

# **JSC HALYK BANK**

## **Consolidated Financial Statements**

For the Years Ended 31 December 2008, 2007  
and 2006

## **and Independent Auditors' Report**

# JSC HALYK BANK

## TABLE OF CONTENTS

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	<b>Page</b>
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006	1
INDEPENDENT AUDITORS' REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006:	
Consolidated balance sheets	4
Consolidated income statements	5
Consolidated statements of changes in equity	6-11
Consolidated statements of cash flows	12-13
Notes to the consolidated financial statements	14-80

## JSC HALYK BANK

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008, 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 as at 31 December 2008, 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:

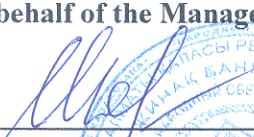
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial 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.

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of economic stabilization measures were introduced by governments and central banks in Kazakhstan and around the world to provide capital and liquidity to banks. The Group used a number of these funding facilities since the balance sheet date. It is expected that the Group funding and capital plans will continue to have access to and utilize such facilities for the foreseeable future.

The Group's capital ratios are at high levels and will be further strengthened by the planned addition to the Group's share capital of approximately KZT 60,000 million in April 2009. The planned increase in share capital will be achieved by the issue of common and preferred shares to JSC "Sovereign Wealth Fund "Samruk-Kazyna" (an entity controlled by the Kazakhstan Government). This is also a strong indication of the Kazakhstan Government's support for the Group and further underlines its importance to the Kazakhstan economy and financial system.

Accordingly, management has a reasonable expectation that the Group will continue in operational existence for the foreseeable future. The consolidated financial statements of the Group have, therefore, been prepared on a going concern basis.

On behalf of the Management Board:

  
Umut B. Shayakhmetova  
Chairman of the Board

17 March 2009

  
Pavel A. Cheussov  
Chief Accountant

17 March 2009

## 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 2008, 2007 and 2006, 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 audits. We conducted our audits 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.

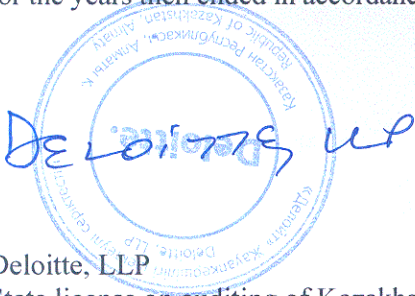
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 2008, 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

A handwritten signature in blue ink, which appears to be "Nurlan Bekenov".

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




17 March 2009  
Almaty, Kazakhstan

# JSC HALYK BANK

## CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2008, 2007 AND 2006 (Millions of Kazakhstani Tenge)

	Notes	31 December 2008	31 December 2007	31 December 2006
<b>ASSETS</b>				
Cash and cash equivalents	5	161,088	255,245	127,799
Obligatory reserves	6	30,825	87,268	55,106
Financial assets at fair value through profit or loss	7	14,987	48,073	53,195
Amounts due from credit institutions	8	10,357	3,398	2,049
Available-for-sale investment securities	9	135,801	107,839	123,339
Investments held to maturity	10	8,689	-	-
Loans to customers	11	1,188,280	1,040,273	596,216
Property and equipment	12	58,023	22,766	16,412
Goodwill	13	3,190	3,265	3,265
Intangible assets	14	6,436	3,841	1,538
Insurance assets	15	4,417	3,886	5,626
Other assets	16	29,256	19,221	6,814
<b>TOTAL ASSETS</b>		<b>1,651,349</b>	<b>1,595,075</b>	<b>991,359</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Amounts due to customers	17, 38	867,392	935,429	597,935
Amounts due to credit institutions	18	289,608	247,452	118,719
Financial liabilities at fair value through profit or loss	7	6,048	2,851	10
Debt securities issued	19	262,991	224,886	134,413
Provisions	20	2,889	1,885	3,021
Deferred tax liability	21	8,854	3,897	2,530
Insurance liabilities	15	8,618	7,389	7,535
Other liabilities	22	13,894	10,261	6,569
<b>Total liabilities</b>		<b>1,460,294</b>	<b>1,434,050</b>	<b>870,732</b>
<b>EQUITY</b>				
Share capital	23	65,531	65,531	60,684
Share premium reserve		1,908	1,952	2,183
Treasury shares		(69)	(66)	(38)
Retained earnings and other reserves		123,428	92,253	56,736
<b>Minority interest</b>		<b>190,798</b>	<b>159,670</b>	<b>119,565</b>
		257	1,355	1,062
<b>Total equity</b>		<b>191,055</b>	<b>161,025</b>	<b>120,627</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,651,349</b>	<b>1,595,075</b>	<b>991,359</b>

On behalf of the Management Board:

  
Umut B. Shayakhmetova  
Chairman of the Board

17 March 2009

  
Pavel A. Chenssov  
Chief Accountant

17 March 2009

The notes on pages 14 to 80 form an integral part of these consolidated financial statements.



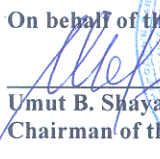
# JSC HALYK BANK

## CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	25, 38	192,660	132,566	80,647
Interest expense	25, 38	(100,753)	(61,532)	(34,184)
<b>NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE</b>		<b>91,907</b>	<b>71,034</b>	<b>46,463</b>
Impairment charge	20	(60,015)	(22,184)	(8,331)
<b>NET INTEREST INCOME</b>		<b>31,892</b>	<b>48,850</b>	<b>38,132</b>
Fee and commission income	26	27,208	25,428	22,064
Fee and commission expense	26	(1,681)	(1,255)	(929)
<b>Fees and commissions, net</b>		<b>25,527</b>	<b>24,173</b>	<b>21,135</b>
Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	27	(9,650)	3,365	(193)
Net realized gain from available-for-sale investment securities		223	623	202
Net gain from repurchase of debt securities issued		2,439	-	-
Net gain on foreign exchange operations	28	11,753	5,447	3,440
Insurance underwriting income	29	9,198	5,920	664
Share of (loss)/income of associates		(35)	(31)	167
Other income		2,303	1,817	1,025
<b>OTHER NON-INTEREST INCOME</b>		<b>16,231</b>	<b>17,141</b>	<b>5,305</b>
Operating expenses	30	(44,325)	(37,842)	(28,116)
(Provisions)/recoveries of provisions	20	(987)	997	(752)
Losses incurred from management of pension assets	22	(7,209)	-	-
Insurance claims incurred, net of reinsurance	15	(4,951)	(2,152)	(103)
<b>NON-INTEREST EXPENSES</b>		<b>(57,472)</b>	<b>(38,997)</b>	<b>(28,971)</b>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>		<b>16,178</b>	<b>51,167</b>	<b>35,601</b>
Income tax expense	21	(1,624)	(10,642)	(8,442)
<b>NET INCOME</b>		<b>14,554</b>	<b>40,525</b>	<b>27,159</b>
Attributable to:				
Minority interest		(46)	428	500
Preferred shareholders		1,411	3,883	2,764
Common shareholders		13,189	36,214	23,895
		<b>14,554</b>	<b>40,525</b>	<b>27,159</b>
Basic earnings per share (in Kazakhstani Tenge)	31	13.19	37.01	26.43
Diluted earnings per share (in Kazakhstani Tenge)	31	12.32	35.93	17.73

On behalf of the Management Board:

  
Umut B. Shayakhmetova  
Chairman of the Board

17 March 2009

  
Pavel A. Cheussov  
Chief Accountant

17 March 2009

The notes on pages 14 to 80 form an integral part of these consolidated financial statements.

# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008, 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 2007	49,824	2,474	13,233	1,952	(66)	78	(371)	278	92,268	159,670	1,355	161,025
Exchange differences on translation of foreign operations	-	-	-	-	-	43	-	-	-	43	-	43
(Loss)/gain on revaluation of available-for-sale investment securities, net of tax of nil tenge	-	-	-	-	-	-	(1,203)	-	-	(1,203)	(510)	(1,713)
Gain on revaluation of property and equipment, net of tax KZT 3,941 million	-	-	-	-	-	-	-	22,332	-	22,332	-	22,332
Net (loss)/income recognized directly in equity	-	-	-	-	-	43	(1,203)	22,332	-	21,172	(510)	20,662
Transfers (net of any related tax):												
Gains transferred to income statement on sale of available-for-sale investment securities	-	-	-	-	-	-	(223)	-	-	(223)	-	(223)
Release of property and equipment revaluation reserve upon disposal and depreciation of revalued assets	-	-	-	-	-	-	-	(108)	108	-	-	-
Net income	-	-	-	-	-	-	-	-	14,600	14,600	(46)	14,554
Total recognized income and expense	-	-	-	-	-	43	(1,426)	22,224	14,708	35,549	(556)	34,993



# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2008, 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
Common shares issued	23	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares purchased	23	-	-	-	(44)	(3)	-	-	-	-	(47)	-	(47)
Dividends – common shares		-	-	-	-	-	-	-	-	(2,695)	(2,695)	-	(2,695)
Dividends – preferred shares		-	-	-	-	-	-	-	-	(1,679)	(1,679)	-	(1,679)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(119)	(119)
Changes in minority interest share of net assets		-	-	-	-	-	-	-	-	-	-	(423)	(423)
31 December 2008		49,824	2,474	13,233	1,908	(69)	121	(1,797)	22,502	102,602	190,798	257	191,055

# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2008, 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 income/(loss) 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

# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2008, 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
Common shares issued	23	4,847	-	-	-	-	-	-	-	-	4,847	-	4,847
Treasury shares purchased	23	-	-	-	(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 2008, 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
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-
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


# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2008, 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
Common shares issued	23	30,755	-	-	-	-	-	-	-	-	(30,755)	-	(30,755)
Preferred shares issued	23	-	-	913	-	-	-	-	-	-	913	-	913
Treasury shares purchased	23	-	-	-	(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 in 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:

  
Umut B. Shayakhmetova  
Chairman of the Board

17 March 2009

  
Pavel A. Cheussov  
Chief Accountant

17 March 2009

The notes on pages 14 to 80 form an integral part of these consolidated financial statements.

# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before income tax expense		16,178	51,167	35,601
Adjustments for:				
Impairment charge	20	60,015	22,184	8,331
Losses incurred from management of pension assets	22	7,209	-	-
Provisions/ (recoveries of provisions)	20	987	(997)	752
Depreciation and amortization expenses	30	5,040	3,366	2,371
Loss/(gain) from disposal of property and equipment and other assets		152	(97)	(277)
Insurance claims incurred, net of reinsurance	15	4,951	2,152	103
Change in unearned insurance premiums reserve	15	143	650	944
Net fair value adjustment of financial assets and liabilities at fair value through profit and loss	27	2,280	1,184	818
Net gain on repurchase of debt securities issued		(2,439)		
Other		(1,121)	(592)	(167)
Unrealized foreign exchange loss/(gain)		3,520	501	(366)
Cash flows from operating activities before changes in net operating assets		96,915	79,518	48,110
Changes in operating assets and liabilities:				
(Increase)/decrease in operating assets:				
Obligatory reserves		52,092	(32,639)	(48,471)
Financial assets at fair value through profit or loss		23,964	2,996	(4,290)
Amounts due from credit institutions		(5,945)	(1,429)	1,399
Loans to customers		(206,681)	(483,741)	(197,456)
Insurance assets		(674)	(1,062)	(521)
Other assets		(865)	(1,382)	(1,945)
Increase/(decrease) in operating liabilities:				
Financial liabilities at fair value through profit or loss		3,196	2,841	8
Amounts due to customers		(66,260)	349,981	282,260
Amounts due to credit institutions		41,837	134,867	10,286
Insurance liabilities		(3,722)	(146)	889
Other liabilities		(4,758)	2,936	2,929
Net cash flows (used in)/from operating activities before income taxes		(70,901)	52,740	93,198
Income tax paid		(10,306)	(8,599)	(5,791)
Net cash flows (used in)/from operating activities		(81,207)	44,141	87,407
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Acquisition of subsidiaries, net of cash acquired		-	-	(5,219)
Purchase and prepayment for property and equipment and intangible assets		(19,104)	(24,018)	(8,584)
Proceeds from sale of property and equipment		145	650	1,100
Proceeds from sale of available-for-sale investment securities		151,819	105,728	900
Purchase of available-for-sale investment securities		(174,879)	(90,256)	(109,630)
Purchase of investments held to maturity		(6,777)	-	-
Net cash flows used in investing activities		(48,796)	(7,896)	(121,433)



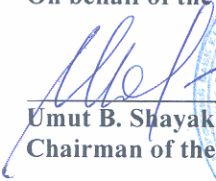
# JSC HALYK BANK

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006 (Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from common shares issued	23	-	4,847	30,755
Proceeds from preferred shares issued	23	-	-	913
Purchase of treasury shares		(47)	(259)	(31)
Dividends paid		(4,493)	(4,179)	(2,744)
Proceeds from debt securities issued		64,924	118,467	79,991
Redemption and repurchase of debt securities issued		(23,122)	(22,553)	(2,347)
Net cash flows from financing activities		37,262	96,323	106,537
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(1,416)	(5,122)	(1,814)
Net change in cash and cash equivalents		(94,157)	127,446	70,697
CASH AND CASH EQUIVALENTS, beginning of the year		255,245	127,799	57,102
CASH AND CASH EQUIVALENTS, end of the year	5	161,088	255,245	127,799
<b>SUPPLEMENTARY INFORMATION:</b>				
Interest received		167,519	103,762	76,070
Interest paid		105,764	68,366	27,791

During 2008 in accordance with the amendments issued by IASB to IAS 39 the Group has reclassified its financial assets at fair value through profit or loss to available-for-sale investment securities and investments held to maturity. Please see Notes 9 and 10 for detailed disclosure.

On behalf of the Management Board:

  
Umut B. Shayakhmetova  
Chairman of the Board

17 March 2009

  
Pavel A. Chenssov  
Chief Accountant

17 March 2009

The notes on pages 14 to 80 form an integral part of these consolidated financial statements.

# JSC HALYK BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

(Millions of Kazakhstani Tenge)

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### 1. PRINCIPAL ACTIVITIES

JSC Halyk Bank (the “Bank”) and its subsidiaries (together the “Group”) provide retail and corporate banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, 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 license for banking operations, operations with securities and custody services renewed by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of Kazakhstan (“FMSA”) on 6 August 2008. 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 2008 the Group was controlled by Almex via its 62.09 % share of the Bank’s outstanding shares (2007 – 62.09%, 2006 – 64.34%). The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2008 the Bank operated through its head office in Almaty and its 22 regional branches, 125 sub-regional offices and 467 cash settlement units (2007 - 22, 127 and 437, respectively, 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 17 March 2009.

### 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 earnings 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 certain property and equipment which are carried at revalued 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, %			Country	Industry
	31 December 2008	31 December 2007	31 December 2006		
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	100	Netherlands	Issue and placement of Eurobonds
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer Activities
LLP Halyk Inkassatsiya	100	100	100	Kazakhstan	Cash collection Services
JSC Halyk Life	100	100	100	Kazakhstan	Life insurance
JSC Halyk Capital	100	100	100	Kazakhstan	Broker and dealer Activities
LLP NBK-Finance	100	100	100	Russia	Broker and dealer Activities
JSC Kazakhinstrakh	99	98	98	Kazakhstan	Insurance
JSC Accumulated Pension fund of Halyk Bank	99	85	85	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	100	Russia	Banking
LLP Halyk Dornod	100	100	-	Mongolia	Banking
LLP Halyk Astana Dornod	100	100	-	Mongolia	Broker and dealer Activities
JSC Halyk Bank Georgia	100	-	-	Georgia	Banking

During 2007, the Group established two subsidiaries in Mongolia LLP Halyk Dornod and LLP Halyk Astana Dornod. The share capital of LLP Halyk Dornod and LLP Halyk Astana Dornod are equal to KZT 1.2 million and KZT 1.2 million, respectively. 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.

In January 2008, the Group established a subsidiary in Georgia – JSC Halyk Bank Georgia. The share capital of JSC Halyk Bank Georgia is equal to KZT 2.5 billion. On 29 January 2008 JSC Halyk Bank Georgia obtained a license for providing banking activities issued by National Bank of Georgia.



## 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
<b>As at 31 December 2008 and for the year then ended</b>								
JSC Processing Center	25.14	Kazakhstan	Processing	(35)	493	11	482	105
<b>As at 31 December 2007 and for the year then ended</b>								
JSC Processing Center	25.14	Kazakhstan	Processing	(31)	606	15	591	45
<b>As at 31 December 2006 and for the year then ended</b>								
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.

