

**Approved by the Decision of the Board  
of the Sustainable Development Fund "Kazyna" JSC  
No.5 dated October 19, 2006**

**Memorandum on Credit Policy  
of JSC “Development Bank of Kazakhstan”**  
*(as amended by the Board Decision of Sustainable Development Fund "Kazyna"  
dated May 3, 2007 (Minutes No. 21), dated December 26, 2007 (Minutes No. 76),  
dated March 14, 2008 (Minutes No. 15))*

## **1. General Provisions**

1. This Memorandum on Credit Policy of JSC “Development Bank of Kazakhstan” (hereinafter referred to as the Memorandum) is elaborated with the Laws of the Republic of Kazakhstan and provides for the general principles and priorities of credit and leasing policies of Joint-Stock Company “Development Bank of Kazakhstan” (hereinafter referred to as DBK), specifies the investment priorities, volume limitations for raising debt capital, limits, directions, possible conditions, order and terms of lending and leasing, equity investment, co-financing, issue of guarantees, warrants and other obligations, providing for execution in money form (further - guarantees), fulfillment of agent’s functions.
2. The Memorandum is of conceptual and mandatory nature and it shall be construed as a foundation for DBK to identify the internal credit policy, policy of borrowing, assets and liabilities management, and financial risks management, specified by the internal documents of the Development Bank.

## **2. Lending and Leasing**

### **3. Investment priorities**

DBK's investment priorities while selecting investment projects within the Development Strategy of the Republic of Kazakhstan, state and sectoral lending and leasing programs are the development and establishment of competitive production facilities and infrastructure in Kazakhstan that promote the export of goods, works, services and capital produced in Kazakhstan.

The main investment directions of DBK are the projects oriented to establish and develop:

1. Infrastructure sites (energy, transport, telecommunications and tourism);

2. Industrial production facilities including extraction and/or purchase, transportation of raw materials, its processing and sale of finished goods within related investment project;
3. Agricultural productions including manufacturing and/or purchase, transportation of raw materials, its processing and sale of finished goods within related investment project;
4. Sites in service sector (on commercial basis): tourism, ecology, medicine, education, sport and recreation, hotels.

The core abroad investment activity of DBK are the projects, that facilitate the development of infrastructure, transit potential of the Republic of Kazakhstan, export of goods, works, services and capital produced in Kazakhstan.

#### **4. Types of lending**

In its lending activity the DBK shall use the following types of financing:

- medium- and long-term financing, including co-financing and refinancing of investment projects;
- financing, including co-financing, of export operations through provision of loans to residents - suppliers of goods produced in Kazakhstan and to non-residents - buyers of goods produced in Kazakhstan;
- Project financing of investment projects;
- Crediting of lessor-organizations in which share capitals DBK takes part (further - lessor organizations);
- Financial leasing.

#### **5. Main selection criteria for investment projects and export operations**

The main criteria of DBK while selecting investment projects and export operations are the following:

- correspondence of investment projects to priorities, specified herein;
- profitability and payback of the project;
- possible sale of goods produced under project realization and sufficiency of raw material base;
- technological and technical validity of project decisions and acquisition of financial leasing subject;
- compliance with the ecological requirements;
- quality and completeness of project documents;
- institutional study, availability of competent management;
- availability of security of credit instrument and/or leasing transaction;
- fulfillment of requirements, made to the borrower (creditworthiness, solvency, financial stability, etc.).

## **6. Lending restrictions**

In its lending activity, DBK takes into account the restrictions, specified by the Article 15 of the Law of the Republic of Kazakhstan dated April 25, 2001 “On Development Bank of Kazakhstan” (hereinafter referred to as the Law).

DBK is prohibited to finance:

- production of arm;
- production of alcohol;
- production of drugs, drug and psychotropic substances;
- production of tobacco;
- house building;
- construction of state educational and medical institutions, entertaining complexes;
- exploration works.

## **7. Interest rates and tariffs**

Interest rate on loans financial leasing extended by DBK shall be calculated taking into account the average borrowing cost and operational costs of DBK.

Assets and Liabilities Management Committee of DBK shall fix the average borrowing cost, maximum and minimum interest rates, tariffs and commissions, in accordance with the procedures specified by the Board of Directors.

The Board of Directors approves the interest rate on investment projects and export operations to the amount exceeding U.S. \$5 million as well as on loans to lessor-organizations, taking into consideration the decision of DBK Credit Committee.

## **8. Investment projects financing**

### 1) Lending terms and currency

In its investment projects financing DBK fixes the following lending periods.

