JSC HALYK BANK

Consolidated Financial Statements
For the Years Ended 31 December 2007 and 2006

and Independent Auditors' Report

JSC HALYK BANK

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JSC HALYK BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

The following statement, which should be read in conjunction with independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007 and 2006, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Halyk Bank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2007 and 2006, and the consolidated income statements, the consolidated statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2007 and 2006, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP
State license on auditing of Kazakhstan
Number 0000015, type MFU-2, given by
the Ministry of Finance of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
Engagement Partner
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate №0082
General Director
Deloitte, LLP

3 March 2008
Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	5	255,245	127,799
Obligatory reserves	6	87,268	55,106
Financial assets at fair value through profit or loss	7	48,073	53,195
Amounts due from credit institutions	8	3,398	2,049
Available-for-sale investment securities	9	107,839	123,339
Loans to customers	10	1,040,273	596,216
Property and equipment	11	22,766	16,412
Goodwill	12	3,265	3,265
Intangible assets		3,841	1,538
Insurance assets	13	3,886	5,626
Other assets	14	19,221	6,814
TOTAL ASSETS		1,595,075	991,359
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	15, 35	935,429	597,935
Amounts due to credit institutions	16	247,452	118,719
Financial liabilities at fair value through profit or loss	7	2,851	10
Debt securities issued	17	224,886	134,413
Provisions	18	1,885	3,021
Deferred tax liability	19	3,897	2,530
Insurance liabilities	13	7,389	7,535
Other liabilities	20	10,261	6,569
Total liabilities		1,434,050	870,732
EQUITY			
Share capital	21	65,531	60,684
Share premium reserve		1,952	2,183
Treasury shares		(66)	(38)
Retained earnings and other reserves		92,253	56,736
		159,670	119,565
Minority interest		1,355	1,062
Total equity		161,025	120,627
TOTAL LIABILITIES AND EQUITY		1,595,075	991,359

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 11 to 69 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	23	132,566	80,647
Interest expense	23	(61,532)	(34,184)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE		71,034	46,463
Impairment charge	18	(22,184)	(8,331)
NET INTEREST INCOME		48,850	38,132
Fee and commission income	24	25,428	22,064
Fee and commission expense	24	(1,255)	(929)
Fees and commissions, net		24,173	21,135
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	25	3,365	(193)
Net realized gain from available-for-sale investment securities		623	202
Net gain on foreign exchange operations	26	5,447	3,440
Insurance underwriting income	27	5,920	664
Share of (loss)/income of associates		(31)	167
Other income		1,817	1,025
OTHER NON-INTEREST INCOME		17,141	5,305
Operating expenses	28	(37,842)	(28,116)
Recoveries of provisions/(provisions)	18	997	(752)
Insurance claims incurred, net of reinsurance	13	(2,152)	(103)
NON-INTEREST EXPENSES		(38,997)	(28,971)
INCOME BEFORE INCOME TAX EXPENSE		51,167	35,601
Income tax expense	19	(10,642)	(8,442)
NET INCOME		40,525	27,159
Attributable to:			
Minority interest		428	500
Preferred shareholders		3,883	2,764
Common shareholders		36,214	23,895
		40,525	27,159
Basic earnings per share (in Kazakhstani Tenge)	29	37.01	26.43
Diluted earnings per share (in Kazakhstani Tenge)	29	35.93	17.73

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 11 to 69 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
31 December 2006		44,977	2,474	13,233	2,183	(38)	-	258	285	56,193	119,565	1,062	120,627
Exchange differences on translation of foreign operations		-	-	-	-	-	78	-	-	-	78	-	78
(Loss)/gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	-	(6)	-	-	(6)	16	10
Net (loss)/income recognized directly in equity		-	-	-	-	-	78	(6)	-	-	72	16	88
Transfers (net of any related tax):							-						
Gains transferred to income statement on sale of available-for-sale investment securities		-	-	-	-	-	-	(623)	-	-	(623)	(1)	(624)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	-	(7)	7	-	-	-
Net income		-	-	-	-	-	-	-	-	40,097	40,097	428	40,525
Total recognized income and expense		-	-	-	-	-	78	(629)	(7)	40,104	39,546	443	39,989
Common shares issued	21	4,847	-	-	-	-	-	-	-	-	4,847	-	4,847
Treasury shares purchased	21	-	-	-	(231)	(28)	-	-	-	-	(259)	-	(259)
Dividends – common shares		-	-	-	-	-	-	-	-	(2,450)	(2,450)	-	(2,450)
Dividends – preferred shares		-	-	-	-	-	-	-	-	(1,579)	(1,579)	-	(1,579)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(150)	(150)
31 December 2007		49,824	2,474	13,233	1,952	(66)	78	(371)	278	92,268	159,670	1,355	161,025

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
31 December 2005		14,222	2,474	12,320	2,192	(16)	-	301	290	32,215	63,998	446	64,444
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	-	159	-	-	159	-	159
Net income recognized directly in equity		-	-	-	-	-	-	159	-	-	159	-	159
Transfers (net of any related tax):													
Gains transferred to income statement on sale of available-for-sale investment securities		-	-	-	-	-	-	(202)	-	-	(202)	-	(202)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	-	(5)	5	-	-	-
Net income		-	-	-	-	-	-	-	-	26,659	26,659	500	27,159
Total recognized income and expense		-	-	-	-	-	-	(43)	(5)	26,664	26,616	500	27,116

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	Share Capital			Share Premium Reserve	Treasury Shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment Securities*	Property and equipment revaluation Reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
		Common Shares	Non-Convertible Preferred Shares	Convertible Preferred Shares									
Common shares issued	21	30,755	-	-	-	-	-	-	-	-	30,755	-	30,755
Preferred shares issued	21	-	-	913	-	-	-	-	-	-	913	-	913
Treasury shares purchased	21	-	-	-	(9)	(22)	-	-	-	-	(31)	-	(31)
Dividends – common shares		-	-	-	-	-	-	-	-	(1,331)	(1,331)	-	(1,331)
Dividends – preferred shares		-	-	-	-	-	-	-	-	(1,355)	(1,355)	-	(1,355)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(58)	(58)
Changes in minority interest share of net assets		-	-	-	-	-	-	-	-	-	-	174	174
31 December 2006		44,977	2,474	13,233	2,183	(38)	-	258	285	56,193	119,565	1,062	120,627

* These amounts are included within Retained earnings and other reserves in the consolidated balance sheet.

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 11 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		51,167	35,601
Adjustments for:			
Impairment charge	18	22,184	8,331
(Recoveries of provisions)/provisions	18	(997)	752
Depreciation and amortization expenses	28	3,366	2,371
(Gain)/loss from disposal of property and equipment and other assets		(97)	(277)
Claims incurred	13	2,152	103
Change in unearned insurance premiums reserve	13	650	944
Net (gain)/loss from financial assets and liabilities at fair value through profit and loss		(3,365)	193
Other		(592)	(167)
Unrealized foreign exchange loss/(gain)		501	(366)
Cash flows from operating activities before changes in net operating assets		74,969	47,485
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves		(32,639)	(48,471)
Financial assets at fair value through profit or loss		7,545	(3,665)
Amounts due from credit institutions		(1,429)	1,399
Loans to customers		(483,741)	(197,456)
Insurance assets		(1,062)	(521)
Other assets		(1,382)	(1,945)
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss		2,841	8
Amounts due to customers		349,981	282,260
Amounts due to credit institutions		134,867	10,286
Insurance liabilities		(146)	889
Other liabilities		2,936	2,929
Net cash flows from operating activities before income taxes		52,740	93,198
Income tax paid		(8,599)	(5,791)
Net cash flows from operating activities		44,141	87,407
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired		-	(5,219)
Purchase and prepayment for property and equipment and intangible assets		(24,018)	(8,584)
Proceeds from sale of property and equipment		650	1,100
Proceeds from sale of available-for-sale investment securities		105,728	900
Purchase of available-for-sale investment securities		(90,256)	(109,630)
Net cash flows used in investing activities		(7,896)	(121,433)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from common shares issued	21	4,847	30,755
Proceeds from preferred shares issued	21	-	913
Purchase of treasury shares		(259)	(31)
Dividends paid		(4,179)	(2,744)
Proceeds from debt securities issued		118,467	79,991
Redemption of debt securities issued		(22,553)	(2,347)
Net cash flows from financing activities		96,323	106,537
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(5,122)	(1,814)
Net change in cash and cash equivalents		127,446	70,697
CASH AND CASH EQUIVALENTS, beginning of the year		127,799	57,102
CASH AND CASH EQUIVALENTS, end of the year	5	255,245	127,799
SUPPLEMENTARY INFORMATION:			
Interest received		103,762	76,070
Interest paid		68,366	27,791

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 10 to 69 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank (the "Bank") and its subsidiaries (together the "Group") provide retail and corporate banking services principally in Kazakhstan, Russia and Kyrgyzstan, and pension asset management and insurance services in Kazakhstan. The Bank was incorporated in 1995 and is domiciled in Kazakhstan. The Bank operates under a general banking licence renewed by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of Kazakhstan ("FMSA") on 30 September 2005. The Bank also possesses licences for securities operations and custody services from the FMSA, which was renewed on 19 February 2004. The Bank is a member of the obligatory deposit insurance system provided by the JSC Kazakhstani Fund for Deposits Guarantee.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and credit card operations and rendering other banking services to its customers. In addition, the Bank acts as the government's agent in channelling various budgetary payments and pensions through its nationwide network.

