JSC AB "Bank of China in Kazakhstan"

Financial Statements

for the year ended 31 December 2009

Contents

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

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

Independent Auditors' Report

To the Board of Directors of JSC AB "Bank of China in Kazakhstan"

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

1 March 2010

	Note	2009 '000 KZT	2008 '000 KZT
Interest income	4	1,113,025	582,710
Interest expense	4	(271,382)	(137,246)
Net interest income		**841,643**	**445,464**
Fee and commission income	5	1,108,475	666,198
Fee and commission expense	6	(86,316)	(30,774)
Net fee and commission income		**1,022,159**	**635,424**
Net foreign exchange income	7	340,877	194,767
Other operating income	8	279,645	916
Operating income		**2,484,324**	**1,276,571**
General administrative expenses	9	(548,530)	(354,306)
Profit before taxes		**1,935,794**	**922,265**
Income tax expense	10	(367,939)	(242,547)
Profit and total comprehensive income		**1,567,855**	**679,718**

The financial statements as set out on pages 5 to 40 were approved by Board of Directors on 1 March 2010.

Tian Wei
Chairman of the Board

Usenova Z.S
Chief Accountant

The statement of comprehensive income (the income statement) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 40.

	Note	2009 '000 KZT	2008 '000 KZT
ASSETS			
Cash		82,523	74,969
Due from the National Bank of the Republic of Kazakhstan	11	48,662,802	26,057,798
Placements with banks	12	5,772,860	3,992,023
Loans to customers	13	683,669	1,044,391
Held-to-maturity investments	14	7,862,569	3,292,698
Property, equipment and intangible assets	15	573,937	562,226
Deferred tax asset	10	2,825	853
Other assets	16	139,561	58,585
Total assets		**63,780,746**	**35,083,543**
LIABILITIES			
Deposits and balances from banks	17	364,279	198,192
Current accounts and deposits from customers	18	53,224,948	30,178,181
Other borrowed funds		-	618,234
Other liabilities	19	35,277	9,651
Total liabilities		**53,624,504**	**31,004,258**
EQUITY			
Share capital	20	5,485,008	1,065,050
Share premium		89,144	-
Retained earnings		4,582,090	3,014,235
Total equity		**10,156,242**	**4,079,285**
Total liabilities and equity		**63,780,746**	**35,083,543**
Commitments and Contingencies	23, 24		

The statement of financial position (the balance sheet) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 40.

	2009 '000 KZT	2008 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	954,548	563,245
Interest payments	(285,666)	(117,306)
Fee and commission receipts	1,021,989	616,312
Fee and commission payments	(61,387)	(30,774)
Net receipts from foreign exchange	341,836	192,809
Other income	811	916
General administrative expenses	(513,855)	(338,498)
(Increase)/decrease in operating assets		
Minimum reserve requirements	(217,385)	(375,795)
Placements with banks		8,172
Loans to customers	343,811	(567,439)
Other assets	4,296	6,112
Increase in operating liabilities		
Deposits and balances from banks	166,087	162,196
Current accounts and deposits from customers	19,129,563	26,369,903
Other liabilities	-	3,184
Net cash provided from operating activities before income tax paid	**20,884,648**	**26,493,037**
Income tax paid	(369,911)	(243,980)
Cash flows from operations	**20,514,737**	**26,249,057**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	(6,736,840)	(7,150,964)
Maturity of held-to-maturity investments	2,342,400	5,621,788
Purchases of property and equipment	(45,985)	(426,919)
Sales of property and equipment	280,301	(1,059)
Cash flows used in investing activities	**(4,160,124)**	**(1,957,154)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments)/ receipts of other borrowed funds	(603,950)	603,950
Proceeds from issuance of share capital	4,509,102	-
Cash flows from financing activities	**3,905,152**	**603,950**
Net increase in cash and cash equivalents	**20,259,765**	**24,895,853**
Effect of changes in exchange rates on cash and cash equivalents	3,916,245	(128,674)
Cash and cash equivalents as at the beginning of the year	29,486,365	4,719,186
Cash and cash equivalents as at the end of the year (Note 26)	**53,662,375**	**29,486,365**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 40.

