ADB

Extended Annual Review Report

Project Number: 40908
Loan No: 7236/LN2236 - KAZ
December 2011

Kazakhstan: Term Loan Facility
JSC BTA Bank

In accordance with ADB's Public Communications Policy 2011, this redacted version of the extended annual review report excludes information that is subject to exceptions to disclosure set forth in paragraph 97.

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – tenge (T)

		At Appraisal	At Project Evaluation
		1 March 2006	15 November 2011
T1.00	=	$0.0075	$0.0067
$1.00	=	T134.00	T148.40

ABBREVIATIONS

ADB	–	Asian Development Bank
BTA	–	JSC BTA Bank
DPR	–	diversified payment rights
FSA	–	Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations or Financial Supervision Agency
NBK	–	National Bank of Kazakhstan
NPL	–	nonperforming loan
PSOD	–	Private Sector Operations Department
ROIC	–	return on invested capital
SAU	–	Special Accounts Unit
SMEs	–	small and medium-sized enterprises

NOTE

In this report, "$" refers to US dollars.

Vice-President	L. Venkatachalam, Vice President, Private Sector and Cofinancing Operations
Director General	P. Erquiaga, Private Sector Operations Department (PSOD)
Director	R. van Zwieten, Capital Markets and Financial Sectors Division, PSOD
Team leader	C. Teo, Principal Investment Specialist, PSOD
Team member	A. K. Gaza, Investment Officer, PSOD

CONTENTS

BASIC DATA
BTA Bank (40908/7236/LN2236–KAZ)

Key Project Data	As per ADB Loan Documents ($ million)	Actual ($ million)
Total project cost	75.00	75.00
ADB investment:		
Loan		
Committed	75.00	75.00
Disbursed	75.00	75.00

Key Dates	Expected	Actual
Concept clearance approval	2006	2006
Board approval	2006	15 June 2006
Facility Agreement	2006	7 July 2006
Disbursement	2006	14 July 2006

Project Administration and Monitoring	No. of Missions	No. of Person-Days
Fact-finding	Several	Apr and Nov 2005
Appraisal (including due diligence)	Several	Not recorded
Project administration and risk assessment	1	2006, date not specified
Extended annual review	1	2 people, 18–26 Jul 2011
Others (including exit, final repayment, workout transfer)—joint mission	2	2 people, 24 Mar–5 Apr 2009

ADB = Asian Development Bank.

EXECUTIVE SUMMARY

On 15 June 2006, the Asian Development Bank (ADB) Board of Directors approved a $75 million, 5-year, unsecured term loan facility to JSC BTA Bank (BTA). The loan was primarily intended to provide BTA with additional funds to help expand its small and medium-sized enterprise (SME) portfolio. A second objective was to help BTA better match its assets with its liabilities. At the time of loan approval, longer-tenor loans or loans with terms longer than 3 years were not readily available to private banks in Kazakhstan, such as BTA.

The larger goal of the BTA loan was to help the Kazakhstan government diversify its economy away from oil, gas, and mineral extractive industries to an SME-led economy. The SME sector was to be developed by providing longer-term funds to private banks in Kazakhstan, which the banks could then use to increase lending to SMEs.

On 7 July 2006, BTA and ADB executed the facility agreement and, on 14 July 2006, the loan of $75 million was fully disbursed.

BTA expanded dramatically in the first 2 years of the loan's life. Total assets grew by 108% in 2006 and 48% in 2007. Loans to customers and deposits also grew at double-digit rates. Loans increased by 91% in 2006 and 83% in 2007. Deposits grew by 72% in 2006 and 24% in 2007. At the end of 2007, BTA had assets of T3.06 trillion, loans of T2.4 trillion, and deposits of T653 billion. This is a huge increase from 2005, when BTA had T998 billion in total assets, T680 billion in loans, and T307 billion in deposits.

To fund its tremendous growth, BTA borrowed heavily from international banks and international debt capital markets. It increased its debt by 225% in the span of 2 years, from T604 billion in 2005 to T1.96 trillion in 2007. In October 2007, BTA through its subsidiary issued $750 million worth of bonds to securitize its diversified payment rights.

In late 2007, Kazakhstan's real estate boom showed signs of slowing. BTA, along with other large Kazakh banks, had large exposure to real estate with real estate-related loans (i.e., loans to real estate and construction) comprising 33% of its total loan portfolio at the end of 2007. The government, in an effort to help, implemented a $4 billion fund to support incomplete construction projects that were in danger of being abandoned.

In 2008, the global financial crisis, which had started in the United States with the fall of the subprime mortgage subsector, led to a global liquidity crisis. This caused international banks to stop lending to emerging markets such as Kazakhstan. BTA felt the effects of the crisis when it was unable to raise debt capital funds to pay maturing obligations.

The slowdown of the local real estate subsector together with the unavailability of external borrowing sources severely affected BTA's operations. A significant portion of BTA's loan portfolio went into nonperforming status and by the end of 2008, BTA reported a loan impairment charge of T1.094 trillion and negative equity or an equity deficit of T743 billion, making BTA insolvent.

In February 2009, in an effort to save BTA, the government, through Samruk-Kazyna, its sovereign wealth fund, took over BTA by buying a 75% controlling stake for T212 billion. The purchase was made on the recommendation of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations. Samruk-Kazyna changed BTA's board of directors and put in new management.

In April 2009, BTA suspended all debt principal payments and, in July 2009, suspended all interest payments. On 16 October 2009, the Special Financial Court of Almaty formally put BTA in restructuring.

For the next 11 months BTA negotiated with its creditors to put into place a new payment plan for its defaulted loans. On 16 September 2010, the specialized financial court of Almaty approved BTA's restructuring plan and BTA then completed its restructuring. Creditors were given cash; new debt instruments in the form of senior notes, subordinated notes, original issue discount notes, and recovery notes; and common equity in the form of global depository receipts for common stock shares.

ADB received a package consisting of cash, dollar-denominated senior notes, original issue discount notes, subordinated notes, recovery notes, and global depository receipts for common shares.

Criteria in ADB's *Guidelines for Preparing Performance Evaluation Reports on Nonsovereign Operations* (2007) and the related *Project Administration Instructions* (July 2008) were used to evaluate the loan to BTA. These criteria are development impact, ADB investment profitability, ADB's work quality, and ADB's additionality. Overall, the project is assessed *unsuccessful.*

The project's development impact is rated *partly satisfactory.* Development impact was evaluated against four criteria: private sector development; business success; economic development; and environment, social, health, and safety performance.

The project's private sector development is assessed *partly satisfactory* based on (i) direct company impact, and (ii) beyond company impact. Direct company impact was evaluated by assessing BTA's progress in expanding its SME portfolio, increasing its SME client base, and improving its liquidity gap. Beyond company impact was assessed by evaluating BTA's contributions to (i) an expanded SME sector, (ii) the growth of a more stable financial sector; and (iii) the development of the bond market in Kazakhstan.

BTA's compliance with environmental, social, health, and safety issues is rated *satisfactory*. BTA complied with the terms of the facility agreement by implementing an environment policy approved by its board of directors, including an environmental compliance officer in its organization, and providing environmental training opportunities for the officer. BTA follows the government's policies on compensating employees affected by environmental disasters.

ADB's work quality is assessed *partly satisfactory* using the following criteria: screening, appraisal, and structuring; monitoring and supervision; and ADB's role and contribution.

Screening, appraisal, and structuring and monitoring and supervision are rated *partly satisfactory*. The loan to BTA was adequately monitored with the submission of regular reports, interactions with BTA management, and missions.

ADB's role and contribution is rated *satisfactory* based on ADB assistance in expanding BTA's SME portfolio through the provision of funds.

ADB's additionality is rated *satisfactory* based on the possibility that ADB indirectly helped raise BTA's profile in the international market when it became BTA's creditor and also when it supported BTA's restructuring.

The key lesson from this project is the importance of properly assessing a bank's quality because a bank's eventual success is vital to its ability to deliver the development impact that ADB is seeking.

Going forward, ADB needs to closely monitor BTA's ability to rebuild its business, resolve its nonperforming loans, and restore its equity back to positive levels acceptable under international financial reporting standards.

I. THE PROJECT

A. Background

1. In June 2006, the Asian Development Bank (ADB), through its private sector operations, approved a $75 million, 5-year unsecured term loan facility to JSC BTA Bank (BTA).[1] The loan was part of ADB's program to help private banks in Kazakhstan increase lending to small and medium-sized enterprises (SMEs).[2]

2. The program started in 2001 when ADB provided a $600,000 technical assistance (TA) grant to the Government of Kazakhstan to prepare the Urban Small Business Development Project.[3] The TA was funded by the Japan Special Fund with the objective of supporting Kazakhstan's economic growth through the development of SMEs in urban areas.[4]

3. ADB's main objective was to help BTA grow its SME loan portfolio. ADB anticipated that by making more funds available for the financing of SMEs, it could help the government diversify its economy away from its dependence on the export of oil, gas, minerals, and other natural resources, to more balanced growth led by SMEs.

4. ADB also anticipated that by providing a loan with a 5-year term, BTA would be able to more effectively match its assets and liabilities. At the time the loan was made, local private banks in Kazakhstan had limited access to loans with maturities longer than 3 years.

B. Key Features

5. On 7 July 2006, BTA and ADB executed the loan facility agreement[5] and on 14 July 2006, the $75 million loan was fully disbursed.

6. The facility was for an unsecured senior loan with a maturity of 5 years and a grace period of 2 years.

7. The facility agreement included financial covenants for minimum required tangible net worth and ratios on risk-weighted capital adequacy, loan-loss provisions, nonperforming loans to gross loans, and related party financial indebtedness.

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[1] ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Assistance to Private Banks in Kazakhstan.* Manila.

[2] The report and recommendation of the President (footnote 1) included two loans: the BTA loan and a $50 million unsecured 5-year term loan to JSC Alliance Bank. A separate extended annual review report was prepared for Alliance Bank.

[3] ADB. 2001. *Technical Assistance to the Republic of Kazakhstan for Preparing the Urban Small Business Development Project.* Manila. This report also evaluates the TA as the loan to BTA was a result of the said TA.

[4] The TA was to (i) review the status of SME development in Kazakhstan, its policies, and the legal and regulatory frameworks; and (ii) identify and evaluate appropriate financial institutions that could act as intermediaries in the delivery of finance to SMEs. The results of the TA formed the basis for formulating an assistance program and approaches and modalities for financing SMEs. The TA findings were to be integrated in the Urban Small Business Development Project. However, negotiations on the provision of a guarantee from the Government of Kazakhstan were not successful and the Urban Small Business Development Project was never implemented. The financing to SMEs was subsequently covered by the 2006 (footnote 1).