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank has also sold Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange. The Group's controlling shareholder JSC Holding Group Almex ("Almex"), sold 17.69% of its share in the Group's equity through the GDR issuance, and obtained the proceeds from this issuance.

As at 31 December 2007 the Group was controlled by Almex via its 62.09% share of all Bank's outstanding shares (2006 – 64.34%). The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2007 the Bank operated through its head office in Almaty and its 22 regional branches, 127 sub-regional offices and 473 cash settlement units (2006 - 19, 127 and 428, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 97 Rozybakiyev Street, Almaty, 050046, Kazakhstan.

The consolidated financial statements were authorised for issue by the Management Board of the Bank on 3 March 2008.

2. BASIS OF PRESENTATION

Accounting basis

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earning per share amounts and unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and property and equipment which are carried at re-valued cost less depreciation as described in the accounting policies below.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the consolidated financial statements is the KZT.

Consolidated Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	Holding, % 31 December 2007	Holding, % 31 December 2006	Country	Industry
JSC Halyk Leasing	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	Netherlands	Issue and placement of Eurobonds
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	Kazakhstan	Broker and dealer Activities
LLP Halyk Inkassatsiya	100	100	Kazakhstan	Cash collection Services
JSC Halyk Life	100	100	Kazakhstan	Life insurance
JSC Halyk Capital	100	100	Kazakhstan	Broker and dealer Activities
LLP NBK-Finance	100	100	Russia	Broker and dealer Activities
JSC Kazakhinstrakh	98	98	Kazakhstan	Insurance
JSC Accumulated Pension fund of Halyk Bank	85	85	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	Russia	Banking
LLP Halyk Dornod	100	-	Mongolia	Banking
LLP Halyk Astana Dornod	100	-	Mongolia	Broker and dealer Activities

During 2007, the Group established two subsidiaries in Mongolia LLP Halyk Dornod and LLP Halyk Astana Dornod. Share capital of LLP Halyk Dornod and LLP Halyk Astana Dornod are equal to KZT 1.2 million and KZT 1.2 million, respectively. As at 31 December 2007 registered activities of both subsidiaries include only external and internal trading. LLP Halyk Dornod was registered in accordance with Mongolian law with the purpose of obtaining a licence for provision of banking services. LLP Halyk Astana Dornod was also registered in accordance with Mongolian law with the purpose of obtaining a licence to provide broker and dealer services.

Associates

The following associate is accounted for under the equity method:

Associate	Holding, %	Country	Activity	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
As at 31 December 2007 and for the year then ended								
JSC Processing Center	25.14	Kazakhstan	Processing	(31)	606	15	591	45
As at 31 December 2006 and for the year then ended								
JSC Processing Center	25.14	Kazakhstan	Processing	(28)	737	19	718	46

Investments in associate is classified within other assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" and performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment; and
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated income statement.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The minority interest is initially measured at the minority's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity and net income attributable to equity holders of the parent and attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Investments in associates are carried in the consolidated balance sheet at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reserve repo agreements with original maturities within 90 days. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory Reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Amounts Due from Credit Institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Fair Values

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgement as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its consolidated balance sheet as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

The table below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2007:

Balance sheet category		Quoted prices in active markets	Internal models based on market prices	Total
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	38,654	-	38,654
	Equity financial instruments	5,942	-	5,942
	Derivative financial instruments	-	3,477	3,477
Available-for-sale investment securities	Debt financial instruments	106,392	-	106,392
	Equity financial instruments	1,447	-	1,447
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	-	2,851	2,851

Financial Assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated balance sheet.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or held-to-maturity investments, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements are recognized in the consolidated income statement. Dividends declared are included in "Other income" in the consolidated income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Financial guarantees

Financial guarantee contracts are recognized in the consolidated balance sheet at fair value when it becomes probable that the Group will be called to make payment, and are subsequently re-measured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Repurchase and Reverse Repurchase Agreements and Securities Lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within Net gain/(loss) from financial assets and liabilities at fair value through profit and loss in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated balance sheet. Gains and losses resulting from these instruments are included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Amounts Due to Customers and Credit Institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheets and the difference between the carrying amount of the liability and the consideration paid is recognized in other income.

Debt Securities Issued

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost – If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take the possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

Available-for-sale investment securities – If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. In respect of equity instruments classified as available-for-sale, impairment losses previously recognized in the consolidated income statement are not reversed through the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Renegotiated loans – Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of Financial Assets and Liabilities

Financial assets – A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities – A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and Equipment

Property and equipment are carried mainly at cost less accumulated depreciation and any accumulated impairment.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and constructions	13
Vehicles	7
Computers and banking equipment	5-10
Other	4-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses. However where a revaluation surplus for the asset exists, an impairment loss is recognized directly against that surplus in the property and equipment revaluation reserve, to the extent that the impairment loss does not exceed the amount in the revaluation reserve.

Costs related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
b) Recognizes immediately in profit or loss any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and Other Benefit Obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in consolidated income statement. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

Share capital – The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares – Where the Bank or its subsidiaries purchase their own shares, the consideration paid, including any attributable transaction costs, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at nominal value.

Dividends – Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognized in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Trust Activities

Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign Currency Translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as of the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as net gain on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2007 was KZT 120.30 to USD 1 (2006 – KZT 127.00).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by FMSA for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting Income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated balance sheet.

Losses and loss adjustments are charged to income statement as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated income statement.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated balance sheets within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for Insurance Losses and Loss Adjustment Expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated balance sheet and is based on the estimated amount payable on claims reported prior to the balance sheet date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported reserve ("IBNR") for motor hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by FMSA. Under this guidance, the IBNR reserve is calculated as using the expected loss ratio for each line of business, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from reinsurer and are included in the consolidated balance sheet within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7") and IAS 1 "Presentation of Financial Statements" ("IAS 1").

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Group's financial instruments in the consolidated financial statements. Additional information is disclosed in the consolidated financials statements for the current and comparative reporting periods as required by IFRS 7.

Amendment to IAS 1 – "Capital Disclosures" - On 18 August 2005, the IASB issued an amendment to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information is disclosed in the consolidated financials statements for the current and comparative reporting periods as required by amended IAS 1.

Standards and interpretations issued and not yet adopted

The Group has not applied the following IFRS and Interpretations of the International Financial Reporting Interpretations Committee that have been issued but are not yet effective:

- IFRS 8 "Operating Segments" - On 30 November 2006, the IASB issued IFRS 8 which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after 1 January 2009. The Group is evaluating the impact of IFRS 8 on the consolidated financial statements.
- Amendment to IAS 1 "Presentation of Financial Statements" – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. The Group does not expect the adoption of the amendment to IAS 1 to have an impact on the financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" - On 30 November 2006 IFRIC issued IFRIC 11 which requires that treasury share transactions are treated as equity- settled, and share-based payments involving equity instruments of the parent should be treated as cash-settled. The Group does not expect the adoption of IFRIC 11 to have a material impact on the Group's profit or loss or financial position. IFRIC 11 is effective for periods beginning on or after 1 March 2007.
- IFRS 3 "Business Combinations" – The IASB published IFRS 3 and related revisions to IAS 27 "Consolidated and Separate Financial Statements" following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after 1 July 2009 but may be adopted together for accounting periods beginning on or after 1 January 2007.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables – The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future consolidated income statement and its consolidated balance sheet.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgement to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2007 is KZT 56,697 million (31 December 2006: KZT 33,654 million).

Taxation – Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years proceeding the year of review.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts – For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of IBNR claims at the balance sheet date. For certain lines of business, IBNR claims form the majority of the balance sheet claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by FMSA, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill – Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2007	31 December 2006
Cash on hand	2,918	14,931
Recorded as loans and receivables in accordance with IAS 39:		
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	3,101	6,328
Correspondent accounts with non-OECD based banks	2,972	1,100
Overnight deposits with OECD based banks	41,278	81,495
Short-term deposits with OECD based banks	197,654	-
Short-term deposits with Kazakhstan banks	7,322	23,564
Overnight deposits with Kazakhstan banks	-	381
	255,245	127,799

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2007		31 December 2006	
	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	2.3%-2.7%	-	3.6%-5.3%
Short-term deposits with OECD based banks	-	3.8%-10.0%	-	-
Short-term deposits with Kazakhstan banks	3.0%-11.0%	-	6.0%-9.0%	-
Overnight deposits with Kazakhstan banks	-	-	6.0%	-

Fair value of assets pledged and carrying value of short-term deposits, included in short-term deposits with Kazakhstan banks, under reverse repurchase agreements classified as cash and cash equivalents as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Carrying value of deposits	Fair value of collateral	Carrying value of deposits	Fair value of collateral
NBK notes	5,181	5,431	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	2,001	2,247	-	-
Equity securities of Kazakhstan corporations	100	113	-	-
Bonds of Kazakhstan banks	-	-	2,800	2,887
Bonds of Kazakhstan corporations	-	-	1,287	1,428
	7,282	7,791	4,087	4,315

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2007	31 December 2006
Recorded as loans and receivables in accordance with IAS 39:		
Due from the NBK allocated to obligatory reserves	59,376	48,317
Cash on hand allocated to obligatory reserves	27,892	6,789
	87,268	55,106

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBK and used for calculation of the minimum reserve requirement.