	Share capital	Share premium	Retained earnings	Total
	'000 KZT	'000 KZT	'000 KZT	'000 KZT
Balance as at 1 January 2008	1,065,050	-	2,334,517	3,399,567
Profit and total comprehensive income for the year	-	-	679,718	679,718
Balance as at 31 December 2008	**1,065,050**	**-**	**3,014,235**	**4,079,285**
Balance as at 1 January 2009	1,065,050	-	3,014,235	4,079,285
Profit and total comprehensive income for the year	-	-	1,567,855	1,567,855
Shares issued	4,419,958	89,144	-	4,509,102
Balance as at 31 December 2009	**5,485,008**	**89,144**	**4,582,090**	**10,156,242**

1 Background

(a) Principal activities

Joint Stock Company Affiliate Bank "Bank of China in Kazakhstan" ("the Bank") was established on 19 April 1993 as "Bank of China in Almaty". On 19 December 1997, the Bank was re-registered as Close Joint Stock Company Subsidiary Bank "Bank of China in Kazakhstan". On 4 May 2005, the Bank was re-registered to Joint Stock Company Affiliate Bank "Bank of China in Kazakhstan".

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations, and operations with securities and foreign exchange. The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Agency ("the FMSA") and the National Bank of the Republic of Kazakhstan ("the NBRK"). The Bank has a banking license No 181 received on 31 January 2006 from the FMSA. The Bank is a member of the state deposit insurance system in the Republic of Kazakhstan.

On 24 December 2008 the Bank obtained the status of banking holding from the FMSA. The change in status resulted from new regulations effective from 23 October 2008, which require banks with majority of capital owned by foreign banks to have status of banking holding.

The registered address of the Bank's head office is 201, Gogol Street, Almaty. The Bank has one branch in Almaty.

The average number of people employed during the year was 64 (2008: 61).

(b) Shareholders

The Bank is wholly owned by the Bank of China Limited ("the Shareholder" or "the Parent Bank") located in People's Republic of China, Beijing. The activities of the Bank are closely linked with the requirements of the Shareholder and determination of the pricing of the Bank's services to the Shareholder is undertaken in conjunction with other Shareholder banks. Related party transactions are detailed in Note 25.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

2 Basis of preparation, continued

(c) Functional and Presentation Currency

The functional currency of the Bank is the Kazakhstan Tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Note 13 – Loans to customers.

3 Significant accounting policies

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

(a) Foreign currency transactions

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

(b) Cash and cash equivalents

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

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- a derivative (except for a derivative that is a designated and effective hedging instrument); or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

- intends to sell immediately or in the near term;

- upon initial recognition designates as at fair value through profit or loss;

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and 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 foreseeble 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method;

- held-to-maturity investments that are measured at amortised cost using the effective interest method;

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

(iv) Fair value measurement principles

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

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

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

(vi) Derecognition

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

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

(vii) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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:

Buildings	50 years;
Computers	4 to 5 years;
Furniture	7 years;
Vehicles	7 to 15 years;
Other	5 to 15 years.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

(ii) Non-financial assets

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

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

(g) Credit related commitments

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

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

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

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

(h) Share capital

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

Dividends

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

3 Significant accounting policies, continued

(h) Share capital, continued

Dividends, continued

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

(i) Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences resulting from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. 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.

(j) Income and expense recognition

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

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

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

3 Significant accounting policies, continued

(k) Comparative information

Prior period reclassification

Comparative information has been reclassified to conform to changes in presentation in the current period.

The impact of reclassifications on the statement of financial position (the balance sheet) as at 31 December 2008 was as follows:

	As reclassified 31 December 2008	Reclassification	As previously reported
Cash and cash equivalents	-	30,124,790	30,124,790
Cash	74,969	(74,969)	-
Due from the National Bank of the Republic of Kazakhstan	26,057,798	(26,057,798)	-
Placements with banks	3,992,023	(3,992,023)	-

There is no impact of the above reclassifications on the statement of comprehensive income (the income statement) for the year ended 31 December 2008.

The impact of reclassifications on the statement of cash flows for the year ended 31 December 2008 was as follows:

	As reclassified 31 December 2008	Reclassification	As previously reported
Decrease in minimum reserve requirements	(375,795)	375,795	-
Cash flows from operations	26,249,057	375,795	26,624,852
Net increase in cash and cash equivalents	24,895,853	247,121	25,142,974
Cash and cash equivalents as at the beginning of the year	4,719,186	262,630	4,981,816
Cash and cash equivalents as at the end of the year	29,486,365	638,425	30,124,790

The above reclassifications impact presentation of the respective items in the comparative statement of financial position (the balance sheet) and statement of cash flows and do not impact the Bank's profit for the year or equity.

