

**Mortgage Organisation**  
**Kazakhstan Mortgage Company JSC**

Consolidated Financial Statements  
for the year ended 31 December 2009

## **Contents**

<b>Independent Auditors' Report</b>	
<b>Consolidated Statement of Comprehensive Income</b>	<b>6</b>
<b>Consolidated Statement of Financial Position</b>	<b>7</b>
<b>Consolidated Statement of Cash Flows</b>	<b>8-9</b>
<b>Consolidated Statement of Changes in Equity</b>	<b>10</b>
<b>Notes to the Consolidated Financial Statements</b>	<b>11-47</b>



KPMG Audit LLC  
Koktem Business Centre  
180 Dostyk Avenue  
Almaty, Kazakhstan 050051

Telephone: +7 (727) 298 08 98  
Fax: +7 (727) 298 07 08  
E-mail: company@kpmg.kz

## Independent Auditors' Report

To the Management of Mortgage Organisation Kazakhstan Mortgage Company JSC

We have audited the accompanying consolidated financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC ("the Company") and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

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

*Basis for Qualified Opinion*

As at 31 December 2009 and 2008, the Company had a loan payable which contained an embedded derivative option to put the loan from US Dollars ("USD") into Japanese Yen ("JPY") at a specified exchange rate if certain conditions are met as described in Note 22. International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* requires that an embedded derivative of this type should be separated from the host contract and recognised in the financial statements at fair value on inception and subsequently at fair value at each reporting date. Considering the change in the USD/JPY exchange rate since its inception, at 31 December 2009 and 2008, the Company should have recognised a derivative liability and loss on change in fair value of derivatives in respect of the embedded derivative. The effect of this departure from International Financial Reporting Standards on derivative liability, accumulated loss, gain/loss on financial instruments at fair value through profit or loss, loss before income tax and loss for the year as at and for the year ended 31 December 2009 and 2008 has not been determined.

As at 31 December 2008, there was an objective evidence that certain available-for-sale debt securities at the amount of KZT 353,623 thousand, were fully impaired. The Company recognised these losses directly in equity during the year ended 31 December 2008. Subsequently, during the year ended 31 December 2009, the Company reclassified these losses of KZT 353,623 thousand in respect of the above securities to profit or loss. International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* requires that the cumulative loss that had been recognised in equity shall be reclassified to profit or loss upon impairment. Had the Company reclassified this unrealised loss to profit or loss during the year ended 31 December 2008, the revaluation reserve for available-for-sale assets and impairment loss would have increased, and retained earnings, profit before income tax and profit for the year would have decreased by KZT 353,623 thousand as at and for the year ended 31 December 2008. Consequently, accumulated loss, impairment loss, loss before income tax and loss for the year would have decreased by KZT 353,623 thousand as at and for the year ended 31 December 2009.

*Qualified Opinion*

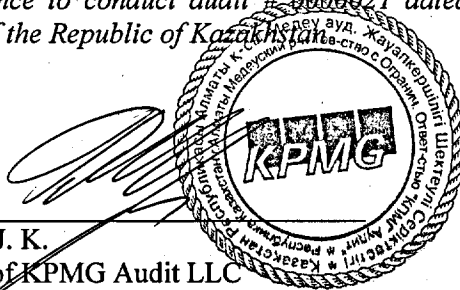
In our opinion, except for the effects of the matters on the current year's and corresponding figures described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2009, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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



**KPMG Audit LLC**

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



Berdalina J. K.  
President of KPMG Audit LLC  
acting on the basis of the Charter


22 February 2010


**Mortgage Organisation Kazakhstan Mortgage Company JSC**  
*Consolidated Statement of Comprehensive Income for the year ended 31 December 2009*

	Note	2009 KZT'000	2008 KZT'000
Interest income	4	8,931,415	9,276,929
Interest expense	4	(7,504,084)	(7,134,168)
<b>Net interest income</b>		<b>1,427,331</b>	<b>2,142,761</b>
Fee and commission income	5	53,609	57,117
Fee and commission expense	5	(17,824)	(38,912)
<b>Net fee and commission income</b>		<b>35,785</b>	<b>18,205</b>
Net gain/(loss) on financial instruments at fair value through profit or loss	6	2,203	(14,854)
Net loss from investment securities	7	-	(231,537)
Net foreign exchange loss		(2,759,000)	(39,973)
Other income		1,197	763
		<b>(1,292,484)</b>	<b>1,875,365</b>
Impairment losses	8	(4,398,121)	(184,703)
General administrative expenses	9	(1,182,578)	(1,290,367)
<b>(Loss)/profit before income tax</b>		<b>(6,873,183)</b>	<b>400,295</b>
Income tax expense	10	-	(173,717)
<b>(Loss)/profit for the year</b>		<b>(6,873,183)</b>	<b>226,578</b>
<b>Other comprehensive income</b>			
Revaluation reserve for assets available-for-sale:			
- Net change in fair value of available-for-sale assets, net of tax		(797,739)	(320,159)
- Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax		496,018	-
<b>Other comprehensive income, net of tax</b>		<b>(301,721)</b>	<b>(320,159)</b>
<b>Total comprehensive income for the year</b>		<b>(7,174,904)</b>	<b>(93,581)</b>
Basic and diluted earnings per share, in KZT	24	(2,377)	80

These consolidated financial statements as set out on pages 6 to 47 were approved by Management on 22 February 2010.

Ibadullaev A.A.  
*Chairman of the Management Board*



  
 Sagimkulova B.D.  
*Chief Accountant*

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Financial Position as at 31 December 2009*

	Note	2009 KZT'000	2008 KZT'000
<b>ASSETS</b>			
Cash and cash equivalents	11	10,135,404	10,968,834
Placements with banks and other financial institutions	12	7,534,281	3,675,972
Financial instruments at fair value through profit or loss	13	20,424	50,412
Amounts receivable under reverse repurchase agreements	14	-	4,707,622
Available-for-sale assets	15	5,606,256	1,900,049
Loans to customers	16	68,028,272	72,500,099
Held-to-maturity investments	17	8,632,036	10,438,270
Current tax asset		281,474	41,358
Property and equipment	18	2,625,274	2,283,017
Intangible assets	19	68,136	269,701
Deferred tax assets	10	8,640	8,640
Other assets	20	292,509	342,262
<b>Total assets</b>		<b>103,232,706</b>	<b>107,186,236</b>
<b>LIABILITIES</b>			
Debt securities issued	21	56,386,944	52,680,776
Other borrowed funds	22	23,762,793	23,924,489
Other liabilities	23	164,579	378,737
<b>Total liabilities</b>		<b>80,314,316</b>	<b>76,984,002</b>
<b>EQUITY</b>			
Share capital	24	28,920,000	28,920,000
Share premium		12,661	12,661
Treasury shares		(1,089,922)	(1,089,922)
Reserve capital		2,598,418	2,377,179
Revaluation reserve for available-for-sale assets		(621,880)	(320,159)
Retained earnings		(6,900,887)	302,475
<b>Total equity</b>		<b>22,918,390</b>	<b>30,202,234</b>
<b>Total equity and liabilities</b>		<b>103,232,706</b>	<b>107,186,236</b>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 47.