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2007	31 December 2006
Financial assets held for trading:		
Treasury bills of the Ministry of Finance of Kazakhstan	32,161	29,162
Securities of foreign countries and organizations	6,225	-
Derivative financial instruments	3,477	179
Bonds of the Development Bank of Kazakhstan	1,964	4,545
Equity securities of Kazakhstan banks	1,682	428
Mutual investment funds shares	1,245	1,452
Bonds of Kazakhstan banks	942	3,011
Corporate bonds	287	5,279
Equity securities of Kazakhstan corporations	90	352
Sovereign bonds of Kazakhstan	-	6,290
NBK notes	-	2,497
	48,073	53,195
Subject to repurchase agreements	2,976	1,000

Financial liabilities at fair value through profit or loss comprise:

	31 December 2007	31 December 2006
Financial liabilities held for trading:		
Derivative financial instruments	2,851	10
	2,851	10

As at 31 December 2006, NBK notes amounting to KZT 31 million and Treasury bills of the Ministry of Finance of Kazakhstan amounting to KZT 1 million were restricted as collateral for certain of the Group's borrowings.

Interest rates and maturities of financial assets at fair value through profit or loss are presented as follows:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Kazakhstan	3.2%-11.3%	2008-2014	3.2%-6.7%	2008-2014
Securities of foreign countries and organizations	3.1%	2008-2012	-	-
Bonds of the Development Bank of Kazakhstan	6.2%	2026	4.8%-9.8%	2007-2026
Bonds of Kazakhstan banks	7.5%-13.9%	2009-2011	6.1%-8.6%	2007-2013
Corporate bonds	8.3%-14.1%	2010-2015	8.1%-10.5%	2007-2015
Sovereign bonds of Kazakhstan	-	-	11.1%	2007
NBK notes	-	-	2.2%	2007

Derivative financial instruments comprise:

	31 December 2007			31 December 2006		
	Nominal	Net fair value		Nominal	Net fair value	
	amount	Asset	Liability	amount	Asset	Liability
Foreign currency contracts						
Forwards	110,532	3,364	2,740	16,004	111	-
Swaps	1,195	-	107	162,969	48	-
Interest rate contracts						
Swaps	1,296	113	4	2,147	20	10
		3,477	2,851		179	10

As at 31 December 2007 and 2006, the Group used quoted market prices from independent informational sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data. Therefore, the fair values are not susceptible to significant changes as a result of changes in assumptions or inputs to the model.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2007	31 December 2006
Recorded as loans and receivables in accordance with IAS 39:		
Term deposits	2,626	1,885
Loans to Kazakhstan credit institutions	790	170
	3,416	2,055
Less - Allowance for loan impairment (Note 18)	(18)	(6)
	3,398	2,049

Interest rates and maturity of amounts due from credit institutions are presented as follows:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Term deposits	6.0%-13.0%	2008-2009	4.1%-10.6%	2007-2008
Loans to Kazakhstan credit institutions	14.0%-17.0%	2008-2012	13.0%-15.0%	2007-2011

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements classified as amounts due from credit institutions as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Equity securities of Kazakhstan corporations	439	345	-	-
Bonds of Kazakhstan banks	12	13	-	-
	451	358	-	-

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2007	31 December 2006
NBK notes	82,318	107,856
Corporate bonds	14,387	10,166
Treasury bills of the Ministry of Finance of Kazakhstan	6,459	1,061
Bonds of Kazakhstan banks	3,047	3,085
Equity securities of Kazakhstan corporations	1,381	971
Treasury bills of the Kyrgyz Republic	101	114
Local municipal bonds	80	86
Equity securities of foreign corporations	66	-
	107,839	123,339
Subject to repurchase agreements	51,669	29,500

Interest rates and maturities of available-for-sale investment securities are presented as follows:

	31 December 2007		31 December 2006	
	%	**Maturity**	**%**	**Maturity**
NBK notes	5.5%-9.5%	2008	2.9%-4.8%	2007
Corporate bonds	6.4%-18.6%	2008-2021	7.5%-13.0%	2007-2017
Treasury bills of the Ministry of Finance of Kazakhstan	2.0%-18.6%	2008-2014	3.5%-5.7%	2008-2014
Bonds of Kazakhstan banks	6.4%-18.3%	2008-2016	5.9%-12.0%	2007-2014
Treasury bills of the Kyrgyz Republic	5.6%-14.9%	2008-2009	5.2%-16.0%	2007-2008
Local municipal bonds	8.5%	2008	8.5%	2008

As at 31 December 2007 and 2006, the Group used quoted market prices from independent informational sources to determine the fair value all of its investments available-for-sale.

10. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Recorded as loans and receivables in accordance with IAS 39:		
Originated loans to customers	1,087,372	625,566
Promissory notes	5,298	1,561
Overdrafts	4,300	2,743
	1,096,970	629,870
Less – Allowance for loan impairment (Note 18)	(56,697)	(33,654)
Loans to customers	1,040,273	596,216

As at 31 December 2007, the annual interest rates charged by the Group ranged from 8% to 32% per annum for KZT-denominated loans (31 December 2006 – from 9% to 24%) and from 3% to 20% per annum for US Dollar-denominated loans (31 December 2006 – from 6% to 22%).

As at 31 December 2007, the Group had a concentration of loans of KZT 161,592 million from the ten largest borrowers that comprised 15% of the Group's total gross loan portfolio (31 December 2006 – KZT 93,394 million; 15%) and 100% of the Group's total equity (31 December 2006 – 76%). As at 31 December 2007 an allowance for impairment amounting to KZT 7,967 million was made against these loans (31 December 2006 – KZT 2,643 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2007	31 December 2006
Loans collateralized by pledge of real estate or rights thereon	623,396	379,069
Loans collateralized by pledge of inventories	16,811	5,522
Loans collateralized by pledge of corporate shares	28,953	54
Loans collateralized by pledge of equipment	3,648	5,012
Loans collateralized by pledge of agricultural products	20,526	2
Loans collateralized by pledge of vehicles	16,711	606
Loans collateralized by cash	71,749	98,759
Other collateral	206,543	109,303
Unsecured loans	108,633	31,543
	1,096,970	629,870
Less - allowance for loan impairment losses (Note 18)	(56,697)	(33,654)
Total loans to customers	1,040,273	596,216

Loans are made to the following sectors:

	31 December 2007	%	31 December 2006	%
Retail loans:				
- mortgage loans	160,663	15%	110,274	17%
- consumer loans	161,611	15%	86,907	14%
	322,274		197,181	
Wholesale trade	223,549	20%	113,510	18%
Construction	147,908	13%	70,064	11%
Retail trade	87,650	8%	42,098	7%
Agriculture	67,112	6%	47,474	8%
Services	59,921	5%	23,213	4%
Real estate	40,141	4%	14,896	2%
Oil and gas	30,289	3%	13,532	2%
Metallurgy	29,913	3%	5,638	1%
Food industry	16,439	1%	10,359	2%
Hotel industry	10,122	1%	5,811	1%
Consumer goods and automobile trading	9,683	1%	4,639	1%
Transportation	9,679	1%	11,503	2%
Mining	9,343	1%	4,835	1%
Machinery	7,296	1%	2,194	0%
Energy	6,236	1%	14,745	2%
Communication	1,323	0%	1,888	0%
Research and development	505	0%	2,444	0%
Other	17,587	1%	43,846	7%
	1,096,970	100%	629,870	100%

As at 31 December 2007 the amount of accrued interest on impaired loans comprised KZT 31,878 million (31 December 2006 – KZT 5,719 million).

11. PROPERTY AND EQUIPMENT

The movements in property and equipment are presented as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2006	7,439	1,132	8,448	6,560	23,579
Additions	1,654	314	4,185	3,627	9,780
Disposals	(54)	(88)	(566)	(573)	(1,281)
Transfers	598	-	(163)	(435)	-
Translation differences	7	-	1	2	10
31 December 2007	9,644	1,358	11,905	9,181	32,088
Accumulated depreciation					
31 December 2006	895	326	3,989	1,957	7,167
Charge	499	224	1,369	775	2,867
Disposals	(7)	(31)	(480)	(195)	(713)
Transfers	(1)	-	(162)	163	-
Translation differences	-	-	-	1	1
31 December 2007	1,386	519	4,716	2,701	9,322
Net book value:					
31 December 2007	8,258	839	7,189	6,480	22,766

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2005	4,763	654	6,987	4,200	16,604
Additions	2,725	570	1,862	3,224	8,381
Disposals	(87)	(125)	(436)	(961)	(1,609)
Acquisition of subsidiaries	54	33	35	81	203
Transfers	(16)	-	-	16	-
31 December 2006	7,439	1,132	8,448	6,560	23,579
Accumulated depreciation					
31 December 2005	497	222	3,399	1,507	5,625
Charge	402	166	978	563	2,109
Disposals	(4)	(62)	(388)	(113)	(567)
31 December 2006	895	326	3,989	1,957	7,167
Net book value:					
31 December 2006	6,544	806	4,459	4,603	16,412

12. GOODWILL

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows. Goodwill for the Group primarily relates to the company JSC Kazakhinstrakh which generates cash flows.