(l) Changes in accounting policies

Starting from 1 January 2009 the Bank adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income (the income statement) that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets. The balance sheet is renamed to the statement of financial position (the balance sheet) and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position (the balance sheet) 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.

3 Significant accounting policies, continued

(m) New Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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

4 Net interest income

	2009 '000 KZT	2008 '000 KZT
Interest income		
Due from the National Bank of the Republic of Kazakhstan	738,809	222,848
Held-to-maturity investments	252,390	208,039
Loans to customers	114,116	60,376
Placements with banks	7,710	91,447
	1,113,025	**582,710**
Interest expense		
Current accounts and deposits from customers	(250,123)	(121,444)
Other borrowed funds	(20,441)	(14,208)
Deposits and balances from banks	(818)	(1,594)
	(271,382)	**(137,246)**

5 Fee and commission income

	2009 '000 KZT	2008 '000 KZT
Agency services	800,813	406,730
Settlement	240,898	196,940
Cash withdrawal	25,065	34,955
Client account maintenance	14,078	10,042
Guarantee and letter of credit issuance	5,628	6,515
Other	21,993	11,016
	1,108,475	**666,198**

Fee income for agency services relate to commissions earned by the Bank for acting as an agent for loans issued by the Bank of China Cayman Islands. The Bank provides services of administration of loans issued to corporate customers – residents of the Republic of Kazakhstan. The Bank does not bear any credit risk related to loans issued by Bank of China Cayman Islands. Accordingly, related loans are not recognised in the Bank's financial statements.

6 Fee and commission expense

	2009 '000 KZT	2008 '000 KZT
Deposit guarantee fund contributions	(66,942)	(7,089)
Settlement	(9,378)	(6,348)
Kazakhstan stock exchange membership	(6,220)	(7,935)
Cash operations	(210)	(7,965)
Other	(3,566)	(1,437)
	(86,316)	**(30,774)**

7 Net foreign exchange income

	2009 '000 KZT	2008 '000 KZT
Net gain on spot transactions	341,836	192,809
(Loss) /gain from revaluation of financial assets and liabilities	(959)	1,958
	340,877	**194,767**

8 Other operating income

	2009 '000 KZT	2008 '000 KZT
Net gain on disposal of property and equipment	278,834	471
Other	811	445
	279,645	**916**

9 General administrative expenses

	2009 '000 KZT	2008 '000 KZT
Employee compensation	184,134	125,537
Taxes other than on income	141,227	88,590
Communications and information services	63,165	37,684
Depreciation and amortisation	32,807	15,808
Representation expenses	24,863	5,906
Repairs and maintenance	22,450	15,111
Professional services	22,378	15,753
Security	22,184	18,451
Travel expenses	10,900	5,449
Rent expenses	8,986	8,986
Transportation expenses	3,516	1,782
Advertising and marketing	646	1,242
Other	11,274	14,007
	548,530	**354,306**

During 2009 the Bank accrued and paid VAT on commission income received from agency services provided in 2008 and 2009. Taxes other than on income include KZT 112,651 thousand of these VAT charges and corresponding penalties.

10 Income tax expense

	2009 '000 KZT	2008 '000 KZT
Current tax expense		
Current year	355,468	231,299
Underprovided in prior years	14,443	3,903
	369,911	**235,202**
Deferred tax expense		
Origination and reversal of temporary differences	(1,972)	7,345
Total income tax expense	**367,939**	**242,547**

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

Reconciliation of effective tax rate:

	2009 '000 KZT	%	2008 '000 KZT	%
Profit before tax	**1,935,794**	**100.00**	**922,265**	**100.00**
Income tax at the applicable tax rate	387,159	20.00	276,680	30.00
Non-taxable income	(33,663)	(1.74)	(35,303)	(3.83)
Underprovided in prior years	14,443	0.75	3,903	0.42
Change in tax rate	-	-	(2,733)	(0.30)
	367,939	**19.01**	**242,547**	**26.29**

Deferred tax asset and liability

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.

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.