[5] ADB. 2006. Term Facility Agreement between JSC Bank Turan Alem and the Asian Development Bank. Manila (7 July).

8. In addition to the financial covenants, the facility agreement included BTA's representations and undertakings for environmental compliance, implementation of an environmental management system, and effort to combat money laundering and corruption.

C. Progress Highlights

9. BTA reported very good financial results in 2006 and 2007. Net income grew by 169% in 2006 to T38 billion from T14 billion in 2005. In 2007, net income grew by 59% to T61 billion. Loans and deposits also posted double-digit growth rates. Loans grew by 91% in 2006 and 83% in 2007. In 2005, BTA reported total loans of T680 billion, which grew to T1.29 trillion by the end of 2006. In 2007, loans grew by 83% to T2.38 billion. Deposits also grew rapidly. In 2005, BTA's deposits were at T307 billion and grew by 72% to T528 billion in 2006 and by 24% to T653 billion in 2007.

10. In 2007, BTA's good performance enabled it to issue a series of notes totaling $750 million to securitize its diversified payment rights (DPRs). At the time this was the largest DPR securitization done by a local Kazakh bank.[6]

11. In late 2007, real estate and construction started to slowdown. In November 2007, the government provided about $4 billion targeted at construction projects in danger of being abandoned that were only half finished. The central bank raised the official refinancing rate to 11%; it had remained at 9% since July 2006.[7]

12. Unfortunately the problems of the construction and real estate industries coincided with the start of the global financial crisis of 2008. The financial crisis, which started with the default of the United States subprime mortgage subsector, also lowered oil prices affecting Kazakhstan's oil-dependent economy.[8] The financial crisis brought about a credit crisis and international banks stopped lending to Kazakh banks.

13. In February 2009, the government, through Samruk-Kazyna, its sovereign wealth fund, bought a 75% controlling stake in BTA. It bought 25,246,343 shares at T8,401 per share for a total of T212,095 million ($1.4 billion). The purchase was made on the recommendation of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations.[9]

14. In April 2009, BTA suspended all payments of principal due to its financial creditors and in June 2009 suspended all interest payments. Credit-rating agencies downgraded BTA's credit ratings to default levels.

15. On 16 October 2009, the special financial court of Almaty recognized BTA's restructuring and BTA formally entered the restructuring process. Samruk-Kazyna, the new controlling shareholder, replaced all of BTA's senior management and infused more funds via deposit placements and the purchase of T645 billion worth of BTA bonds. BTA formed a restructuring steering committee made up of creditor representatives.

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[6] BTA DPR Finance Company, a BTA subsidiary, issued the notes or bonds. The notes were 5.6-year floating rate notes divided into a series of four notes maturing in 2015. ABN AMRO Bank N.V. and Standard Chartered Bank acted as joint bookrunners and together with J.P. Morgan were joint lead arrangers. Standard and Poor's and Moody's rated the bonds. On 15 June 2009, BTA prepaid the bonds.

[7] R. Pomfret. 2009. Central Asia and the Global Economic Crisis. *EU-Central Asia Monitoring.* No. 7, June.

[8] The average per barrel price of oil dropped by 42% from $91.48 in 2008 to $53.48 in 2009.

[9] BTA's 2008 audited financial statements, note 1. Almaty, Kazakhstan

16. On 16 September 2010, upon approval of the specialized financial court of Almaty, BTA completed its restructuring process. The restructuring enabled BTA to reduce its debt by 75% from $16.7 billion to $4.2 billion, and extend the maturity of its debt to 20 years from 8 years. Creditors were given cash, new debt instruments, and equity to replace their canceled loans. BTA issued new debt instruments in the form of senior notes, subordinated notes, original issue discount notes, and recovery notes. BTA also issued common equity in the form of global depository receipts to its foreign creditors. In February 2011, BTA listed the notes and the global depository receipts in the Luxembourg Stock Exchange.

17. ADB received dollar-denominated senior notes, original issue discount notes, subordinated notes, recovery notes, and global depository receipts for common shares.

II. EVALUATION

18. The project was evaluated using criteria defined in the ADB *Guidelines for Preparing Project Performance Evaluation Reports on Nonsovereign Operations* (2007).

A. Project Rationale and Objectives

19. ADB's main objective in lending to BTA was to assist it in expanding its SME loan portfolio. ADB envisioned that by providing BTA with extra funds, BTA could, in turn, lend to more SMEs and therefore broaden and deepen its outreach throughout the country.

20. ADB also wanted to help BTA more effectively match its assets with its liabilities, and thus provided a longer tenor loan of 5 years, as compared with the 3-year tenors normally available to private Kazakh banks at that time.[10]

21. On a larger scale, ADB's loan to BTA was part of its efforts to help the government diversify its economy away from its heavy reliance on the export of oil, gas, and minerals. Kazakhstan's dependence on these industries made it vulnerable to external shocks such as the price volatility for oil and commodities. By developing and expanding its SME sector, Kazakhstan could partly insulate itself from external shocks and create a more balanced and sustainable economy.

22. As the SME sector is relatively more labor-intensive, employing as much as 40% of the labor force, expanding the SME sector would therefore have a large impact on decreasing poverty. Creating more employment would also help increase the population's income and thereby contribute to increasing domestic consumption and grow the economy in a more sustainable manner.[11]

[10] At that time, Kazakh banks had very little access funding and could only get loans with tenors of up to three years.

[11] In 2002, the United Nations Development Programme conducted a survey on small businesses and found that access to capital, especially credit or debt capital, was the main problem for SMEs. Because of this, the SME sector remained underdeveloped. In 2005, SMEs only accounted for 14%–15% of gross domestic product (GDP) at a time when Kazakhstan's GDP registered astounding growth rates. According to the Economist Intelligence Unit, Kazakhstan's real GDP had been growing by more than 9.0% since 2000. It grew 9.8% in 2000, 13.2% in 2001, 9.5% in 2002, 9.2% in 2003, 9.4% in 2004, and 9.7% in 2005. However this had not trickled down to the SME sector.

23. Thus by lending to private local banks in Kazakhstan, especially those with large branch networks such as BTA, ADB could reach more SMEs and indirectly provide the sector with increased access to debt capital.

B. Development Impacts and Outcomes

24. The overall development impact and outcome is rated *partly satisfactory* based on component ratings of *partly satisfactory* for private sector development; *unsatisfactory* for business success; *unsatisfactory* for contribution to economic development; and *satisfactory* for environment, social, health, and safety performance.

1. Private Sector Development

25. Private sector development is assessed *partly satisfactory* after evaluating the project's (i) direct company impacts and (ii) beyond company impacts. Appendix 2 contains the specific ratings for each type of private sector development indicator.

a. Direct Company Impacts

26. BTA's progress in expanding its SME portfolio and improving its liquidity gap provided the basis for evaluating the loan's direct company impact.

27. BTA was able to increase its SME portfolio from 2005 to 2010. Table 1 indicates BTA's progress through the years. It was able to increase its share of the SME market in 2007 but was not able to sustain this market share and ended 2010 with a market share lower than in 2005. BTA increased its total loans to SMEs from T159,005 million in 2006 to T261,953 million in 2007, but was not able to sustain this growth due to the restructuring and government takeover in 2009. In terms of number of clients, BTA ended 2010 with 69,875 clients, much higher than the 47,050 it had in 2005.

Table 1: JSC BTA Bank, Small and Medium-Sized Enterprise Portfolio

Indicator	2005	2006	2007	2008	2009	2010
BTA's share of the SME lending market	13.4%	14.3%	18.3%	15.9%	12.8%	11.3%
Loans to SMEs (T million)	85,918	159,005	261,953	224,601	180,862	149,952
Number of SME clients	47,050	53,591	61,796	72,442	70,034	69,875

BTA = JSC BTA Bank, SMEs = small and medium-sized enterprises.
Source: BTA's answers to the extended annual review report (XARR) questionnaire

28. ADB's 5-year loan to BTA was intended to assist BTA in improving its liquidity gap. By giving a 5-year term loan, ADB hoped to help improve BTA's liquidity gap in the 1–5 year tenor category. In 2007, a year after ADB granted its loan, BTA was able to improve its liquidity position. In 2007, its accumulated gap as a percentage of total assets increased to 11.85% as compared with 8.09% in 2006. However by 2008, the year its restructuring troubles began, its liquidity position had deteriorated with liabilities within 1 year outpacing assets by T888,143 million. This negative accumulated gap continued until the end of 2010. Table 2 summarizes BTA's liquidity position at the end of each audited year.

Table 2: JSC BTA Bank, Liquidity Gap
(T million)

Item	2005	2006	2007	2008	2009	2010
Net position—within 1 year	49,806	136,700	89,862	(888,143)	(2,516,991)	(254,570)
Net position—more than 1 year	36,093	27,087	256,798	(1,371)	591,574	(174,810)
Accumulated gap	85,899	163,787	346,660	(889,514)	(1,925,417)	(429,380)
Accumulated gap as a % of total assets (%)	8.71	8.09	11.85	(43.44)	(104.04)	(27.33)

( ) = negative value.
Note: Net position is the difference between assets and liabilities within a given time. A negative number indicates that liabilities are greater than assets. Accumulated gap is the difference between total assets and total liabilities. A negative position means that liabilities exceed assets.
Source: BTA Bank's audited financial statements 2005 to 2010.

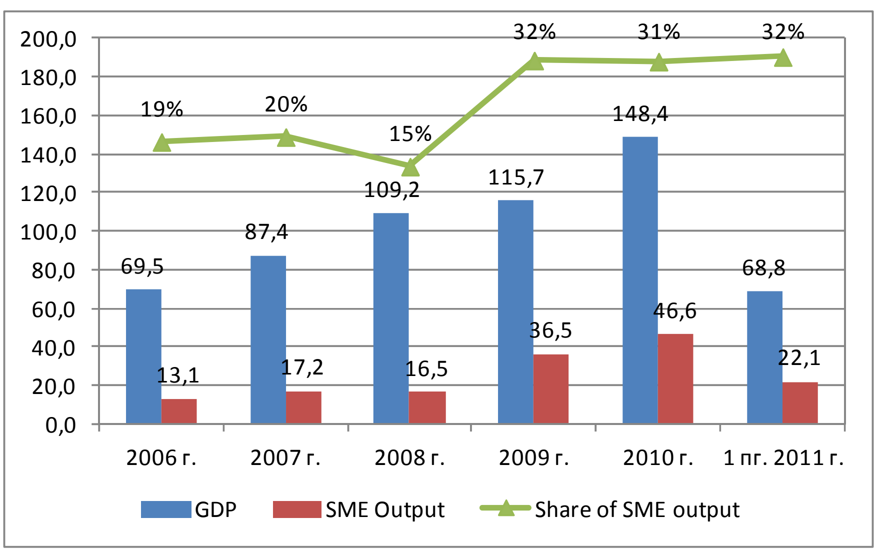
b. Beyond Company Impact

29. The beyond company impacts were assessed based on the project's contributions to expanded SME sector, the growth of a more stable financial sector, and the development of the Kazakhstan bond market in general.

i. Contribution to an Expanded SME Sector

30. Two factors demonstrate the expansion of the SME sector. These are the (1) contribution to gross domestic product (GDP) as measured by SME output as a percentage of GDP, and (2) the number SME employees (Figures 1 and 2).

