JSC Temir Bank	1,185,484	1,842,004
JSC BTA Bank	134,138	366,057
JSC Kurylys Ipoteka	-	16,115
Due from financial institutions	1,319,622	2,224,176

Amounts due from JSC Temir Bank, JSC BTA Bank, and JSC Kurylys Ipoteka represent mortgage loans purchased from these entities with full recourse to these entities on any defaulted loan. The Group has determined that, as a result of these transactions, not substantially all the risks and rewards of the portfolio have been transferred to the Company. Therefore, the Group did not recognize the purchased loans on its consolidated statement of financial position as loans to customers. Instead the Company recognized these assets as due from the above mentioned financial institutions in the amount of the purchased loans.

7. Derivative financial assets

The Company had certain loans to customers where loan payments were linked to foreign currencies in such a way that the Company has a right to demand higher payments if the foreign currency specified in the contract appreciated above a certain floor (floor is generally set at the level of spot rates prevailing on the loan issue date). At the same time if the foreign currency rates fell below the floor, loan payments would remain at original level. The Company believes that the above feature is an embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value in the consolidated financial statements.

The table below shows the fair values of derivative financial instruments, recorded as assets, together with their notional amounts.

	<i>2009</i>		<i>2008</i>	
	<i>Notional principal</i>	<i>Fair value Asset</i>	<i>Notional principal</i>	<i>Fair value Asset</i>
Foreign exchange contracts				
Options – domestic	23,141,952	5,745,810	31,053,198	90,320
Total derivative assets/liabilities	23,141,952	5,745,810	31,053,198	90,320

8. Loans to customers

Loans to customers comprise:

	<i>2009</i>	<i>2008</i>
Loans to customers	75,892,515	89,023,249
Less - Allowance for impairment	(9,302,599)	(2,993,549)
	66,589,916	86,029,700
Unamortized issuance fees	(170,078)	(244,281)
Loans to customers	66,149,838	85,785,419

Subsidiary Hypothecary Organisation of JSC BTA Bank JSC BTA Ipoteka
Notes to the Consolidated Financial Statements (continued)

(Thousands of Kazakhstani tenge)

8. Loans to customers (continued)

Loans pledged as collateral as at December 31 comprise:

	<i>2009</i>	<i>2008</i>
Mortgage-backed securities	34,118,505	40,654,778
Royal Bank of Scotland	12,131,374	16,046,715
A, B and C notes issued by the "First Kazakhstan Company on Securitisation" (Note 13)	6,176,630	8,215,056
	<u>52,426,509</u>	<u>64,916,549</u>

Interest rates for the loans were as follows:

	<i>2009</i>	<i>2008</i>
Loans in USD	7,08%-23,00%	11,35%-25,00%
Loans in KZT	6,80%-22,00%	10,00%-24,46%
Loans indexed in USD	9,00%-25,00%	10,00%-25,00%

Loans have been extended to the following types of customers:

	<i>2009</i>	<i>2008</i>
Individuals	75,453,320	88,649,167
Legal entities	439,195	374,082
	<u>75,892,515</u>	<u>89,023,249</u>

Derecognition of loan portfolio

During the period from 2001 to 2008 the 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 this transaction, not substantially all the risks and rewards of the portfolio have been transferred to Kazakhstan Mortgage Company. Therefore, the Group continues to recognize these loans as an asset on its consolidated statement of financial position for the amount of KZT 5,386,511 thousand as of 31 December 2009, with the corresponding liability recorded in amounts due to credit institutions for the same amount (2008 – KZT 7,149,885 thousand).

During the period from 2007 to 2008 the Group has been periodically selling part of its mortgage loan portfolio to Temir Bank JSC, with full recourse to the Group for any default loan. The Group has determined that, as a result of this transaction, not substantially all the risks and rewards of the portfolio have been transferred to Temir Bank JSC. Therefore, the Group continues to recognize these loans as an asset on its consolidated statement of financial position for the amount of KZT 9,756 thousand, with the corresponding liability recorded in amounts due to credit institutions for the same amount (2008 – KZT 13,232 thousand).