10 Income tax expense, continued

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

'000 KZT	Balance 1 January 2009	Recognised in profit or loss	Balance 31 December 2009
Property, equipment and intangible assets	2,037	(1,018)	1,019
Other liabilities	(1,184)	2,990	1,806
	853	**1,972**	**2,825**

'000 KZT	Balance 1 January 2008	Recognised in profit or loss	Balance 31 December 2008
Property, equipment and intangible assets	5,804	3,767	2,037
Other liabilities	2,394	3,578	(1,184)
	8,198	**7,345**	**853**

11 Due from the National Bank of the Republic of Kazakhstan

	2009 '000 KZT	2008 '000 KZT
Nostro account	42,861,210	8,039,423
Term deposits	5,801,592	18,018,375
	48,662,802	**26,057,798**

12 Placements with banks

	2009 '000 KZT	2008 '000 KZT
Not impaired or past due		
Nostro account with other banks		
- Rated A- to A+	5,772,860	3,992,023
	5,772,860	**3,992,023**

Concentration of placements with banks

As at 31 December 2009 and 2008 the Bank had one bank, whose balance exceeded 10% of the total placements with banks. The gross value of this balance as at 31 December 2009 and 2008 were KZT 5,216,143 thousand and KZT 3,727,872 thousand, respectively.

13 Loans to customers

	2009 '000 KZT	2008 '000 KZT
Commercial loans		
Loans to small and medium size companies	554,069	934,630
Loans to individuals		
Consumer loans	103,483	109,761
Mortgage loans	26,117	-
Total loans to individuals	**129,600**	**109,761**
	683,669	**1,044,391**

As at 31 December 2009 and 2008 all loans to customers are neither past due nor impaired.

Analysis of collateral

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 31 December:

	2009 '000 KZT	% of loan portfolio	2008 '000 KZT	% of loan portfolio
Real estate	479,830	87	534,541	57
No collateral	74,239	13	400,089	43
Total	**554,069**	**100**	**934,630**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

During the year ended 31 December 2009 the Bank did not obtain any assets by taking control of collateral accepted as security for commercial loans (31 December 2008: nil).

All consumer and mortgage loans issued to individuals are secured by housing real estate.

(a) Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2009 '000 KZT	2008 '000 KZT
Manufacturing	332,633	362,479
Trade	147,197	106,106
Oil and gas industry	74,239	400,089
Construction	-	65,956
Loans to individuals	129,600	109,761
	683,669	**1,044,391**

(b) Significant credit exposures

As at 31 December 2009 and 2008 the Bank has three and two borrowers, respectively, whose loan balances exceeded 10% of loans to customers. The gross value of these loans as at 31 December 2009 and 2008 is KZT 524,368 thousand and KZT 762,568 thousand, respectively.

13 Loans to customers, continued

(c) Loan maturities

The maturity of the loan portfolio is presented in Note 29, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

14 Held-to-maturity investments

	2009 '000 KZT	2008 '000 KZT
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	7,862,569	2,656,184
Notes issued by the National Bank of the Republic of Kazakhstan	-	636,514
	7,862,569	3,292,698

15 Property, equipment and intangible assets

'000 KZT	Land and buildings	Computers	Furniture	Vehicles	Other	Computer software	Total
Cost							
At 1 January 2009	645,946	13,540	10,557	24,087	22,820	22,625	739,575
Additions	6,196	4,245	5,913	20,278	5,491	3,862	45,985
Disposals	(30,564)	(3,091)	(130)	(2,501)	(11,175)	-	(47,461)
At 31 December 2009	**621,578**	**14,694**	**16,340**	**41,864**	**17,136**	**26,487**	**738,099**
Depreciation and amortisation							
At 1 January 2009	127,657	7,440	7,844	6,604	14,784	13,020	177,349
Depreciation and amortisation charge	14,915	2,897	1,868	5,308	4,450	3,369	32,807
Disposals	(30,564)	(3,091)	(130)	(1,034)	(11,175)	-	(45,994)
At 31 December 2009	**112,008**	**7,246**	**9,582**	**10,878**	**8,059**	**16,389**	**164,162**
Carrying amount							
At 31 December 2009	**509,570**	**7,448**	**6,758**	**30,986**	**9,077**	**10,098**	**573,937**