Movements of goodwill are presented as follows:

	2007	2006
At the beginning of the year	3,265	184
Recognized on acquisition of a subsidiary	-	3,177
Derecognized on disposal of a subsidiary	-	(49)
Impairment loss	-	(47)
At the end of the year	3,265	3,265

As at 31 December 2007 and 2006 there was no evidence that the goodwill that arose on the acquisition of JSC Kazakhinstrakh has been impaired.

13. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2007	31 December 2006
Reinsurance premium unearned	1,934	2,609
Reinsurance amounts recoverable	140	189
	2,074	2,798
Premiums receivable	1,812	2,828
Insurance assets	3,886	5,626

Insurance liabilities comprised the following:

	31 December 2007	31 December 2006
Gross unearned insurance premium reserve	5,265	5,290
Reserves for insurance claims	805	391
	6,070	5,681
Payables to reinsurers and agents	1,319	1,854
Insurance liabilities	7,389	7,535

Reserves for insurance claims have been established on the basis of information currently available, including potential outstanding loss notifications, experience with similar claims.

The movements on claims reserves for the year ended 31 December 2007 and for the period from the 27 October 2006 acquisition by the Group of JSC Kazakhinstrakh to 31 December 2006 were as follows:

	2007	**2006**
Reserves for claims, beginning of the period	391	331
Reserves for claims, reinsurance share, beginning of the period	(189)	(63)
Net reserves for claims, beginning of the period	202	268
Plus claims incurred	2,152	103
Less claims paid	(1,689)	(169)
Net reserves for claims, end of period	665	202
Reserves for claims, reinsurance share, end of period	140	189
Reserves for claims, end of period	805	391

The movements on unearned insurance premium reserve for the year ended 31 December 2007 and for the period from the 27 October 2006 acquisition by the Group of JSC Kazakhinstrakh to 31 December 2006 were as follows:

	2007	**2006**
Gross unearned insurance premium reserve, beginning of the period	5,290	4,596
Unearned insurance premium reserve, reinsurance share, beginning of the period	(2,609)	(2,859)
Net unearned insurance premium reserve, beginning of the period	2,681	1,737
Change in unearned insurance premium reserve	(25)	742
Change in unearned insurance premium reserve, reinsurance share	675	202
Change in unearned insurance premium reserve, net	650	944
Net unearned insurance premium reserve, end of period	3,331	2,681
Unearned insurance premium reserve, reinsurance share, end of period	1,934	2,609
Gross unearned insurance premium reserve, end of period	5,265	5,290

14. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Other debtors on banking activities	2,159	665
Accrued commission for managing pension assets	1,147	2,289
Accrued other commission income	1,037	466
Other debtors on non-banking activities	171	721
Other	657	418
	5,171	4,559
Less – Allowance for impairment (Note 18)	(504)	(218)
	4,667	4,341
Other non financial assets:		
Prepayments for property and equipment	12,412	997
Inventory	871	905
Investments in associates	262	293
Deferred tax assets (Note 19)	220	-
Other	789	278
	19,221	6,814

15. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2007	31 December 2006
Recorded at amortized cost:		
Term deposits:		
Legal entities	381,139	291,100
Individuals	282,520	157,281
	663,659	448,381
Current accounts:		
Legal entities	196,618	96,247
Individuals	75,152	52,597
	271,770	148,844
Restricted accounts	-	710
	935,429	597,935

As at 31 December 2007, the Group's ten largest customers accounted for approximately 45% of the total amounts due to customers (31 December 2006 – 52%).

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector follows:

	31 December 2007	%	31 December 2006	%
Individuals and entrepreneurs	357,672	38%	209,878	35%
Oil and gas	206,185	22%	67,540	11%
Financial sector	57,573	6%	44,168	8%
Wholesale trade	57,105	6%	15,800	3%
Other consumer services	55,889	6%	35,514	6%
Transportation	55,690	6%	17,291	3%
Government	47,130	5%	1,813	-
Construction	41,781	5%	81,319	14%
Energy	32,552	4%	12,843	2%
Metallurgy	2,724	-	102,345	17%
Transportation of oil and gas	-	-	1,794	-
Other	21,128	2%	7,630	1%
	935,429	100%	597,935	100%

16. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2007	31 December 2006
Recorded at amortized cost:		
Loans and deposits from OECD based banks	176,480	73,126
Loans and deposits from Kazakhstan banks	66,889	36,007
Loans and deposits from non-OECD based banks	2,797	5,073
Loans from other financial institutions	-	650
Overnight deposits	-	3,338
Correspondent accounts	1,286	525
Amounts due to credit institutions	247,452	118,719

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Loans and deposits from OECD based banks	3.0%-8.4%	2008-2015	2.3%-8.4%	2007-2015
Loans and deposits from Kazakhstan banks	6.5%-6.6%	2008	0.7%-7.0%	2007
Loans and deposits from non-OECD based banks	6.2%-6.7%	2008-2009	4.6%-6.7%	2007-2012
Loans from other financial institutions	-	-	5.9%-8.4%	2007-2012
Overnight deposits	-	-	2.5%-4.8%	2007

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
NBK notes	51,672	49,151	29,390	29,520
Treasury bills of the Ministry of Finance of Kazakhstan	2,973	2,680	1,110	1,000
Total	54,645	51,831	30,500	30,520

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In accordance with the terms of certain of those loans, the Group is also required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares. Furthermore, certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

As at 31 December 2007 and 2006, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

17. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	31 December 2007	31 December 2006
Recorded at amortized cost:		
Subordinated debt securities issued		
Inflation indexed KZT denominated bonds	19,221	9,104
Fixed rate KZT denominated bonds	11,229	10,610
Reverse inflation indexed KZT denominated bonds	8,381	8,908
USD denominated bonds	-	2,086
Total subordinated debt securities outstanding	38,831	30,708
Unsubordinated debt securities issued		
USD denominated bonds	145,017	64,145
KZT denominated bonds	41,038	39,560
Total unsubordinated debt securities outstanding	186,055	103,705
Total debt securities outstanding	224,886	134,413

The coupon rates and maturities of these debt securities issued follow:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Subordinated debt securities issued				
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015
	inflation rate plus 2%	2010-2017	inflation rate plus 2%	2010
Fixed rate KZT denominated bonds	7.5%-9.0%	2009-2015	7.5%-9.6%	2007-2015
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
USD denominated bonds	-	-	8.0%-11.8%	2007
Unsubordinated debt securities issued				
USD denominated bonds	7.3%-8.1%	2009-2017	7.8%-8.1%	2009-2013
KZT denominated bonds	7.1%-7.8%	2008-2009	5.0%-7.3%	2007-2009

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Interest on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, lending exposures, limitations on transactions at less than fair market value and payment of dividends. The terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. Management believes that as of 31 December 2007 and 2006, the Group was in compliance with the covenants of the agreements the Group has with the notes' trustee and holders.

18. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

The movements in the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers	Amounts due from credit institutions	Other assets	Total
31 December 2005	(25,921)	-	(134)	(26,055)
Additional provisions recognized	(8,179)	(6)	(146)	(8,331)
Write-offs	3,427	-	99	3,526
Recoveries	(2,981)	-	(2)	(2,983)
Additional provisions due to acquisition of subsidiaries	-	-	(35)	(35)
31 December 2006	(33,654)	(6)	(218)	(33,878)
Additional provisions recognized	(21,899)	(10)	(275)	(22,184)
Write-offs	1,404	-	32	1,436
Recoveries	(2,548)	(2)	(43)	(2,593)
31 December 2007	(56,697)	(18)	(504)	(57,219)

Allowances for impairment of assets are deducted from the related assets.

The movements in provisions were as follows:

	2007	2006
At the beginning of the year	(3,021)	(2,280)
Recovery of provisions	9,653	7,860
Additional provisions recognized	(8,656)	(8,612)
Write-off	139	11
At the end of the year	(1,885)	(3,021)

Provisions represent provisions against letters of credit and guarantees issued.

In 2007 the Group possessed collateral in the amount of KZT 155 million (2006 nil).

19. TAXATION

The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC NBK Bank, OJSC Halyk Bank Kyrgyzstan, LLP Halyk Dornod, LLP Halyk Astana Dornod and LLP NBK-Finance are subject to taxation in Kazakhstan. HSBK (Europe) B.V. is subject to income tax in the Netherlands. JSC NBK Bank and LLP NBK-Finance are subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. LLP Halyk Dornod and Halyk Astana Dornod are subject to income tax in Mongolia.