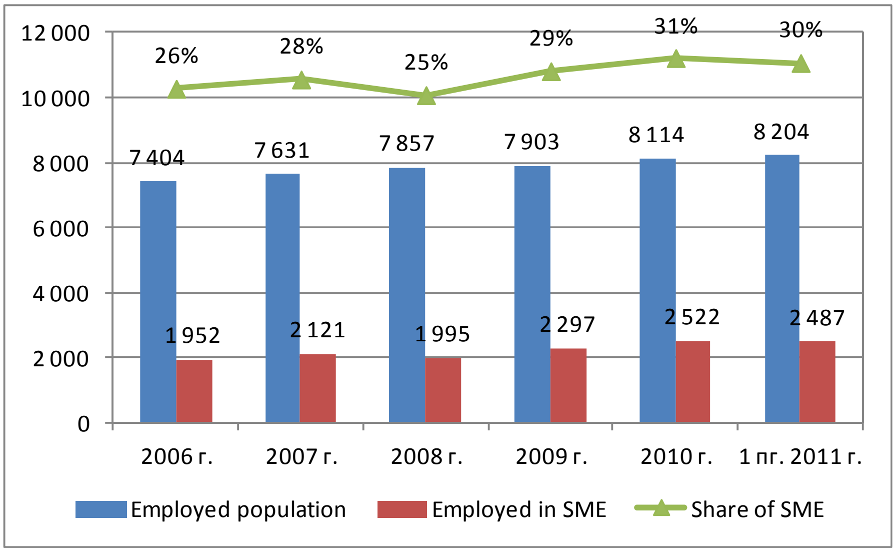
Figure1: Contribution of Small and Medium-Sized Enterprises to Gross Domestic Product
($ billion, according to current exchange rate)



GDP = gross domestic product, nr = half year, r = year, SMEs = small and medium-sized enterprises.
Source: Kazakhstan's Agency of Statistics (www.stat.kz)

31. In 2006, SME output accounted for 19% of GDP. This increased to 20% in 2007 and decreased slightly to 15% in 2008 due to the effect of the financial crisis. It recovered in 2009 jumping to 32% and has remained at 30% in 2010 and first half of 2011.

Figure 2: Share of Small and Medium-Sized Enterprise Employees in Total Employed Population
(‘000)



nr = half year, r = year, SMEs = small and medium-sized enterprises.
Source: Kazakhstan’s Agency of Statistics (www.stat.kz).

32. The number of SME employees as a percentage of the total workforce increased from 26% in 2006 to 30% in the first half of 2011. This upward trend demonstrates the expanded role of SMEs in creating employment.

ii. Contribution To the Growth of a More Stable Financial Sector

33. ADB’s initial financial intermediary loan to BTA, along with loans given to other local banks in Kazakhstan (i.e., Alliance and Bank Centercredit) was intended to send a signal to the international financial community of ADB’s strong support for the Kazakh financial sector. It was also aimed to help the government promote economic growth by lending to the private sector.

34. ADB’s participation in BTA’s 2009 restructuring contributed some stability to the Kazakh financial sector. By including provisions for good corporate governance and risk management practices, ADB helped increase the financial institutions’ awareness of these issues and their importance in building a stable financial sector for the long-term.

iii. Contribution to Bond Market Development

35. The loan to BTA was part of ADB’s larger program to help develop Kazakhstan’s financial sector. A component of the program was the development of the bond market. In the report and recommendation of the President (RRP), ADB contemplated issuing a tenge-denominated bond with the proceeds funding the loan to BTA. The government was in favor of the program, which would communicate a strong signal to the world financial market of ADB’s

support for Kazakhstan's economic development. Such support was seen as a catalyst for further investments.

36. In August 2007, ADB issued the contemplated tenge-denominated bond, but the proceeds, instead of being lent to BTA, were lent to Bank Centercredit, another local Kazakhstan bank. The bond was a T6 billion, 5-year, 6.8% per annum bond priced at 100%.[12] It was settled in dollars and converted into tenge at the reference rate at the time of pricing.

37. ADB's issuance of a tenge-denominated bond represented many firsts in Kazakhstan's local currency bond market. It was the first issue by a supranational institution, the first issue that was given a triple-A rating, and the first tenge-denominated bond targeted for the international capital markets. JP Morgan, the bond's sole lead manager and book runner, sold the bond solely to international institutional investors. The bond was also listed on the Luxembourg Stock Exchange.

38. ADB was also involved in Alliance Bank's $200 million bond, securitizing its diversified payment rights (DPRs). In November 2006, Alliance Bank issued two series of notes totaling $200 million. The 1st series (Series 2006A Fixed Rate Notes due 2013) had a fixed rate of 5.10% per annum and a tenor of 7 years. The 2nd series (Series 2006B Floating Rate Notes due 2013) were 7-year floating rate notes issued at 2.00% per annum over 3-month LIBOR. ADB issued a $100 million guarantee over these notes with KfW joining as a risk participant for up to $50 million of the total guaranteed amount.[13]

39. BTA also issued its own bonds to securitize its DPRs. In October 2007, BTA issued $750 million in 5.6-year, floating rate bonds. It was BTA's inaugural issue into the international debt capital markets under BTA's DPR program. At that time, the securitization issue was notable for being the largest single DPR transaction in Kazakhstan. ABN AMRO Bank N.V. and Standard Chartered Bank acted as joint book runners, and together with J.P. Morgan were joint lead arrangers. The bond issue was divided into four series, three of which were insured by monoline insurers for the timely payment of scheduled and accrued interest.[14]

40. ADB was not directly involved in BTA's bond issue, but ADB's provision of a term loan could have contributed to BTA's efforts in gaining the attention of international markets.

41. ADB's loan to BTA, together with the other loans and guarantees that ADB gave to other local private banks in Kazakhstan, contributed to creating an atmosphere that supported access of BTA and other local Kazakh banks to international capital markets. ADB's participation in BTA, Alliance Bank, and Bank Center Credit also served to focus the international financial market's attention on the untapped potential of Kazakhstan's local bond market and contributed to its broadening and deepening.[15]

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[12] www.beta.adb.org – press release – *ADB Issuing 6 billion Kazakhstan Tenge Bonds*

[13] These notes were prepaid in 2010 following the declaration of an early amortization in 2009 due to Alliance Bank's debt restructuring. A separate extended annual review report was prepared for ADB's guarantee of Alliance Bank's DPR securitization.

[14] On 15 June 2009, 3 months after declaring default, BTA prepaid the bonds which were originally set to mature in 2015.

[15] ADB also guaranteed Alliance Bank's $100 million bond to securitize its DPR. KfW counter guaranteed half of the bond issue. ADB 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Guarantee for the Diversified Payment Rights Securitization by Alliance Bank JSC.* Manila.

2. Business Success

42. The project's business success is rated *unsatisfactory*. Measures of business success evaluated were those included in the RRP. The RRP identified return on equity, return on assets, net interest margin, cost-income ratio, and asset growth as indicators of business performance. Table 3 lists down these performance ratios from 2005 to 2010.

43. BTA experienced massive growth in 2006 and 2007. Assets, loans, deposits, and net income registered double- to triple-digit growth. However the huge loan losses in 2008 and 2009 reversed all the gains of the previous years. By the end of 2008, 2009 and 2010, BTA reported an equity deficit and very unfavorable performance ratios. Table 3 provides the key financial figures and relevant ratios for 2005 to 2010.

Table 3: Key Financial Data
(T million)

Item	2005	2006	2007	2008	2009	2010
Total Assets	997,805	2,075,142	3,064,617	2,194,201	1,968,659	1,895,710
Total Liabilities	867,973	1,787,089	2,507,448	2,763,318	3,534,436	1,884,482
Total Equity	81,274	194,618	452,031	(742,779)	(1,689,820)	(104,513)
Total Deposits	306,714	528,192	652,508	886,052	655,963	683,301
Total Loans	680,385	1,299,193	2,379,810	1,617,063	1,040,773	787,618
Net Interest Income	32,587	51,464	144,169	188,086	(19,938)	(12,515)
Impairment Charge (loan-loss provisions)	(15,539)	(33,195)	(67,810)	(1,094,300)	(754,254)	(45,717)
Operating Income	49,389	104,599	199,755	186,159	(319,746)	(2,751)
Operating Expenses	(31,315)	(61,078)	(124,043)	(1,157,583)	(766,249)	(76,287)
Net Income	14,307	38,498	61,354	(1,187,584)	(1,114,534)	986,265
Asset Growth (%)	0	108	48	(28)	(10)	(4)
Liabilities Growth (%)	0	106	40	10	28	(47)
Equity Growth (%)	0	139	132	(264)	(127)	(94)
Deposit Growth (%)	0	72	24	36	(26)	4
Loan Growth (%)	0	91	83	(32)	(36)	(24)
Net Income Growth (%)	0	169	59	(2,036)	(6)	-(188)
Operating Profit Growth (%)	0	141	74	(1,383)	12	(90)
Operating Expenses Growth (%)	0	95	103	833	(34)	(90)
Return on Equity (%)	18	20	14	….	….	(944)
Return on Assets (%)	1	3	2	(45)	(54)	51
Net Interest Margin (%)	7	4	6	8	(1)	(1)
Cost/Income Ratio (%)	(63)	(58)	(6)	(622)	240	2,773

( ) = negative value, …= data not available.
Source: BTA audited financial statements 2005 to 2010.

3. Economic Development

44. The economic development indicators identified in the RRP were used to assess the project's impact on economic development. These measures are : (i) the increase in the number of borrowers, and (ii) the increase in distribution channels. BTA's contribution to employment and the economic benefits that it contributed to by financing SME's were also considered in assessing its contribution to economic development.

