

## **GAMMA Score on the Development Bank of Kazakhstan Raised to GAMMA—5+**

*S&P GAMMA Score on the Development Bank of Kazakhstan Raised to GAMMA-5+*

MOSCOW, March 14 2011--Standard & Poor's Governance Services said it has raised its governance, accountability, management, metrics, and analysis (GAMMA) score on JSC Development Bank of Kazakhstan (DBK) to GAMMA-5+ from GAMMA-5. The raising of the GAMMA score primarily reflects the appointment of two additional independent directors to the board and the adoption of a long-term strategy in 2010. DBK is a Kazakhstani development institution wholly owned by "Samruk-Kazyna" Sovereign Wealth Fund.

"Like other subsidiaries of Samruk-Kazyna, DBK benefits from the fund's focus on improving corporate governance standards within the group. The appointment of two additional independent directors is a testament to the fund's commitment to pursue improvements in governance at DBK even though the bank is wholly owned," said Standard & Poor's governance analyst Oleg Shvyrkov. "And also like its sister entities, DBK is not immune to some controversial aspects of the fund's influence. In 2010, these included the bank's involvement in the short-term financial policy actions. We also note that constraints on executive compensation practices imposed by the fund during the financial crisis remain in effect."

The overall GAMMA score assigned to DBK is the result of four component scores of 1 (low) to 10 (high).

- Shareholder influence  
5
- Shareholder rights  
5
- Transparency, audit and enterprise risk management (ERM)  
5+
- Board effectiveness, strategic process and incentives  
5+

The strengths of corporate governance practices at DBK, according to Standard & Poor's Governance Services, include:

Samruk-Kazyna provides financial backing for DBK and encourages improvements in governance.

The board comprises a rich mix of skills and has a significant degree of independence. Independent directors have relevant experience and play a prominent role on the board and most committees. At most board meetings, the independent directors hold a majority of votes.

The board and the four board-level committees hold regular face-to-face meetings and decision-making is generally consensus-based. The attendance rate of the independent directors is high.

The audit committee has an independent majority and its members have backgrounds in finance and audit. The internal audit department employs a risk-based approach to audit and reports to both the audit committee and the board. Governance of risk management is also solid.

Transparency is generally good, in our view, albeit still behind many international peers. IFRS statements with notes are published reasonably timely, while the bank's multilingual web site and the annual report are fairly informative.

The bank adopted a long-term strategy in 2010. Sophisticated strategic planning and budgeting procedures are in place.

The laws of Kazakhstan confer a wide scope of direct voting rights, and these will automatically apply to any external shareholder in DBK.

Standard & Poor's analysis, however, identified several weaknesses it sees in the governance system of DBK, including:

Samruk-Kazyna fund is a complex governmental organisation managing a portfolio of very diverse businesses. In the past, there were significant delays in the fund's decision-making with respect to its subsidiaries. Also, we believe that some of the fund's decisions reflected tactical goals or political sensitivities of the government, and that these decisions were not in line with the operating needs and strategic objectives of DBK.

The strength of checks and balances provided by the independent directors is untested. Although the independent directors clearly influenced the terms of some major transactions, their ability to confront the parent company and veto certain transactions has not been demonstrated yet.

The bank's strategy is intertwined with the government's industrial policy and financial regulation. As a consequence, DBK has limited autonomy in terms of setting strategy and its implementation.

Executive pay is not currently linked to performance. Samruk-Kazyna continues to oppose all bonus payments despite the economic recovery and positive financial results of the bank.

The risk management department does not have the sophisticated information technology needed to achieve compliance with Basel II requirements.

In our view, there is room for improvement in terms of transparency and investor relations.

The report is available on Standard & Poor's web site at [www.governance.standardandpoors.com](http://www.governance.standardandpoors.com) and on the Russian-language web site [www.standardandpoors.ru](http://www.standardandpoors.ru). Information on Corporate Governance Scores and GAMMA scores is available at [www.governance.standardandpoors.com](http://www.governance.standardandpoors.com). Alternatively, call one of the following Standard & Poor's numbers: Moscow (7) 495-783-4000/40.

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**Media Contact:**

**Marc Eiger, New York (1) 212.438.1280, [marc\\_eiger@standardandpoors.com](mailto:marc_eiger@standardandpoors.com)**

**Governance Analysts:**

**Oleg Shvyrkov, Moscow, 7 495 783 4045,**

[oleg\\_shvyrkov@standardandpoors.com](mailto:oleg_shvyrkov@standardandpoors.com)

**Ekaterina Marushkevich, Moscow, 7 495 783-4044,**

[ekaterina\\_marushkevich@standardandpoors.com](mailto:ekaterina_marushkevich@standardandpoors.com)

**Additional Contact:**

**Governance Services Europe; [Governance@standardandpoors.com](mailto:Governance@standardandpoors.com)**