Allowance for impairment of loans to customers

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

	<i>2009</i>	<i>2008</i>
At 1 January 2009	2,993,549	2,114,547
Charge for the year	5,735,948	1,253,352
Recoveries	573,102	279,368
Amounts written off	–	(653,718)
At 31 December 2009	<u>9,302,599</u>	<u>2,993,549</u>
Individual impairment	4,217,625	–
Collective impairment	5,084,974	2,993,549
	<u>9,302,599</u>	<u>2,993,549</u>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	9,639,876	–
Gross amount of loans, individually determined to be not impaired, before deducting any collectively assessed impairment allowance	66,252,639	89,023,249
	<u>75,892,515</u>	<u>89,023,249</u>

(Thousands of Kazakhstani tenge)

8. Loans to customers (continued)

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 Group obtains real estate as collaterals for loans to customers,

The fair value of collateral held by the Group relating to loans individually determined to be impaired as at 31 December 2009 was KZT 5,422,251 thousand. In accordance with NBRK requirements loans could be written off only with the approval of the Management Board, and, in certain cases, with the respective decision of the court.

From the total amount of aggregate past due, but not impaired loans to customers, the fair value of collateral held by the Group as at 31 December 2009, amounted to KZT 13,536,397 thousand (at 31 December 2008 – KZT 12,032,496 thousand).

Concentration of loans to customers

As at 31 December 2009 the Group had a concentration of loans represented by KZT 1,661,486 thousand due from ten largest borrowers that comprised 2.5% of the total loan portfolio (2008 – KZT 1,681,950 thousand or 2%) and represented 18.2% of the Group's total equity (2008 – 15.6%). As of 31 December 2009 allowances amounting to KZT 231,509 thousand were made against these loans (2008 – KZT 45,606 thousand).

9. Inventory

Inventory mostly comprises real estate collateral repossessed by the Group from its borrowers as a settlement on issued loans. As a result of sale of real estate collateral during 2009 the Company incurred losses from disposal of assets in the amount of KZT 619,785 (2008: 210,955 thousand).

10. Investment securities held to maturity

Held to maturity securities comprise the following:

	<u>2009</u>	<u>2008</u>
Treasury bills of the Ministry of Finance	193,202	–
Corporate bonds	1,446,281	–
Less: allowance for impairment	(796,483)	–
Held to maturity securities	<u>843,000</u>	–

In 2009 the Group has accepted from its borrowers its own and Parent's debt securities as a settlement for the issued loans to third parties. These securities were classified as held-to-maturity securities, since the Company has intention to hold them to their maturity. The fair value of these debt securities at the loans settlement date was lower than the loans' carrying value. As a result of these transactions, the Company has recognised in its consolidated statement of comprehensive income, a loss from disposal of loans in the amount of KZT 694,518 thousand.

In April 2009 the Parent has defaulted on its debt, which resulted in significant decline in the fair value of the Parent's debt and equity securities. As a result, the Company has recognised an impairment loss on these securities in the amount of KZT 796,483 thousand. Currently, the Parent is taking steps to restructure its debt.

(Thousands of Kazakhstani tenge)

11. Property and equipment

The movements on property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
Cost					
At 31 December 2008	132,071	76,205	165,629	15,425	389,330
Additions	–	814	5,890	–	6,704
Disposals	(27,457)	(4,576)	(43,578)	–	(75,611)
At 31 December 2009	104,614	72,443	127,941	15,425	320,423
Accumulated depreciation					
At 31 December 2008	(12,616)	(22,942)	(72,845)	(9,101)	(117,504)
Charge	(10,797)	(11,012)	(40,771)	(3,719)	(66,299)
Disposals	4,850	2,385	41,819	–	49,054
At 31 December 2009	(18,563)	(31,569)	(71,797)	(12,820)	(134,749)
Net book value:					
At 31 December 2008	119,455	53,263	92,784	6,324	271,826
At 31 December 2009	86,051	40,874	56,144	2,605	185,674

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>
Cost					
At 31 December 2007	23,386	67,127	144,852	15,058	250,423
Additions	109,297	11,567	52,400	367	173,631
Disposals	(612)	(2,489)	(31,623)	–	(34,724)
At 31 December 2008	132,071	76,205	165,629	15,425	389,330
Accumulated depreciation					
At 31 December 2007	(7,489)	(13,732)	(57,494)	(5,665)	(84,380)
Accumulated depreciation	(5,127)	(10,355)	(46,380)	(3,436)	(65,298)
Disposals	–	1,145	31,029	–	32,174
At 31 December 2008	(12,616)	(22,942)	(72,845)	(9,101)	(117,504)
Net book value:					
At 31 December 2007	15,897	53,395	87,358	9,393	166,043
At 31 December 2008	119,455	53,263	92,784	6,324	271,826

12. Intangible assets

The movements of intangible assets were as follows:

	<i>Computer software</i>
Cost	15,097
At 31 December 2008	
Additions	199
Disposals	–
At 31 December 2009	15,296
Accumulated amortization	
At 31 December 2008	(8,560)
Amortisation charge	(2,031)
Disposals	–
At 31 December 2009	(10,591)
Net book value:	
At 31 December 2008	6,537
At 31 December 2009	4,705