'000 KZT	Land and buildings	Computers	Furniture	Vehicles	Other	Computer software	Total
Cost							
At 1 January 2008	231,037	13,093	10,829	26,005	26,478	21,658	329,100
Additions	421,132	1,412	-	-	4,375	1,059	427,978
Disposals	(6,223)	(965)	(272)	(1,918)	(8,033)	(92)	(17,503)
At 31 December 2008	**645,946**	**13,540**	**10,557**	**24,087**	**22,820**	**22,625**	**739,575**
Depreciation and amortisation							
At 1 January 2008	133,880	5,395	6,409	5,533	17,983	9,844	179,044
Depreciation and amortisation charge	-	3,010	1,707	2,989	4,834	3,268	15,808
Disposals	(6,223)	(965)	(272)	(1,918)	(8,033)	(92)	(17,503)
At 31 December 2008	**127,657**	**7,440**	**7,844**	**6,604**	**14,784**	**13,020**	**177,349**
Carrying amount							
At 31 December 2008	**518,289**	**6,100**	**2,713**	**17,483**	**8,036**	**9,605**	**562,226**

16 Other assets

	2009 '000 KZT	2008 '000 KZT
Not impaired or past due		
Receivable on agency services	136,286	49,886
Prepayments	1,258	7,501
Materials and supplies	865	618
Other	1,152	580
	139,561	**58,585**

Receivable on agency services of KZT 136,286 thousand (2008: KZT 49,886 thousand) relates to charges for administration of credit line facilities issued by the Bank of China in Cayman Islands to the corporate customers operating in the Republic of Kazakhstan (Note 5).

17 Deposits and balances from banks

	2009 '000 KZT	2008 '000 KZT
Vostro accounts	364,279	198,192

Concentration of deposits and balances from banks

As at 31 December 2009 and 2008 the Bank has two and three banks, respectively, whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as at 31 December 2009 and 2008 are KZT 344,993 thousand and KZT 196,191 thousand, respectively.

18 Current accounts and deposits from customers

	2009 '000 KZT	2008 '000 KZT
Current accounts and demand deposits		
- Retail	33,113,526	1,746,022
- Corporate	18,464,176	17,741,904
Term deposits		
- Retail	605,213	623,203
- Corporate	1,042,033	10,067,052
	53,224,948	**30,178,181**

Blocked accounts

As at 31 December 2009, the Bank maintained customer deposit balances of KZT 1,042,033 thousand (2008: KZT 63,145 thousand) that serves as collateral for off-balance sheet credit instruments granted by the Bank.

18 Current accounts and deposits from customers, continued

Concentrations of current accounts and customer deposits

As at 31 December 2009 and 2008, the Bank has two and four customers, respectively, whose balances exceed 10% of total customer accounts. These balances as at 31 December 2009 and 2008 are KZT 36,444,793 thousand and KZT 22,010,924 thousand, respectively.

19 Other liabilities

	2009 '000 KZT	2008 '000 KZT
Accrued expenses	27,222	2,354
Vacation reserves	3,344	1,179
Other	4,711	6,118
	35,277	9,651

20 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 5,150 ordinary shares (2008: 1,000 ordinary shares). All shares have a nominal value of KZT 1,065,050. During 2009 4,150 ordinary shares (2008: nil) were issued with a premium.

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

(b) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, Bank's distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan. During the year ended 31 December 2009, no dividends were declared (2008: nil).

21 Risk management

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

(a) Risk management policies and procedures

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

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

21 Risk management, continued

(a) Risk management policies and procedures, continued

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

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the organisation. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

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

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

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

(i) Interest rate risk

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

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

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

21 Risk management, continued

(b) Market risk, continued

(i) *Interest rate risk, continued*

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

	2009 '000 KZT Profit or loss	2009 '000 KZT Equity	2008 '000 KZT Profit or loss	2008 '000 KZT Equity
100 bp parallel rise	108,419	108,419	71,500	71,500
100 bp parallel fall	(108,419)	(108,419)	(71,500)	(71,500)

(ii) *Currency risk*

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 29.

An analysis of sensitivity of the Bank's profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% change in USD and Euro to Kazakhstan Tenge exchange rates is as follows:

	2009 '000 KZT Profit or loss	2009 '000 KZT Equity	2008 '000 KZT Profit or loss	2008 '000 KZT Equity
10% appreciation of USD against KZT	19,289	19,289	11,043	11,043
10% depreciation of USD against KZT	(19,289)	(19,289)	(11,043)	(11,043)
10% appreciation of EUR against KZT	2,161	2,161	349	349
10% depreciation of EUR against KZT	(2,161)	(2,161)	(349)	(349)

(c) Credit risk

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

The Bank's credit policy establishes:

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

21 Risk management, continued

(c) Credit risk, continued

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department.