The income tax expense comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Current tax charge	9,495	6,337
Deferred tax charge	1,147	2,105
Income tax expense	10,642	8,442

Kazakhstan legal entities must file individual tax declarations. The tax rate for banks for income other than on state and other qualifying securities was 30% during 2007 and 2006. The tax rate for companies other than banks was also 30% during 2007 and 2006, except insurance companies which were taxed at 4%. Income on state and other qualifying securities is tax exempt.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Income before income tax expense	51,167	35,601
Statutory tax rate	30%	30%
Income tax expense at the statutory rate	15,350	10,680
Tax-exempt interest income on mortgage loans and long-term loans issued by the Group to modernize equipment	(2,244)	(2,449)
Tax-exempt interest income and other related income on state and other qualifying securities	(2,569)	(898)
Income of subsidiaries taxed at different rates	(309)	(90)
Tax-exempt interest income on financial lease	(9)	-
Tax-exempt income on dividends	(300)	-
Non-deductible expenditures:		
- other provisions	122	345
- general and administrative expenses	195	271
- withholding tax on interest	112	237
- charity	6	27
- interest on deposits to non-residents	3	27
Other	285	292
Income tax expense	10,642	8,442

Deferred tax assets and liabilities comprise:

	31 December 2007	31 December 2006
Tax effect of deductible temporary differences:		
Bonuses accrued	1,262	870
Vacation pay accrual	212	-
Insurance premium reserves	129	-
Deferred tax asset	1,603	870
Tax effect of taxable temporary differences:		
Loans to customers, allowance for impairment losses	(3,431)	(1,599)
Property and equipment, accrued depreciation	(1,342)	(1,801)
Provisions, different rates	(322)	-
Fair value of derivatives	(185)	-
Deferred tax liability	(5,280)	(3,400)
Net deferred tax asset (Note 14)	220	-
Net deferred tax liability	(3,897)	(2,530)

Kazakhstan and other countries where the Group operates currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

20. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Other financial liabilities:		
Other creditors on non-banking activities	1,101	859
Payable for general and administrative expenses	155	339
Other creditors on bank activities	95	55
Amounts due to government	-	110
Accrued other commission expense	-	27
Other	175	175
	1,526	1,565
Other non financial liabilities:		
Salary payable	5,653	3,622
Taxes payable other than income tax	1,111	942
Other prepayments received	1,015	359
Current income tax payable	956	60
Payables for property and equipment	-	21
	10,261	6,569

21. EQUITY

Authorized, issued and fully paid shares as at 31 December 2007 and 2006 were as follows:

31 December 2007

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	1,129,016,660	(145,000,000)	984,016,660	(4,257,172)	979,759,488
Convertible preferred	80,225,222	-	80,225,222	(32,610)	80,192,612
Non-convertible preferred	24,742,000	-	24,742,000	(55,237)	24,686,763

31 December 2006

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	1,129,016,660	(154,468,878)	974,547,782	(3,858,746)	970,689,036
Convertible preferred	80,225,222	-	80,225,222	(10,035)	80,215,187
Non-convertible preferred	24,742,000	-	24,742,000	-	24,742,000

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2005	897,383,050	24,742,000	74,887,521	14,206	2,474	12,320
Capital contributions	75,531,122	-	5,327,666	30,755	-	913
Purchase of treasury shares	(2,225,136)	-	-	(22)	-	-
31 December 2006	970,689,036	24,742,000	80,215,187	44,939	2,474	13,233
Capital contributions	9,468,878	-	-	4,847	-	-
Purchase of treasury shares	(398,426)	(55,237)	(22,575)	(28)	-	-
31 December 2007	979,759,488	24,686,763	80,192,612	49,758	2,474	13,233

At 31 December 2007, the Group held 4,257,172 of the Group's common shares as treasury shares at KZT 43 million (31 December 2006 – 3,858,746 at KZT 38 million).

Common Shares

Each common share is entitled to one vote and is equal for dividends.

Preferred shares

In accordance with IAS 32 "Financial Instruments: Presentation", both the non-convertible and convertible preferred shares (together, the "Preferred Shares") are classified as compound instruments. On a return of capital on liquidation, the assets of the Group available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Bank pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the preference shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on preference shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the preference share agreement and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation plus one per cent., as published by the NBK, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders.

The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the preference share agreement. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

22. COMMITMENTS AND CONTINGENCIES

Financial Commitments and Contingencies – The Group's financial commitments and contingencies comprised the following:

	31 December 2007	31 December 2006
Commitments to extend credit	37,746	21,629
Guarantees issued	34,888	39,897
Commercial letters of credit	18,825	18,326
Financial commitments and contingencies	91,459	79,852
Less: cash collateral against letters of credit	(443)	(132)
Less: provisions	(1,885)	(3,021)
Financial commitments and contingencies, net	89,131	76,699

Guarantees issued included above represent financial guarantees where payment is not probable as at the respective balance sheet date, and therefore have not been recorded in the consolidated balance sheet. As at 31 December 2007, the ten largest guarantees accounted for 54% of the Group's total financial guarantees (31 December 2006 – 63%) and represented 13% of the Group's total equity (31 December 2006 – 21%).

As at 31 December 2007, the ten largest letters of credit accounted for 31% of the Group's total commercial letters of credit (31 December 2006 – 78%) and represented 7% of the Group's total equity (31 December 2006 – 12%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Trust Activities – In the normal course of its business, the Group enters into agreements with clients to manage the clients' assets with limited decision making rights and in accordance with specific criteria established by the clients. The Group may only be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The maximum potential financial risk of the Group on any date is equal to the volume of the clients' funds, net of any unrealized income/loss on the client's position. The balance of the clients' funds under the management of the Group, as at 31 December 2007 is KZT 354 million (2006 – KZT 254 million).

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

23. NET INTEREST INCOME

	Year ended 31 December 2007	**Year ended 31 December 2006**
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired assets	121,017	73,789
- interest income on unimpaired assets	1,223	1,506
Interest income on available for sale investment securities	7,737	1,652
Interest income on financial assets at fair value through profit or loss	2,589	3,700
Total interest income	132,566	80,647
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	116,147	71,292
Interest income on amounts due from credit institutions and cash and cash equivalents	6,093	4,003
Total interest income on financial assets recorded at amortized cost	122,240	75,295
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	2,589	3,700
Total interest income on financial assets at fair value through profit or loss	2,589	3,700
Interest income on available for sale investment securities	7,737	1,652
Total interest income	132,566	80,647
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(61,532)	(34,184)
Total interest expense	(61,532)	(34,184)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on debt securities issued	(15,395)	(9,238)
Interest expense on amounts due to customers	(35,348)	(18,491)
Interest expense on amounts due to credit institutions	(10,789)	(6,455)
Total interest expense on financial liabilities recorded at amortized cost	(61,532)	(34,184)
Net interest income before impairment charge	71,034	46,463

24. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2007	Year ended 31 December 2006
Bank transfers	8,184	5,898
Pension fund and asset management	6,497	7,030
Cash operations	3,747	2,714
Plastic cards maintenance	1,575	433
Maintenance of customer accounts	1,433	1,104
Letters of credit and guarantees issued	1,424	1,357
Customers' pension payments	1,292	1,080
Utilities payments	239	765
Foreign currency operations	52	232
Other	985	1,451
	25,428	22,064

Fee and commission expense comprised the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Plastic cards	(682)	(490)
Bank transfers	(182)	(148)
Foreign currency operations	(141)	(117)
Other	(250)	(174)
	(1,255)	(929)

25. NET GAIN/(LOSS) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Net gain/(loss) on operations with financial assets and liabilities classified as held for trading:		
Gain on trading operations	4,026	729
Net fair value adjustment	(661)	(922)
Total net gain/(loss) on operations with financial assets and liabilities classified as held for trading	3,365	(193)

26. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	6,861	5,174
Translation differences, net	(1,414)	(1,734)
Total net gain on foreign exchange operations	5,447	3,440

27. INSURANCE UNDERWRITING INCOME

Insurance underwriting income comprised:

	Year ended 31 December 2007	Year ended 31 December 2006
Insurance premiums written, gross	11,768	2,420
Ceded reinsurance share	(5,198)	(812)
Change in unearned insurance premiums, net	(650)	(944)
	5,920	664

28. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries and other employee benefits	19,681	15,931
Depreciation and amortization expenses	3,366	2,371
Taxes other than income tax	1,949	1,256
Deposit insurance	1,814	885
Rent	1,342	644
Repair and maintenance	1,238	1,207
Communication	1,118	644
Advertisement	1,012	789
Insurance agency fees	950	201
Security	803	510
Professional services	779	907
Business trip expenses	676	532
Information services	493	376
Stationery and office supplies	483	539
Transportation	416	209
Social events	174	95
Charity	65	97
Hospitality expenses	-	211
Other	1,483	712
	37,842	28,116

29. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 21, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2007	Year ended 31 December 2006
Basic earnings per share		
Net profit for the year attributable to equity holders of the parent	40,097	26,659
Less: Additional dividends that would be paid on full distribution of profit to the preferred shareholders	(2,304)	(1,409)
Less: Dividends paid on preference shares	(1,579)	(1,355)
Net profit for the year attributable to preferred shareholders	(3,883)	(2,764)
Earnings attributable to common shareholders	36,214	23,895
Weighted average number of common shares for the purposes of basic earnings per share	978,504,308	904,100,063
Basic earnings per share (Tenge)	37.01	26.43
Diluted earnings per share		
Earnings used in the calculation of basic earnings per share	36,214	23,895
Add: Dividends paid on convertible preferred shares	1,207	1,018
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders	1,761	1,076
Less: Amounts payable to convertible preferred shareholders upon conversion	(1,138)	(8,541)
Earnings used in the calculation of total diluted earnings per share	38,044	17,448
Weighted average number of common shares for the purposes of basic earnings per share	978,504,308	904,100,063
Shares deemed to be issued:		
Weighted average number of common shares that would be issued for the convertible preferred shares	80,214,034	79,854,432
Weighted average number of common shares for the purposes of diluted earnings per share	1,058,718,343	983,954,495
Diluted earnings per share (Tenge)	35.93	17.73

30. BUSINESS COMBINATIONS

Subsidiaries acquired in 2006

	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition
JSC Kazakhinstrakh	Insurance	27 October 2006	56.7%	4,782
JSC Halyk Life	Life insurance	1 September 2006	100.0%	560

JSC Kazakhinstrakh

During 2006, the Group acquired 56.7% of the share capital of JSC Kazakhinstrakh for KZT 4,782 million bringing its share in the Company to 98.4%. The consideration was paid in two tranches on 27 October 2006 and 30 October 2006 and control was obtained on 27 October 2006. JSC Kazakhinstrakh had previously been accounted for as an equity method investment, and has been included in the consolidated balance sheet and its results of operations have been included in the consolidated income statement since 27 October 2006.

The purchase price on acquisition of JSC Kazakhinstrakh has been allocated as follows:

	Book Value	Fair value on acquisition
Cash and cash equivalents	269	269
Amounts due from credit institutions	440	440
Available-for-sale investment securities	3,733	3,733
Unearned premiums, reinsurance share	2,859	2,859
Insurance reserves, reinsurance share	63	63
Insurance receivables	1,113	1,113
Other assets	486	486
Unearned premiums	(4,596)	(4,596)
Insurance reserves	(331)	(331)
Other creditors	(1,073)	(1,073)
Net assets	2,963	2,963
Group's acquired share of the fair value of net assets	1,680	1,680
Goodwill	-	3,102
Consideration paid in cash	-	4,782
Less: cash and cash equivalent balances acquired	-	(269)
	-	4,513

At the date of acquisition the estimated fair value of the net assets of JSC Kazakhinstrakh approximated their carrying amounts. The goodwill resulting from this acquisition mainly arises from the large market share of JSC Kazakhinstrakh.

JSC Halyk Life

During 2006, the Group acquired 100% of the share capital of JSC Halyk Life for KZT 560 million. The consideration was paid in two tranches on 1 September 2006 and 8 September 2006 and control was obtained on 1 September 2006. JSC Halyk Life has been included in the consolidated balance sheet and its results of operations have been included in the consolidated income statement since 1 September 2006.

The purchase price on acquisition of JSC Halyk Life has been allocated as follows:

	Book value	Fair value on acquisition
Amounts due from credit institutions	360	360
Available-for-sale investment securities	204	204
Other assets	7	7
Liabilities	(40)	(40)
Net assets	531	531
Group's share of the fair value of net assets	531	531
Goodwill	-	29
Consideration paid in cash	-	560

At the date of acquisition the estimated fair value of the net assets of JSC Halyk Life approximated their carrying amounts.

Included in the Group's net profit for the year ended 31 December 2006 are KZT 46 million net income and KZT 21 million net loss attributable to the purchases of JSC Kazakhinstrakh and JSC Halyk Life, respectively.

Had these business combinations been effected at 1 January 2006, the net income of the Group for the year ended 31 December 2006 would have been KZT 27,748 million and revenue would have been KZT 110,714 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods. In determining the 'pro-forma' numbers the management of the Group used stand-alone financial statements of acquired subsidiaries without making any adjustments to them.

31. FINANCIAL RISK MANAGEMENT

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authorit. These procedures are performed, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (e.g. borrower's limits approved) are reviewed and approved by respective division of the Risk Management Department. Daily risk management is performed by the Branch Credit Divisions of the Bank.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector and by region are approved quarterly (annually) by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by Management board. The exposure to any one borrower including banks and brokers, covering on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee. However a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a monthly basis with preparation of management reports.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 22). The collateral pledged was determined based on its fair value and limited to the outstanding balance of each loan.

					31 December 2007
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Cash and cash equivalents*	252,327	-	252,327	7,791	244,536
Financial assets at fair value through profit or loss	48,073	-	48,073	-	48,073
Amounts due from credit institutions	3,398	-	3,398	358	3,040
Loans to customers	1,040,273	-	1,040,273	931,640	108,633
Available-for-sale investment securities	107,839	-	107,839	-	107,839
Other financial assets	4,667	-	4,667	-	4,667
Total financial assets	1,456,577	-	1,456,577	939,431	516,788
Commitments and contingencies	89,574	-	89,574	443	89,131

	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	31 December 2006 Net exposure after offset and collateral
Cash and cash equivalents*	112,868	-	112,868	4,315	108,553
Financial assets at fair value through profit or loss	53,195	-	53,195	-	53,195
Amounts due from credit institutions	2,049	-	2,049	-	2,049
Loans to customers	596,216	-	596,216	564,673	31,543
Available-for-sale investment securities	123,339	-	123,339	-	123,339
Other financial assets	4,341	-	4,341	-	4,341
Total financial assets	892,008	-	892,008	568,988	323,020
Commitments and contingencies	76,801	-	76,801	132	76,669

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group’s internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, before any impairment losses and which are monitored by international rating agencies:

	AA-	A	BBB	BB+	<BBB	Not rated	31 December 2007 Total
Cash and cash equivalents	186,653	53,511	14	12,493	-	2,574	255,245
Financial assets at fair value through profit or loss	5,967	1,852	1,964	36,949	1,341	-	48,073
Amounts due from credit institutions	3,065	-	-	-	-	351	3,416
Available-for-sale investment securities	-	-	-	103,841	3,998	-	107,839
Other financial assets	-	-	-	-	-	5,171	5,171
Commitments and contingencies	-	-	-	-	-	91,459	91,459

	AA-	A	BBB	BB+	<BBB	Not Rated	31 December 2006 Total
Cash and cash equivalents	55,272	29,909	7	27,668	-	14,943	127,799
Financial assets at fair value through profit or loss	6,362	2,121	2,163	40,716	1,654	179	53,195
Amounts due from credit institutions	-	-	-	2,055	-	-	2,055
Available-for-sale investment securities	-	-	-	118,750	4,589	-	123,339
Other financial assets	-	-	-	-	-	4,559	4,559
Commitments and contingencies	-	-	-	-	-	79,852	79,852

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group’s risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Bank, and this classification is verified by the Risk Management function. At present, the Risk Management function uses classifications as follows:

Standard loans – The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Bank has confidence that the borrower will be able to cope with such (temporary) difficulties. Interest and principal are repaid in full and in a timely fashion. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions. Security provided for the loan must cover at least 100 per cent. of the outstanding amount, not less than 75 per cent. in case of highly liquid collateral (which may include a Government guarantee, bank guarantee with an individual rating not lower than AA - from one of the rating agencies, corporate guarantee with an individual rating not lower than AA, cash collateral, Government securities or precious metals, the value of which covers 100 per cent of the exposure).

Doubtful 1st category – There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower repays the loan principal and the interest without delay and in full. The value of collateral covers at least 50 per cent of the Bank's exposure.

Doubtful 2nd category – There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. However, due to temporary difficulties the borrower repays the loan with delays and/or not in full. The value of collateral covers at least 50 per cent of the Bank's exposure.

Doubtful 3rd category – There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and the interest in full. However, despite severe deterioration of financial health the borrower manages to repay the loan and interest in full and without delay. The value of collateral covers at least 50 per cent of the Bank's exposure.

Doubtful 4th category – There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to stabilize and improve its current financial performance and impairs the borrower's ability to repay the loan and the interest in full. The borrower repays the loan late and/or not in full. The value of collateral covers at least 50 per cent of the Bank's exposure.

Doubtful 5th category – The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral can be classified as satisfactory (normally not highly liquid but covering not less than 100 per cent. of the borrower's outstanding debt) or unsatisfactory (the value of which covers nearly but not less than 50 per cent of the borrower's outstanding debt).

Loss – In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50 per cent of the borrowers' outstanding debt.