45. The project's contribution to economic development is rated *unsatisfactory*.

4. Environment, Social, Health, and Safety Performance

46. The RRP classifies the loan to BTA as F1 for the environment and C for indigenous peoples and resettlement.

47. Under the loan facility agreement, BTA committed to implement and maintain an environmental management system and regularly submit an annual environmental performance report (EPR) evaluating the environment, health, safety, and social (ESHS) performance of BTA's lending operations.[16]

48. BTA submitted the EPRs for 2007 and 2008. In the reports, BTA confirmed it was compliant with the ESHS provisions of the facility agreement. The reports also mentioned that BTA's board had, in July 2007, approved an environment policy and that the procedures for environmental risk management were being developed. The EPRs enumerated the environment protection training programs attended by their environment officer, and further attested that no loans were made to category A or B projects or borrowers.

49. On 10 July 2007, BTA's board of directors approved the Ecological Policy, which contained methods, procedures, and processes to achieve and maintain BTA's environment goals. This policy is essentially BTA's environmental management system. The policy is still in effect; no changes have been made since inception. BTA's coordinator for environmental protection (who is its environment officer) is responsible for ensuring that the Ecological Policy is followed. However the position is currently unfilled.[17]

50. BTA was unable to submit an EPR for 2009 and 2010 as it had changed its management and was undergoing financial restructuring. Also BTA's declaration of default and debt restructuring in April 2009 effectively suspended the loan agreements and the required covenants (financial and ESHS among others).

51. ADB was not part of BTA's restructuring committee and hence was unable to include ESHS standards as part of the restructuring terms of the bond and equity instruments. Such terms are not standard or customarily included in the documentation of such instruments. However, BTA has confirmed that the environment policy adopted in July 2007 is still in effect and is being implemented.

[16] Clauses 17.15 and 20.8, and Schedule 8 and 10 of the Term Facility Agreement between ADB and JSC Bank Turan Alem dated 7 July 2006.

[17] BTA's former coordinator for environmental protection attended seminars on environmental risk management, ecological audit, and best practices for sustained development. Source: ESHS covenant compliance report 2007 and 2008.

52. BTA has attested that it currently actively complies with Kazakhstan's environment policies under Kazakhstan's Environmental Code of 9 January 2007, No 212. It also follows Kazakhstan's policy of compensating employees affected by the environmental disaster of the Aral region and the nuclear tests in the Semipalatinsk area.[18] BTA uses an employee's place of residence to determine if the employee is affected by these environmental disasters and adjusts the salaries and vacation leave entitlements as prescribed by law.

53. BTA has a position for an environment compliance officer in its staffing plan but the position is currently unfilled. Also, BTA has yet to adopt a monitoring system to check its borrowers' compliance with laws on the environment.

54. Considering BTA's efforts to follow the ESHS covenants of the facility agreement despite the extraordinary situation brought about by the restructuring, this project is rated *satisfactory* for environmental, social, health, and safety performance.

C. ADB Work Quality

55. ADB work quality is rated *partly satisfactory* based on (i) screening, appraisal, and structuring of the project; (ii) monitoring and supervision; and (iii) role and contribution.

1. Screening, Appraisal, and Structuring

56. The structuring of this transaction was satisfactory in meeting ADB's development objectives. Covenants to monitor the progress of SME lending and the maintenance of ESHS standards were included in structuring the facility agreement. However the screening and appraisal process failed to correctly assess BTA's loan portfolio quality and its true beneficial owners. Also, risks associated with BTA's funding model (i.e., overleveraging) were underestimated. Hence for screening, appraisal, and structuring, this project is rated *partly satisfactory*.

2. Monitoring and Supervision

57. Annual review reports, covenant compliance reports, missions, and conference calls with BTA management were completed to monitor BTA's performance. The Capital Markets and Financial Sectors Division monitored the loan through desktop reviews using the audited financial statements and covenant compliance reports submitted by BTA. News articles on BTA and opinions by the rating agencies (Fitch, Moody's, and Standard and Poor's) were also obtained. Thus monitoring and supervision is rated *partly satisfactory.*

3. ADB Role and Contribution

58. ADB's main role was to help BTA expand its SME portfolio by providing funds that could be lent to SME borrowers. The facility agreement of the original ADB loan to BTA included covenants to monitor BTA progress with SME lending activities. BTA complied with this covenant by submitting a report on SME activities together with its annual environmental compliance report. Annually, until its default, BTA reported on the total number of SMEs it had

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[18] Law of the Republic of Kazakhstan No. 1468-XII dated 30 June 1992 (On social security of citizens who suffered from the environmental disaster of the Aral region) and Law of the Republic of Kazakhstan No. 1787-XII dated 18 December 1992 (on social security of citizens who suffered as a result of nuclear tests on Semipalatinsk testing nuclear polygon). Source: BTA's answers to the extended annual review report questionnaire, July 2011.

lent to and the industry in which each SME operated. BTA further attested that no loans were given to any SME classified as category A or B.

59. ADB's role and contribution is thus rated *satisfactory*.

4. Overall ADB Work Quality

60. Screening, appraisal, and structuring of this project is rated *partly satisfactory*; monitoring and supervision is rated *partly satisfactory*; and ADB's role and contribution is rated *satisfactory*. Overall work quality is rated *partly satisfactory.*

D. ADB Additionality

61. The evaluation of ADB's additionality is based on whether (i) ADB finance was a necessary condition for the timely realization of the project, either directly or indirectly, by providing sufficient comfort to attract private financiers; and (ii) ADB's contribution to the project's design and function served to improve the development impact.

62. Whether or not ADB played a direct and necessary role in attracting private financiers to BTA is difficult to assess. However, in 2007, a year after ADB became BTA's creditor, BTA was able to issue notes totaling $750 million to securitize its DPRs. Although BTA's bond issuance can't be directly attributed to ADB, ADB's loans to BTA and other local Kazakh banks such as Alliance and Bank Centercredit helped focus the international market's attention on Kazakhstan.

63. ADB support for BTA's restructuring also played a role in ensuring BTA's successful completion of its restructuring exercise.

64. ADB additionality is thus rated *satisfactory*.

E. Overall Evaluation

65. Overall the project is rated *unsuccessful*. Table 6 provides a summary of the individual category ratings.

Table 6: Summary Evaluation of the Project

Indicators		Unsatisfactory	Partly Satisfactory	Satisfactory	Excellent
A.	Development Impact		√		
	1. Private Sector Development		√		
	2. Business Success	√			
	3. Economic Sustainability	√			
	4. Environmental Social, Health, and Safety Performance			√	
B.	ADB Work Quality		√		
C.	ADB Additionality			√	
		Unsuccessful	**Partly Successful**	**Successful**	**Highly Successful**
Overall Rating		√			

III. ISSUES, LESSONS, AND RECOMMENDED FOLLOW-UP ACTIONS

A. Issues and Lessons

66. The RRP includes a comprehensive list of possible transaction and country risks to which the project was vulnerable. These risks were discussed in the Credit Committee meeting and ultimately found to be acceptable. However BTA's failure and subsequent restructuring uncovered a severity of shortcomings that, with the benefit of hindsight, exceeded ADB's original assessment. A number of these risk factors might have been better assessed by more intensive due diligence.

67. During due diligence, BTA's loan portfolio was not sampled.[19] Later, during the restructuring process, BTA's new management subsequently uncovered a large number of related party loans.[20] This led to BTA recognizing a large impairment charge in 2008 that wiped out its entire equity.[21]

68. Another risk factor underestimated in due diligence was BTA's beneficial ownership. The RRP lists several nominees as holding substantial shareholdings. However it is not clear as to who were the real shareholders that these nominees represented.[22] This became a problem in identifying related party lending. Fitch Ratings in its 8 December 2008 report on BTA commented on this issue and mentioned that BTA's shareholder structure was one of the least transparent of the banks in the Commonwealth of Independent States (CIS), making assessment of related party lending in the portfolio difficult.[23]

69. The collective age and experience of the management team was also correctly assessed as a risk, but on hindsight turned out to an exacerbating factor. The RRP includes a list of BTA's key personnel; most members of its management team were in their 30s and 40s.[24] This increases project risk as Kazakhstan had a relatively young capital market.[25]

B. Recommended Follow-up Actions

70. BTA's main challenges in the medium term relate to nonperforming loans and capitalization. BTA needs to properly resolve its nonperforming loans and acquire additional equity capital in order to regain its market share and remain viable. ADB needs to closely

[19] Loan sampling usually gives a more accurate assessment of the loan portfolio's quality as it helps uncover related party loans and borrowers with inadequate sources of income.
[20] The loans were to borrowers or companies connected with BTA's former management.
[21] BTA recognized an impairment loss of T1.094 trillion, reducing its equity to a negative T724 billion.
[22] The RRP notes that BTA shares were held by Central Securities Depository, nominee (35.19%); management (20.38%); Bank of New York, nominee (17.32%); Valaxis Asset Management SA (9.37%); Hawsbrok (9.88%); others (7.86%).
[23] Fitch also notes that BTA failed to honor its formal commitments to the local regulator to publicly disclose its beneficial owners. *Fitch Ratings, Credit Analysis on BTA Bank, 08 December 2011.*
[24] BTA's chairman at the time was only 36 and the first deputy chairman was 29.
[25] NBK was established in 1993, 2 years after Kazakhstan became independent. Thus NBK had not yet experienced and learned from financial crises, which are part of a financial system's growth. The International Finance Corporation, in its July 2010 country report on Kazakhstan, cited that Kazakhstan needs to upgrade the banking system's regulatory and supervisory frameworks, specifically legal frameworks on collateral, foreclosure, and bankruptcy, as well as establish appropriate asset valuation methods and standards of governance, transparency, and accountability.

monitor BTA's financial performance as well as developments in Samruk-Kazyna's efforts to find a strategic buyer.

OVERVIEW OF BANKING IN KAZAKHSTAN

1. The key components of the financial system in Kazakhstan are banking; insurance; the securities market; the pension system; and a number of organizations engaged in specific types of banking operations, such as the financial subsidiaries of National Agricultural Holding, sovereign wealth fund Samruk-Kazyna,[1] several mortgage organizations, Kazpost, the Central Securities Depository, the Kazakhstan Stock Exchange, and the interbank settlement center of the National Bank of Kazakhstan (NBK).

2. Kazakhstan has a two-tier banking system. The first tier is represented by NBK, which is responsible for the monetary and foreign exchange policies, and is the lender of last resort. All other banks belong to the second tier—with the exception of the Development Bank of Kazakhstan,[2] which is a government-controlled "policy" bank, has special status, and belongs to neither tier.