- medium-term investment loans (5-10 years);
- long-term investment loans (10-20 years).

Investment projects are financed in the national and foreign currency as per the conditions of the investment projects.

### 2) Sources of lending

The borrowed funds, including state budget loans and loans, attracted by DBK with the government guarantees, shall be used for investment projects financing.

### 3) Minimum loan amount

The minimum loan amount, extended by DBK for investment project, shall be fixed at the equivalent of U.S. \$5 million.

The minimum amount of investment project financing, extended by DBK jointly with its daughter lessor-organization on the terms of lending, financial leasing and/or guarantees issuance, is set at the equivalent of U.S. \$5 million.

In case of financing of investment project by DBK jointly with daughter lessor-organization on the terms of lending, financial leasing and/or guarantees issuance, the statement of the first part of this subpoint does not apply to DBK.

### 4) Decision-making procedure

The issue on investment project financing, that has a positive opinion based on banking examination, should be submitted for consideration to the Credit Committee of DBK. If Credit Committee of DBK takes a favourable decision, this issue should be submitted for consideration to the Board of Directors of DBK, which takes the decision on project financing.

## **9. Export operations financing**

### 1) Lending terms and currency

In its export operations financing the DBK fixes the terms depending on the conditions of the export operation.

Export operations are financed in the national and foreign currency in accordance with the conditions of the export operation.

### 2) Sources of lending

The following sources are used for export operations financing:

- borrowed funds, except state budget loans;
- DBK charter capital in the volume not exceeding 20% of its amount.

### 3) The minimum loan amount

The minimum loan amount, extended by DBK for export operation, shall be fixed at the equivalent of U.S. \$1 million.

The share of export operations in DBK loan portfolio is set by the Board of Directors.

#### 4) Decision-making procedure

The issue on export operation financing, that has a positive opinion based on banking examination, should be submitted for consideration to the Credit Committee of DBK.

The decision on financing of export operation in the amount not exceeding the equivalent of U.S. \$5 million shall be taken by the Credit Committee of DBK.

If financing of export operation exceeds the amount equivalent to U.S. \$5 million and if Credit Committee of DBK takes a positive decision, it should be submitted for consideration to the Board of Directors of DBK, which takes the decision on financing of export operation.

### **10. Carrying out leasing transactions**

#### 1) Terms and currency of leasing transactions

- Medium-term (3-10 years);
- Long-term (10-20 years).

Leasing transactions are carried out in national and foreign currency.

#### 2) Sources of financing

Borrowed funds including state budget loans are used for carrying out leasing transactions.

#### 3) Minimum amount of leasing transaction

Minimum amount of leasing transaction, carried out by DBK is fixed at the rate exceeding the limit of leasing transactions carried out by lessor-organizations where DBK owns the 100-% of share capital.

#### 4) Decision making procedure

The issue on leasing transaction financing, that has a positive opinion based on banking examination, should be submitted for consideration to the Credit Committee. If Credit Committee takes a favourable decision (approval), this issue should be submitted for consideration to the Board of Directors, which takes the decision on leasing transaction financing.

### **11. Financing of lessor-organizations**

#### 1) Lending terms and currency

In case of financing of lessor-organizations, the terms are set based on conditions of Loan Agreement between DBK and lessor-organizations.

Financing of lessor-organizations is carried out in national and foreign currency.

## 2) Sources of financing

Borrowed funds including state budget loans are used for financing of lessor-organizations.

## 3) Lending amount

Loan amount extended by DBK to lessor-organization is set by Loan Agreements between DBK and lessor-organizations.

## 4) Decision making procedure

The issue on financing of lessor-organization should be submitted for consideration to the Credit Committee of DBK. If DBK Credit Committee takes a favourable decision (approval), this issue should be submitted for consideration to the Board of Directors of DBK, which takes the decision on financing of lessor-organization.

## **12. Monitoring and control of the loan portfolio**

DBK constantly monitors and controls its loan portfolio. The monitoring and control include the process of supervision and analysis over the creditworthiness and solvency of the borrower, lessee-organization, purposeful loan utilization, subject of a leasing, implementation of investment project and export operation within the effectiveness of banking loan agreement, financial leasing agreement.

Based on the results of monitoring and control, DBK shall monthly make the classification of loan portfolio and create the provisions (reserves) as per the Article 17 of the Law.

## **13. Issue of guarantees**

### 1) Restrictions on the issue of DBK guarantees

DBK issues guarantees taking into consideration the restrictions specified by the Article 15 of the Law.