#### 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. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus 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 at the close of business on the balance sheet date. 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 fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only 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.

The table below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2008:

<b>Balance sheet category</b>	<b>Quoted prices in active markets</b>	<b>Internal models based on market prices</b>	<b>Total</b>	
<b>Assets:</b>				
Financial assets at fair value through profit or loss	Debt financial instruments	6,351	-	6,351
	Equity financial instruments	2,195	-	2,195
	Derivative financial instruments	-	6,441	6,441
Available-for-sale investment securities	Debt financial instruments	134,480	-	134,480
	Equity financial instruments	1,321	-	1,321
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	-	6,048	6,048

The fair value of the Group's derivative financial assets and liabilities does not reflect the counterparties or the Group's own credit risk. The impact of the adjustment for credit risk was evaluated by the management and considered to be immaterial.

### **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, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

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 or financial liabilities designated at fair value through profit or loss**

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

A financial asset or financial liability 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 or financial liability other than a financial asset or financial liability 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 or financial liability 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 investments held to maturity, 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.

### **Investments held to maturity**

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

### **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 sheet 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 factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

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 it 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 at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revaluated amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. This represents a change in accounting policy from 31 December 2007 as the Group previously carried buildings and constructions at cost less accumulated depreciation.

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:

	<b>Years</b>
Buildings and constructions	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

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.

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

## **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 2008 was KZT 120.79 to USD 1 (2007 – KZT 120.30; 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 (the "IFRIC") of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2008.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permit certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available-for-sale category to the loans and receivables category in rare circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 1 July 2008. The Group adopted amended standards as at 1 July 2008. The impact of adoption of these amendments is disclosed in Notes 9 and 10.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions was issued in November 2007. Entities which buy their own shares, or whose shareholders buy shares in the reporting entity, in order to provide incentives to employees shall account for those incentives on an equity-settled basis. This principle applies also to the accounting by subsidiaries. The interpretation is effective for annual accounting periods beginning on or after 1 March 2008. The Group adopted these interpretations as of 1 March 2008. The adoption of the interpretations did not have a material impact on the Group's financial statements.

## **Standards and interpretations issued and not yet adopted**

The Group has not applied the following IFRS and Interpretations of the IFRIC 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.

- 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.
- The IASB published revisions to IAS 32 ‘Financial Instruments: Presentation’ and consequential revisions to other standards in February 2008 to improve the accounting for and disclosure of puttable financial instruments. The revisions are effective for accounting periods beginning on or after 1 January 2009 but together they may be adopted earlier. They are not expected to have a material effect on the Group.
- In May 2008, the IASB issued amendments to IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ and IAS 27 ‘Consolidated and Separate Financial Statements’ that change the investor's accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. It does not affect the consolidated financial statements but may prospectively affect the Group’s accounting and presentation of receipts of dividends from such entities.
- The IFRIC issued interpretation IFRIC 15 ‘Agreements for the Construction of Real Estate’ in July 2008. This interpretation clarifies the accounting for construction profits. It is applicable for accounting periods beginning on or after 1 January 2009 and is not expected to have a material effect on the Group.
- The IFRIC issued interpretation IFRIC 17 ‘Distributions of Non-Cash Assets to Owners’ and the IASB made consequential amendments to IFRS 5 ‘Non-Current Assets Held for Sale and Discontinued Operations’ in December 2008. The interpretation requires distributions to be presented at fair value with any surplus or deficit to be recognised in income. The amendment to IFRS 5 extends the definition of disposal groups and discontinued operations to disposals by way of distribution. The interpretation is effective for accounting periods beginning on or after 1 July 2009, to be adopted at the same time as IFRS 3 (revised 2008), and is not expected to have a material effect on the Group.
- The IFRIC issued interpretation IFRIC 18 ‘Transfers of Assets from Customers’ in January 2009. The interpretation addresses the accounting by suppliers that receive assets from customers, requiring measurement at fair value. The interpretation is effective for assets from customers received on or after 1 July 2009 and is not expected to have a material effect on the Group.
- IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives” On 5 of March 2009, the IASB issued an amendment to IAS 39 effective for annual periods ending on or after 30 June 2009. These amendments clarify that on reclassification of a financial asset out of the “at fair value through profit or loss” category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The Group will apply this amendment for the annual period beginning on 1 January 2009 and does not expect that it will have a significant impact on the Group consolidated financial statements.
- IFRS 7 “Financial instruments: Disclosures” On 5 of March 2009 the IASB issued amendments to IFRS 7 named “Improving Disclosures about Financial Instruments”. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. The Group will apply this amendment for the annual period beginning on 1 January 2009

#### 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 losses 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 losses 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 losses of loans to customers as at 31 December 2008 is KZT 115,052 million (31 December 2007: 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 2008 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 2008	31 December 2007	31 December 2006
Cash on hand	23,918	2,918	14,931
<b>Recorded as loans and receivables in accordance with IAS 39:</b>			
Correspondent accounts with Organization for Economic Co-operation and Development countries (the “OECD”) based banks	1,719	3,101	6,328
Correspondent accounts with non-OECD based banks	6,701	2,972	1,100
Overnight deposits with OECD based banks	1,902	41,278	81,495
Short-term deposits with OECD based banks	125,626	197,654	-
Short-term deposits with non-OECD based banks	562	-	-
Short-term deposits with Kazakhstan banks	660	7,322	23,564
Overnight deposits with Kazakhstan banks	-	-	381
	<u>161,088</u>	<u>255,245</u>	<u>127,799</u>

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

	31 December 2008		31 December 2007		31 December 2006	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	0.1%	-	2.3%-2.7%	-	3.6%-5.3%
Short-term deposits with OECD based banks	-	0.0%-1.1%	-	3.8%-10.0%	-	-
Short-term deposits with non-OECD based bank	-	3.1%-11.1%	-	-	-	-
Short-term deposits with Kazakhstan banks	11.5%	-	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 2008, 2007 and 2006 are presented as follows:

	31 December 2008		31 December 2007		31 December 2006	
	Carrying value of deposits	Fair value of collateral	Carrying value of deposits	Fair value of collateral	Carrying value of deposits	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	660	666	2,001	2,247	-	-
NBK notes	-	-	5,181	5,431	-	-
Equity securities of Kazakhstan corporations	-	-	100	113	-	-
Bonds of Kazakhstan banks	-	-	-	-	2,800	2,887
Bonds of Kazakhstan corporations	-	-	-	-	1,287	1,428
	<u>660</u>	<u>666</u>	<u>7,282</u>	<u>7,791</u>	<u>4,087</u>	<u>4,315</u>

## 6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Recorded as loans and receivables in accordance with IAS 39:</b>			
Cash on hand allocated to obligatory reserves	21,666	27,892	6,789
Due from the NBK allocated to obligatory reserves	<u>9,159</u>	<u>59,376</u>	<u>48,317</u>
	<u>30,825</u>	<u>87,268</u>	<u>55,106</u>

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. During 2008 the NBK has decreased the minimum reserve requirements, which resulted in a significant decrease of obligatory reserves.