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Cash Flows for the year ended 31 December 2009*

	<b>2009</b> <b>KZT'000</b>	<b>2008</b> <b>KZT'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/profit before income tax	(6,873,183)	400,295
<b>Adjustments for non-cash items:</b>		
Net gain on financial instrument at fair value through profit or loss	(2,203)	(108)
Depreciation and amortisation	242,271	214,116
Net loss on disposal of equipment	-	1,213
Impairment losses	4,398,121	184,703
Amortisation of discount and foreign exchange loss on borrowers funds	3,879,852	94,286
Amortisation of discount and interest charge on debt securities issued	6,183,248	553,897
	<b>7,828,106</b>	<b>1,448,402</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks and other financial institutions	(3,858,309)	2,068,568
Financial instruments at fair value through profit or loss	32,191	22,467
Amounts receivable under reverse repurchase agreements	4,707,622	10,575,759
Loans to customers	2,345,426	(12,498,907)
Other assets	49,753	(251,612)
<b>Increase/(decrease) in operating liabilities</b>		
Other liabilities	(214,158)	(4,935)
<b>Cash flows from operating activities before income taxes paid</b>	<b>10,890,631</b>	<b>1,359,742</b>
Income tax paid	(240,116)	(41,358)
<b>Cash flows from operating activities</b>	<b>10,650,515</b>	<b>1,318,384</b>



*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Consolidated Statement of Cash Flows for the year ended 31 December 2009*

	<b>2009</b> <b>KZT'000</b>	<b>2008</b> <b>KZT'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale assets	(5,366,206)	(2,220,100)
Redemption of held-to-maturity investments	1,173,234	652,393
Purchase of property and equipment	(573,621)	(1,243,853)
Purchase of intangible assets	(19,732)	(24,823)
Purchase of subsidiary, net of cash received	-	(369,469)
<b>Cash flows used in investing activities</b>	<b>(4,786,325)</b>	<b>(3,205,852)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	-	2,512,661
Repurchase of share capital	-	(1,089,922)
Proceeds from debt securities issued	3,482,407	6,747,886
Repurchase/redemption of debt securities issued	(5,956,100)	(8,111,600)
Net (repayments)/proceeds from other borrowers funds	(4,114,987)	1,737,935
Dividends paid	(108,940)	(439,375)
<b>Cash flows from financing activities</b>	<b>(6,697,620)</b>	<b>1,357,585</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(833,430)</b>	<b>(529,883)</b>
Cash and cash equivalents at beginning of year	10,968,834	11,498,717
<b>Cash and cash equivalents at end of year (Note 11)</b>	<b>10,135,404</b>	<b>10,968,834</b>

**Mortgage Organisation Kazakhstan Mortgage Company JSC**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2009**

	Share capital	Share premium	Treasury shares	Reserve capital	Revaluation reserve for available-for-sale assets	Retained earnings	Total
<b>KZT'000</b>							
<b>Balance at 1 January 2008</b>	26,420,000	-	-	1,937,804	-	654,232	29,012,036
<b>Total comprehensive income</b>	-	-	-	-	-	226,578	226,578
<b>Profit for the year</b>	-	-	-	-	-	226,578	226,578
<b>Other comprehensive income</b>	-	-	-	-	-	-	-
Net change in fair value of available-for-sale assets	-	-	-	-	(320,159)	-	(320,159)
<b>Total other comprehensive income</b>	-	-	-	-	(320,159)	-	(320,159)
<b>Total comprehensive income</b>	-	-	-	-	(320,159)	226,578	(93,581)
Shares issued	2,500,000	12,661	-	-	-	-	2,512,661
Dividends declared	-	-	-	-	-	(138,960)	(138,960)
Treasury shares acquired	-	-	(1,089,922)	-	-	-	(1,089,922)
Transfer to reserve capital	-	-	-	439,375	-	(439,375)	-
<b>Balance at 31 December 2008</b>	<b>28,920,000</b>	<b>12,661</b>	<b>(1,089,922)</b>	<b>2,377,179</b>	<b>(320,159)</b>	<b>302,475</b>	<b>30,202,234</b>
<b>Total comprehensive income</b>	-	-	-	-	-	(6,873,183)	(6,873,183)
<b>Loss for the year</b>	-	-	-	-	-	(6,873,183)	(6,873,183)
<b>Other comprehensive income</b>	-	-	-	-	(797,739)	-	(797,739)
Net change in fair value of available-for-sale assets	-	-	-	-	(797,739)	-	(797,739)
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	-	496,018	-	496,018
<b>Total other comprehensive income</b>	-	-	-	-	(301,721)	-	(301,721)
<b>Total comprehensive income</b>	-	-	-	-	(301,721)	(6,873,183)	(7,174,904)
Dividends declared	-	-	-	-	-	(108,940)	(108,940)
Transfer to reserve capital	-	-	-	221,239	-	(221,239)	-
<b>Balance at 31 December 2009</b>	<b>28,920,000</b>	<b>12,661</b>	<b>(1,089,922)</b>	<b>2,598,418</b>	<b>(621,880)</b>	<b>(6,900,887)</b>	<b>22,918,390</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 47.

## **1 Background**

### **(a) Principal activities**

These consolidated financial statements include the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC ("the Company") and its subsidiary up to the time of merge into one entity. The Company and its subsidiary are hereinafter, collectively, referred to as also "the Company".

The Company was established on 29 December 2000 in accordance with resolution number 469 of the National Bank of the Republic of Kazakhstan ("NBRK") dated 20 December 2000. The principal activities of the Company are the issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

During the year ended 31 December 2008 the Company acquired a subsidiary United Mortgage Company JSC, later re-registered as Mortgage Organisation Kazipoteka JSC ("Kazipoteka").

Kazipoteka was a joint stock company incorporated in the Republic of Kazakhstan and specialised in the provision of mortgage loans to individuals. The Company acquired Kazipoteka in order to fulfil its responsibilities under the State program for the development and construction of residential premises in the Republic of Kazakhstan. On 4 December 2009 the shareholders of the Company made a decision to merge with Kazipoteka into one company Mortgage Organisation Kazakhstan Mortgage Company JSC.

The Company's official address is 98 Karasay Batyr st., Almaty, Kazakhstan. The Company has a representative office in Astana.

As at 31 December 2009 the Ministry of Finance of the Republic of Kazakhstan owned 94.63% (2008: 94.63%) of voting shares and JSC Halyk Bank of Kazakhstan owned 5.37% (2008: 5.37%) of the Company's voting shares.

On 10 July 2009 Moody's Investors Service confirmed the Company's long-term local currency issuer rating of Ba2.

### **(b) Kazakhstan business environment**

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

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis, except financial investments classified as available-for-sale and financial instruments at fair value through profit or loss are stated at fair value.

## **2 Basis of preparation, continued**

### **(c) Functional and presentation currency**

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"). Management has determined the Company's functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Company. The KZT is also the Company's presentation currency for the purposes of these consolidated financial statements.

Except as indicated, financial information presented in KZT has been rounded to the nearest thousand.

### **(d) Use of estimates and judgments**

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following notes:

- Loans to customers - Note 16.

## **3 Significant accounting policies**

The significant accounting policies applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied.

### **(a) Basis of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

#### **(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### **(iii) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

### 3 Significant accounting policies, continued

#### (b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### (c) Cash and cash equivalents

The Company considers cash, its current accounts in the commercial banks and the National Bank of the Republic of Kazakhstan and short-term deposits with an original maturity of less than 3 months to be cash and cash equivalents.

#### (d) Financial instruments

##### (i) Classification

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

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

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

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

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

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

### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (i) Classification, continued

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

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

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

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

##### (ii) Recognition

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

##### (iii) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

### **3 Significant accounting policies, continued**

#### **(d) Financial instruments, continued**

##### **(iii) Measurement, continued**

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

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

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

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

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

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

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

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

##### **(vi) Derecognition**

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

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

##### **(vii) Repurchase and reverse repurchase agreements**

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest rate method.

### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (vii) Repurchase and reverse repurchase agreements, continued

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

##### (viii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### (e) Property and equipment

##### (i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

##### (ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Building	40 years
Office equipment	7 years
Vehicles	7 years
Computer equipment	3 years
Other assets	5-10 years

#### (f) Intangible assets

Intangible assets which are acquired by the Company, other than goodwill, are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over a period of 3 years, being the estimated useful lives of intangible assets.