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

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

	2009 '000 KZT	2008 '000 KZT
ASSETS		
Cash	82,523	74,969
Due from the National Bank of the Republic of Kazakhstan	48,662,802	26,057,798
Placements with banks	5,772,860	3,992,023
Loans to customers	683,669	1,044,391
Held-to-maturity investments	7,862,569	3,292,698
Other assets	139,561	58,585
Total maximum exposure to on balance sheet credit risk	**63,203,984**	**34,520,464**

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

The maximum exposure to off balance sheet credit risk at the reporting date is presented in Note 23 - Commitments.

(d) Liquidity risk

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

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;

21 Risk management, continued

(d) Liquidity risk, continued

- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

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

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The expected cash flows on these financial assets and liabilities and unrecognized loan commitments can vary significantly from this analysis.

21 Risk management, continued

(d) Liquidity risk, continued

The liquidity position as at 31 December 2009 is as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative assets							
Cash	82,523	-	-	-	-	82,523	82,523
Due from the National Bank of the Republic of Kazakhstan	46,662,746	2,000,056	-	-	-	48,662,802	48,662,802
Placements with banks	5,772,860	-	-	-	-	5,772,860	5,772,860
Loans to customers	12,171	10,788	273,026	53,066	802,210	1,151,261	683,669
Held-to-maturity investments	127,503	1,012,842	884,385	2,795,961	3,468,450	8,289,141	7,862,569
Other assets	93,341	24,743	21,477	-	-	139,561	139,561
Total assets	**52,751,144**	**3,048,429**	**1,178,888**	**2,849,027**	**4,270,660**	**64,098,148**	**63,203,984**
Non-derivative liabilities							
Deposits and balances from banks	364,279	-	-	-	-	364,279	364,279
Current accounts and deposits from customers	51,658,230	1,145,502	238,058	143,108	52,330	53,237,228	53,224,948
Other liabilities	35,277	-	-	-	-	35,277	35,277
Total liabilities	**52,057,786**	**1,145,502**	**238,058**	**143,108**	**52,330**	**53,636,784**	**53,624,504**
Net position	**693,358**	**1,902,927**	**940,830**	**2,705,919**	**4,218,330**	**10,461,364**	**9,579,480**
Credit related commitments	**1,695,990**	-	-	-	-	**1,695,990**	**1,695,990**

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

'000 KZT	Demand and less than 1 month	From 1 to 3 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Deposits and balances from banks	198,192	-	-	-	-	198,192	198,192
Other borrowed funds	-	-	-	634,831	-	634,831	618,234
Current accounts and deposits from customers	29,682,064	115,690	144,879	163,569	71,979	30,178,181	30,178,181
Other liabilities	9,651	-	-	-	-	9,651	9,651
Total	**29,889,907**	**115,690**	**144,879**	**798,400**	**71,979**	**31,020,855**	**31,004,258**
Credit related commitments	707,938	-	-	-	-	707,938	707,938

For further information on the Bank's exposure to liquidity risk at year end refer to Note 29.

22 Capital management

The FMSA sets and monitors capital requirements for the Bank.

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

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

	2009 '000 KZT	2008 '000 KZT
Tier 1 capital:		
Share capital	5,485,008	1,065,050
Share premium	89,144	-
Retained earnings of prior periods	2,877,908	2,198,697
Reserves formed from retained earnings	122,848	122,849
Total tier 1 capital	**8,574,908**	**3,386,596**
Tier 2 capital:		
Retained earnings of the current period	1,567,855	679,719
General reserves, not higher than 1.25% of total risk weighted assets	13,479	12,970
Total tier 2 capital	**1,581,334**	**692,689**
Total capital	**10,156,242**	**4,079,285**
Risk weighted assets, contingent liabilities, operational and market risks:		
Risk weighted assets	4,280,035	3,715,499
Risk weighted contingent liabilities	659,272	457,549
Operational risk	566,441	329,190
Market risk	62,710	234,890
Total risk weighted assets, contingent liabilities, operational and market risks	**5,568,458**	**4,737,128**
Tier 1 capital to total assets	**0.134**	**0.097**
Total capital to risk weighted assets, contingent liabilities, operational and market risks	**1.824**	**0.861**

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

23 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2009 '000 KZT	2008 '000 KZT
Contracted amount		
Guarantees and letters of credit	1,037,992	315,282
Loan and credit line commitments	657,998	392,656
	1,695,990	**707,938**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

24 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

24 Contingencies, continued

(c) Taxation contingencies, continued

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

25 Related party transactions

Control relationships

The Bank's Parent is Bank of China Limited, which produces publicly available financial statements. The party with ultimate control over the Bank is the Government of the Peoples' Republic of China.