(Thousands of Kazakhstani tenge)

12. Intangible assets (continued)

	<i>Computer software</i>
Cost	
At 31 December 2007	17,099
Additions	1,273
Disposals	(3,275)
At 31 December 2008	15,097
Accumulated amortization	
At 31 December 2007	(8,785)
Amortisation charge	(2,054)
Disposals	2,279
At 31 December 2008	(8,560)
Net book value:	
At 31 December 2007	8,314
At 31 December 2008	6,537

13. Taxation

Income tax expense comprises the following:

	<i>2009</i>	<i>2008</i>
Income tax expense – current portion	31,260	191,249
Deferred income tax expense (benefit) – origination and reversal of temporary differences	(127,532)	(2,856)
Income tax (benefit)/expense	(96,272)	188,393

The Republic of Kazakhstan is the major tax jurisdiction in which the Company's income is taxed, Company's two subsidiaries First Kazakh Securitization Company and Second Kazakh Securitization Company are subject to income tax in the Netherlands.

Current income tax asset as at 31 December 2009 was KZT 71,877 thousand (2008: KZT 55,453 thousand).

On 1 January 2009 a new tax code became effective in the Republic of Kazakhstan, which resulted in the corporate income tax rate being gradually reduced to 20% in 2009, 17.5% in 2010 and 15% in 2011 and onwards. In accordance with the changes introduced in July 2009, corporate income tax rate would be 20% from 2009 to 2012, 17.5% for 2013 and 15% for 2014 and onwards.

The effective income tax rate differs from statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<i>2009</i>	<i>2008</i>
(Loss) /profit before taxation	(2,054,105)	588,041
Statutory rate	20%	30%
Theoretical income tax expenses /(benefit) at the statutory rate	(410,821)	176,412
Permanent differences		
Non-deductible mortgage losses	294,121	–
Provisions on loans from affiliates	6,644	–
Permanent differences from changes in tax rates	9,709	1,616
Other	4,075	10,365
Income tax expense	(96,272)	188,393

(Thousands of Kazakhstani tenge)

13. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>		<i>Origination and reversal of temporary differences</i>		
	<i>2007</i>		<i>2008</i>		<i>2009</i>
Tax effect of deductible temporary differences:					
Tax losses carry forward	–	–	–	676,393	676,393
Unamortised commission associated with loans issuance	31,646	(27,133)	4,513	(4,513)	–
Securities	–	–	–	159,296	159,296
Property and equipment	–	2,824	2,824	(2,824)	–
Other	–	5,712	5,712	(2,029)	3,683
Gross deferred tax assets	31,646	(18,597)	13,049	826,323	839,372
Unrecognised deferred tax asset	(9,852)	9,852	–	–	–
Deferred tax assets	21,794	(8,745)	13,049	826,323	839,372
Tax effect of taxable temporary differences					
Derivative financial assets	–	–	–	(387,440)	(387,440)
Allowances on loans	–	–	–	(305,400)	(305,400)
Unamortised commission associated with loans issuance	–	–	–	(10,327)	(10,327)
Commission expenses	(20,225)	10,071	(10,154)	6,769	(3,385)
Property and equipment	(1,538)	1,538	–	(2,432)	(2,432)
Other	(31)	(8)	(39)	39	–
Deferred tax liability	(21,794)	11,601	(10,193)	(698,791)	(708,984)
Deferred tax asset	–	2,856	2,856	127,532	130,388

The Group has available KZT 3,381,964 thousand of tax losses carried forwards which begin to expire in 2019, if not utilized.

Tax losses carry forward represent losses, which resulted from impairment of loans.

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental 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 organizations; 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 Group 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.

14. Other assets

Other assets comprise the following:

	<i>2009</i>	<i>2008</i>
Prepayment for property and equipment	23,672	24,162
Prepayments for rent	18,315	20,352
Prepayment for insurance	1,451	12,649
Receivables on operations with securities	–	66,378
Other prepayments and receivables	8,720	23,119
Other assets	52,158	146,660

Subsidiary Hypothecary Organisation of JSC BTA Bank JSC BTA Ipoteka
Notes to the Consolidated Financial Statements (continued)

(Thousands of Kazakhstani tenge)

15. Amounts due to credit institutions

Amounts due to financial institutions comprise:

	2009	2008
BTA Bank	25,279,022	22,946,728
Royal Bank of Scotland	8,082,612	14,251,079
Kazakhstan Mortgage Company	5,386,511	7,149,885
Temir Bank	12,650	17,372
Other	-	675
	<u>38,760,795</u>	<u>44,365,739</u>
Unamortized cost of issuance	(35,794)	(69,641)
Total	<u>38,725,001</u>	<u>44,296,098</u>

A loan from Royal Bank of Scotland in the amount of KZT 8,082,613 thousand, equivalent of USD 54,443 thousand, was received by the Company, through its subsidiary, as a short term financing. Initially the loan was considered as the first stage of the mortgage loans securitisation transaction, which should have been refinanced by long term residential mortgage-backed securities to be issued by the Company's subsidiary Second Kazakh Securitisation Company. However, the Group and Royal Bank of Scotland agreed to not finalize the securitization and therefore the loan is subject to the below mentioned financial covenants.

Financial covenants

In accordance with the contractual terms of the foreign bank loans, the Company is required to maintain certain financial and non-financial covenants. As of 31 December 2008 and 2009 the Company was not in compliance with certain covenants on delinquency and default ratios. Also, during 2009 the Company has failed to comply with additional covenants, as follows:

- in April 2009 the Company's Parent has defaulted on its indebtedness;
- the Parent's rating was downgraded below "B+" and the Company's rating was downgraded below "B";
- the Company's licence has been suspended in 2009.

As a result of the covenants breach, the acceleration clause of the loan borrowed by the Company from Royal Bank of Scotland was triggered, in accordance with which the Company is required to early repay the loan. The amount and the period of the repayment depend on the actual repayments made by the Company's borrowers included into the loan pool, pledged under this loan.

Interest rates and maturity of loans due to financial institutions are as follows:

	2009		2008	
	%	Maturity	%	Maturity
BTA Bank	6.72%-16%	2029	14.00%-16.00%	2015
	- Libor+8.0% -		Libor+2.6% -	
Royal Bank of Scotland	NDF+7.75%*	2012	NDF+2.5%*	2009-2010
Kazakhstan Mortgage Company	8.00%-21.00%	2010-2028	7.5%-14.5%	2013 - 2028
Temir Bank	16.30%-17.00%	2010-2026	13.00%	2009-2026

* NDF rate (non-deliverable forward rate KZT/USD rate)

(Thousands of Kazakhstani tenge)

16. Debt securities issued

Debt securities issued comprised:

	2009	2008
Mortgage-backed KZT denominated bonds	23,545,858	26,003,868
Unsecured KZT denominated bonds	5,093,171	5,521,460
Unsecured subordinated KZT denominated bonds	14,244	47,652
Residential mortgage-backed securities:		
Notes class A	3,696,154	5,234,275
Notes class B	923,688	1,366,986
Notes class C	706,074	859,612
	33,979,189	39,033,853
Less unamortized cost of issuance	(646,910)	(836,499)
Debt securities issued	33,332,279	38,197,354

Interest rates and maturities of these securities are as follows:

	2009		2008	
	Interest rate	Maturity	Interest rate	Maturity
Mortgage-backed KZT denominated bonds	15.00% - inflation** inflation +1.30%***	2010-2018	15.00% - inflation** inflation +1.30%***	2009-2016
Unsecured KZT denominated bonds	+1.00%**** inflation	2010-2012	+1.00%**** inflation	2010-2012
Unsecured subordinated KZT denominated bonds	+2.00%*****	2010-2012	+2.00%*****	2010-2012
Residential mortgage-backed securities:				
Notes class A	7.00%	2016	7.00%	2016
Notes class B	Libor+1.25%	2029	Libor +1.25%	2029
Notes class C	Libor +2.00%	2029	Libor +2.00%	2029
	Libor +3.75%	2029	Libor +3.75%	2029

** not less than 3%

*** not greater than 14%

**** not greater than 10%

***** not greater than 11%

In 2007 the Group issued notes class A, B and C, which differ from each other by ratings assigned by International Rating Agencies (Moody's/Fitch). As of 31 December 2009 ratings on notes A, B and C were BB+/BB+, B/B- and CCC/CCC, respectively, depending on the quality of the underlying collateral (2008: Baa1/BBB+, Baa2/BBB and Ba2/BB, respectively).

In 2009 the Company acquired, as a settlement for loans, its own mortgage-backed KZT and unsecured KZT denominated bonds at fair value below carrying value of those loans. As result of debt extinguishment the Company recorded corresponding gain from acquisition of own securities in the amount of KZT 814,013 thousand.

17. Equity

As of 31 December 2009 the number of authorised, issued and fully paid KZT denominated ordinary shares are 55,000,000 (31 December 2008 – 55,000,000). Each common share is entitled to one vote.