#### (g) Impairment

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

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



### **3 Significant accounting policies, continued**

#### **(g) Impairment, continued**

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

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

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

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

##### **(ii) Financial assets carried at cost**

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

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

### 3 Significant accounting policies, continued

#### (g) Impairment, continued

##### (iii) Available-for-sale assets

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

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

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

##### (iv) Non financial assets

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

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

#### (h) Provisions

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

#### (i) Share capital

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

##### (i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

### **3 Significant accounting policies, continued**

#### **(i) Share capital, continued**

##### **(ii) Dividends**

The ability of the Company to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

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

##### **(j) Taxation**

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

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

##### **(k) Income and expense recognition**

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

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

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

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

Dividend income is recognised in profit or loss on the date that the dividend is declared.

##### **(l) Segment reporting**

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 "Segment Reporting". The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Company, the Executive Chairman, only receives and reviews the information on the Company as a whole.

### 3 Significant accounting policies, continued

#### (m) Comparative information

##### *Prior period reclassification*

Comparative information has been reclassified to conform to changes in presentation in the current period. In the statement of cash flows for the year ended 31 December 2008 decrease in held-to-maturity investments of KZT 652,393 thousand and increase in available-for-sale assets of KZT 2,220,100 thousand have been reclassified from operating to investing activities.

#### (n) Changes in accounting policies

Starting from 1 January 2009 the Company adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the consolidated income statement is replaced by a consolidated statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets. The consolidated balance sheet is renamed to the consolidated statement of financial position and the consolidated cash flow statement is renamed to the consolidated statement of cash flows. According to the revised IAS 1, a consolidated statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

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

#### (o) New Standards and Interpretations not yet adopted

A number of new Standards and amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of these new standards on its consolidated financial statements.

- IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Company's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

### 3 Significant accounting policies, continued

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

Various "Improvements to IFRSs" have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

### 4 Net interest income

	2009 KZT'000	2008 KZT'000
<b>Interest income</b>		
Loans to customers	6,346,505	6,830,921
Placements with banks and other financial institutions and cash and cash equivalents	1,334,716	1,068,644
Held-to-maturity investments	720,876	827,663
Available-for-sale assets	473,703	34,402
Amounts receivable under reverse repurchase agreements	53,303	512,017
Financial instruments at fair value through profit or loss	2,312	3,282
	<b>8,931,415</b>	<b>9,276,929</b>
<b>Interest expense</b>		
Debt securities issued	(6,183,248)	(6,075,329)
Other borrowed funds	(1,320,836)	(1,058,839)
	<b>(7,504,084)</b>	<b>(7,134,168)</b>

### 5 Fee and commission income and expense

	2009 KZT'000	2008 KZT'000
<b>Commission income</b>		
Fees from loan prepayments	52,488	52,955
Commission income	1,121	4,162
	<b>53,609</b>	<b>57,117</b>
<b>Commission expense</b>		
Commission expense on trust operations	(8,024)	(26,621)
Brokerage fees	(5,429)	(10,074)
Commission expenses on transfer operations	(3,172)	(630)
Other commission expense	(1,199)	(1,587)
	<b>(17,824)</b>	<b>(38,912)</b>

### 6 Net gain/(loss) on financial instruments at fair value through profit or loss

	2009 KZT'000	2008 KZT'000
Net unrealised gain on revaluation of financial instruments at fair value through profit or loss	2,203	108
Net realised loss on financial instruments at fair value through profit or loss	-	(14,962)
	<b>2,203</b>	<b>(14,854)</b>

### 7 Net losses from investment securities

During the year ended 31 December 2008, the Company sold certain bonds that had been classified as held-to-maturity. The Company sold these bonds due to an unanticipated, significant deterioration on the issuer's creditworthiness that was evidenced by a temporarily substantial drop in the market value of the bonds and a significant growth in the yield expected by investors in comparison with corporate bonds of other issuers. The Company recognised a loss of KZT 231,537 thousand during the year ended 31 December 2008.

## 8 Impairment losses

	2009 KZT'000	2008 KZT'000
Loans to customers	2,126,401	161,853
Securities	1,888,788	-
Other assets	382,932	22,850
	<u>4,398,121</u>	<u>184,703</u>

## 9 General administrative expenses

	2009 KZT'000	2008 KZT'000
Employee compensation	552,348	646,205
Payroll related taxes	52,915	50,440
Personnel expenses	<u>605,263</u>	<u>696,645</u>
Depreciation and amortisation	242,271	214,116
Advertising and marketing	56,644	100,139
Professional services	47,529	56,255
Occupancy	29,051	24,193
Communications and information services	27,136	44,814
Insurance	23,985	44,834
Taxes other than on income	23,198	12,101
Storage of loan dossiers	5,625	14,071
Security	5,106	4,527
Travel	4,571	14,088
Maintenance	1,427	563
Office supplies	618	1,911
Other	110,154	62,110
	<u>1,182,578</u>	<u>1,290,367</u>

## 10 Income tax expense

	2009 KZT'000	2008 KZT'000
<i>Current tax expense</i>		
Current year	-	92,290
Non-creditable income tax withheld at the source of payment	-	90,067
	<u>-</u>	<u>182,357</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	-	(8,640)
<b>Total income tax expense</b>	<u>-</u>	<u>173,717</u>

With effect from 1 January 2009 the income tax rate has been reduced to 20% for 2009–2012 and will be decreased to 17.5% for 2013 and to 15% for later years. Except in relation to property, equipment and intangible assets and loans to customers, the tax rate applicable for deferred taxes was 20% (2008: 30%). The tax rate applicable for deferred taxes in relation to property, equipment and intangible assets and loans to customers was calculated based on the timing of the expected realisation of temporary differences, applying the rates that will be in effect at that time.

## 10 Income tax expense, continued

### Reconciliation of effective tax rate:

	2009		2008	
	KZT'000	%	KZT'000	%
(Loss)/profit before income tax	(6,873,183)	100	400,295	100
Income tax using the applicable tax rate	(1,374,637)	20	120,089	30
Non-deductible expenses	355,996	(5)	61,158	15
Change in unrecognised deferred tax assets	1,021,511	(15)	(17,091)	(4)
Tax effect of changes in tax rates	(2,870)	-	9,561	2
<b>Total income tax expense</b>	<b>-</b>	<b>-</b>	<b>173,717</b>	<b>43</b>

### Deferred tax asset

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2009 and 2008. These deferred tax assets have been recognised in these consolidated financial statements apart from the deferred tax assets in respect of loans to customers and tax loss carry-forwards. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Company's ability to claim the deductions in future periods.

A temporary difference of KZT 533,154 thousand relating to loans to customers and KZT 488,357 thousand to tax loss carry-forwards have not been recognised due to uncertainties concerning their realisation.

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

'000 KZT	Balance 1 January 2009	Recognised in income	Balance 31 December 2009
Property and equipment	10,437	(2,043)	8,394
Other liabilities	(1,797)	2,043	246
	<b>8,640</b>	<b>-</b>	<b>8,640</b>

'000 KZT	Balance 1 January 2008	Recognised in income	Balance 31 December 2008
Property and equipment	-	10,437	10,437
Other liabilities	-	(1,797)	(1,797)
	<b>-</b>	<b>8,640</b>	<b>8,640</b>

## 11 Cash and cash equivalents

	2009 KZT'000	2008 KZT'000
Short-term deposits with other banks	6,801,993	4,264,116
Current account with the National Bank of the Republic of Kazakhstan	1,694,318	5,060,142
Current account with other banks	1,639,093	1,644,551
Cash on hand	-	25
	<b>10,135,404</b>	<b>10,968,834</b>

As at 31 December 2009 short-term deposits consisted of deposits in local banks with interest rates of 11% and 12.5% per annum (2008: 11.1% and 11.5%) that will be repaid in January-February 2010 (2008: February 2009).

## 12 Placement with banks and other financial institutions

As at 31 December 2009 and 2008 the Company placed term deposits with interest rates ranging from 8% to 11% per annum (2008: from 10% to 12%) and which have maturities from April to November 2010 (2008: April 2009 to October 2009).