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

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

	2009 '000 KZT	2008 '000 KZT
Members of the Board of Directors	1,644	1,831
Members of the Management Board	39,353	15,846
	40,997	17,677

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

	2009 '000 KZT	Average Interest Rate	2008 '000 KZT	Average Interest Rate
Statement of financial position (the balance sheet)				
ASSETS				
Loans to customers	6,156	10.8%	-	-
Current accounts and deposits from customers	1,347	3%	2	-

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

	2009 '000 KZT	2008 '000 KZT
Profit or loss		
Interest income	197	-
Interest expense	15	-

Related party transactions, continued

Transactions with other related parties

Other related parties include: the Parent Bank, fellow subsidiaries and other related parties. The outstanding balances and the related average interest rates as at 31 December 2009 and 2008 and related profit or loss amounts of transactions for the years ended 31 December 2009 and 2008 with other related parties are as follows.

	Parent Bank				Fellow subsidiaries				Other related parties*				Total	
	2009		2008		2009		2008		2009		2008		2009	2008
	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	'000 KZT
Statement of financial position (the balance sheet)														
ASSETS														
Placements with banks	536,858	0.15%	255,009	1.15%	5,235,491	0.11%	3,737,014	1.20%	-	-	-	-	5,772,349	3,992,023
LIABILITIES														
Current accounts and deposits from customers	-	-	-	-	-	-	-	-	10,258,059	-	16,442,663	-	10,258,059	16,442,663
Other borrowed funds	-	-	603,950	4.05%	-	-	-	-	-	-	-	-	-	603,950
Off balance sheet items														
Guarantees received in respect of loans issued	-	-	-	-	5,094	-	259,696	-	-	-	-	-	5,094	259,696
Profit /(loss)														
Interest income	292	-	457	-	7,418	-	90,981	-	-	-	-	-	7,710	91,438
Interest expense	20,441	-	14,208	-	-	-	-	-	-	-	-	-	20,441	14,208
General administrative expenses	-	-	-	-	46,044	-	20,062	-	-	-	-	-	46,044	20,062

* Other related parties include entities that are under control of the Government of the Peoples' Republic of China.

26 Cash and cash equivalents

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

	2009 '000 KZT	2008 '000 KZT
Cash	82,523	74,969
Due from the National Bank of the Republic of Kazakhstan – nostro accounts and deposits with original maturities of less than three months (Note 11)	48,662,802	26,057,798
Placements with banks – nostro accounts (Note 12)	5,772,860	3,992,023
Minimum reserve requirements	(855,810)	(638,425)
	53,662,375	29,486,365

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

27 Fair value of financial instruments

The estimated fair values of held to maturity investments 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 are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

ASSETS	2009 '000 KZT Fair Value	2009 '000 KZT Carrying Value	2008 '000 KZT Fair Value	2008 '000 KZT Carrying Value
Cash	82,523	82,523	74,969	74,969
Due from the National Bank of the Republic of Kazakhstan	48,662,802	48,662,802	26,057,798	26,057,798
Placements with banks	5,772,860	5,772,860	3,992,023	3,992,023
Loans to customers				
-Corporate loans	502,667	554,069	905,874	934,630
-Individuals	91,352	129,600	89,500	109,761
Held-to-maturity investments				
-Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	7,824,709	7,862,569	2,653,651	2,656,184
-Notes issued by the National Bank of the Republic of Kazakhstan	-	-	643,805	636,514
Other assets	136,286	136,286	49,886	49,886

27 Fair value of financial instruments, continued

	2009 '000 KZT Fair Value	2009 '000 KZT Carrying Value	2008 '000 KZT Fair Value	2008 '000 KZT Carrying Value
LIABILITIES				
Deposits and balances from banks	364,279	364,279	198,192	198,192
Current accounts and deposits from customers	53,197,247	53,224,948	30,100,845	30,178,181
Other borrowed funds	-	-	628,410	618,234
Other liabilities	35,277	35,277	9,651	9,651