3. In January 2011, the country had 39 second-tier banks, compared with 38 at the beginning of 2010.[3] Second-tier banks are primarily privately owned commercial banks. The financial crisis, which started in 2008, forced the state to bail out three banks and make substantial equity investments in others through Samruk-Kazyna. Since the restructuring, Samruk-Kazyna holds controlling stakes in BTA Bank (81.5%),[4] Temirbank (79.9%),[5] and Alliance Bank (67.0%),[6] and also owns 21.3% of Kazkommertsbank and 20.9% of Halyk Bank.

4. The banking system is characterized by a high degree of concentration. At the end of 2010, the three leading banks accounted for 53.6% of total assets—Kazkommertsbank (20.2%), Halyk Bank (16.8%), and BTA Bank (16.6%). The top five banks (including Bank CenterCredit and ATF Bank) accounted for 71.8% of total assets, 74.8% of total loans, and 69.8% of total deposits.[7]

5. Second-tier bank assets totaled $81.6 billion at the end of 2010, 4.1% more than a year earlier (footnote 7). The precipitous decrease of total asset growth from 96.6% in 2006 to 31.7% in 2007, 1.8% in 2008, and –2.8% in 2009, indicates the vulnerability of the foreign borrowing-based growth model of the banking system.

6. Domestic credit began collapsing in the second half of 2007 as the combined result of a bursting real estate bubble, the forced and substantial deleveraging of banking when the

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[1] Samruk-Kazyna plays an important role in the country's economy, controlling several national development institutions, national companies, and other legal entities, including holding majority stakes in three bailed-out banks. As of June 2010, the assets of Samruk-Kazyna accounted for 71.2% of gross domestic product in 2009.

[2] The Development Bank of Kazakhstan is a specialized government institution that finances underdeveloped priority sectors of the economy not connected with natural resources.

[3] Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organizations (FSA), 2011: List of Second-Tier Banks as of 1 February 2011. http://www.FSA.kz/attachments/35/245/publish245-1007975381.doc

[4] Silk Road Intelligencer. 2010. BTA completes debt restructuring. http://silkroadintelligencer.com/2010/09/03/bta-bank-completes-debt-restructuring/

[5] Fitch Ratings. 2010. Fitch upgraded rating of Temirbank to level «B-» after restructuring. http://www.fitchratings.ru/financial/banks/news/newsrelease/news.wbp?article-id=0478C4A8-E6F3-4C65-9F78-9B93B05E0FCA

[6] Bloomberg. 2010. Kazakh Alliance Bank Completes Debt Restructuring (Update 1). http://www.businessweek.com/news/2010-03-30/kazakh-alliance-bank-completes-debt-restructuring-update1-.html

[7] Calculated based on data from the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organizations (FSA). 2011. Two tier banks' financial indicators on 01.01.2011. http://www.FSA.kz/attachments/143/267/publish267-1768299547..xls

international capital markets closed to Kazakh banks, and the global economic slowdown. Annual growth of total gross loans plummeted from 95.7% in pre-crisis 2006 to 48.0% in 2007, 4.2% in 2008, and 4.3% in 2009. In 2010, it decreased by 5.9% after write-offs of 10.6% of the average gross loans.[8] Despite strong liquidity inflows from government support programs and other sources, banks remain reluctant to expand lending to the real sector. Total loans accounted for 75.4% of total assets at the end of 2010, a significant decrease from 83.4% a year earlier.

7. Islamic banking has been part of the Kazakh banking system since March 2010, when Al-Hilal Islamic Bank was set up as a 100% subsidiary of the Abu Dhabi government-owned Al-Hilal Bank. The Malaysian government-owned trustee company Amanah Raya Bhd is planning to establish the second Islamic bank in 2011–2012, as a joint venture with the Development Bank of Kazakhstan and the local brokerage company Fattah Finance.[9]

8. **Loan portfolio structure and quality.** At the end of 2010, 72.1% of total loans were to legal entities and 27.9% to individuals; 57.7% were in national currency and 42.3% in foreign currency; 16.4% were short-term and 83.6% long-term. Exposure per sector was largest to trade at 24.0%, followed by construction at 18.1% and industry at 9.4%.[10] Exposure to the troubled construction sector represents a significant concentration risk.

9. The substantial concentration of the banks' loan portfolios by customer and among related parties considerably increases the credit risk.

10. The severe loan portfolio deterioration caused by the global financial crisis has not yet been reversed. At the end of 2010, the sectorwide nonperforming loan (NPL) ratio[11] stood at 32.6%, down from 36.5% in 2009; however, in absolute terms NPLs increased by 12.3% if the massive write-offs are included in the calculation. The NPL ratio was 8.1% at the end of 2009 and 1.3% at the end of 2008. At the end of 2010, the NPL ratios of the large banks that underwent restructuring were even higher—66.1% for BTA Bank (down from 78.7% a year earlier mainly as a result of the massive write-offs) and 63.5% for Alliance Bank.[12]

11. International rating agencies believe that the officially reported NPL indicator does not fully reflect the scope of the problem, given the insufficient transparency of the banks' reporting and their inclination to restructure bad loans rather than write them off or sell them. Fitch estimates that bad loans, including restructured ones, accounted for over 50% of total loans at year-end 2010.[13] According to Standard and Poor's, publicly underreported single-name,

[8] Calculated based on data from FSA: Information about owned capital, liabilities, and assets of financial institutions in the Republic of Kazakhstan: http://www.FSA.kz/ru/information-for-entities-of-financial-market/banks-sektor/2009-11-09-11-41-37/2009-11-12-05-55-10/2009-11-12-06-04-15. BTA Bank accounts for 79.4% of total write-offs.

[9] K. Yunus. 2011. AmanahRaya plans to set up Islamic bank in Kazakhstan. City: Publisher. http://www.btimes.com.my/articles/amazakh/Article/

[10] Calculated based on data from the National Bank of Kazakhstan: Loans of banks by economy branches for 1 January 2011 http://www.nationalbank.kz/cont/publish734494_6520.pdf

[11] FSA defines nonperforming loans as "loans classified as doubtful 5th category plus loss loans plus the actual provisions for homogenous loans."

[12] http://www.afn.kz/en/information-for-entities-of-financial-market/banks-sektor/2009-11-09-11-41-37/2009-11-12-05-55-10/2009-11-12-06-14-08

[13] Astana.kz (21 December 2010): Fitch changed its outlook on Kazakhstan to "positive." *http://www.astana.kz/en/node/21201* and Fitch Ratings (28 June 2010). *Kazakh Banks: Return to Health Lags Stronger Macroeconomy. Kazakhstan Special Report.*

economic sector, and related-party exposure concentration implies a higher level of impaired loans.[14]

12. **Deposits and liquidity.** Customer deposits reached $46.3 billion at the end of 2010, 56.7% of total banking assets. They increased by 15.1% in 2010, after growing by 30.8% in 2009 in tenge terms—boosted by the February devaluation—and by 17.8% in 2008. Large deposits from Samruk-Kazyna and state-owned enterprises, which continued to have access to the international capital markets, substantially contributed to the improvement of the liquidity position of some major banks during the global financial crisis.

13. At the end of 2010, deposits from legal entities accounted for 67% of total deposits, while deposits from individuals stood at 33%, approximately the same as at the end of 2009 and 2008. Most deposits (57.3%) were denominated in tenge.[15] As a result of the very limited credit growth since the second half of 2007, the loan to deposit ratio has dropped significantly from 2.3 times at the end of 2007 to 1.3 times at the end of 2010.

14. Despite the increase in customer deposits, total liabilities decreased by 14.5% in 2010, due mainly to the restructuring of the debt of the defaulted banks.

15. Liquid assets to total assets were at 21.2% at the end of 2010, increasing by 2% in 2010 and by 7.6% over 2 years. The liquidity ratios exceeded their required minimums by 3–5 times.[16] Liquid assets to deposits were at 37.4% compared with 37.0% in 2010 and 35.3% in 2009, reflecting the cautious policy of banks toward issuing new loans.

16. **Capital adequacy.** Total equity of the banking system stood at $8.9 billion at the end of 2010, 10.9% of total assets, after registering a negative value of $6.6 billion at the end of 2009 mainly as a result of the vast losses of the three defaulted banks (Alliance Bank, BTA Bank, and Temirbank).

17. Overall capital adequacy indicators are compliant with the required minimum as after the restructuring the three banks: tier 1 capital to total assets (k1-1) was 11.7% (required minimum: 6%), tier 1 capital to risk-weighted assets (k1-2) was 13.6% (6% required), and total capital to risk-weighted assets (k2) was 18.0% (12% required). At the end of 2009, the capital adequacy ratios of the banking system, excluding the three defaulted banks, complied with the regulatory requirements, standing at 10.6% (k1-1), 12.2% (k1-2), and 16.2% (k2).

18. However, the reported capital adequacy numbers are possibly overstated by the large amount of accrued interest in the banks' balance sheets.[17]

19. **Profitability**. Net income remained under pressure from high provisioning expenses and decreasing interest income from loans as a result of the fall in interest rates and the increase in nonaccrual loans. In 2010, the sector demonstrated positive net income of $9.6 billion compared with net losses of $19.2 billion in 2009. However, excluding the three restructured banks that benefited from a vast extraordinary restructuring income, the banking system experienced net

[14] Standard and Poor's (19 April 2010). *Banking Industry Country Risk Assessment: Kazakhstan.*.

[15] Calculated based on National Bank of Kazakhstan. 2011. Deposits in banks (by regions) for 1 January 2011. http://www.nationalbank.kz/cont/publish818404_6487.pdf

[16] FSA. 2011. Current conditions of the banking subsector of the Republic of Kazakhstan in tables and graphs as of 1 January 2011. http://www.FSA.kz/attachments/105/267/publish267-1142014511.pdf

[17] Fitch Ratings. 28 June 2010. *Kazakh Banks: Return to Health Lags Stronger Macroeconomy. Kazakhstan Special Report.*

losses of $0.8 billion in 2010, almost unchanged from the previous year when excluding the three banks.

20. Excluding the three restructured banks, in 2010, before income tax, return on assets was –1.2% up from –1.4% in 2009, and return on equity –10.6%, slightly less negative than –12.6% in 2009. In 2007, the return on assets was 1.4% and return on equity 10.9%.

21. **Ratings.** In 2010, international rating agencies started revising their views on Kazakh banks, acknowledging improvements in the macroeconomic environment, liquidity, and capitalization, as well as successful restructuring of the three defaulted banks. However, all the rated banks remain in the highly speculative B category, except for the foreign-owned ATF (BBB), Sberbank (BBB–), and VTB Bank (BBB–); potential for significant further rating upgrades in the short term is very limited.