DBK issues guarantees for investment projects financing, which should correspond to the investment priorities specified herein.

### 2) Terms and currency

The terms of financing of investment projects and export operations, for which DBK issues guarantees shall correspond to the terms specified herein for investment projects and export

operations financed by DBK.

The terms of issuance of DBK guarantees for lessor-organizations are set based on loans terms attracted by lessor-organizations.

The Development Bank issues guarantees in national and foreign currency in accordance with the realised investment project, export operation or conditions of the loan attracted by lessor-organization.

3) Amount of guarantee

The minimum amounts of financing of investment projects and export operations, for which DBK issues the guarantees, shall correspond to the minimal amounts specified herein for investment projects and export operations financed by DBK.

The amounts of guarantees issued for lessor-organizations are defined depending on loans terms attracted by lessor-organizations.

4) Total volume of guarantees

The correlation of the total volume of current guarantees (contingent liabilities) of DBK issued on the loans of the third parties including lessor-organizations, attracted by them for realization of investment project and export operation, to DBK equity shall not exceed the ratio of 2:1.

The Board of Directors of DBK shall be entitled to determine the limit on contingent liabilities within the limits of the specified ratio.

5) Decision-making procedure

Investment project or export operation for which DBK issues guarantees and that have positive opinion based on banking examination should be submitted to Credit Committee of DBK.

The decision on issue of DBK guarantees on loans of third parties, realizing investment projects, shall be taken by the Board of Directors, in case Credit Committee of DBK approves the matter.

The decision on issue of DBK guarantees on loans of third parties, realizing export operations, in the amount not exceeding the sum equivalent to U.S. \$5 million, shall be taken by Credit Committee of DBK.

The decision on issue of DBK guarantees on loans of third parties, realizing export operations, in the amount exceeding the sum equivalent to U.S. \$5 million, shall be taken by the Board of Directors, in case Credit Committee of DBK approves the matter.

The decision on issue of DBK guarantees for lessor-organizations shall be taken by the Board of Directors, in case Credit Committee of DBK takes positive opinion.

6) **Monitoring and control of DBK contingent liabilities (guarantees)**

The monitoring and control of contingent liabilities (guarantees) shall be constantly carried out by DBK by means of supervision over the lending process and fulfilment of liabilities by the debtor (borrower), including the analysis of its creditworthiness and solvency, purposeful loan utilization, realization of investment project and export operation within the whole period of guarantee's validity.

Based on the results of monitoring and control, DBK shall make monthly classification of contingent liabilities (guarantees) and create provisions (reserves) as per the Article 17 of the Law.

## **14. Security**

### **1) Security of loans and guarantees**

Loans and guarantees extended by DBK shall be secured by collateral, guarantee and other means of security, stipulated by the legislation of the Republic of Kazakhstan.

The requirement of the first part of this subpoint does not apply to the cases where DBK extends loans to lessor-organizations and owns 100-% of their share capital and issues guarantees on their obligations.

The method, structure and amount of the security on loans and guarantees, extended by DBK, shall be stipulated by the Board of Directors of DBK.

### **2) Security of leasing transaction**

Leasing transaction risks shall be secured through partial compensation of a cost of leasing subject as an advance payment and/or provided by collateral, guarantee and other means of security specified by the legislation, as well as by insuring the leasing subject in compliance with DBK internal regulations, in the order approved by the Board of Directors of DBK.

The method, structure and amount of the security on leasing transaction, carried out by DBK, shall be stipulated by the Board of Directors of DBK.

## **15. Limits**

Limit on risk per single borrower including lessor-organization and lessee-organization (group

of affiliated borrowers and lessee-organizations except for legal entities where more than 50% of their shares belong directly or indirectly to the state including legal entities which shareholdings are owned by State Assets Management Holding "Samruk", JSC and/or by Sustainable Development Fund "Kazyna", JSC) shall be set in the amount not more than 25% of DBK equity.

The Board of Directors of DBK shall be entitled to set the limit on breakdown of the loan and leasing portfolio by sectors and regions in accordance with the priorities of lending policy.

### **3. Complex Banking Examination**

**16.** The Development Bank shall not be entitled to extend loans, to issue guarantees and to carry out leasing activity without banking examination. Banking examination shall be carried out in accordance with procedures, specified by DBK internal documents.

The requirement to make banking examination does not apply to the cases when DBK finances lessor-organizations in which DBK owns 100% of their share capital and issues guarantees on their obligations.