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

28 Average effective interest rates

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

	2009 Average effective interest rate, %		2008 Average effective interest rate, %	
	KZT	USD	KZT	USD
Interest bearing assets				
Due from the National Bank of the Republic of Kazakhstan	3.30	-	2.25	-
Placements with banks	-	0.63	-	1.15
Loans to customers	10.57	9.13	10.78	9.12
Held-to-maturity investments	4.53	-	8.51	-
Interest bearing liabilities				
Current accounts and deposits from customers				
-Term deposits	0.90	0.96	0.80	1.03
-Other borrowed funds	-	-	-	4.05

27 Fair value of financial instruments, continued

	2009 '000 KZT Fair Value	2009 '000 KZT Carrying Value	2008 '000 KZT Fair Value	2008 '000 KZT Carrying Value
LIABILITIES				
Deposits and balances from banks	364,279	364,279	198,192	198,192
Current accounts and deposits from customers	53,197,247	53,224,948	30,100,845	30,178,181
Other borrowed funds	-	-	628,410	618,234
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Interest bearing liabilities				
Current accounts and deposits from customers				
-Term deposits	0.90	0.96	0.80	1.03
-Other borrowed funds	-	-	-	4.05

29 Maturity analysis

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

	Less than 1 month '000 KZT	1 to 3 months '000 KZT	3 months to 1 year '000 KZT	1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
ASSETS							
Cash	82,523	-	-	-	-	-	82,523
Due from the National Bank of the Republic of Kazakhstan	46,662,802	2,000,000	-	-	-	-	48,662,802
Placements with banks	5,772,860	-	-	-	-	-	5,772,860
Loans to customers	1,169	656	246,387	296,515	138,942	-	683,669
Held-to-maturity investments	102,403	990,340	3,469,021	3,300,805	-	-	7,862,569
Property, equipment and intangible assets	-	-	-	-	-	573,937	573,937
Deferred tax assets	-	-	-	-	-	2,825	2,825
Other assets	93,341	24,743	21,477	-	-	-	139,561
Total assets	**52,715,098**	**3,015,739**	**3,736,885**	**3,597,320**	**138,942**	**576,762**	**63,780,746**
LIABILITIES							
Deposits and balances from banks	364,279	-	-	-	-	-	364,279
Current accounts and deposits from customers	51,657,670	1,144,390	376,150	46,738	-	-	53,224,948
Other liabilities	35,277	-	-	-	-	-	35,277
Total liabilities	**52,057,226**	**1,144,390**	**376,150**	**46,738**	-	-	**53,624,504**
Net position as at 31 December 2009	**657,872**	**1,871,349**	**3,360,735**	**3,550,582**	**138,942**	**576,762**	**10,156,242**
Net position as at 31 December 2008	402,788	588,001	1,007,067	1,448,051	70,299	563,079	4,079,285
Cumulative net position as at 31 December 2009	**657,872**	**2,529,221**	**5,889,956**	**9,440,538**	**9,579,480**	**10,156,242**	
Cumulative net position as at 31 December 2008	402,788	990,789	1,997,856	3,445,907	3,516,206	4,079,285	

Due to the fact that substantially all the financial instruments of the Bank are fixed-rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

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

30 Currency analysis

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

	KZT '000 KZT	USD '000 KZT	Other currencies '000 KZT	Total '000 KZT
ASSETS				
Cash	15,008	19,670	47,845	82,523
Due from the National Bank of the Republic of Kazakhstan	7,820,135	40,842,667		48,662,802
Placements with banks	-	5,754,997	17,863	5,772,860
Loans to customers	182,805	500,864	-	683,669
Held-to-maturity investments	7,862,569	-	-	7,862,569
Property, equipment and intangible assets	573,937	-	-	573,937
Deferred tax assets	2,825	-	-	2,825
Other assets	3,232	136,329	-	139,561
Total assets	**16,461,799**	**47,253,238**	**65,708**	**63,780,746**
LIABILITIES				
Deposits and balances from banks	-	364,279	-	364,279
Current accounts and deposits from customers	6,233,289	46,952,960	38,699	53,224,948
Other liabilities	35,277	-	-	35,277
Total liabilities	**6,268,566**	**47,317,239**	**38,699**	**53,624,504**
Net on balance sheet position as of 31 December 2009	**10,193,233**	**(62,712)**	**27,009**	**10,156,242**
Net off balance sheet position as of 31 December 2009	**1,392,168**	**303,822**	-	**1,695,990**
Net on and off balance sheet positions as of 31 December 2009	**11,585,401**	**241,110**	**27,009**	**11,852,232**
Net on and off balance sheet positions as of 31 December 2008	4,624,467	157,764	4,992	4,787,223