Table A1: {Please Provide a Title Here}

Issuer	Last Available Issuer Default Rating	Outlook
Alliance Bank	B–	Stable
ATF	BBB	Positive
BCC	B	Stable
BTA Bank	B–	Stable
Eurasian Bank	B–	Stable
Halyk Bank	B+	Stable
Kaspi Bank	B–	Stable
Kazkommertsbank	B–	Stable
Sberbank	BBB–	Stable
Temirbank	B–	Stable
VTB Bank (Kazakhstan)	BBB–	Stable

Source: Fitch Ratings, Silk Road Intelligencer, bank websites.

22. **Regulatory update.** The Deposit Insurance Fund currently guarantees deposits by natural persons of up to $33,800. From 1 January 2012, this will be reduced to about $6,800.[18] The Deposit Insurance Fund issues recommendations on interest rates offered by banks on deposits to natural persons. In April 2010, the recommended rates were reduced from 11.5% to 10.0% for deposits in national currency and from 8.0% to 7.0% for deposits in foreign currency.[19]

23. Regulations for the development of Islamic banking in Kazakhstan were adopted in 2009.

24. On 2 September 2010, the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (FSA) proposed introducing the following new requirements for banks: (i) limit share ownership by individuals and legal entities to 25% of a bank's capital except for shares owned through bank holdings; (ii) limit a bank's investment in shares of financial organizations to 10%; (iii) restrict a bank's investment in shares

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[18] A. Melnikova. 2010. The state reduces compensation for guaranteed deposits. http://profinance.kz/2010/05/19/iyolbyoe-yosbn-epinshhnsn-ibbsebx-lnpse.html

[19] Kazakhstan Deposit Insurance Fund. Recommended deposit interest rates. http://kdif.kz/ru/recommended_rates

of nonfinancial organizations except for those providing banking-related services (i.e., encashment, securitization); (iv) limit a bank's investment in the parent bank's shares; (v) limit the number of representatives of the parent bank on the boards of directors of its subsidiaries to one-third; and (vi) restrict lending to related parties except for those who are participants in the banking conglomerate. The limitations on investments will be effective from 1 January 2013.[20]

25. To facilitate the write-off of NPLs, the government intends to amend the tax code that exempts provision income from taxation. Other rules that make the management of NPLs challenging are (i) banks are not allowed to establish special-purpose vehicles to manage NPLs efficiently; and (ii) banks are prohibited from taking an equity position in nonbanks, making it impossible for them to convert their NPLs into equity.

26. FSA plans to introduce several new requirements for banks in line with the Basel III global standard from 2013: (i) core capital will include issued common shares and reserves; (ii) perpetual financial instruments and preference shares will be excluded from tier 1 capital; (iii) the limitation that tier 2 capital cannot exceed tier 1 capital will be removed; (iv) tier 2 capital will include dynamic reserves of up to 1.25% of risk-weighted assets, perpetual financial instruments, preference shares, and subordinated debt; and (v) tier 3 capital will disappear.[21]

27. Effective 12 April 2011 by a decree of the President of the Republic of Kazakhstan, the powers and functions of FSA and of the Agency for Regulation of Activities of the Regional Financial Center for Almaty were transferred to the central bank. Pursuant to the decree, NBK is now responsible for functions previously performed by FSA, such as licensing and regulation of financial organizations (e.g., banks, insurance companies, pension funds), oversight of joint stock companies, and regulation of the securities market. NBK will also be responsible for the development and regulation of the Regional Financial Center of Almaty. NBK continues to be the country's central bank.

28. **Industry outlook.** Banking is expected to gradually continue its recovery from the crisis, though more slowly than the real economy.[22] NBK does not expect growth in lending before 2012. According to NBK, current loan repayments and write-offs will offset new loans issued in 2011. In 2012–2013, loans are expected to grow by 10% per annum. In the medium term, higher interest expenses, operating costs, and provisions are expected to constrain profitability, compared with pre-crisis levels. NBK expects overall deposits to increase by 19.5% in 2011, 13.1% in 2012, and 11.9% in 2013. The official refinancing rate is expected to increase from 7% in 2010 to 8% in 2011–2013.

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[20] Kazkommertsbank. 2010. *Kazakhstan Financial Review*. August. http://en.kkb.kz/attach/KazakhstanInBrief/Kaz_Fin_Review_Aug_2010.pdf
[21] Kazkommertsbank. 2010. *Kazakhstan Financial Review*. December. http://en.kkb.kz/attach/KazakhstanInBrief/Kaz_Fin_Review_Dec_10.pdf
[22] Standard and Poor's. 2010. *Banking Industry Country Risk Assessment: Kazakhstan.*.

PRIVATE SECTOR DEVELOPMENT INDICATORS AND RATINGS: FINANCIAL INTERMEDIARIES

Indicator	Rating	Justification
1. Beyond Intermediary and Subborrower Impacts		
1.1 Private sector expansion and institutional impact		
1.1.1. Contributes to an increased private sector share and role in the economy and to sustainable jobs	Satisfactory	From 2005 to 2010, BTA increased its loan portfolio by 282%. In 2005, its total loan portfolio was at T721 billion, by 2010 this increased to T2.76 trillion.
1.1.2. Contributes to expanded SME lending	Satisfactory	From 2005 to 2010, BTA expanded its SME loan portfolio by 75%.
1.1.3. Contributes to institutional change by improving supply and access generally to formal credit and banking service to SMEs	Satisfactory	BTA increased its SME clients (depositors and borrowers) by 49% from 2005 to 2010. It increased its distribution channels by increasing the number of cash settlement offices and ATMs. In 2005, it had 196 cash settlement offices, this increased to 227 in 2010. In 2005 it had 292 ATMs, this increased to 991 in 2010. BTA is the first and only bank in Kazakhstan to design and develop its own system of international express transfer system called “Faster,” which enables its clients to make immediate international transfers at very attractive rates.
1.1.4 Contributes to the growth of viable financial institutions and financial market development	Satisfactory	BTA issued the largest DPR securitization bond. In 2007 it issued $750 million of DPR bonds. The bonds were fully prepaid in June 2009. It contributed to the development of viable financial institutions by having the Corporate Governance Code approved by its stockholder in 2010 and having a board-approved Ecological Policy. These initiatives serve as an example for smaller local banks.
1.2. Competition Contributes to new competition for SME businesses among local banks (including new product and service offerings, local currency products)	Satisfactory	BTA offers different types of products under its SME lending program.
1.3. Innovation Contributes to new ways of offering effective banking services to SMEs	Satisfactory	BTA has developed its own international money transfer called “Faster” which allows its clients to immediately transfer money.

Indicator	Rating	Justification
(including new products, services, and technologies) in ways that are replicated by other banks and in the financial system		
1.4. Linkages Contributes to local savings and deposits mobilization via a network of branches and contribution to notable upstream or downstream link effects to sub-borrower businesses in their industries or the economy	Partly satisfactory	BTA has increased its distribution channels by increasing the number of cash settlement offices from 196 in 2005 to 227 in 2010 and by increasing the number of ATMs from 292 in 2005 to 991 in 2010. However BTA failed to increase the number of its branches. They remained at 22 from 2005 to 2010; all were in the urban areas.
1.5. Catalytic element Contributes to mobilization of other local or international financing to SMEs, and to positive demonstration to market providers of debt and risk capital to SMEs	Partly satisfactory	BTA only acts as a conduit bank for local or state-supported lending programs for SMEs such as Road Business Map–2020, Damu–region 1.2; and Damu–Ondiris. BTA currently is not a conduit bank for international financing for SMEs.
1.6. Affected laws, frameworks, and regulation Contributes to improved laws, regulation, and inspection affecting formal SME banks and banking services to SMEs in the local financial system	Partly satisfactory	BTA's experience in restructuring has contributed to the government's knowledge of how to improve the financial sector. One such improvement under consideration is how to tax the disposal of nonperforming assets such that banks can efficiently dispose of such assets faster and thereby ease pressure on capital.
1.7. Wider demonstration of new standards Contributes to higher standards in corporate governance, transparency, and stakeholder relations	Satisfactory	In 2010, BTA instituted the Corporate Governance Code approved by its stockholders. In 2007, BTA's board approved its Ecological Policy, which serves as BTA's ESHS system. BTA follows the government policy of compensating employees affected by nuclear testing and the environmental disaster in the Aral region.

Indicator	Rating	Justification
2. Direct Participant Bank and Subborrower Impacts with Wider Potential		
2.1. Skills with wider impact potential Contributes to an improved SME credit approach at all stages in the participant bank(s) in ways that can be replicated by other providers of SME finance and banking service Contributes via the participating bank(s) to improved subborrower skills in operation of their businesses, e.g., via good appraisal, and monitoring by the bank(s)	Unsatisfactory	BTA's experience in restructuring could be an example for other banks on the importance of the following (i) the proper use and management of leverage, (ii) a good risk management system, and (iii) a good credit process. BTA had to recognize huge impairment losses when a huge number of its borrowers defaulted.
2.2. Demonstration and new standards-setting potential Demonstrates potential through improved and achieved standards in corporate governance and transparency, stakeholder relations, and ESHS spheres	Satisfactory	BTA has instituted the stockholder-approved Corporate Governance Code and the board-approved Ecological Policy. BTA follows government policy of compensating employees affected by nuclear testing and the environmental disaster in the Aral region.
Overall PSD Rating	Partly satisfactory	

BTA = JSC BTA Bank, ESHS = environmental, social, health, and safety; PSD = private sector development, SMEs = small and medium-sized enterprises.
Rating scale: Excellent, satisfactory, partly unsatisfactory, and unsatisfactory. The rating is not an arithmetic mean of the individual indicator ratings, and these have no fixed weights. It considers already manifest actual impact (positive or negative) and the potential for impact as well as risk to its realization.
Source:

PROJECT-RELATED DATA

A. General Information

1. JSC BTA Bank (BTA) is incorporated and domiciled in the Republic of Kazakhstan. Its registered office address is 97 Zholdasbekov Street, Samal-2, Almaty, 050051, Republic of Kazakhstan.

2. BTA, formerly known as Bank Turan Alem, was established in January 1997 when the government and the National Bank of Kazakhstan merged two state-owned banks—Turan Bank and Alem Bank—into a closed joint-stock company and named the new entity as Bank Turan Alem. In March 1998, the government privatized Bank Turan Alem through a competitive auction. In December 1998, BTA was reorganized from a closed joint-stock company to an open joint-stock company.