The share capital of the Company was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in KZT.

In 2009 and 2008 the Company has not declared or paid any dividends.

(Thousands of Kazakhstani tenge)

18. Commitments and contingencies

Operating 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 within Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt 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 of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group.

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.

Legal matters

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation

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.

Commitments and contingencies

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

	<u>2009</u>	<u>2008</u>
Operating lease commitments		
Not later than 1 year	114,605	248,314

(Thousands of Kazakhstani tenge)

19. Net fee and commission expense

Net fee and commission expense comprise the following:

	2009	2008
Support services' fees	104,018	161,276
Other	5,089	9,520
Commission income	109,107	170,796
Real estate center services	(47,374)	(57,096)
Registration fees	(37,130)	(43,985)
Payments on patents	(37,039)	(58,960)
State duties	(22,730)	(12,090)
Subsidiaries management fee	(12,160)	(12,809)
Analytical research fee	(7,309)	(7,795)
Translation services	(196)	(642)
Commission expenses	(163,938)	(193,377)
Net commission income	(54,831)	(22,581)

20. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2009	2008
Salaries and bonuses	(696,840)	(771,831)
Social security costs	(65,241)	(64,061)
Personnel expenses	(762,081)	(835,892)
Occupancy and rent	(209,912)	(385,722)
Communication	(55,218)	(57,990)
Bank charges	(52,635)	(46,363)
Information services	(32,142)	(48,832)
Office expenses	(29,908)	(56,125)
Repair and maintenance	(23,295)	(57,489)
Marketing and advertising	(22,053)	(85,952)
Insurance	(19,416)	(5,138)
Pledged property maintenance expenses	(18,314)	(6,669)
Professional fees	(17,441)	(22,872)
Entertainment costs	(11,845)	(42,320)
Business trip and related expenses	(8,976)	(32,899)
Security	(6,270)	(5,117)
Training	(3,672)	(10,208)
Penalties	(3,609)	(45)
Security management services	-	(24,960)
Other	(6,499)	(5,114)
Other operating expenses	(521,205)	(893,793)

21. Risk management

Introduction

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

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

(Thousands of Kazakhstani tenge)

21. Risk management (continued)

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Body (President)

The Executive Body (President) is responsible for organization of efficient risk management system and operational management of the Company. President's authority are governed by the Company's Charter.

Risk Committee

The Risk Committee 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.

Risk Management

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

Risk controlling

The Risk Controlling Unit is responsible for monitoring 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.

Company Treasury

Company Treasury performs an auxiliary function in defining, evaluation, control and monitoring of liquidity risk, in particular: cash flow analysis, cash flow forecast, approval of lending rules and procedures, purchase /sale transactions with financial instruments and investment activities.

Internal audit

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

Risk measurement and reporting systems

The Company'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 Company 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 Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company 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 analyze, control and identify early risks. This information is presented and explained to the Executive body, and the head of each business division. The report includes credit exposure, credit metric forecasts, hold limit exceptions and risk profile changes. On a monthly basis detailed reporting of products, customer and geographic risks takes place. Management assesses the appropriateness of the allowance for credit losses on a monthly basis.

(Thousands of Kazakhstani tenge)

21. Risk management (continued)

Board of Directors (continued)

The Board of Directors receives a comprehensive risk report once a month, which is designed to provide all the necessary information to assess and conclude on the risks of the Company.

For all levels throughout the Company, 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 Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks. The Company actively uses collateral to reduce its credit risks (see below for more details).

Excessive risk concentration

Concentrations arise when a number of borrowers are engaged in similar business activities, or activities in the same industry. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location of workplace of the borrower.

In order to avoid excessive concentrations of risks, the Company'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 Group will incur a loss because its customers failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual customers, regional and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of customers, including regular collateral revisions. 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.

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 statement of financial position.

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

	<i>Note</i>	<i>Maximum exposure 2009</i>	<i>Maximum exposure 2008</i>
Cash and cash equivalents (excluding cash on hand)	5	4,453,064	4,670,743
Amounts due from credit institutions	6	1,319,622	2,224,176
Derivative financial assets	7	5,745,810	90,320
Loans to customers	8	66,419,838	85,785,419
Investment securities held to maturity	10	843,000	-
Other assets	14	8,626	92,992
Total credit risk exposure		78,789,960	92,863,653

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.

(Thousands of Kazakhstani tenge)

21. Risk management (continued)

Board of Directors (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group's internal rating system. The table below shows the credit quality by class of asset of the Group.