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

Financial assets at fair value through profit or loss comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Financial assets held for trading:</b>			
Derivative financial instruments	6,441	3,477	179
Treasury bills of the Ministry of Finance of Kazakhstan	5,514	32,161	29,162
Equity securities of Kazakhstan corporations	1,530	90	352
Equity securities of Kazakhstan banks	665	1,682	428
Bonds of Kazakhstan banks	615	942	3,011
Corporate bonds	222	287	5,279
Securities of foreign countries and organizations	-	6,225	-
Bonds of the Development Bank of Kazakhstan	-	1,964	4,545
Mutual investment funds shares	-	1,245	1,452
Sovereign bonds of Kazakhstan	-	-	6,290
NBK notes	-	-	2,497
	<u>14,987</u>	<u>48,073</u>	<u>53,195</u>
Subject to repurchase agreements	3,508	2,976	1,000

Financial liabilities at fair value through profit or loss comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Financial liabilities held for trading:</b>			
Derivative financial instruments	<u>6,048</u>	<u>2,851</u>	<u>10</u>
	<u>6,048</u>	<u>2,851</u>	<u>10</u>

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

	31 December 2008		31 December 2007		31 December 2006	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Kazakhstan	5.6%-6.4%	2009-2014	3.2%- 11.3%	2008-2014	3.2%-6.7%	2008-2014
Bonds of Kazakhstan banks	13.2% - 16.3%	2009	7.5% - 13.9%	2009-2011	6.1%-8.6%	2007-2013
Corporate bonds	9.6% - 18.0%	2010-2015	8.3% - 14.1%	2010-2015	10.5%	2007-2015
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
Sovereign bonds of Kazakhstan	-	-	-	-	11.1%	2007
NBK notes	-	-	-	-	2.2%	2007

Derivative financial instruments comprise:

	31 December 2008			31 December 2007			31 December 2006		
	Nominal amount	Net fair value		Nominal amount	Net fair value		Nominal Amount	Net fair value	
		Asset	Liability		Asset	Liability		Asset	Liability
<b>Foreign currency contracts</b>									
Forwards	35,576	6,361	5,871	110,532	3,364	2,740	16,004	111	-
Swaps	87,638	55	156	1,195	-	107	162,969	48	-
<b>Interest rate contracts</b>									
Swaps	1,198	25	21	1,296	113	4	2,147	20	10
		<u>6,441</u>	<u>6,048</u>		<u>3,477</u>	<u>2,851</u>		<u>179</u>	<u>10</u>

As at 31 December 2008, 2007 and 2006, the Group used quoted market prices from independent information 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 that would result from changes in management's assumptions.

## 8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Recorded as loans and receivables in accordance with IAS 39:</b>			
Term deposits	9,992	2,626	1,885
Loans to Kazakhstan credit institutions	<u>382</u>	<u>790</u>	<u>170</u>
	10,374	3,416	2,055
Less - Allowance for loan impairment (Note 20)	<u>(17)</u>	<u>(18)</u>	<u>(6)</u>
	<u>10,357</u>	<u>3,398</u>	<u>2,049</u>

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

	31 December 2008		31 December 2007		31 December 2006	
	%	Maturity	%	Maturity	%	Maturity
Term deposits	7.0%-11.1%	2009-2012	6.0%-13.0%	2008-2009	4.1%-10.6%	2007-2008
Loans to Kazakhstan credit institutions	11.1%	2015	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 2008, 2007 and 2006 are presented as follows:

	31 December 2008		31 December 2007		31 December 2006	
	Carrying value of loans	Fair value of collateral	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	<u>-</u>	<u>-</u>	<u>12</u>	<u>13</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>451</u>	<u>358</u>	<u>-</u>	<u>-</u>

## 9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2008	31 December 2007	31 December 2006
Treasury bills of the Ministry of Finance of Kazakhstan	64,273	6,459	1,061
NBK notes	56,375	82,318	107,856
Corporate bonds	10,659	14,387	10,166
Bonds of Development Bank of Kazakhstan	2,213	-	-
Bonds of Kazakhstan banks	763	3,047	3,085
Equity securities of Kazakhstan corporations	670	1,381	971
Mutual investment funds shares	651	-	-
Treasury bills of the Kyrgyz Republic	197	101	114
Local municipal bonds	-	80	86
Equity securities of foreign corporations	-	66	-
	<u>135,801</u>	<u>107,839</u>	<u>123,339</u>
Subject to repurchase agreements	78,077	51,669	29,500

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

	31 December 2008		31 December 2007		31 December 2006	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Kazakhstan	2.0%-19.3%	2009-2015	2.0%-18.6%	2008-2014	3.5%-5.7%	2008-2014
NBK notes	6.3%-15.5%	2009	5.5%-9.5%	2008	2.9%-4.8%	2007
Corporate bonds	6.3%-25.9%	2009-2021	6.4%-18.6%	2008-2021	7.5%-13.0%	2007-2017
Bonds of Development Bank of Kazakhstan	7.0%	2026	-	-	-	-
Bonds of Kazakhstan banks	7.9%-17.4%	2009-2017	6.4%-18.3%	2008-2016	5.9%-12.0%	2007-2014
Treasury bills of the Kyrgyz Republic	8.6%-20.0%	2009-2010	5.6%-14.9%	2008-2009	5.2%-16.0%	2007-2008
Local municipal bonds	-	-	8.5%	2008	8.5%	2008

In October 2008 the IASB has issued amendments to IAS 39 “Financial Instruments: Recognition and Measurement”, which allow the reclassification of financial assets out of the financial assets at fair value through profit or loss category in rare circumstances if certain other requirements are met. On 31 December 2008 in accordance with these amendments the Group has reclassified certain debt and equity securities with total carrying value and value of KZT 4,925 million as of 31 December 2008 out of financial assets at fair value through profit or loss category into the available-for-sale investment securities.

The reclassification was made only for those securities which have had a significant decline in volume of transactions in the financial markets as a result of current financial crisis. The Group has revised its investment policy in relation to these securities and has the intention and ability to hold these securities for the foreseeable future.

Debt and equity securities which were reclassified are presented in the tables below.

	<b>As of reclassification date 31 December 2008</b>		
	<b>Effective interest rate, %</b>	<b>Fair value</b>	<b>Estimated future cash flows</b>
<b>Debt securities</b>			
Securities of foreign countries and organizations	15.4% - 25.4%	1,922	2,846
Bonds of Development Bank of Kazakhstan	7.0%	2,213	4,711
Corporate bonds	11.4% -22.4%	65	93
		4,200	7,650

	<b>As of reclassification date 31 December 2008</b>	
	<b>% of ownership</b>	<b>Fair value</b>
<b>Equity securities and mutual investment funds shares</b>		
Mutual investment funds shares	2.0%	651
Equity securities of Kazakhstan corporations	1.3%-1.4%	74
		725

The net loss recognized in the consolidated income statements up to the date of reclassification from the debt and equity securities which were reclassified is presented in the table below.

	<b>Year ended 31 December 2008</b>	<b>Year ended 31 December 2007</b>	<b>Year ended 31 December 2006</b>
<b>Debt securities</b>			
Securities of foreign countries and organizations	(924)	(187)	-
Bonds of Development Bank of Kazakhstan	(69)	(355)	-
Corporate bonds	(15)	(1)	-
	(1,008)	(543)	-
<b>Equity securities</b>			
Mutual investment funds shares	(436)	163	-
Equity securities of Kazakhstan corporations	(72)	(28)	-
	(508)	135	-

As at 31 December 2008, 2007 and 2006, the Group used quoted market prices from independent information sources to determine the fair value all of its available-for-sale investment securities.

## 10. INVESTMENTS HELD TO MATURITY

Investments held to maturity securities comprise:

	31 December 2008	31 December 2007	31 December 2006
Securities of foreign countries and organizations	3,682	-	-
Corporate bonds	2,776	-	-
Notes of National Bank of Georgia	1,220	-	-
Bonds of Kazakhstan banks	1,011	-	-
	<u>8,689</u>	<u>-</u>	<u>-</u>

Interest rates and maturities of investments held to maturity are presented as follows:

	31 December 2008		31 December 2007		31 December 2006	
	%	Maturity	%	Maturity	%	Maturity
Securities of foreign countries and organizations	3.0%-8.1%	2009	-	-	-	-
Corporate bonds	6.9%	2016	-	-	-	-
Notes of National Bank of Georgia	11.0%-13.0%	2009	-	-	-	-
Bonds of Kazakhstan banks	8.9%	2009	-	-	-	-

On 31 December 2008, in accordance with the IASB amendments to IAS 39 the Group reclassified certain debt securities with total carrying value and fair value of KZT 1,912 million out of financial assets at fair value through profit or loss category into investments held to maturity.

The reclassification was made for those securities which have had a significant decline in volume of transactions in the financial markets as a result of the current financial crisis. The Group has revised its investment policy in relation to these securities and has the intention and ability to hold these securities until maturity.

Debt securities which were reclassified are presented in the tables below

	As of reclassification date		
	Effective interest rate, %	Fair value	Estimated future cash flows
<b>Debt securities</b>			
Securities of foreign countries and organizations	8.1%	<u>1,912</u>	<u>2,117</u>
		<u>1,912</u>	<u>2,117</u>

The net loss recognized in the consolidated income statements up to the date of reclassification from the debt securities which were reclassified is presented in the table below.