3. As of 31 December 2010, BTA is the third largest bank in Kazakhstan in terms of total assets. BTA has 5,639 employees, 22 regional branches, and 227 cash settlement units located throughout Kazakhstan and representative offices in Shanghai, People's Republic of China; Moscow, Russian Federation; Dubai, United Arab Emirates; London, Great Britain; and Kiev, Ukraine. BTA has 15 subsidiaries and nine associates. Tables A4.1 and A4.2 list BTA's subsidiaries and affiliates.

B. Products and Services

4. BTA, together with its subsidiaries and associates (collectively as the BTA group), provides retail, corporate banking, insurance, leasing, and other financial services in Kazakhstan, Armenia, Belorussia, Georgia, the Russian Federation, and Ukraine. BTA accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies, and provides other banking services to its commercial and retail customers. In addition, the BTA group is authorized to accept pension fund deposits.

5. BTA is an active participant of the government's anti-crisis programs and has received T40 billion to refinance mortgage loans and T22 billion to finance small and medium-sized enterprises (SMEs).

C. Ownership and Shareholding Structure

6. BTA is currently owned and controlled by the Government of Kazakhstan through the National Welfare Fund Samruk-Kazyna (SK). Samruk-Kazyna owns 81.48% of total outstanding shares of BTA; various creditors own the remainder.[1]

7. As of 31 December 2011, BTA has authorized 55,258,029,745 common shares and of these shares has issued 44,209,411,924 (or 80% of total authorized). BTA's common stock has a primary listing at the Kazakhstan Stock Exchange). The Luxembourg Exchange also lists the global depository receipts of BTA's common shares.

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[1] The government took over BTA in February 2009 to save it from collapse following a massive write-down of assets that resulted in an equity deficit of T704 billion. After its takeover, Samruk-Kazyna replaced the board and management and filed for debt restructuring. The restructuring, completed in September 2010, converted a portion of the debts into equity; creditors were given approximately 18% of BTA's common stock.

D. Restructuring and New Corporate Strategy

8. BTA refocused its business following the completion of its debt restructuring in September 2010. Prior to the restructuring, BTA lent mostly to nonresident corporate customers. Now it concentrates on the domestic market, specifically targeting retail customers and SMEs.

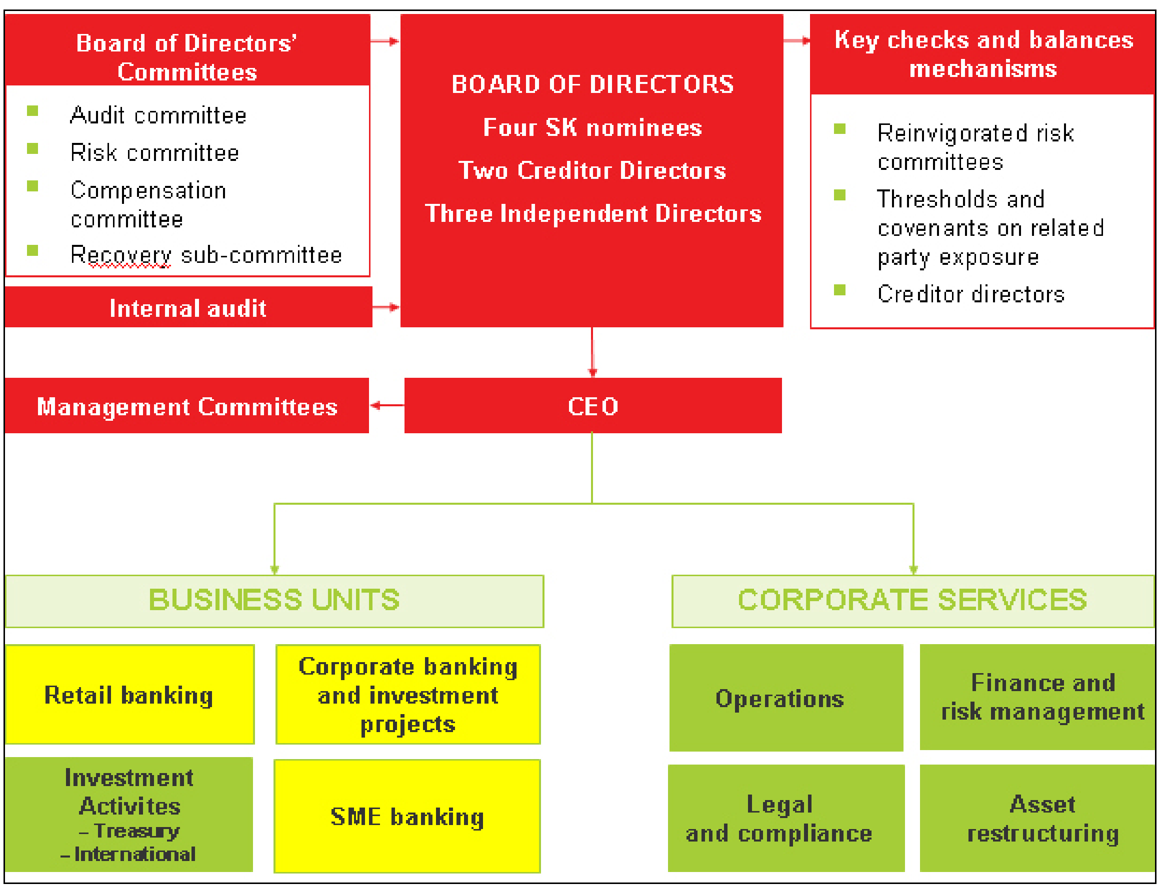
9. BTA is also in the process of strengthening corporate governance, improving risk management, maximizing recovery on nonperforming loans, and selling noncore assets such as insurance companies and pension funds.

E. Board of Directors and Corporate Governance

10. BTA's board of directors is composed of nine directors; four are Samruk-Kazyna nominees, two represent the creditor group, and three are independent directors. The board has four committees: the audit committee, risk committee, compensation committee, and recovery subcommittee. The internal audit function reports directly to the board. Figure A3.1 illustrates BTA's corporate governance structure.

11. BTA has a corporate governance code, approved in a general meeting of shareholders on 22 June 2010. BTA adopted the code pursuant to the provisions of its restructuring plan. The code provides for the protection of shareholder and creditor interests; transparency of operations; and improvement in the systems of risk, internal control, and reporting.

Figure A3: Corporate Governance Structure of JSC BTA Bank



Please spell out all abbreviations in alphabetical order here.
Source: BTA Bank.

F. Risk Management

12. **Governing policy.** BTA's Risk Management Policy, approved on 25 May 2010, governs risk management. This policy defines the aims, principles, types of risk, risk management tools, and BTA's overall risk management organization.

13. **Structure.** BTA's risk management structure comprises the board of directors, the risk committee, risk management units, and the internal audit function.

14. The board of directors is directly responsible for BTA's risk management system. It determines the overall risk management approach and strategy, and decides on the appropriate risk management policies to adopt.

15. The risk committee, which is directly under the board of directors, oversees the BTA group's activities on risk management, adopts managerial decisions as related to approval of normative documents, and defines the lines of activity of it subdivisions.

16. The risk management units are accountable to the risk committee and the management board. These units are responsible for identifying, assessing, and monitoring risks in different areas of BTA operations.

17. The internal audit function monitors and regularly examines the adequacy of BTA's internal control procedures on risk management. It submits its findings to the board of directors, which then decides on the appropriate measures to take.

18. **Risk measurement.** BTA measures its risks using statistical models. The models measure the expected loss likely to arise in normal circumstances and unexpected losses from extraordinary circumstances or extreme events. The models use probabilities derived from historical experience and are adjusted to reflect the economic environment. BTA also runs worst-case scenarios that would arise in the event that extreme events, which are unlikely to occur, in fact, do occur.

19. BTA uses established risk limits to monitor and control risks. These limits take into account BTA's business strategy, the market environment it operates in, and the level of risk BTA is willing to accept in the industries in which it has exposure. In addition, BTA monitors and measures its overall risk-bearing capacity in relation to its aggregate risk exposure across all risk types and activities.

20. **Reporting.** To analyze, control, and identify early risks, information compiled from all its businesses is examined and processed. This information is summarized in a report presented and explained to the management board, the risk committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios, and risk profile changes. On a monthly basis, detailed reports on industry, customer, and geographic risks are submitted.

21. On a quarterly basis, senior management assesses the appropriateness of the allowance for credit losses. The board of directors receives a quarterly comprehensive risk report, which provides all the necessary information to assess and conclude on the credit risks of BTA. For all levels throughout the BTA group, specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary, and up-to-date information.

22. **Key risks.** BTA is exposed to different types of risk, but puts particular emphasis on monitoring credit, market, liquidity, and operating risks.

23. **Credit risk.** Credit risk is the risk that BTA will incur a loss because its customers, clients, or counterparties failed to discharge their contractual obligations. BTA manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographic and industry concentrations. BTA has established counterparty limits based on a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are regularly reviewed to determine if revisions are necessary.

24. BTA has a credit committee and several credit risk divisions for each business segment, i.e., the Credit Risk Division of head office, the Retail Business Risk Underwriting Division, and the SME Credit Risk Division. Each credit risk division submits a credit risk report to the management board and the risk committee.

25. BTA's credit committee is responsible for credit risk management. The committee sets individual limits on borrowers and recommends limits on the loan portfolio for approval by the management board. The credit committee approves new loans and assesses the loan applications of potential borrowers by analyzing their financial statements and their proposed project's viability. It approves loan applications subject to a predefined single borrower limit.

26. For its current portfolio, BTA follows a credit quality review process to identify changes in the creditworthiness of existing borrowers. Collateral revisions are reviewed subject to Kazakhstan regulations.

27. A regional credit committee is responsible for assessing the credit risk of loans issued to borrowers in the Russian Federation and other Commonwealth of Independent States (CIS) countries. It reports to the management board and includes one deputy chair of the management board, managing directors, and directors of BTA departments.

28. **Liquidity risk.** Liquidity risk is the risk that BTA will be unable to meet its obligations when due. BTA manages liquidity risk by following the liquidity standards set by regulatory bodies; and by using gap analysis, cash-flow analysis, and stress testing. Gap analysis includes the preparation of tables of gaps by remaining contractual maturities of assets and liabilities, and calculation of absolute and relative gaps between assets and liabilities and flows within the relevant period. Cash-flow analysis includes gathering and complex analysis of information about all main cash inflows and outflows in the future that arise due to changes in the amount of assets and liabilities, equity structure, income, and expenses.