	Note	Neither past due nor impaired 2009	Past due but not impaired 2009	Individually impaired 2009	Total 2009
Amounts due from credit institutions	6	1,319,622	–	–	1,319,622
Loans to customers:	8				
Commercial lending		384,286	–	54,909	439,195
Mortgage loans		58,257,981	7,610,372	9,584,967	75,453,320
Held to maturity	10	843,000	–	–	843,000
Total		60,804,889	7,610,372	9,639,876	78,055,137
	Note	Neither past due nor impaired 2008	Past due but not impaired 2008	Individually impaired 2008	Total 2008
Amounts due from credit institutions	6	2,224,176	–	–	2,224,176
Loans to customers	8				
Commercial lending		374,082	–	–	374,082
Mortgage loans		82,147,283	6,501,884	–	88,649,167
Total		86,745,541	6,501,884	–	93,247,425

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 regions and products. The risk rating system is based on requirements of the regulatory body, combined with processed market information to provide the main inputs for the measurement of customer risk. All internal rating are tailored to the various categories and are derived in accordance with the Group's risk rating policy. The attributable risk ratings are assessed and updated regularly.

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

	Less than 30 days 2009	31 to 60 days 2009	61 to 90 days 2009	Total 2009
Loans to customers				
Mortgage loans	2,832,744	1,259,252	3,518,376	7,610,372
Total	2,832,844	1,259,252	3,518,376	7,610,372
	Less than 30 days 2008	31 to 60 days 2008	61 to 90 days 2008	Total 2008
Loans to customers				
Mortgage loans	2,275,659	780,226	3,445,999	6,501,884
Total	2,275,659	780,226	3,445,999	6,501,884

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 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.

(Thousands of Kazakhstani tenge)

21. Risk management (continued)

Board of Directors (continued)

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.

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 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. The 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			2008		
	Kazakhstan	OECD	Total	Kazakhstan	OECD	Total
Assets:						
Cash and cash equivalents	3,035,514	1,417,762	4,453,276	2,186,582	2,484,164	4,670,746
Due from credit institutions	1,319,622	–	1,319,622	2,224,176	–	2,224,176
Derivative financial assets	5,745,810	–	5,745,810	90,320	–	90,320
Loans to customers	66,419,838	–	66,419,838	85,785,419	–	85,785,419
Investment securities, held to maturity	843,000	–	843,000	–	–	–
Other assets	8,626	–	8,626	92,992	–	92,992
	77,372,410	1,417,762	78,790,172	90,379,489	2,484,164	92,863,653
Liabilities:						
Due to credit institutions	30,642,389	8,082,612	38,725,001	30,045,019	14,251,079	44,296,098
Debt securities issued	28,006,363	5,325,916	33,332,279	30,736,481	7,460,873	38,197,354
Other liabilities	11,908	10,469	22,377	7,318	28,807	36,125
	58,660,660	13,418,997	72,079,657	60,788,818	21,740,759	82,529,577
Net assets and liabilities	18,711,750	(12,001,235)	6,710,515	29,590,671	(19,256,595)	10,334,076

Liquidity risk and funding management

Liquidity risk is the risk that the Group 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, 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 Group maintains a portfolio of assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs.

The liquidity position is assessed and managed by the Company primarily on a standalone basis, based on certain liquidity ratios established by the regulatory body.

(Thousands of Kazakhstani tenge)

21. Risk management (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 Company reviews on a daily basis limits on positions by currency based on the defined limits of the regulatory body. The calculation of the currency position includes assets (total amount of assets and off-balance receivables), liabilities (total amount of liabilities and off-balance payables), expressed in KZT, which depends on the change of the foreign exchange rate.

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 KZT, with all other variables held constant on the income statement (due to the fair value of currency sensitive monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

	<i>Change in USD rate</i>	<i>Effect on profit before tax</i>
2009	+19.50%	(2,516,370)
	-19.50%	2,516,370
2008	+15.40%	(2,710,501)
	-15.40%	2,710,501

Analysis of the Group's financial assets and liabilities by currencies as at 31 December were as follows:

	2009				2008			
	KZT	Freely convertible	Indexed to the devaluation of the KZT against the USD	Total	KZT	Freely convertible	Indexed to the devaluation of the KZT against the USD	KZT
Assets:								
Cash and cash equivalents	3,025,063	1,428,213	-	4,453,276	2,872,785	1,797,961	-	4,670,746
Due from credit institutions	546,960	30,915	741,747	1,319,622	1,006,602	64,950	1,152,624	2,224,176
Derivative financial assets	-	-	5,745,810	5,745,810	-	-	90,320	90,320
Loans to customers	42,896,457	634,568	22,888,813	66,419,838	55,528,928	1,025,607	29,230,884	85,785,419
Investment securities held to maturity	193,202	649,798	-	843,000	-	-	-	-
Other assets	8,626	-	-	8,626	89,188	3,804	-	92,992
	46,670,308	2,743,494	29,376,370	78,790,172	59,497,503	2,892,322	30,473,828	82,863,653
Liabilities:								
Loans due to credit institutions	28,412,249	10,304,279	8,473	38,725,001	31,275,510	13,003,121	17,467	44,296,098
Debt securities issued	28,006,363	5,325,916	-	33,332,279	30,736,481	7,460,873	-	38,197,354
Other liabilities	4,614	17,763	-	22,377	7,318	28,807	-	36,125
	56,423,226	15,647,958	8,473	72,079,657	62,019,309	20,492,801	17,467	82,529,577
Net balance sheet position	(9,752,918)	(12,904,464)	29,367,897	6,710,515	(2,521,806)	(17,600,479)	30,456,361	10,334,076

(Thousands of Kazakhstani tenge)

21. Risk management (continued)

Market risk (continued)

Currency risk (continued)

Freely convertible currencies represent mainly USD amounts.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax for one year, assuming approximately 13% in 2009 (13% in 2008), of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	<i>Effect on net interest income</i>
2009	(1,406,893)
2008	(1,554,376)

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.

22. 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,

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy,

31 December 2009	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Derivative financial instruments	–	5,745,810	–	5,745,810
	–	5,745,810	–	5,745,810
31 December 2008				
Financial assets				
Derivative financial instruments	–	90,320	–	90,320
	–	90,320	–	90,320

(Thousands of Kazakhstani tenge)

22. Fair values of financial instruments (continued)

Financial instruments recorded at fair value

Derivatives

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

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 statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities:

	<i>Carrying value 2009</i>	<i>Fair value 2009</i>	<i>Unrecog- nised gain/(loss) 2009</i>	<i>Carrying value 2008</i>	<i>Fair value 2008</i>	<i>Unrecog- nised gain/(loss) 2008</i>
Financial assets						
Cash and cash equivalents	4,453,276	4,453,276	–	4,670,746	4,670,746	–
Amounts due from credit institutions	1,319,622	1,661,256	341,634	2,224,440	2,250,629	26,189
Loans to customers	66,419,838	89,694,126	23,274,288	85,875,475	82,166,684	3,708,791
Investment securities held-to-maturity	843,000	839,301	(3,699)	–	–	–
Financial liabilities						
Loans due to credit institutions	38,725,001	38,664,071	60,930	44,296,098	43,912,401	383,697
Debt securities issued	33,332,279	21,223,559	12,108,720	38,197,354	34,417,006	3,780,348
Total unrecognised change in unrealised fair value			35,781,873			481,443

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 three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and 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 Kazakhstani tenge)

23. Maturity analysis of assets and liabilities

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

	2009			2008		
	<i>Less than 1 year</i>	<i>More than 1 year</i>	<i>Total</i>	<i>Less than 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
Cash and cash equivalents	4,453,276	–	4,453,276	4,670,746	–	4,670,746
Amounts due from credit institutions	11,594	1,308,028	1,319,622	22,455	2,201,721	2,224,176
Derivative financial instruments	5,871	5,739,939	5,745,810	132	90,188	90,320
Loans to customers	5,561,495	60,798,343	66,419,838	13,680,218	72,105,201	85,785,419
Investment securities	458,440	384,560	843,000	–	–	–
Other assets	8,626	–	8,626	88,599	–	88,599
Total assets	10,559,302	68,230,870	78,790,172	18,462,150	74,397,110	92,859,260
Loans from financial institutions	4,078,160	34,646,841	38,725,001	4,586,954	39,709,144	44,296,098
Debt securities issued	1,681,717	31,650,562	33,332,279	2,540,137	35,657,217	38,197,354
Other liabilities	22,377	–	22,377	36,125	–	36,125
Total liabilities	5,782,254	66,297,403	72,079,657	7,163,216	75,366,361	82,529,577
Net position	4,777,048	1,933,467	6,710,515	11,298,934	(969,251)	10,329,683

24. 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.