## 13 Financial instruments at fair value through profit or loss

As at 31 December 2009 and 2008 financial instruments, at fair value through profit or loss include securities that are upon initial recognition, designated by the Company as financial assets at fair value through profit or loss and consist of Treasury bills of the Ministry of Finance of the Republic of Kazakhstan.

## 14 Amounts receivable under reverse repurchase agreements

	2009 KZT'000	2008 KZT'000
Amounts receivable from local banks and other financial institutions	-	4,707,622

As at 31 December 2008, amount receivable under reverse repurchase agreements were collateralised by Treasury bills of Ministry of Finance of the Republic of Kazakhstan amounting to KZT4,604,686 thousand.

## 15 Available-for-sale assets

	2009 '000 KZT	2008 '000 KZT
<b>Corporate bonds</b>		
- issued by local banks	4,604,510	863,434
- issued by local companies	2,257,534	1,036,615
<b>Total corporate bonds</b>	<b>6,862,044</b>	<b>1,900,049</b>
Impairment allowance	(1,255,788)	-
	<b>5,606,256</b>	<b>1,900,049</b>

Corporate bonds are interest-bearing securities, issued by local companies. These securities are freely tradable in the Kazakhstan Stock Exchange, except for the bonds of Doszhan Temir Zholy JSC ("DTZ") and Rosa JSC ("Rosa"). The bonds of DTZ are currently referred to as being in the "buffer category" according to the KASE, due to non-conformance with the listing requirements of the Kazakhstan Stock Exchange. Rosa bonds were excluded from trading on KASE from 2 October 2009.

In August 2008 Doszhan Temir Zholy JSC defaulted on payment of the coupon on its debt securities in issue and the Group reclassified debt securities with a fair value on the date of reclassification of KZT 450,920 thousand from held-to-maturity to available-for-sale securities. On reclassifying these debt securities, the Company recognised a loss of KZT 329,314 thousand, calculated as the difference between the carrying amount before reclassification and the fair value of reclassification, directly in equity. The Company reclassified these bonds due to an unanticipated, significant deterioration in the issuer's creditworthiness that was evidenced by a temporary substantial drop in their market value of these bonds and a significant growth in the yield in comparison with corporate bonds of other issuers.

As at 31 December 2009, the Company made a 100% impairment provision for the bonds of DTZh in the amount of KZT 804,849 thousand and Rosa in the amount of KZT 450,939 thousand due to the facts explained above.



## 15 Available-for-sale assets, continued

### Analysis of movements in the impairment allowance

	2009 KZT'000	2008 KZT'000
Balance at the beginning of the year	-	-
Net charge for the year	1,255,788	-
<b>Balance at the end of the year</b>	<b>1,255,788</b>	-

## 16 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise only KZT denominated mortgage loans due from individuals located in the Republic of Kazakhstan.

All loans are secured by the underlying housing real estate.

	2009 KZT'000	2008 KZT'000
Mortgage loans with recourse	28,711,414	44,751,196
Mortgage loans without recourse		
- with guarantee	37,845,182	26,419,707
- without guarantee	3,233,802	932,152
Accrued interest	506,175	570,503
	<b>70,296,573</b>	<b>72,673,558</b>
Impairment allowance	(2,268,301)	(173,459)
	<b>68,028,272</b>	<b>72,500,099</b>

Loans to customers carry interest at rates ranging from 7.8% to 16% per annum (2008: 7.8% to 21.6% per annum).

## 16 Loans to customers, continued

### (a) Credit quality of mortgage loans

The following table provides information on credit quality of mortgage loans as at 31 December 2009:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
<b>Mortgage loans with recourse to the seller</b>				
- Current	27,765,286	2,137	27,763,149	0%
- Overdue less than 30 days	537,782	2,201	535,581	0%
- Overdue 30-89 days	294,220	7,285	286,935	2%
- Overdue 90-179 days	98,567	75,018	23,549	76%
- Overdue 180-360 days	56,994	56,994	-	100%
- Overdue more than 360 days	119,357	119,357	-	100%
<b>Mortgage loans without recourse to the seller guaranteed by the JSC Kazakhstan Fund of Guaranteeing Mortgage Loans</b>				
- Current	33,520,199	701,722	32,818,477	2%
- Overdue less than 30 days	1,194,043	52,209	1,141,834	4%
- Overdue 30-89 days	642,909	34,125	608,784	5%
- Overdue 90-179 days	1,048,695	156,429	892,266	15%
- Overdue 180-360 days	841,089	324,737	516,352	39%
- Overdue more than 360 days	938,084	622,030	316,054	66%
<b>Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage</b>				
- Current	2,236,905	47,037	2,189,868	2%
- Overdue less than 30 days	553,369	24,760	528,609	4%
- Overdue 30-89 days	127,026	4,896	122,130	4%
- Overdue 90-179 days	76,510	4,089	72,421	5%
- Overdue 180-360 days	162,506	15,607	146,899	10%
- Overdue more than 360 days	83,032	17,668	65,364	21%
	<b>70,296,573</b>	<b>2,268,301</b>	<b>68,028,272</b>	<b>3%</b>

## 16 Loans to customers, continued

### (a) Credit quality of mortgage loans, continued

The following table provides information on credit quality of mortgage loans as at 31 December 2008:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
<b>Mortgage loans with recourse to the seller</b>				
- Current	42,568,354	-	42,568,354	0%
- Overdue less than 30 days	684,793	-	684,793	0%
- Overdue 30-89 days	1,482,360	-	1,482,360	0%
- Overdue 90-179 days	169,742	-	169,742	0%
- Overdue 180-360 days	183,437	-	183,437	0%
- Overdue more than 360 days	17,464	-	17,464	0%
<b>Mortgage loans without recourse to the seller guaranteed by the JSC Kazakhstan Fund of Guaranteeing Mortgage Loans</b>				
- Current	25,148,008	-	25,148,008	0%
- Overdue less than 30 days	381,526	-	381,526	0%
- Overdue 30-89 days	410,219	-	410,219	0%
- Overdue 90-179 days	398,979	-	398,979	0%
- Overdue 180-360 days	257,269	-	257,269	0%
- Overdue more than 360 days	33,238	-	33,238	0%
<b>Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage</b>				
- Current	720,330	-	720,330	0%
- Overdue less than 30 days	2,684	-	2,684	0%
- Overdue 30-89 days	41,535	-	41,535	0%
- Overdue 90-179 days	6,937	6,776	161	98%
- Overdue 180-360 days	-	-	-	0%
- Overdue more than 360 days	166,683	166,683	-	100%
	<b>72,673,558</b>	<b>173,459</b>	<b>72,500,099</b>	<b>0%</b>

### (b) Analysis of impairment

As described in Note 2, the Company uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumption used in determining impairment losses for mortgage loans include:

- Mortgage loans with recourse overdue more than 60 days can be sold back by the Company at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing, except for the following partners: BTA Bank JSC, JSC Subsidiary Mortgage Organisation of BTA Bank "BTA Ipoteka", JSC Subsidiary Organisation of BTA Bank "Temirbank", JSC Mortgage Organisation "Kurylys Ipoteka", Alliance Bank JSC, JSC Mortgage Organisation "Astana-Finance", which are currently under restructuring process.

## 16 Loans to customers, continued

### (b) Analysis of impairment, continued

- Mortgage loans guaranteed by the State Fund Kazakhstan Fund of Guaranteeing Mortgage Loans JSC (“KFGML”) can be recovered from the guarantor if the sale of the collateral is not sufficient to repay the loan in full. Management assumes that the Company can recover mortgage loans guaranteed by KFGML in full through the sale of collateral.
- Other mortgage loans are subject to collective impairment assessment based on their past loss experience.