**17. DBK realizes on contractual basis the banking examination of:**

- republican and local budget investment projects (programs), proposed for financing on payback basis;
- investment projects, proposed for financing out of proceed of the loans guaranteed by the Government;
- investment projects, proposed for financing on Government warranty;
- investment projects and export operations, proposed for financing by DBK or for its guarantee;
- in case of financing of lessor-organizations except for the cases stipulated in the second part of point 16 herein.

In order to carry out banking examination, DBK may attract experts and consultants.

Complex examination of the projects, realized by DBK on financial leasing basis, can be carried out on contractual terms by lessor-organizations in which DBK owns 100% of their share capital.

**18. The requirements to banking examination documents**

Banking examination is carried out by DBK in case of availability of the documents prepared in accordance with the requirements, specified in DBK internal documents.

## **19. Tariffs for realization of banking examination**

The tariffs for realization of banking examination shall be fixed by Assets and Liabilities Management Committee of DBK and approved by the Board of Directors.

## **4. Fulfillment of agent function**

**20.** DBK acts as an agent in compliance with the Article 10 of the Law based on Agreement on agent services concluded by DBK.

## **21. Requirements and conditions of servicing**

The agreements on agent services shall provide for the list of functions fulfilled by the agent, conditions (including financial ones) and responsibility for improper fulfilment of agent functions by DBK while servicing:

- republican and local budget investment projects, financed on payback basis,
- projects, financed out of proceeds of the loans guaranteed by the Government.

Also it could be specified to fulfill agent functions on reimbursement of funds, allocated from the republican budget in connection with fulfillment of liabilities on government guarantees and other debt liabilities of legal entities, by the Government of the Republic of Kazakhstan on the basis of respective agreements.

Fulfillment of agent functions on servicing projects and loans and agent functions on reimbursement of funds allocated from the republican budget shall not provide for the fulfillment of borrower's liabilities to the republican budget and lenders at the expense of DBK funds.

## **5. Borrowing**

### **22. Sources and forms**

According to the legislation of the Republic of Kazakhstan, DBK raises debt capital in the external and internal debt capital markets, including attraction of loans out of the republican and local budgets.

The borrowing may be realized in the following forms:

- issue and placement of debt securities;
- conclusion of loan contracts (agreements).

DBK attracts syndicated loans, inter-bank loans of residents and non-residents of the Republic of Kazakhstan and budget loans by means of conclusion of loan agreement (contract).

DBK borrows funds both in national and foreign currency.

### **23. Use of borrowed funds**

DBK raises capital to fund its lending and leasing activity and manage the liquidity.

The budget loans shall be attracted in order to decrease the average cost of borrowing and to increase the average term of loan portfolio.

### **24. Borrowing interest rate**

Assets and Liabilities Management Committee of DBK shall fix the limit (maximum amount) of borrowing rate.

### **25. Limits and restrictions**

The principal debt on borrowed funds, attracted by DBK for financing of investment projects, export operations, lessor-organizations and leasing activity (liabilities), to its equity, shall not exceed the ratio of 6:1.

The Board of Directors of DBK shall be entitled to set the limit on liabilities as per the specified ratio.

The restrictions shall not be applied to the funds serviced on agent basis.

The breakdown of DBK's loan portfolio by sources, terms, borrowing rates shall be decided upon by Assets and Liabilities Management Committee of DBK.

## **6. Investment portfolio management**

### **26. Instruments and limits**

DBK shall place free funds, including borrowed funds and share capital, on the internal and external markets (investment portfolio) into the financial instruments in compliance with the requirements of authorized state agency on regulation and supervision of financial market and financial organizations.

The volume of investments in financial instruments of the total investment portfolio is set by the Board of Directors of DBK.

**27.** DBK shall be entitled to transfer the part of its share capital (not more than 50% of paid-in share capital) for asset management in accordance with the procedures, specified by the Board of Directors of DBK and in compliance with the legislation of the Republic of Kazakhstan.

## **7. Participation in share capital of legal entities**

### **28. Participation of DBK in share capital**

DBK participates in share capitals of legal entities in accordance with the Article 14 of the Law.

### **29. The participation share**

DBK participation share in share capital of the stock-exchange, central depository, lessor organizations shall be defined by the Board of Directors of DBK, unless otherwise stipulated by the legislation of the Republic of Kazakhstan and DBK statutory documents.

In case DBK establishes and/or participates together with third parties in the lessor organizations, its share shall be defined through mutual agreement between the parties.