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>Equity securities</b>			
Securities of foreign countries and organizations	<u>(205)</u>	<u>-</u>	<u>-</u>
	<u>(205)</u>	<u>-</u>	<u>-</u>



## 11. LOANS TO CUSTOMERS

Loans to customers comprise:

	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Recorded as loans and receivables in accordance with IAS 39:</b>			
Originated loans to customers	1,298,985	1,087,372	625,566
Overdrafts	4,347	4,300	2,743
Promissory notes	-	5,298	1,561
	<u>1,303,332</u>	<u>1,096,970</u>	<u>629,870</u>
Less – Allowance for loan impairment (Note 20)	(115,052)	(56,697)	(33,654)
Loans to customers	<u><u>1,188,280</u></u>	<u><u>1,040,273</u></u>	<u><u>596,216</u></u>

As at 31 December 2008, the annual interest rates charged by the Group ranged from 9% to 23% per annum for KZT-denominated loans (31 December 2007 – from 8% to 32%, 31 December 2006 – from 9% to 24%) and from 7% to 17% per annum for US Dollar-denominated loans (31 December 2007 – from 3% to 20%, 31 December 2006 – from 6% to 22%).

As at 31 December 2008, the Group had a concentration of loans of KZT 214,295 million from the ten largest borrowers that comprised 16% of the Group's total gross loan portfolio (31 December 2007 – KZT 161,592 million, 15%; 31 December 2006 – KZT 93,394 million, 15%) and 112% of the Group's total equity (31 December 2007 – 100%; 31 December 2006 – 77%). As at 31 December 2008 an allowance for impairment amounting to KZT 17,205 million was made against these loans (31 December 2007 – KZT 7,967 million; 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:

	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Loans collateralized by pledge of real estate or rights thereon	772,415	623,396	379,069
Loans collateralized by cash	62,823	71,749	98,759
Loans collateralized by pledge of agricultural products	20,482	20,526	2
Loans collateralized by pledge of inventories	17,178	16,811	5,522
Loans collateralized by pledge of vehicles	16,106	16,711	606
Loans collateralized by pledge of corporate shares	5,443	28,953	54
Loans collateralized by pledge of equipment	4,127	3,648	5,012
Other collateral	243,639	206,543	109,303
Unsecured loans	<u>161,119</u>	<u>108,633</u>	<u>31,543</u>
	<u>1,303,332</u>	<u>1,096,970</u>	<u>629,870</u>
Less - allowance for loan impairment losses (Note 20)	(115,052)	(56,697)	(33,654)
Total loans to customers	<u><u>1,188,280</u></u>	<u><u>1,040,273</u></u>	<u><u>596,216</u></u>

Loans are made to the following sectors:

	31 December 2008	%	31 December 2007	%	31 December 2006	%
Retail loans:						
- consumer loans	188,542	15%	161,611	15%	86,907	14%
- mortgage loans	158,078	12%	160,663	15%	110,274	17%
	<u>346,620</u>		<u>322,274</u>		<u>197,181</u>	
Wholesale trade	251,654	19%	223,549	20%	113,510	18%
Construction	166,788	13%	147,908	13%	70,064	11%
Services	134,499	10%	59,921	5%	23,213	4%
Retail trade	106,063	8%	87,650	8%	42,098	7%
Agriculture	73,538	6%	67,112	6%	47,474	8%
Real estate	65,793	5%	40,141	4%	14,896	2%
Metallurgy	36,009	3%	29,913	3%	5,638	1%
Food industry	25,285	2%	16,439	1%	10,359	2%
Oil and gas	23,297	2%	30,289	3%	13,532	2%
Transportation	21,560	2%	9,679	1%	11,503	2%
Hotel industry	14,279	1%	10,122	1%	5,811	1%
Energy	11,072	1%	6,236	1%	14,745	2%
Mining	5,043	0%	9,343	1%	4,835	1%
Machinery	4,396	0%	7,296	1%	2,194	0%
Communication	1,785	0%	1,323	0%	1,888	0%
Consumer goods and automobile trading	91	0%	9,683	1%	4,639	1%
Research and development	-	0%	505	0%	2,444	0%
Other	15,560	1%	17,587	1%	43,846	7%
	<u>1,303,332</u>	100%	<u>1,096,970</u>	100%	<u>629,870</u>	100%

As at 31 December 2008 the amount of accrued interest on impaired loans comprised KZT 55,737 million (31 December 2007 – KZT 31,878 million; 31 December 2006 – KZT 5,719 million).

## 12. PROPERTY AND EQUIPMENT

The movements in property and equipment are presented as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
<b>Revaluated cost:</b>					
31 December 2007	9,644	1,358	11,905	9,181	32,088
Additions	2,510	231	5,314	5,883	13,938
Disposals	(42)	(76)	(1,331)	(604)	(2,053)
Transfers	1,108	1	5	(1,114)	-
Revaluation	24,933	-	-	-	24,933
Impairment	(428)	-	-	-	(428)
Translation differences	(102)	(6)	(25)	13	(120)
31 December 2008	<u>37,623</u>	<u>1,508</u>	<u>15,868</u>	<u>13,359</u>	<u>68,358</u>
<b>Accumulated depreciation:</b>					
31 December 2007	1,386	519	4,716	2,701	9,322
Charge	322	262	2,432	1,115	4,131
Disposals	(6)	(40)	(1,275)	(435)	(1,756)
Transfers	(2)	-	2	-	-
Write-off at revaluation	(1,340)	-	-	-	(1,340)
Translation differences	(4)	(4)	(7)	(7)	(22)
31 December 2008	<u>356</u>	<u>737</u>	<u>5,868</u>	<u>3,374</u>	<u>10,335</u>
<b>Net book value:</b>					
31 December 2008	<u>37,267</u>	<u>771</u>	<u>10,000</u>	<u>9,985</u>	<u>58,023</u>

	<b>Buildings and constructions</b>	<b>Vehicles</b>	<b>Computers and banking equipment</b>	<b>Other</b>	<b>Total</b>
<b>Cost:</b>					
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	<u>9,644</u>	<u>1,358</u>	<u>11,905</u>	<u>9,181</u>	<u>32,088</u>
<b>Accumulated depreciation:</b>					
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	<u>1,386</u>	<u>519</u>	<u>4,716</u>	<u>2,701</u>	<u>9,322</u>
<b>Net book value:</b>					
31 December 2007	<u>8,258</u>	<u>839</u>	<u>7,189</u>	<u>6,480</u>	<u>22,766</u>
	<b>Buildings and constructions</b>	<b>Vehicles</b>	<b>Computers and banking equipment</b>	<b>Other</b>	<b>Total</b>
<b>Cost:</b>					
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	<u>7,439</u>	<u>1,132</u>	<u>8,448</u>	<u>6,560</u>	<u>23,579</u>
<b>Accumulated depreciation:</b>					
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	<u>895</u>	<u>326</u>	<u>3,989</u>	<u>1,957</u>	<u>7,167</u>
<b>Net book value:</b>					
31 December 2006	<u>6,544</u>	<u>806</u>	<u>4,459</u>	<u>4,603</u>	<u>16,412</u>

During the reporting period the Group has revalued its property and equipment as of 6 May 2008. The revaluation procedures were performed by an independent appraiser “Motornoe Bureau” LLP. The independent appraiser used three approaches to identify fair value of the property and equipment: the income approach with the method of realization as income capitalization, the comparative approach with application of market information, and the cost approach.

The income approach with the method of realization as income capitalization and the comparative approach with application of market information were used to identify the fair value of buildings and constructions in terms of active market for items that were subjects for revaluation. The cost approach was used when there was no active market for items that were subjects for revaluation. The total amount of fair value of buildings and constructions is KZT 33,644 million. The carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 9,420 million.

### 13. 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 positive cash flows.

Movements of goodwill are presented as follows:

	2008	2007	2006
At the beginning of the year	3,265	3,265	184
Impairment loss	(75)	-	(47)
Recognized on acquisition of a subsidiary	-	-	3,177
Derecognized on disposal of a subsidiary	-	-	(49)
	<u>3,190</u>	<u>3,265</u>	<u>3,265</u>
At the end of the year	<u>3,190</u>	<u>3,265</u>	<u>3,265</u>

As at 31 December 2008, 2007 and 2006 there was no evidence that the goodwill that arose on the acquisition of JSC Kazakhinstrakh has been impaired.