Movements in the loan impairment allowance for the year ended 31 December 2009 are as follows:

	2009 '000 KZT	2008 '000 KZT
Balance at the beginning of the year	173,459	-
Acquired through business combination	-	31,080
Charge for the year	2,856,034	161,853
Recovery for the year	(729,633)	-
Write-offs	(31,559)	(19,474)
<b>Balance at the end of the year</b>	<b>2,268,301</b>	<b>173,459</b>

As at 31 December 2009 KZT 265,076 thousand of interest was accrued on impaired loans (2008: nil).

During the year ended 31 December 2009, the Company renegotiated loans that were issued with recourse or guarantee that would otherwise be past due or impaired of KZT 4,820,760 thousand (31 December 2008: KZT 5,055,057 thousand), for which the Company granted a privilege period of an average of four-six months with either capitalisation of interest for the whole privilege period to a principal amount of a respective loan or immediate repayment of the accrued interest after a privilege period. This restructuring activity is aimed at managing customer relationships.

### (c) Asset securitisation

The loans to customers in the amount of KZT 58,337,466 thousand (2008: KZT 61,262,137 thousand) serve as collateral for debt securities issued by the Company. As at 31 December 2009, the carrying amount of the notes is KZT 56,386,944 thousand (31 December 2008: KZT 52,680,776 thousand). Refer to Note 21.

### (d) Significant credit exposures

As at 31 December 2009 and 2008, the Company has two banks with credit exposure equal to 15% and 12% of loans to customers, respectively (2008: 16% and 14%, respectively).

## 17 Held-to-maturity investments

	2009 KZT'000	2008 KZT'000
<b>Governments bonds</b>		
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,175,800	2,205,250
<b>Corporate bonds</b>		
- issued by local banks and financial institutions	5,971,247	6,939,651
- issued by local companies	1,117,989	1,293,369
<b>Total corporate bonds</b>	7,089,236	8,233,020
Impairment allowance	(633,000)	-
<b>Total net corporate bonds</b>	6,456,236	8,233,020
	<b>8,632,036</b>	<b>10,438,270</b>

As at 31 December 2009, the Company made a 100% impairment provision for the bonds of BTA Bank JSC and Astana-Finance JSC in the amount of KZT 150,000 thousand and KZT 483,000 thousand, respectively, due to defaults of the issuers.

### Analysis of movements in the impairment allowance

	2009 KZT'000	2008 KZT'000
Balance at the beginning of the year	-	-
Net charge for the year	633,000	-
Balance at the end of the year	633,000	-

## 18 Property and equipment

KZT'000	Land	Building	Computer equipment	Vehicles	Other fixed assets	Construction in progress	Total
<b>Cost</b>							
At 1 January 2009	121,958	550,060	397,647	6,706	204,486	1,339,988	2,620,845
Additions	-	-	4,222	-	17,721	551,678	573,621
Transfer	-	1,746,439	-	-	-	(1,746,439)	-
Disposals	-	-	(1,527)	-	(902)	-	(2,429)
<b>At 31 December 2009</b>	<b>121,958</b>	<b>2,296,499</b>	<b>400,342</b>	<b>6,706</b>	<b>221,305</b>	<b>145,227</b>	<b>3,192,037</b>
<b>Depreciation and impairment losses</b>							
At 1 January 2009	-	29,170	156,831	894	62,833	88,100	337,828
Depreciation charge	-	34,217	93,292	959	45,021	-	173,489
Impairment losses	-	-	-	-	-	57,127	57,127
Disposals	-	-	(1,242)	-	(439)	-	(1,681)
<b>At 31 December 2009</b>	<b>-</b>	<b>63,387</b>	<b>248,881</b>	<b>1,853</b>	<b>107,415</b>	<b>145,227</b>	<b>566,763</b>
<b>Carrying value</b>							
At 31 December 2008	121,958	520,890	240,816	5,812	141,653	1,251,888	2,283,017
<b>At 31 December 2009</b>	<b>121,958</b>	<b>2,233,112</b>	<b>151,461</b>	<b>4,853</b>	<b>113,890</b>	<b>-</b>	<b>2,625,274</b>

## 18 Property and equipment, continued

KZT'000	Land	Building	Computer equipment	Vehicles	Other fixed assets	Construction in progress	Total
<i>Cost</i>							
At 1 January 2008	121,958	541,061	373,790	9,856	186,613	145,226	1,378,504
Additions	-	8,999	22,931	490	17,194	1,194,762	1,244,376
Acquisitions through business combination	-	-	1,831	-	1,639	-	3,470
Disposals	-	-	-	(3,640)	(1,865)	-	(5,505)
Transfers	-	-	(905)	-	905	-	-
<b>At 31 December 2008</b>	<b>121,958</b>	<b>550,060</b>	<b>397,647</b>	<b>6,706</b>	<b>204,486</b>	<b>1,339,988</b>	<b>2,620,845</b>
<i>Depreciation and impairment losses</i>							
At 1 January 2008	-	15,625	66,774	1,561	24,768	65,250	173,978
Depreciation charge	-	13,545	90,057	1,242	39,925	-	144,769
Impairment losses	-	-	-	-	-	22,850	22,850
Disposals	-	-	-	(1,909)	(1,860)	-	(3,769)
<b>At 31 December 2008</b>	<b>-</b>	<b>29,170</b>	<b>156,831</b>	<b>894</b>	<b>62,833</b>	<b>88,100</b>	<b>337,828</b>
<i>Carrying value</i>							
At 31 December 2007	121,958	525,436	307,016	8,295	161,845	79,976	1,204,526
<b>At 31 December 2008</b>	<b>121,958</b>	<b>520,890</b>	<b>240,816</b>	<b>5,812</b>	<b>141,653</b>	<b>1,251,888</b>	<b>2,283,017</b>

During the year ended 31 December 2009 the Company has written down the value of delivered but not yet installed equipment by KZT 57,127 thousand to its estimated recoverable value (2008: KZT 22,850 thousand).

## 19 Intangible assets

KZT'000	Software	Goodwill	Total
<i>Cost</i>			
At 1 January 2009	274,822	149,877	424,699
Additions	19,732	-	19,732
Disposals	(4,014)	(149,877)	(153,891)
<b>At 31 December 2009</b>	<b>290,540</b>	<b>-</b>	<b>290,540</b>
<i>Amortisation</i>			
At 1 January 2009	154,998	-	154,998
Amortisation charge	68,782	-	68,782
Write-off	(1,376)	-	(1,376)
<b>At 31 December 2009</b>	<b>222,404</b>	<b>-</b>	<b>222,404</b>
<i>Carrying value</i>			
At 31 December 2008	119,824	149,877	269,701
<b>At 31 December 2009</b>	<b>68,136</b>	<b>-</b>	<b>68,136</b>

## 19 Intangible assets, continued

KZT'000

Cost	Software	Goodwill	Total
At 1 January 2008	239,769	-	239,769
Additions	32,190	-	32,190
Acquisitions through business combination	2,863	149,877	152,740
<b>At 31 December 2008</b>	<b>274,822</b>	<b>149,877</b>	<b>424,699</b>
<i>Amortisation</i>			
At 1 January 2008	85,651	-	85,651
Amortisation charge	69,347	-	69,347
<b>At 31 December 2008</b>	<b>154,998</b>	<b>-</b>	<b>154,998</b>
<i>Carrying value</i>			
At 31 December 2007	154,118	-	154,118
<b>At 31 December 2008</b>	<b>119,824</b>	<b>149,877</b>	<b>269,701</b>

Goodwill was derecognised due to merge of Kazakhstan Mortgage Company JSC and its subsidiary Mortgage Organisation Kazipoteka JSC in December 2009.

## 20 Other assets

	2009 KZT'000	2008 KZT'000
Prepayments for insurance of mortgage loans to KFGML	249,871	305,451
Inventory	8,854	8,183
Other prepayments	8,465	17,128
Other	25,319	11,500
	<b>292,509</b>	<b>342,262</b>

In November 2008 the Company signed a five year insurance contract with KFGML on the insurance of mortgage loans issued under the market program that were purchased by the Company from Kazipoteka before it became the Company's subsidiary. The insurance agreement was signed in order to mitigate risks of loan losses.