Subsidiary Hypothecary Organisation of JSC BTA Bank JSC BTA Ipoteka
Notes to the Consolidated Financial Statements (continued)

(Thousands of Kazakhstani tenge)

24. Related party transactions (continued)

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	Entities under common control	Key management personnel	Other	Parent	Entities under common control	Key management personnel	Other
Loans outstanding at 1 January, gross	-	-	549,224	83,632	-	-	583,556	131,354
Loans issued during the year	-	-	-	-	-	-	103,973	57,579
Loan repayments during the year	-	-	(397,846)	(83,632)	-	-	(127,794)	(105,166)
Loans outstanding at 31 December, gross	-	-	151,379	-	-	-	559,735	83,767
Less: allowance for impairment at 31 December	-	-	-	-	-	-	(10,511)	(135)
Loans outstanding at 31 December, net	-	-	151,379	-	-	-	549,224	83,632
Interest income on loans	-	-	3,351	2,559	-	-	47,907	10,607
Due from 1 January	366,057	1,842,268	-	-	1,370,238	2,810,669	-	-
Amounts placed during the year	-	-	-	-	658,460	-	-	-
Amounts withdrawn during the year	(218,962)	(542,275)	-	-	(1,662,641)	(968,401)	-	-
Due from as at 31 December	147,095	1,299,993	-	-	366,057	1,842,268	-	-
Interest income on due from	6,555	150,687	-	-	134,937	240,439	-	-
Due to credit institutions								
Borrowings outstanding at 1 January, gross	22,946,226	17,372	-	-	27,163,373	28,983	-	-
Borrowings received during the year	17,984,310	74,170	-	-	13,470,044	133,726	-	-
Borrowings repaid during the year	15,652,016	78,892	-	-	(17,686,689)	(145,337)	-	-
Borrowings at 31 December	25,279,022	12,650	-	-	22,946,728	17,372	-	-
Other assets as at 1 January; gross	-	-	-	-	648	-	-	-
Received during the year	-	4,008	-	-	6 505	-	-	-
Repaid during the year	-	(2,557)	-	-	(7 153)	-	-	-
Other assets at 31 December	-	1,451	-	-	-	-	-	-
Current accounts								
Current accounts ts at 1 January, gross	1,918,074	1,583	-	-	527,890	472	-	-
Placed during the year	43,895,363	2,961,270	-	-	67,335,858	1,389,582	-	-
Withdrawal during the year	(44,611,998)	(1,129,905)	-	-	(65,945,674)	(1,388,471)	-	-
Current accounts at 31 December	1,201,440	1,832,948	-	-	1,918,074	1,583	-	-
Investment securities held-to-maturity as at 1 January	-	-	-	-	-	-	-	-
Purchases during the year	12,653	1,469,015	-	-	-	-	-	-
Disposal during the year	(1,397)	(33,990)	-	-	-	-	-	-
Investment securities held-to-maturity as at 31 December, gross	11,256	1,435,025	-	-	-	-	-	-
Less: Allowance	(11,256)	(785,227)	-	-	-	-	-	-
Investment securities held-to-maturity as at 31 December, net	-	649,798	-	-	-	-	-	-
Income on securities	2,801	89,733	-	-	-	-	-	-
Commission Income	65	4,148	-	-	52	-	-	-
	(700,051)	-	-	-	(8,117)	-	-	-
Other income	-	-	-	-	-	289	-	-
Commission expense	(682)	(10,579)	-	-	(2,930)	-	-	-
Other expense	(23,393)	(6,304)	-	-	(22,356)	(17 188)	-	-

Compensation of key management personnel was comprised of the following:

	2009	2008
Salaries and other short-term benefits	696,840	771,831
Social tax	65,241	64,062
Total key management personnel compensation	762,081	835,892

(Thousands of Kazakhstani tenge)

25. 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 FMSA in supervising the Group.

The primary objectives of the Group's capital management are to ensure that the Bank 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 capital securities. No changes were made in the objectives, policies and processes from the previous years.

FMSA capital adequacy ratio

The FMSA requires Company to maintain a capital adequacy ratio of 10% of risk-weighted assets, As of 31 December 2009 and 2008, the Company's capital adequacy ratio on this basis was as follows:

	2009	2008
Tier 1 capital	5,997,898	11,069,256
Less: deductions from capital	(4,151,604)	(3,650,564)
Total capital	1,846,294	7,418,692
Risk weighted assets	59,150,570	60,233,528
Capital adequacy ratio	3%	12%

As at 31 December 2009 the Company was in breach with the required capital adequacy ratio. As a result, the Company's banking licence has been suspended, until the time the Company will be able to meet the above ratio.

26. Subsequent events

On 19 March 2010 the Company's Parent has decided to voluntarily return the Company's banking licence and to change the Company's business strategy to the entity specializing into asset restructuring, recovery and mortgage assets securitisation.