	31 December 2007	31 December 2006
Standard loans	8,423	278,831
Doubtful 1st category	1,006,840	295,399
Doubtful 2nd category	7,857	2,332
Doubtful 3rd category	46,693	25,074
Doubtful 4th category	4,193	2,815
Doubtful 5th category	2,777	9,417
Loss loans	20,187	16,002
	1,096,970	629,870
Less – Allowance for loan impairment (Note 18)	(56,697)	(33,654)
Loans to customers	1,040,273	596,216

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

			Financial assets past due but not impaired				31 December 2007	
	Neither past due nor individually impaired	**Financial assets that have been collectively impaired**	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been individually impaired**	**Total**
Financial assets at fair value through profit or loss	48,073	-	-	-	-	-	-	48,073
Amounts due from credit institutions	3,398	-	-	-	-	-	18	3,416
Loans to customers	7,672	838,734	1	-	1	16	250,546	1,096,970
Investment securities available-for-sale	107,839	-	-	-	-	-	-	107,839
Other financial assets	4,667	-	-	-	-	-	504	5,171

			Financial assets past due but not impaired				31 December 2006	
	Neither past due nor individually impaired	**Financial assets that have been collectively impaired**	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been individually impaired**	**Total**
Financial assets at fair value through profit or loss	53,195	-	-	-	-	-	-	53,195
Amounts due from credit institutions	2,049	-	-	-	-	-	6	2,055
Loans to customers	9,529	372,086	-	-	4	11	248,240	629,870
Available-for-sale investment securities	123,339	-	-	-	-	-	-	123,339
Other financial assets	4,341	-	-	-	-	-	218	4,559

Currency Risk – The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position and cash flows, which are monitored daily. The Assets and Liabilities Management Committee sets limits on the level of exposure by currencies within the authority approved by the Board of Directors, by branches and in total. These limits also comply with the minimum requirements of the FMSA. The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2007			31 December 2006		
	KZT	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**
FINANCIAL ASSETS:						
Cash and cash equivalents	9,831	245,414	255,245	31,957	95,842	127,799
Obligatory reserves	30,122	57,146	87,268	18,873	36,233	55,106
Financial assets at fair value through profit or loss	37,248	10,825	48,073	37,484	15,711	53,195
Amounts due from credit institutions	3,084	314	3,398	1,928	121	2,049
Available-for-sale investment securities	106,886	953	107,839	122,157	1,182	123,339
Loans to customers	621,285	418,988	1,040,273	291,007	305,209	596,216
Other financial assets	3,208	1,459	4,667	2,925	1,416	4,341
	811,664	735,099	1,546,763	506,331	455,714	962,045
FINANCIAL LIABILITIES:						
Amounts due to customers	548,136	387,293	935,429	303,199	294,736	597,935
Amounts due to credit institutions	79,989	167,463	247,452	55,042	63,677	118,719
Financial liabilities at fair value through profit or loss	-	2,851	2,851	-	10	10
Debt securities issued	79,863	145,023	224,886	68,188	66,225	134,413
Other financial liabilities	267	1,259	1,526	1,133	432	1,565
	708,255	703,889	1,412,144	427,562	425,080	852,642
Net balance sheet position	103,409	31,210	134,619	78,769	30,634	109,403
Net off balance sheet position	238,786	1,606	240,392	80,203	159,191	239,394
Total open position	342,195	32,816	375,011	158,972	189,825	348,797

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities.

Interest Rate Risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The interest rates on the Bank's assets and liabilities are disclosed in the relevant notes to the consolidated financial statements.

Liquidity Risk – Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Short-term liquidity needs are managed by the Bank's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by the Assets and Liabilities Management Committee by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means. The Assets and Liabilities Management Committee within the authority approved by the Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date, except for financial assets at fair value through profit or loss which are included in the column "On demand" as they are available to meet the Group's short-term liquidity needs. The presentation below is based upon the information provided internally to key management personnel of the entity.

	31 December 2007						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 Years**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	8,501	246,464	280	-	-	-	255,245
Obligatory reserves	24,099	15,353	10,540	25,708	7,471	4,097	87,268
Financial assets at fair value through profit or loss	48,073	-	-	-	-	-	48,073
Amounts due from credit institutions	-	193	127	2,460	590	28	3,398
Available-for-sale investment securities	2,045	35,350	332	56,493	4,694	8,925	107,839
Loans to customers	9,384	6,024	78,632	485,795	303,862	156,576	1,040,273
Other financial assets	833	1,675	132	1,578	184	265	4,667
	92,935	305,059	90,043	572,034	316,801	169,891	1,546,763
FINANCIAL LIABILITIES:							
Amounts due to customers	258,322	164,571	112,974	275,565	80,078	43,919	935,429
Amounts due to credit institutions	1,836	71,323	11,656	28,393	113,640	20,604	247,452
Financial liabilities at fair value through profit or loss	2,851	-	-	-	-	-	2,851
Debt securities issued	126	-	2,418	913	156,286	65,143	224,886
Other financial liabilities	85	654	724	15	48	-	1,526
	263,220	236,548	127,772	304,886	350,052	129,666	1,412,144
Net position	(170,285)	68,511	(37,729)	267,148	(33,251)	40,225	
Accumulated gap	(170,285)	(101,774)	(139,503)	127,645	94,394	134,619	

	31 December 2006						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 Years**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	22,359	86,031	19,409	-	-	-	127,799
Obligatory reserves	13,718	13,797	2,575	20,248	3,869	899	55,106
Financial assets at fair value through profit or loss	52,163	1,032	-	-	-	-	53,195
Amounts due from credit institutions	-	-	162	148	1,711	28	2,049
Available-for-sale investment securities	-	109,302	66	182	4,597	9,192	123,339
Loans to customers	2,405	24,267	49,929	251,183	144,508	123,924	596,216
Other financial assets	-	2,751	264	1,032	-	294	4,341
	90,645	237,180	72,405	272,793	154,685	134,337	962,045
FINANCIAL LIABILITIES:							
Amounts due to customers	148,844	149,704	27,941	219,707	41,981	9,758	597,935
Amounts due to credit institutions	524	48,824	11,384	32,909	5,108	19,970	118,719
Financial liabilities at fair value through profit or loss	10	-	-	-	-	-	10
Debt securities issued	-	-	-	3,926	103,530	26,957	134,413
Other financial liabilities	-	306	60	1,090	109	-	1,565
	149,378	198,834	39,385	257,632	150,728	56,685	852,642
Net position	(58,733)	38,346	33,020	15,161	3,957	77,652	
Accumulated gap	(58,733)	(20,387)	12,633	27,794	31,751	109,403	

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated balance sheet as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the consolidated balance sheet.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 3 years	Over 3 years	Maturity undefined	31 December 2007 Total
FINANCIAL LIABILITIES:								
Amounts due to credit institutions	5.83%	87,213	11,995	42,263	131,004	20,807	-	293,282
Amounts due to customers	5.38%	429,083	121,083	292,115	90,954	46,700	-	979,935
Financial liabilities at fair value through profit or loss	-	110,501	-	-	-	-	-	110,501
Debt securities issued	7.73%	261	2,818	15,921	102,031	281,221	-	402,252
Commitments to extend credit	-	37,746	-	-	-	-	-	37,746
		664,804	135,896	350,299	323,989	348,728	-	1,823,715
Derivative financial assets		103,150	-	-	-	-	-	103,150

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 3 years	Over 3 years	Maturity undefined	31 December 2006 Total
FINANCIAL LIABILITIES:								
Amounts due to credit institutions	6.40%	41,845	5,755	20,278	62,856	9,983	-	140,717
Amounts due to customers	4.31%	274,270	77,396	186,720	58,138	29,851	-	626,375
Financial liabilities at fair value through profit or loss	-	174,817	-	-	-	-	-	174,817
Debt securities issued	8.32%	154	1,663	11,776	51,786	273,445	-	338,824
Commitments to extend credit	-	21,629	-	-	-	-	-	21,629
		512,715	84,814	218,774	172,780	313,279	-	1,302,361
Derivative financial assets		291,985	-	-	-	-	-	291,985

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2007.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Group manages interest rate by determining the Group's exposure to the interest rate risk using the approach described by the Basle Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points. In addition the Group performs Value at Risk ("VaR") analysis of interest rates on deposits and loans based on historical data.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2006 and 2007 and the effect of revaluating instruments with fixed rates accounted at fair value. The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluating available for sale investment securities with fixed rates.

Impact on profit before tax based on asset values as at 31 December 2007 and 31 December 2006:

	31 December 2007		**31 December 2006**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Financial assets at fair value through profit or loss	(1,365)	1,556	(2,360)	2,682
Loans to customers	1,441	(1,441)	823	(823)
Investment securities available-for-sale	-	-	-	-
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	(811)	811	(561)	561
Amounts due to customers	(1,684)	1,684	-	-
Net impact on profit before tax	(2,419)	2,610	(2,098)	2,420

Impact on equity:

	31 December 2007		**31 December 2006**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Financial assets at fair value through profit or loss	(1,365)	1,556	(2,360)	2,682
Loans to customers	1,441	(1,441)	823	(823)
Investment securities available-for-sale	(766)	766	(685)	685
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	(811)	811	(561)	561
Amounts due to customers	(1,684)	1,684	-	-
Net impact on equity	(3,185)	3,376	(2,783)	3,105

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of FMSA.

Currency risk is also managed by using a VaR analysis.

A VaR calculation is used to determine the Group's exposure to currency risk, and is based on statistical data for previous periods Historical VaR assuming the following:

- benchmark data – average KASE rate used by the Group to recalculate currency positions;
- length of period –one year from the calculation date (252 working days);
- confidence interval – 95%; and
- positions are assessed for each risk currency, i.e. those which are more than 5% of the Group's equity.

The aim of this method is to assess the risk of a potential negative revaluation of the Group's open currency positions in order to ensure effective management of market currency risks.

The table below indicates the currencies in which the Group had significant exposure at 31 December 2007 and 2006 and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase.