### 14. INTANGIBLE ASSETS

As at 31 December 2008, 2007 and 2006 the intangible assets of the Group consisted primarily of software used by the Group.

### 15. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2008	31 December 2007	31 December 2006
Reinsurance premium unearned	2,583	1,934	2,609
Reinsurance amounts recoverable	<u>112</u>	<u>140</u>	<u>189</u>
	2,695	2,074	2,798
Premiums receivable	<u>1,722</u>	<u>1,812</u>	<u>2,828</u>
Insurance assets	<u>4,417</u>	<u>3,886</u>	<u>5,626</u>

Insurance liabilities comprised the following:

	31 December 2008	31 December 2007	31 December 2006
Gross unearned insurance premium reserve	6,057	5,265	5,290
Reserves for insurance claims	<u>1,344</u>	<u>805</u>	<u>391</u>
	7,401	6,070	5,681
Payables to reinsurers and agents	<u>1,217</u>	<u>1,319</u>	<u>1,854</u>
Insurance liabilities	<u>8,618</u>	<u>7,389</u>	<u>7,535</u>

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

The movements on claims reserves for the years ended 31 December 2008 and 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:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Reserves for claims, beginning of the period	805	391	331
Reserves for claims, reinsurance share, beginning of the period	<u>(140)</u>	<u>(189)</u>	<u>(63)</u>
Net reserves for claims, beginning of the period	665	202	268
Plus claims incurred	4,951	2,152	103
Less claims paid	<u>(4,384)</u>	<u>(1,689)</u>	<u>(169)</u>
Net reserves for claims, end of period	1,232	665	202
Reserves for claims, reinsurance share, end of period	<u>112</u>	<u>140</u>	<u>189</u>
Reserves for claims, end of period	<u><u>1,344</u></u>	<u><u>805</u></u>	<u><u>391</u></u>

The movements on unearned insurance premium reserve for the year ended 31 December 2008 and 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:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Gross unearned insurance premium reserve, beginning of the period	5,265	5,290	4,596
Unearned insurance premium reserve, reinsurance share, beginning of the period	<u>(1,934)</u>	<u>(2,609)</u>	<u>(2,859)</u>
Net unearned insurance premium reserve, beginning of the period	<u>3,331</u>	<u>2,681</u>	<u>1,737</u>
Change in unearned insurance premium reserve	792	(25)	742
Change in unearned insurance premium reserve, reinsurance share	<u>(649)</u>	<u>675</u>	<u>202</u>
Change in unearned insurance premium reserve, net	<u>143</u>	<u>650</u>	<u>944</u>
Net unearned insurance premium reserve, end of period	3,474	3,331	2,681
Unearned insurance premium reserve, reinsurance share, end of period	<u>2,583</u>	<u>1,934</u>	<u>2,609</u>
Gross unearned insurance premium reserve, end of period	<u><u>6,057</u></u>	<u><u>5,265</u></u>	<u><u>5,290</u></u>

## 16. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Other financial assets recorded as loans and receivables in accordance with IAS 39:</b>			
Other debtors on non-banking activities	1,876	2,159	721
Accrued other commission income	777	1,037	466
Other debtors on banking activities	760	171	243
Accrued commission for managing pension assets	197	1,147	2,289
Other	361	657	12
	<u>3,971</u>	<u>5,171</u>	<u>3,731</u>
Less – Allowance for impairment (Note 20)	<u>(1,074)</u>	<u>(504)</u>	<u>(218)</u>
	2,897	4,667	3,513
<b>Other non financial assets:</b>			
Prepayments for property and equipment	14,044	12,412	1,565
Corporate income tax prepaid	8,608	62	34
Inventory	1,590	871	905
Deferred tax assets (Note 21)	424	220	-
Investments in associates	272	262	293
Other	1,421	727	504
	<u>29,256</u>	<u>19,221</u>	<u>6,814</u>

## 17. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2008	31 December 2007	31 December 2006
<b>Recorded at amortized cost:</b>			
<b>Term deposits:</b>			
Legal entities	384,832	381,139	291,810
Individuals	258,499	282,520	157,281
	<u>643,331</u>	<u>663,659</u>	<u>449,091</u>
<b>Current accounts:</b>			
Legal entities	151,713	196,618	96,247
Individuals	72,348	75,152	52,597
	<u>224,061</u>	<u>271,770</u>	<u>148,844</u>
	<u>867,392</u>	<u>935,429</u>	<u>597,935</u>

As at 31 December 2008, the Group's ten largest customers accounted for approximately 50% of the total amounts due to customers (31 December 2007 – 45%; 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 is as follows:

	31 December 2008	%	31 December 2007	%	31 December 2006	%
Individuals and entrepreneurs	330,847	38%	357,672	38%	209,878	35%
Oil and gas	279,458	32%	206,185	22%	67,540	11%
Financial sector	51,035	6%	57,573	6%	44,168	7%
Wholesale trade	50,832	6%	57,105	6%	15,800	3%
Transportation	45,024	5%	55,690	6%	17,291	3%
Construction	42,575	5%	41,781	5%	81,319	14%
Energy	28,440	3%	32,552	4%	12,843	2%
Other consumer services	14,044	2%	55,889	6%	35,514	6%
Metallurgy	2,183	0%	2,724	0%	102,345	17%
Government	1,350	0%	47,130	5%	1,813	0%
Transportation of oil and gas	-	0%	-	0%	1,794	0%
Other	21,604	3%	21,128	2%	7,630	1%
	<u>867,392</u>	<u>100%</u>	<u>935,429</u>	<u>100%</u>	<u>597,935</u>	<u>100%</u>

## 18. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Recorded at amortized cost:</b>			
Loans and deposits from OECD based banks	191,337	176,480	73,126
Loans and deposits from Kazakhstan banks	96,391	66,889	36,007
Loans and deposits from non-OECD based banks	329	2,797	5,073
Loans from other financial institutions	184	-	650
Overnight deposits	-	-	3,338
Correspondent accounts	1,367	1,286	525
Total amounts due to credit institutions	<u>289,608</u>	<u>247,452</u>	<u>118,719</u>

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

	31 December 2008		31 December 2007		31 December 2006	
	%	Maturity	%	Maturity	%	Maturity
Loans and deposits from OECD based banks	2.5% - 8.4%	2009-2015	3.0%-8.4%	2008-2015	2.3%-8.4%	2007-2015
Loans and deposits from Kazakhstan banks	6.9%-11.0%	2009	6.5%-6.6%	2008	0.7%-7.0%	2007
Loans and deposits from non-OECD based banks	11.0%	2009	6.2%-6.7%	2008-2009	4.6%-6.7%	2007-2012
Loans from other financial institutions	5.3% - 6.9%	2010	-	-	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 2008, 2007 and 2006 are presented as follows:

	31 December 2008		31 December 2007		31 December 2006	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
NBK notes	42,049	39,982	51,672	49,151	29,390	29,520
Treasury bills of the Ministry of Finance of Kazakhstan	39,536	36,247	2,973	2,680	1,110	1,000
	<u>81,585</u>	<u>76,229</u>	<u>54,645</u>	<u>51,831</u>	<u>30,500</u>	<u>30,520</u>

In accordance with the contractual terms of the loans from certain OECD based banks and the European Bank for Reconstruction and Development (“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 2008, 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.