## 21 Debt securities issued

Debt securities issued as at 31 December 2009 and 2008 comprised KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	2009 KZT'000	2008 KZT'000
KZPO2Y09C495	10.06.2016	0.7%+floating inflation index (limited to 12.0%)	16.85%	7,181,036	1,081,709
KZ2CKY07B303	01.10.2011	0.10%+floating inflation index	12.71%	5,095,561	5,258,546
KZPC4Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	7.08%	5,092,747	5,112,061
KZPC2Y05B145	01.03.2010	5.69%	7.98%	5,076,615	4,970,343
KZPC1Y10B543	10.04.2015	6.90%	7.25%	5,001,727	4,990,318
KZ2CKY10B315	01.10.2014	0.1%+floating inflation index	16.68%	4,870,304	4,990,606
KZP03Y05C491	01.12.2012	11.00%	13.08%	4,800,090	4,734,655
KZ2CKY07B220	01.04.2011	0.39%+floating inflation index	13.28%	4,205,754	4,331,141
KZP02Y09C492	15.07.2013	10,20%	18.52%	4,091,496	-
KZPC2Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	13.46%	3,772,962	3,562,341
KZ2CKY10B075	01.04.2014	0.50%+floating inflation index	13.38%	3,002,133	3,435,903
KZ2CKY10A986	01.04.2014	1.00%+floating inflation index	14.13%	2,976,110	3,404,722
KZ2CKY10A853	01.10.2013	0.80%+floating inflation index	13.70%	1,220,409	1,571,262
KZ2CKY05B216	01.04.2009	0.39%+floating inflation index	15.12%	-	5,237,169
				<b>56,386,944</b>	<b>52,680,776</b>

## 21 Debt securities issued, continued

These obligations are secured by loan agreements with customers and the related real estate supporting these loans (Note 16) in the amount of KZT 59,732,028 thousand (2008: KZT 61,262,137 thousand).

The floating inflation rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

The Company has not had any defaults of principal, interest or other breaches with respect to its debt securities during 2009 and 2008.

## 22 Other borrowed funds

	2009 KZT'000	2008 KZT'000
Loan from foreign financial institutions	14,742,847	11,924,322
Due to the Government of the Republic of Kazakhstan	9,019,946	12,000,167
	<u>23,762,793</u>	<u>23,924,489</u>

Due to the Government of the Republic of Kazakhstan consists of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second tier banks. The loan carries an interest rate of 0.1% per annum, repayable on demand but not later than in December 2027. On 4 December 2009 the Company has repaid the principal of this loan at the amount of KZT 2,980,179 thousand.

In December 2007 the Company received a USD denominated loan from Credit Suisse International in the amount of USD 85 million at an interest rate of 7.4% per annum that was arranged by Credit Suisse London branch. In February 2008 the Company received an additional USD 15 million under the same loan agreement. The loan matures in December 2014.

In accordance with an amendment signed on 21 July 2008 the above USD denominated loan was transferred from USD to JPY currency at an initial exchange rate of JPY:USD 107.15:1 with a corresponding changes in interest rate from 7.4% to 6.4% per annum. Interest expenses are calculated on the loan principal amount of JPY 10,715,000 thousand and are payable in USD at the current exchange rate between JPY and USD. Principal repayment should be repaid in 9 equal instalments every six months starting from 21 December 2010. The amendment specifies a knockout exchange rate of JPY: USD 84.95:1. Loan repayments should be made in USD applying the initial exchange rate of JPY: USD 107.15:1 to the JPY repayment amounts if the exchange rate remains above the Knockout rate for the duration of the tenor of the loan. If the exchange rate falls below the Knockout rate at any point during the life of the loan, then loan repayments should be made in USD applying the current JPY: USD exchange rate to the JPY repayment amounts.

According to another amendment signed on 15 December 2009 the interest rate increased from 6.4% to 7.7% per annum and a knockout exchange rate of JPY:USD changed to 79.75:1.

## 23 Other liabilities

	2009 KZT'000	2008 KZT'000
Dividends payable	85,684	224,644
Taxes other than on income	72,955	13,012
Professional services	5,100	5,560
Payables to employees	801	127,316
Other payables	39	8,205
	<u>164,579</u>	<u>378,737</u>



## 24 Share capital

### (a) Issued capital and share premium

As at 31 December 2009 and 2008 authorised share capital comprised 2,906,200 ordinary shares, issued and outstanding share capital comprised 2,892,000 shares. All shares have a nominal value of KZT 10,000.

On 31 March 2008, the Company issued 250,000 shares at KZT 10,000 par value. These shares were placed through public offering on JSC Regional Financial Centre of Almaty City's stock exchange. The price per share ranged between KZT 10,050 and KZT 10,060. Total capital raised was KZT 2,512,661 thousand, with KZT 2,500,000 thousand being recorded as share capital and KZT 12,661 thousand as share premium.

As at 31 December 2009 and 2008, 94.63% of voting shares of the Company was owned by the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan and 5.37% of voting shares belonged to JSC Halyk Bank of Kazakhstan.

### (b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to legislation of the Republic of Kazakhstan. During 2009 the dividends of KZT 108,940 thousand (2008: KZT 138,960 thousand) were additionally paid by the Company.

### (c) Treasury shares

At 31 December 2009 and 2008, the Company held 99,990 of its own shares, which it bought during 2008 at a cost of KZT 1,089,922 thousand.

### (d) Reserve capital

In accordance with the Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan", the Company should establish a capital reserve. At 31 December 2009 and 2008, the capital reserve amounted to KZT 2,598,418 thousand and KZT 2,377,179 thousand, respectively. This reserve is non-distributable.

### (e) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to common shareholders by the weighted average number of ordinary shares outstanding during the year.

	2009	2008
(Loss)/profit for the year, in thousand of KZT	(6,873,183)	226,578
Weighted average number of ordinary shares	2,892,000	2,827,351
Basic and diluted earnings per share, in KZT	(2,377)	80

## 25 Financial risk management

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

### (a) Risk management policies and procedures

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

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

## 25 Financial risk management, continued

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

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Deputy Chairman of the Management Board of the Company.

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board.

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

### (b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall authority for market risk is vested in the Risk Management Committee.

The Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

### (c) Interest rate risk

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

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

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

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

	2009		2008	
	KZT'000		KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	(36,663)	(36,663)	(16,967)	(16,967)
100 bp parallel decrease	36,663	36,663	16,967	16,967

## 25 Financial risk management, continued

### (c) Interest rate risk, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2009		2008	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	(179)	(766,235)	(648)	(83,627)
100 bp parallel decrease	181	(108,181)	660	89,862

### (d) Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Company's exposure to currency risk at year end refer to Notes 32.

An analysis of sensitivity of the Company's profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in USD and JPY to Tenge exchange rates is as follows:

	2009		2008	
	Profit or loss	Equity	Profit or loss	Equity
5% appreciation of USD against KZT	(589,714)	(589,714)	(416,194)	(416,194)
5% depreciation of USD against KZT	589,714	589,714	416,194	416,194
5% appreciation of JPY against KZT	(2,066)	(2,066)	(1,250)	(1,250)
5% depreciation of JPY against KZT	2,066	2,066	1,250	1,250

The Company also has a knockout rate option (refer to Note 22). Management has not determined the impact on the above sensitivity analysis to foreign exchange risk.

### (e) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company has developed policies and procedures for the management of credit exposures (both for on consolidated statement of financial position and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Company's credit risk. The Company's credit policy is reviewed and approved by the Management Board.