	31 December 2007		**31 December 2006**	
	+10% KZT/USD	**-10% KZT/USD**	**+10% KZT/USD**	**-10% KZT/USD**
Impact on profit or loss	5,383	(5,383)	(484)	484

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

To determine its exposure to price risk the Group uses a VaR analysis for financial instruments based on:

- the Monte-Carlo simulation method; and
- the rating method.
- The VaR analysis for each of these methods, respectively, is based on the following statistical data:

Monte-Carlo method

- benchmark data – data on the transaction price for each security received from official KASE sources or other sources such as Bloomberg or Reuters;
- length of period – data from the previous two years is used in the VaR calculation;
- Confidence interval – 95%; and
- Quantity of simulations – no less than 10 thousand.

Rating method

- benchmark data – data on the transaction price for each security received from official KASE sources or other exchange, or non-exchange data (Bloomberg, Reuters);
- current yield to maturity; and
- Confidence interval – 95%.

The rating method is used to calculate VaR for newly issued securities or for securities that are not regularly traded. This method is based on Moody's ratings and migration tables which reflect a security's rating depending on the risk premium. This method is also based on the possibility of changing the rating.

The VaR on financial derivatives, such as the Historical VaR, the Monte-Carlo method and Black-Scholes method, is also calculated to determine the Group's exposure to price risk. The choice of the method used to calculate exposure to price risk with respect to derivatives depends on the underlying asset.

32. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated balance sheet, are as follows:

- To comply with the capital requirements set by the FMSA;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined by taking into account the above objectives during the process of preparing the annual budget, and is approved by the Board and Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basle Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt limited to 50% of Tier 1 capital and revaluation reserves.

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

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2007	31 December 2006
Composition of regulatory capital		
Tier 1		
Share capital	65,531	60,684
Share premium	1,952	2,183
Reserves and retained earnings	92,253	56,736
Less: revaluation reserves	15	(543)
Less: goodwill	(3,265)	(3,265)
Minority interest	1,355	1,062
Total qualifying tier 1 capital	157,841	116,857
Tier 2		
Subordinated debt	33,884	30,708
Revaluation reserve	(15)	543
Total qualifying tier 2 capital	33,869	31,251
Less investments in associates	(262)	(293)
Total regulatory capital	191,448	147,815
Risk weighted assets	1,484,559	945,707
Tier 1 capital ratio	10.6%	12.4%
Total capital adequacy ratio	12.9%	15.6%

Quantitative measures established by the Basle Committee to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

33. SEGMENT ANALYSIS

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments

The Group is organised on a basis of two main business segments:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and cash and foreign currency related services.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

There were no transactions between business segments during 2007 and 2006.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

	Retail Banking	Corporate banking	Other	Total
Year ended 31 December 2007				
External revenues	68,882	94,528	11,725	175,135
Total revenues	68,882	94,528	11,725	175,135
Total revenues comprise:				
- Interest income	50,811	81,755	-	132,566
- Net gain from financial assets at fair value through profit or loss	-	-	3,365	3,365
- Net realized gains from available-for-sale investment securities	-	-	623	623
- Share of loss of associates	-	(31)	-	(31)
- Net gains on foreign exchange operations	1,612	3,835	-	5,447
- Fee and commission income	16,459	8,969	-	25,428
- Insurance underwriting income and other income	-	-	7,737	7,737
Total revenues	68,882	94,528	11,725	175,135
- Interest expense on amounts due to customers	(18,333)	(17,015)	-	(35,348)
- Impairment charge	(6,068)	(16,116)	-	(22,184)
- Fee and commission expense	(191)	(1,064)	-	(1,255)
- Salaries and other employee benefits	(3,699)	(15,982)	-	(19,681)
- Deposit insurance and advertisement expenses	(2,826)	-	-	(2,826)
- Recoveries of provisions	(53)	1,050	-	997
Segment result	37,712	45,401	11,725	94,838
Total unallocated costs				(43,671)
Income before income tax expense				51,167
Income tax expense				(10,642)
Net income				40,525
Total segment assets	323,093	976,073	155,912	1,455,078
Unallocated assets				139,997
Total assets				1,595,075
Total segment liabilities	(357,672)	(579,641)	-	(937,313)
Unallocated liabilities				(496,737)
Total liabilities				(1,434,050)
Other segment items:				
Capital expenditure (unallocated)				(9,780)
Depreciation and amortization expense (unallocated)				(3,366)

Year ended 31 December 2006	Retail Banking	Corporate banking	Other	Total
External revenues	47,464	58,854	1,698	108,016
Total revenues	47,464	58,854	1,698	108,016
Total revenues comprise:				
- Interest income	33,025	47,622	-	80,647
- Net losses from financial assets at fair value through profit or loss	-	-	(193)	(193)
- Net gains from available-for-sale investment securities	-	-	202	202
- Share of income of associates	-	167	-	167
- Net gains from foreign exchange operations	1,043	2,397	-	3,440
- Fee and commission income	13,396	8,668	-	22,064
- Insurance underwriting income and other income	-	-	1,689	1,689
Total revenues	47,464	58,854	1,698	108,016
- Interest expense on amounts due to customers	(8,160)	(10,331)	-	(18,491)
- Impairment charge	(2,862)	(5,469)	-	(8,331)
- Fee and commission expense	(329)	(600)	-	(929)
- Salaries and other employee benefits	(3,736)	(12,195)	-	(15,931)
- Deposit insurance and advertisement expenses	(1,674)	-	-	(1,674)
- Other provisions	-	(752)	-	(752)
Segment result	30,703	29,507	1,698	61,908
Total unallocated costs				(26,307)
Income before income tax expense				35,601
Income tax expense				(8,442)
Net income				27,159
Total segment assets	212,907	513,437	176,355	902,699
Unallocated assets				88,660
Total assets				991,359
Total segment liabilities	(210,476)	(390,480)	-	(600,956)
Unallocated liabilities				(269,776)
Total liabilities				(870,732)
Other segment items:				
Capital expenditure (unallocated)				(8,584)
Depreciation and amortization expense (unallocated)				(2,371)

Some of the assets and liabilities that cannot be allocated to a particular segment are included in unallocated assets and liabilities. Unallocated assets include obligatory reserves, property and equipment and other unallocated assets. Unallocated liabilities include debt securities issued, amounts due to credit institutions and other unallocated liabilities.

Geographical segments – Segment information for the main geographical segments of the Group is set out below as at 31 December 2007 and 2006 and for the years then ended.

	Kazakhstan	**OECD**	**Non OECD**	**Total**
2007				
Total segment assets	1,343,705	242,031	9,339	1,595,075
External revenues	165,034	9,726	375	175,135
Capital expenditure	(9,780)	-	-	(9,780)
2006				
Total segment assets	892,586	97,124	1,649	991,359
External revenues	104,811	3,165	40	108,016
Capital expenditure	(8,584)	-	-	(8,584)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

34. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts Due from and to Credit Institutions - For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to Customers - The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts Due to Customers - Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt Securities Issued - Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2007		31 December 2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Amounts due from credit institutions	3,398	3,193	2,049	2,049
Loans to customers	1,040,273	1,084,619	596,216	597,849
Financial liabilities				
Amounts due to customers	935,429	901,563	597,935	598,249
Amounts due to credit institutions	247,452	267,413	118,719	122,911
Debt securities issued	224,886	212,925	134,413	134,867

Financial assets at fair value through profit or loss and available-for-sale investment securities are carried at fair value in the consolidated balance sheet. The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

35. SUBSEQUENT EVENTS

On 8 January 2008, the Bank established a wholly owned subsidiary JSC Halyk Bank Georgia. This subsidiary is incorporated under Georgian law and obtained license for providing banking activities in Georgia. The share capital of JSC Halyk Bank Georgia is 16 million Georgian Laryis which was fully paid on 28 January 2008.

36. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2007 and 2006 with related parties:

	31 December 2007		**31 December 2006**	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers before allowance for impairment losses	133	1,096,970	5,246	629,870
- the parent	-		229	
- entities with joint control or significant influence over the entity	-		4,972	
- key management personnel of the entity or its parent	43		45	
- other related parties	90		-	
Allowance for impairment losses		56,697	959	33,654
- entities with joint control or significant influence over the entity	-		959	
Amounts due to customers	3,735	935,429	217,993	597,935
- the parent	2,673		101,025	
- entities with joint control or significant influence over the entity	-		116,306	
- associates	-		239	
- key management personnel of the entity or its parent	406		423	
- other related parties	656		-	
Guarantees issued	-	34,888	593	39,897
- entities with joint control or significant influence over the entity	-		586	
- associates	-		7	

	Year ended 31 December 2007		**Year ended 31 December 2006**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:	909	19,681	1,043	15,931
- short-term employee benefits	909		1,043	

Included in the consolidated income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007		**Year ended 31 December 2006**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	-	132,566	464	80,647
- the parent	-		73	
- entities with joint control or significant influence over the entity	-		385	
- key management personnel of the entity or its parent	-		6	
Interest expense	59	61,532	4,664	34,184
- the parent	11		1,944	
- entities with joint control or significant influence over the entity	-		2,696	
- associates	-		4	
- key management personnel of the entity or its parent	22		20	
- other related parties	26		-	