## 19. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	31 December 2008	31 December 2007	31 December 2006
<b>Recorded at amortized cost:</b>			
<b>Subordinated debt securities issued:</b>			
Inflation indexed KZT denominated bonds	19,228	19,221	9,104
Fixed rate KZT denominated bonds	16,021	11,229	10,610
Reverse inflation indexed KZT denominated bonds	8,359	8,381	8,908
USD denominated bonds	-	-	2,086
Total subordinated debt securities outstanding	<u>43,608</u>	<u>38,831</u>	<u>30,708</u>
<b>Unsubordinated debt securities issued:</b>			
USD denominated bonds	200,118	145,017	64,145
KZT denominated bonds	19,265	41,038	39,560
Total unsubordinated debt securities outstanding	<u>219,383</u>	<u>186,055</u>	<u>103,705</u>
Total debt securities outstanding	<u>262,991</u>	<u>224,886</u>	<u>134,413</u>

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

	31 December 2008		31 December 2007		31 December 2006	
	%	Maturity	%	Maturity	%	Maturity
<b>Subordinated debt securities issued:</b>						
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015	inflation rate plus 1%	2015
	inflation rate plus 2%	2010-2018	inflation rate plus 2%	2010-2017	inflation rate plus 2%	2010
Fixed rate KZT denominated bonds	7.5%-13.0%	2009-2018	7.5%-9.0%	2009-2015	7.5%-9.0%	2007-2015
Reverse inflation indexed KZT denominated bonds	15% less		15% less		15% less	
	inflation rate	2015-2016	inflation rate	2015-2016	inflation rate	2015-2016
USD denominated bonds	-	-	-	-	8.0%-11.8%	2007
<b>Unsubordinated debt securities issued:</b>						
USD denominated bonds	7.3% - 9.3%	2009-2017	7.3%-8.1%	2009-2017	7.8%-8.1%	2009-2013
KZT denominated bonds	7.2%-7.8%	2009	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. As of 31 December 2008, 2007 and 2006, the Group was in compliance with the covenants of the agreements the Group has with the notes' trustee and holders.

## 20. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

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

	<b>Loans to customers</b>	<b>Amounts due from credit institutions</b>	<b>Other assets</b>	<b>Total</b>
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 of write-offs	(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 of write-offs	(2,548)	(2)	(43)	(2,593)
31 December 2007	(56,697)	(18)	(504)	(57,219)
(Additional provisions recognized)/recoveries	(58,268)	1	(1,748)	(60,015)
Write-offs	25	-	1,372	1,397
Revaluation	(112)	-	(194)	(306)
31 December 2008	<u>(115,052)</u>	<u>(17)</u>	<u>(1,074)</u>	<u>(116,143)</u>

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

Provision represent provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
At the beginning of the year	(1,885)	(3,021)	(2,280)
Recovery of provisions	10,912	9,653	7,860
Additional provisions recognized	(11,899)	(8,656)	(8,612)
Write-off	-	139	11
Revaluation	(17)	-	-
At the end of the year	<u>(2,889)</u>	<u>(1,885)</u>	<u>(3,021)</u>

## 21. 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, LLP NBK-Finance and JSC Halyk Bank Georgia 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. JSC Halyk Bank Georgia is subject to income tax in Georgia.

The income tax expense comprises:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Current tax charge	812	9,495	6,337
Deferred tax income resulting from reduction in tax rates	(1,226)	-	-
Deferred tax charge	2,038	1,147	2,105
	<u>1,624</u>	<u>10,642</u>	<u>8,442</u>
Income tax expense	<u>1,624</u>	<u>10,642</u>	<u>8,442</u>

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 2008, 2007 and 2006. The tax rate for companies other than banks was also 30% during 2008, 2007 and 2006, except insurance companies which were taxed at 4%. Income on state and other qualifying securities is tax exempt.

During 2008 there was a change in tax legislation in Kazakhstan in relation to corporate income tax, which is set at 20% for financial year ending 31 December 2009, 17.5% for financial year ending 31 December 2010 and 15% for financial year ending 31 December 2011 and thereafter.

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 2008	Year ended 31 December 2007	Year ended 31 December 2006
Income before income tax expense	16,178	51,167	35,601
Statutory tax rate	30%	30%	30%
Income tax expense at the statutory rate	4,853	15,350	10,680
Deferred tax income resulting from reduction in tax rates	(1,226)		
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	(2,502)	(2,569)	(898)
Income of subsidiaries taxed at different rates	(565)	(309)	(90)
Tax-exempt interest income on financial lease	(351)	(9)	-
Tax-exempt income on dividends	(257)	(300)	-
Change in unrecognized tax assets	1,353		
Non-deductible expenditures:			
- other provisions	227	122	345
- general and administrative expenses	129	195	271
- withholding tax on interest	100	112	237
- charity	30	6	27
- interest on deposits to non-residents	26	3	27
Other	(193)	285	292
Income tax expense	<u>1,624</u>	<u>10,642</u>	<u>8,442</u>

Deferred tax assets and liabilities comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Tax effect of deductible temporary differences:</b>			
Fair value of derivatives	1,051	-	-
Vacation pay accrual	182	212	-
Insurance premium reserves	170	129	-
Losses carried forward	143	-	-
Provisions, different rates	62	-	-
Bonuses accrued	18	1,262	870
	<u>1,626</u>	<u>1,603</u>	<u>870</u>
Deferred tax asset			
<b>Tax effect of taxable temporary differences:</b>			
Loans to customers, allowance for impairment losses	(5,042)	(3,431)	(1,599)
Property and equipment, accrued depreciation	(4,041)	(1,342)	(1,801)
Fair value of derivatives	(971)	(185)	-
Taxes	(2)	-	-
Provisions, different rates	-	(322)	-
	<u>(10,056)</u>	<u>(5,280)</u>	<u>(3,400)</u>
Deferred tax liability			
Net deferred tax asset (Note 16)	<u>424</u>	<u>220</u>	<u>-</u>
Net deferred tax liability	<u>(8,854)</u>	<u>(3,897)</u>	<u>(2,530)</u>

During 2008 the Group recognized a loss on certain financial assets and liabilities at fair value through profit or loss in the amount of KZT 4,510 million, which can only be utilized against future realized gains on certain financial assets and liabilities within 3 years. This loss is not expected to be utilized by the Group within the allowed period, and as such has not been recognized.

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.

Movements in net deferred tax liability

	2008	2007	2006
Net deferred tax liability at the beginning of the year	3,677	2,530	425
Debited directly to equity at the date of property and equipment revaluation	3,941	-	-
Deferred tax income resulting from reduction in tax rates	(1,226)	-	-
Deferred tax charge	2,038	1,147	2,105
	<u>8,430</u>	<u>3,677</u>	<u>2,530</u>
Net deferred tax liability at the end of the year			

## 22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007	31 December 2006
<b>Other financial liabilities:</b>			
Amounts due to customers of pension funds	7,209	-	-
Other creditors on non-banking activities	967	1,101	859
Payable for general and administrative expenses	600	155	339
Other creditors on bank activities	94	95	55
Amounts due to government	-	-	110
Accrued other commission expense	-	-	27
Other	88	175	175
	<u>8,958</u>	<u>1,526</u>	<u>1,565</u>
<b>Other non financial liabilities:</b>			
Taxes payable other than income tax	2,579	1,111	942
Salary payable	1,332	5,653	3,622
Other prepayments received	1,017	1,015	359
Current income tax payable	8	956	60
Payables for property and equipment	-	-	21
	<u>13,894</u>	<u>10,261</u>	<u>6,569</u>

JSC Accumulated Pension fund of Halyk Bank (the “Pension Fund Management Company”) receives two types of fees – 15% for management of pension assets based on the income earned or loss incurred on the pension assets during the year and 0.05% earned monthly based on total net assets under management.

At the end of 2008 due to a significant fall in the market quotations of securities the portfolio of pension assets incurred significant unrealized losses. This resulted in the refunding of management fees by the Pension Fund Management Company. The Group would have to repay those amounts in instances where the customers leave the fund or otherwise they could be offset against future positive management fees.

## 23. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2008, 2007 and 2006 were as follows:

31 December 2008	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	(4,585,603)	979,431,057
Convertible preferred	80,225,222	-	80,225,222	(113,677)	80,111,545
Non-convertible preferred	24,742,000	-	24,742,000	(199,321)	24,542,679
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
Capital contributions	-	-	-	-	-	-
Purchase of treasury shares	(328,431)	(144,084)	(81,067)	(3)	-	-
31 December 2008	<u>979,431,057</u>	<u>24,542,679</u>	<u>80,111,545</u>	<u>49,755</u>	<u>2,474</u>	<u>13,233</u>

At 31 December 2008, the Group held 4,585,603 of the Group's common shares as treasury shares at KZT 69 million (31 December 2007 – 4,257,172 at KZT 66 million; 31 December 2006 - 3,858,746 at KZT 38 million).

### Common Shares

Each common share is entitled to one vote and 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.