The Company's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Minimum financial and collateral requirements for loan approvals;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

## 25 Financial risk management, continued

### (e) Credit risk, continued

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

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

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

	2009 KZT'000	2008 KZT'000
<b>ASSETS</b>		
Cash and cash equivalents	10,135,404	10,968,834
Placements with banks and other financial institutions	7,534,281	3,675,972
Financial instruments at fair value through profit or loss	20,424	50,412
Available-for-sale assets	5,606,256	1,900,049
Held-to-maturity investments	8,632,036	10,438,270
Loans to customers	68,028,272	72,500,099
Other assets	249,871	305,451
<b>Total maximum exposure to on balance sheet credit risk</b>	<b>100,206,544</b>	<b>99,839,087</b>

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 16 .

Financial assets of the Company's counterparties are classified by the lowest out of ratings assigned to the Company's counterparties by three international rating agencies Moody's Investors Services, Standard and Poor's, and Fitch. Ratings are listed below as per the coding of rating agency Standard and Poor's using the rating correspondence table of Bloomberg information system.

State securities of the Republic of Kazakhstan and their accrued income are classified in accordance with the lowest long term rating of the Republic of Kazakhstan.

## 25 Financial risk management, continued

### (e) Credit risk, continued

Below is the Company's financial assets credit rating, except for loans to customers which have no ratings, as 31 December 2009 and 2008:

	2009			2008		
	Rating	Amount KZT'000	Share in financial assets, %	Rating	Amount KZT'000	Share in financial assets, %
<b>Financial assets</b>						
Cash and cash equivalents	BBB-	1,694,318	1.70	BBB	5,060,522	4.85
	B+	1,108,167	1.11	BB	4,889,555	4.69
	B	7,332,919	7.34	B+	4,716	-
				B	1,014,041	0.97
Placement with banks and other financial institutions	B+	1,069,167	1.07	BB+	1,070,000	1.03
	B	6,465,114	6.47	B+	2,090,972	2.01
				B	515,000	0.49
Financial instruments at fair value through profit or loss	BBB-	20,424	0.02	BBB	50,412	0.05
Amount receivable under reverse repurchase agreements	---	---	---	BBB	4,707,622	4.52
Available-for-sale assets	B	4,604,509	4.61	B3	1,036,616	0.99
	without rating	1,001,747	1.00	without rating	863,433	0.83
Held-to-maturity investments	BBB-	2,175,800	2.18	BBB-	2,205,250	2.12
	BB	208,929	0.21	BB	4,041,004	3.88
	B+	353,670	0.35			
	B	3,505,877	3.51	BB-	732,334	0.70
	B-	1,199,969	1.20	B-	1,658,920	1.59
	D	27,079	0.03	without rating	1,800,762	1.73
	without rating	1,160,712	1.16			
<b>Total</b>		<b>31,928,401</b>	<b>31.96</b>		<b>31,741,159</b>	<b>30.45</b>
<b>Total financial assets</b>		<b>99,956,673</b>	<b>100</b>		<b>104,252,758</b>	<b>100</b>

## **25 Financial risk management, continued**

### **(f) Liquidity risk**

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

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

The Company seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Company requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- development of reserve plans to maintain balance sheet liquidity and set level of financing.

The following tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Company's expected cash flows on these financial liabilities and may vary significantly from this analysis.

## 25 Financial risk management, continued

### (f) Liquidity risk, continued

The liquidity position of the Company as at 31 December 2009 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Cash and cash equivalents	6,663,277	3,530,378	-	-	-	10,193,655	10,135,404
Placements with banks and other financial institutions	90,139	-	4,552,188	3,259,468	-	7,901,795	7,534,281
Financial instruments at fair value through profit or loss	20,424	-	-	-	-	20,424	20,424
Loans to customers	1,120,034	1,227,798	1,849,614	3,707,322	170,109,795	178,014,563	68,028,272
Available-for-sale assets	111,410	-	332,888	332,888	11,911,735	12,688,921	5,606,256
Held-to-maturity investments	202,543	-	271,379	375,879	12,425,828	13,275,629	8,632,036
Other assets	-	-	-	249,871	-	249,871	249,871
Debt securities issued	(23,708)	(5,023,708)	(2,426,600)	(2,426,600)	(73,284,996)	(83,185,612)	(56,386,944)
Other borrowed funds	(9,019,946)	-	-	-	(15,853,122)	(27,186,793)	(23,762,793)
Other liabilities	(156,794)	(6,800)	(640)	-	(345)	(164,579)	(164,579)
<b>Net position</b>	<b>(992,621)</b>	<b>(272,332)</b>	<b>4,578,829</b>	<b>3,185,103</b>	<b>105,308,895</b>	<b>111,807,874</b>	<b>19,892,228</b>

## 25 Financial risk management, continued

### (f) Liquidity risk, continued

The position of the Company as at 31 December 2008 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Cash and cash equivalents	8,631,752	2,372,869	-	-	-	11,004,621	10,968,834
Placements with banks and other financial institutions	175,972	-	3,131,151	531,068	-	3,838,191	3,675,972
Financial instruments at fair value through profit or loss	50,412	-	-	-	-	50,412	50,412
Loans to customers	1,316,465	1,516,591	2,283,644	4,572,657	201,040,521	210,729,878	72,500,099
Available-for-sale assets	114,461	-	55,721	55,721	1,892,250	2,118,153	1,900,049
Held-to-maturity investments	261,535	942,928	365,356	469,856	14,049,464	16,089,139	10,438,270
Other assets	-	-	-	305,451	-	305,451	305,451
Debt securities issued	(180,938)	(142,250)	(8,881,327)	(3,189,638)	(71,103,924)	(83,498,077)	(52,680,776)
Other borrowed funds	(12,000,167)	-	-	(930,988)	(27,061,965)	(39,993,120)	(23,924,489)
Other liabilities	(348,558)	(30,179)	-	-	-	(378,737)	(378,737)
<b>Net position</b>	<b>(1,979,066)</b>	<b>4,659,959</b>	<b>(3,045,455)</b>	<b>1,814,127</b>	<b>118,816,346</b>	<b>120,265,911</b>	<b>22,855,085</b>

For further information on the Company's exposure to liquidity risk at year end refer to Note 31.



## 26 Capital management

The Decree of the National Bank of the Republic of Kazakhstan #254 of 25 July 2003 establishes the Company status as a financial agency, for which the National Bank determines statutory capital ratio. As at 31 December 2009 the minimum level of this ratio is 8%. The Company was in compliance with the statutory capital ratio during the year ended 31 December 2009 and 2008.

The Company also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the Company's capital position calculated in accordance with the requirement of the Basle Accord, as at 31 December 2009 and 2008:

	2009 KZT'000	2008 KZT'000
Tier 1 capital		
Share capital	27,842,739	27,842,739
General reserves	2,598,418	2,377,179
Retained earnings	(6,900,887)	302,475
<b>Total tier 1 capital</b>	<b>23,540,270</b>	<b>30,522,393</b>
Tier 2 capital		
Reserves on revaluation of available-for-sale assets	(621,880)	(320,159)
<b>Total tier 2 capital</b>	<b>(621,880)</b>	<b>(320,159)</b>
<b>Total capital</b>	<b>22,918,390</b>	<b>30,202,234</b>
Risk-weighted assets		
Banking book	40,485,252	45,669,803
Trading book	30,344,374	26,836,825
<b>Total risk weighted assets</b>	<b>70,829,626</b>	<b>72,506,628</b>
<b>Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")</b>	<b>32%</b>	<b>42%</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")</b>	<b>33%</b>	<b>42%</b>

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

The Company is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Company. As at 31 December 2009 and 2008, this minimum level is 8%. The Company has complied with these capital requirements during the years ended 31 December 2009 and 2008.

## 27 Contingencies

### (a) Insurance

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

## 27 Contingencies, continued

### (b) Litigation

In the ordinary course of business, the Company 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 conditions of the results of future operations of the Company.

### (c) Taxation contingencies

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

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

## 28 Related party transactions

### (a) Transactions with the members of the Management Board

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

	2009 KZT'000	2008 KZT'000
Members of the Board of Directors	11,868	4,115
Members of the Management Board	85,094	91,890
	<u>96,962</u>	<u>96,005</u>

The above amounts include non-cash benefits in respect of the members of the Management Board.