29. BTA's asset and liability management committee is primarily responsible for managing BTA's liquidity and liquidity risk. It meets regularly to decide on issues concerning BTA's liquidity position. On a weekly basis, it analyzes BTA's data on operations and considers the gap analysis of the assets and liabilities broken down by maturity and currencies, duration of assets and liabilities, and analysis of future cash flows.

30. **Market risk.** Market risk is divided into trading and nontrading risks. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange, and equity prices. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flow or the fair value of financial instruments. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The risk committee has set limits on positions by currency based on regulations of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations. Positions are monitored on a daily basis. Equity price risk is the risk that the fair values of equities decrease as the result of changes in the equity indexes and the value of individual shares. The equity price risk exposure arises from BTA's investment and trading portfolios.

31. Market risk is managed by the Division of Financial Risks of the Financial Controlling Department in accordance with BTA's overall risk management policy, portfolio investment policy, and regulations of the FAD and other internal regulations of BTA. The division sets limits on structure of the trading portfolio, taking into account the terms, currency, and types of trading financial instruments.

32. The Division of Financial Risks estimates, evaluates, and monitors the trading portfolio's market risk by analyzing the portfolio's compliance with limits and threshold indicators as defined in BTA's risk profile, stress- and back testing, gap analysis and duration method, scenario analysis, VAR-method, Monte Carlo method, and historical simulations. The division prepares a quarterly market risk report and submits it to the management board.

33. **Operating risk.** Operating risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operating risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. BTA manages operating risk through a control framework that monitors and responds to potential risks. Controls include effective segregation of duties; access; authorization and reconciliation procedures; and staff education and assessment processes, including the use of internal audit.

34. BTA's risk management policy for operations includes procedures, tools, and a system to manage risk. All managers are responsible for managing operating risk in their respective areas. Each employee is required to take appropriate measures and actions to prevent, minimize, or eliminate operating risks while performing their duties. The operations risk management division coordinates all risk management issues and prepares an operations risk report that is submitted to the management board and the risk committee.

G. Money Laundering

35. BTA is implementing a policy against money laundering and the financing of terrorism approved by its board. It also has a board-approved know-your-customer policy. Both polices are reviewed annually to ensure their compliance with current laws, international standards, and best practices in the field. Amendments and supplements are introduced as necessary.

COMPARATIVE FINANCIAL STATEMENTS
(T million)

BALANCE SHEETS **For the Years ended December 31:**	**Actual FY2010** **Audited**	**Actual FY2009** **Audited**	**Actual FY2008** **Audited**	**Actual FY2007** **Audited**	**Actual FY2006** **Audited**
Loans					
Customer Loans	2,756,042.00	3,164,181.00	2,834,341.00	2,516,853.00	1,369,383.00
(Loan Loss Reserves)	(1,968,424.00)	(2,123,408.00)	(1,217,278.00)	(137,043.00)	(70,190.00)
Customer Loans, Net	787,618.00	1,040,773.00	1,617,063.00	2,379,810.00	1,299,193.00
Other Earning Assets					
Deposit with the Central Bank	40.00	145.00	64,054.00	168,242.00	125,573.00
Interest-Bearing Deposits & Placements with Other Banks	27,773.00	37,750.00	132,721.00	164,670.00	221,298.00
Government Securities					102,305.00
Trading Securities	82,257.00	111,364.00	53,560.00	52,046.00	119,229.00
Investment Securities	170,448.00	194,926.00	20,482.00	26,422.00	49,723.00
Derivatives Financial Instrument	4,795.00	25,980.00	21,650.00	31,397.00	3,457.00
Investment in Unconsolidated Subs and Affiliates	90,326.00	85,088.00	72,371.00	67,767.00	5,996.00
Pledged Assets (earning assets)	388,946.00	340,759.00	74,590.00	60,129.00	44,221.00
Other Earning Assets					
TOTAL EARNING ASSETS	1,552,203.00	1,836,785.00	2,056,491.00	2,950,483.00	1,970,995.00
Fixed Assets, net	10,664.00	9,911.00	13,704.00	13,433.00	7,480.00
Other Nonearning Assets					
Cash and Noninterest Bearing Deposits	98,194.00	71,909.00	40,346.00	42,642.00	59,794.00
Pledged Assets (nonearning assets)					
Foreclosed Properties					
Intangible Assets, Net	3,786.00	1,841.00	37,421.00	37,557.00	22,849.00
Deferred Income Tax Assets	159,735.00	5,267.00	5,046.00	683.00	-
Other Assets	71,128.00	42,946.00	41,193.00	19,819.00	14,024.00
TOTAL ASSETS	1,895,710.00	1,968,659.00	2,194,201.00	3,064,617.00	2,075,142.00

BALANCE SHEETS For the Years ended December 31:	Actual FY2010 Audited	Actual FY2009 Audited	Actual FY2008 Audited	Actual FY2007 Audited	Actual FY2006 Audited
Deposits and Money Market Funding					
Local Currency Customer Deposits	683,301.00	655,963.00	886,052.00	652,508.00	528,192.00
Foreign Currency Customer Deposits					
Due to Banks	2,480.00	2,393.00	5,987.00	5,322.00	28.00
Other Money Market Funds					
TOTAL DEPOSITS & MONEY MARKET FUNDING	685,781.00	658,356.00	892,039.00	657,830.00	528,220.00
Other Liabilities					
Derivative Financial Instruments	1.00	3,974.00	18,789.00	5,528.00	34.00
Deferred Income Tax Liabilities			-	-	1,105.00
Noninterest Bearing Payables	38,602.00	86,961.00	139,329.00	33,888.00	18,243.00
Other Money-Market Funding					
Domestic Short-Term Borrowings	565,568.00	2,528,464.00	1,424,446.00	763,519.00	2,427.00
Foreign Short-Term Borrowings	20.00	106.00	384.00	493.00	3,376.00
Long-Term Borrowing					
Bank Borrowing	95,764.00	83,777.00	96,777.00	786,112.00	620,021.00
Debt Issues and Bonds	498,746.00	104,099.00	136,931.00	205,658.00	613,663.00
Other Borrowings (subdebt, hybrid capital)	-	68,699.00	54,623.00	54,420.00	-
TOTAL LIABILITIES	1,884,482.00	3,534,436.00	2,763,318.00	2,507,448.00	1,787,089.00
Subordinated Debt	115,741.00	124,043.00	173,662.00	105,138.00	93,435.00
Hybrid Capital	-	-	-	-	-
Common Stock (including capital surplus)	1,056,994.00	476,753.00	303,456.00	303,427.00	116,451.00
Perpetual Noncumulative Preferred Stock					
Retained Earnings	(1,156,236.00)	(2,144,271.00)	(1,057,646.00)	129,938.00	68,584.00
Less: Treasury Shares	8,260.00	6,383.00	1,568.00	555.00	2,840.00
Reserves					
Disclosed Reserves	-				
Revaluation Reserves	(1,364.00)	(2,800.00)	(2,060.00)	(91.00)	290.00
Minority Interests	4,353.00	(13,119.00)	15,039.00	19,312.00	12,133.00
Others					
TOTAL EQUITY	(104,513.00)	(1,689,820.00)	(742,779.00)	452,031.00	194,618.00
TOTAL LIABILITIES and CAPITAL	1,895,710.00	1,968,659.00	2,194,201.00	3,064,617.00	2,075,142.00

( ) negative value.
Source: BTA audited financial statements, 2006–2010

INCOME STATEMENTS For the Years ended December 31	Actual FY 2010 Audited	Actual FY 2009 Audited	Actual FY 2008 Audited	Actual FY 2007 Audited	Actual FY 2006 Audited
Interest Income	196,867.00	237,725.00	396,467.00	323,448.00	132,689.00
Interest Expense	(209,382.00)	(257,663.00)	(208,381.00)	(179,279.00)	(81,225.00)
Net interest income	(12,515.00)	(19,938.00)	188,086.00	144,169.00	51,464.00
Fee and Commission Income	17,791.00	21,382.00	30,334.00	28,489.00	25,106.00
Fee and Commission Expense	(5,777.00)	(1,732.00)	(1,179.00)	(1,057.00)	(629.00)
Net fee and commission income	12,014.00	19,650.00	29,155.00	27,432.00	24,477.00
FX Income, Net	6,413.00	(326,398.00)	(10,870.00)	19,884.00	6,888.00
Trading Income, Net	(12,647.00)	87.00	(28,104.00)	5,015.00	21,907.00
Dividend Income					
Other Operating Income	3,984.00	6,853.00	7,892.00	3,255.00	(137.00)
TOTAL OPERATING INCOME	(2,751.00)	(319,746.00)	186,159.00	199,755.00	104,599.00
Less Operating Expenses					
General and Administrative Expenses	(39,629.00)	(23,068.00)	(26,975.00)	(23,341.00)	(14,174.00)
Personnel Expenses	(20,717.00)	(22,226.00)	(26,597.00)	(25,744.00)	(11,320.00)
Depreciation	(3,832.00)	(4,886.00)	(4,435.00)	(2,314.00)	(900.00)
Other Operating Expenses	(12,109.00)	(9,125.00)	(9,449.00)	(5,230.00)	(1,520.00)
PREPROVISION INCOME	(79,038.00)	(379,051.00)	118,703.00	143,126.00	76,685.00
Loan-Loss Provision	(30,855.00)	(706,944.00)	(1,090,127.00)	(67,414.00)	(33,164.00)
INCOME AFTER LOAN LOSS PROVISIONS	(109,893.00)	(1,085,995.00)	(971,424.00)	75,712.00	43,521.00
Other Provisions	38,778.00	(23,735.00)	(187,158.00)	(5,101.00)	(2,616.00)
Other Nonoperating Income	48,759.00	-	-	-	1,136.00
Share of Earnings of Associate	4,250.00	4,690.00	(15,448.00)	4,234.00	2,364.00
Other Nonoperating Expense	(5,222.00)	(8,868.00)	(14,087.00)	(308.00)	(775.00)
PRETAX INCOME	(23,328.00)	(1,113,908.00)	(1,188,117.00)	74,537.00	43,630.00
Taxes	155,679.00	(626.00)	67.00	(9,832.00)	(4,552.00)
Extraordinary Items, net	853,914.00				
Minority Interest	1,770.00	27,909.00	466.00	(3,351.00)	(580.00)
NET INCOME	988,035.00	(1,086,625.00)	(1,187,584.00)	61,354.00	38,498.00

( ) = negative value .
Source: BTA audited financial statements, 2006–2010