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

	2009 KZT'000	Average interest rate	2008 KZT'000	Average interest rate
<b>Consolidated statement of financial position</b>				
Loans to customers	94,208	7.79%	56,719	11.04%

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

	2009 KZT'000	2008 KZT'000
<b>Consolidated statement of comprehensive income</b>		
Interest income	15,600	5,415

## 28 Related party transactions, continued

### (b) Transaction with other related parties

Other related parties include the Ministry of Finance of the Republic of Kazakhstan and State organisations. The amounts below are included in the consolidated statement of financial position and consolidated statement of comprehensive income for transactions with related parties as of 31 December 2009 and 2008:

	2009 KZT'000	2009 KZT'000	2008 KZT'000	2008 KZT'000
	Ministry of Finance	State organisations	Ministry of Finance	State organisations
Interest income	77,362	-	107,782	512,017
Interest expense	-	-	(12,067)	-
Gain/loss from revaluation of securities	2,203	-	-	-
Commission expenses	-	-	-	(12,288)
General administrative expenses	-	-	-	(21,975)
Income tax	-	-	-	(173,717)

The balances with related parties as of 31 December 2009 include:

	Ministry of Finance		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Cash and cash equivalents	-	-	-	-
Placements with banks and other financial institutions	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	20,424	6.27%
Loans to customers	-	-	-	-
Held-to maturity investments	2,175,800	5.50%	-	-
Deferred tax assets	-	-	8,640	-
Other assets	-	-	281,474	-
Debt securities issued	-	-	-	-
Other borrowed funds	9,019,946	0.10%	-	-
Other liabilities	-	-	72,559	-

The balances with related parties as of 31 December 2008 include:

	Ministry of Finance		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Cash and cash equivalents	-	-	5,060,142	-
Placements with banks and other financial institutions	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	50,412	6.21%
Loans to customers	-	-	26,629,239	9.84%
Held-to maturity investments	2,205,250	5.50%	-	-
Deferred tax assets	-	-	8,640	-
Other assets	-	-	346,809	-
Debt securities issued	-	-	-	-
Other borrowed funds	12,000,167	0.10%	-	-
Other liabilities	224,644	-	13,012	-

## 29 Fair value of financial instruments

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair values of all financial instruments approximate their carrying values.

The following table summarises the fair values of major financial assets and liabilities where carrying value is significantly different from fair value:

KZT'000	2009		2008	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Assets</b>				
Loans to customers	69,278,213	68,028,272	70,227,331	72,500,099
Held-to-maturity investments	6,974,527	8,632,036	8,788,434	10,438,270
<b>Liabilities</b>				
Debt securities issued	51,970,713	56,386,944	52,593,338	52,680,776

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices	Valuation techniques based on market observable inputs	Total
	KZT'000	KZT'000	KZT'000
<b>Financial assets</b>			
Financial instruments at fair value through profit or loss	20,424	-	20,424
Available-for-sale assets	5,606,256	-	5,606,256

As at 31 December 2009 and 31 December 2008, the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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

### 30 Average effective interest rates

The table below displays the Company's interest bearing assets and liabilities as at 31 December 2009 and 2008 and their corresponding average effective interest rates as at that date.

	Value KZT'000	2009 Average Effective interest rate	Value KZT'000	2008 Average Effective interest rate
<b>Interest Bearing Assets</b>				
Cash and cash equivalents				
<i>Short-term deposits (less than 3 month)</i>	6,801,993	11.48%	4,264,116	11.22%
Placement with banks and other financial institutions				
<i>Term deposit</i>	7,534,281	11.12%	3,675,972	11.13%
Financial instruments at fair value through profit or loss	20,424	6.10%	50,412	5.32%
Amounts receivable under reverse repurchase agreements	-	-	4,707,622	8.88%
Available-for-sale assets	5,606,256	11.85%	1,900,049	14.29%
Loans to customers	68,028,272	11.08%	72,500,099	10.83%
Held-to-maturity investments	8,632,036	6.64%	10,438,270	8.15%
Debt securities issued	56,386,944	12.95%	52,680,776	11.35%
Other borrowed funds	23,762,793	6.89%	23,924,489	4.35%

### 31 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

The amounts in the tables below represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
<b>Assets</b>							
Cash and cash equivalents	6,653,634	3,481,770	-	-	-	-	10,135,404
Placements with banks and other financial institutions	8,750	-	7,525,531	-	-	-	7,534,281
Financial instruments at fair value through profit or loss	-	-	20,417	7	-	-	20,424
Available-for-sale assets	-	-	87,480	895,362	4,623,414	-	5,606,256
Loans to customers	621,461	404,627	1,979,618	12,450,877	52,427,555	144,134	68,028,272
Held-to-maturity investments	7,250	21,233	174,060	3,646,111	4,783,382	-	8,632,036
Current tax asset	-	-	-	281,474	-	-	281,474
Property and equipment	-	-	-	-	-	2,625,274	2,625,274
Intangible assets	-	-	-	-	-	68,136	68,136
Deferred tax assets	-	-	-	-	8,640	-	8,640
Other assets	8,960	7,841	65,362	195,709	14,637	-	292,509
<b>Total assets</b>	<b>7,300,055</b>	<b>3,915,471</b>	<b>9,852,468</b>	<b>17,469,540</b>	<b>61,857,628</b>	<b>2,837,544</b>	<b>103,232,706</b>
<b>Liabilities</b>							
Debt securities issued	407,967	4,597,670	1,845,238	28,816,449	20,719,620	-	56,386,944
Other borrowed funds	9,019,946	-	1,546,402	13,196,445	-	-	23,762,793
Other liabilities	156,795	6,800	640	281	63	-	164,579
<b>Total liabilities</b>	<b>9,584,708</b>	<b>4,604,470</b>	<b>3,392,280</b>	<b>42,013,175</b>	<b>20,719,683</b>	<b>-</b>	<b>80,314,316</b>
<b>Net position as at 31 December 2009</b>	<b>(2,284,653)</b>	<b>(688,999)</b>	<b>6,460,188</b>	<b>(24,543,635)</b>	<b>41,137,945</b>	<b>2,837,544</b>	<b>22,918,390</b>
<b>Net position as at 31 December 2008</b>	<b>1,802,049</b>	<b>3,739,690</b>	<b>(1,666,208)</b>	<b>(11,247,278)</b>	<b>34,983,946</b>	<b>2,590,035</b>	<b>30,202,234</b>

## 32 Currency analysis

The currency structure of financial assets and liabilities of the Company as at 31 December 2009 is shown in the table below:

<b>KZT'000</b>	<b>KZT</b>	<b>USD</b>	<b>JPY</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	10,135,404	-	-	10,135,404
Placements with banks and other financial institutions	7,534,281	-	-	7,534,281
Financial instruments at fair value through profit or loss	20,424	-	-	20,424
Available-for-sale assets	5,606,256	-	-	5,606,256
Loans to customers	68,028,272	-	-	68,028,272
Held-to-maturity investments	8,632,036	-	-	8,632,036
<b>Total assets</b>	<b>99,956,673</b>	<b>-</b>	<b>-</b>	<b>99,956,673</b>
<b>Liabilities</b>				
Debt securities issued	(56,386,944)	-	-	(56,386,944)
Other borrowed funds	(9,019,946)	(14,742,847)	-	(23,762,793)
Other liabilities	(112,921)	-	(51,658)	(164,579)
<b>Total liabilities</b>	<b>(65,519,811)</b>	<b>(14,742,847)</b>	<b>(51,658)</b>	<b>(80,314,316)</b>
<b>Net on and off balance sheet position as at 31 December 2009</b>	<b>34,436,862</b>	<b>(14,742,847)</b>	<b>(51,658)</b>	<b>19,642,357</b>
Net on and off balance sheet position as at 31 December 2008	42,126,556	(11,888,586)	(35,736)	30,202,234