## 24. COMMITMENTS AND CONTINGENCIES

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

	31 December 2008	31 December 2007	31 December 2006
Guarantees issued	32,337	34,888	39,897
Commitments to extend credit	23,489	37,746	21,629
Commercial letters of credit	18,760	18,825	18,326
	<hr/>	<hr/>	<hr/>
Financial commitments and contingencies	74,586	91,459	79,852
Less: cash collateral against letters of credit	(1,197)	(443)	(132)
Less: provisions	(2,889)	(1,885)	(3,021)
	<hr/>	<hr/>	<hr/>
Financial commitments and contingencies, net	<u>70,500</u>	<u>89,131</u>	<u>76,699</u>

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 2008, the ten largest guarantees accounted for 72% of the Group’s total financial guarantees (31 December 2007 – 54%; 31 December 2006 - 63%) and represented 12% of the Group’s total equity (31 December 2007 – 13%; December 2006 – 21%).

As at 31 December 2008, the ten largest letters of credit accounted for 83% of the Group’s total commercial letters of credit (31 December 2007 – 31%; December 2006 – 78%) and represented 8% of the Group’s total equity (31 December 2007 – 7%; December 2006 – 12%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. 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 2008 is KZT 405 million (31 December 2007 – KZT 354 million; December 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.

*Specific volatility in global and Kazakhstani financial markets* – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in the Republic of Kazakhstan, notwithstanding any potential economic stabilization measures that may be put into place by the Government of the Republic of Kazakhstan, economic uncertainties exist surrounding the continual availability, and cost, of credit both for the Group and its counterparties. There is potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the regular course of business. Any potential impairment of these assets would have a corresponding impact on the Group's profitability.

*Recoverability of financial assets* – As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there is potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2008, the Group has financial assets amounting to KZT 1,552,924 million (as at 31 December 2007: KZT 1,546,763 million; 31 December 2006: KZT 961,227 million). The recoverability of these financial assets largely depends on the efficacy of the fiscal measures and other measures and actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present based on prevailing market conditions and available information.

## 25. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>Interest income comprises:</b>			
Interest income on financial assets recorded at amortized cost:			
- interest income on impaired assets	173,468	121,017	73,789
- interest income on unimpaired assets	8,799	1,223	1,506
Interest income on available-for-sale investment securities	8,802	7,737	1,652
Interest income on financial assets recorded at fair value through profit or loss	<u>1,591</u>	<u>2,589</u>	<u>3,700</u>
Total interest income	<u>192,660</u>	<u>132,566</u>	<u>80,647</u>
、			
Interest income on loans to customers	173,402	116,147	71,292
Interest income on amounts due from credit institutions and cash and cash equivalents	<u>8,865</u>	<u>6,093</u>	<u>4,003</u>
Total interest income on financial assets recorded at amortized cost	<u>182,267</u>	<u>122,240</u>	<u>75,295</u>
<b>Interest income on financial assets at fair value through profit or loss:</b>			
Interest income on financial assets held-for-trading	<u>1,591</u>	<u>2,589</u>	<u>3,700</u>
Total interest income on financial assets at fair value through profit or loss	<u>1,591</u>	<u>2,589</u>	<u>3,700</u>
Interest income on available-for-sale investment securities	<u>8,802</u>	<u>7,737</u>	<u>1,652</u>
Total interest income	192,660	132,566	80,647
	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>Interest expense comprises:</b>			
Interest expense on financial liabilities recorded at amortized cost	<u>(100,753)</u>	<u>(61,532)</u>	<u>(34,184)</u>
Total interest expense	<u>(100,753)</u>	<u>(61,532)</u>	<u>(34,184)</u>
<b>Interest expense on financial liabilities recorded at amortized cost comprise:</b>			
Interest expense on amounts due to customers	(66,878)	(35,348)	(18,491)
Interest expense on debt securities issued	(21,278)	(15,395)	(9,238)
Interest expense on amounts due to credit institutions	<u>(12,597)</u>	<u>(10,789)</u>	<u>(6,455)</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>(100,753)</u>	<u>(61,532)</u>	<u>(34,184)</u>
Net interest income before impairment charge	<u><u>91,907</u></u>	<u><u>71,034</u></u>	<u><u>46,463</u></u>

## 26. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Bank transfers	8,959	8,184	5,898
Pension fund and asset management	4,642	6,497	7,030
Cash operations	3,598	3,747	2,714
Maintenance of customer accounts	2,407	1,433	1,104
Plastic cards maintenance	2,386	1,575	433
Letters of credit and guarantees issued	1,887	1,424	1,357
Customers' pension payments	1,710	1,292	1,080
Utilities payments	308	239	765
Foreign currency operations	54	52	232
Other	1,257	985	1,451
	<u>27,208</u>	<u>25,428</u>	<u>22,064</u>

Fee and commission expense comprised the following:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Plastic cards	(731)	(682)	(490)
Foreign currency operations	(140)	(141)	(117)
Bank transfers	(126)	(182)	(148)
Other	(684)	(250)	(174)
	<u>(1,681)</u>	<u>(1,255)</u>	<u>(929)</u>

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

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

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>Net (loss)/gain on operations with financial assets and liabilities classified as held for trading:</b>			
(Loss)/gain on trading operations	(7,370)	4,549	625
Net loss on fair value adjustment	(2,280)	(1,184)	(818)
Total net (loss)/gain on operations with financial assets and liabilities classified as held for trading	<u>(9,650)</u>	<u>3,365</u>	<u>(193)</u>

## 28. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	7,262	6,861	5,174
Translation differences, net	4,491	(1,414)	(1,734)
Total net gain on foreign exchange operations	<u>11,753</u>	<u>5,447</u>	<u>3,440</u>

## 29. INSURANCE UNDERWRITING INCOME

Insurance underwriting income comprised:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Insurance premiums written, gross	14,937	11,768	2,420
Ceded reinsurance share	(5,596)	(5,198)	(812)
Change in unearned insurance premiums, net	(143)	(650)	(944)
	<u>9,198</u>	<u>5,920</u>	<u>664</u>

## 30. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Salaries and other employee benefits	20,484	19,681	15,931
Depreciation and amortization expenses	5,040	3,366	2,371
Repair and maintenance	2,780	1,238	1,207
Taxes other than income tax	2,254	1,949	1,256
Rent	1,772	1,342	644
Deposit insurance	1,567	1,814	885
Advertisement	1,500	1,012	789
Communication	1,328	1,118	644
Insurance agency fees	1,190	950	201
Security	1,079	803	510
Professional services	815	779	907
Business trip expenses	657	676	532
Information services	591	493	376
Transportation	455	416	209
Stationery and office supplies	397	483	539
Social events	123	174	95
Charity	100	65	97
Hospitality expenses	66	-	211
Other	2,127	1,483	712
	<u>44,325</u>	<u>37,842</u>	<u>28,116</u>

## 31. 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 22, 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 2008	Year ended 31 December 2007	Year ended 31 December 2006
<b>Basic earnings per share</b>			
Net income for the year attributable to equity holders of the parent	14,600	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 preferred shares	<u>(1,679)</u>	<u>(1,579)</u>	<u>(1,355)</u>
Earnings attributable to preferred shareholders	<u>(1,679)</u>	<u>(3,883)</u>	<u>(2,764)</u>
Earnings attributable to common shareholders	12,921	36,214	23,895
Weighted average number of common shares for the purposes of basic earnings per share	<u>979,722,276</u>	<u>978,504,308</u>	<u>904,100,063</u>
Basic earnings per share (Tenge)	<u>13.19</u>	<u>37.01</u>	<u>26.43</u>
<b>Diluted earnings per share</b>			
Earnings used in the calculation of basic earnings per share	12,921	36,214	23,895
Add: Dividends paid on convertible preferred shares	1,284	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	<u>(1,148)</u>	<u>(1,138)</u>	<u>(8,541)</u>
Earnings used in the calculation of total diluted earnings per share	<u>13,057</u>	<u>38,044</u>	<u>17,448</u>
Weighted average number of common shares for the purposes of basic earnings per share	979,722,276	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	<u>80,165,873</u>	<u>80,214,034</u>	<u>79,854,432</u>
Weighted average number of common shares for the purposes of diluted earnings per share	<u>1,059,888,149</u>	<u>1,058,718,342</u>	<u>983,954,495</u>
Diluted earnings per share (Tenge)	<u>12.32</u>	<u>35.93</u>	<u>17.73</u>

## 32. 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:

	<b>Book value</b>	<b>Fair value on acquisition</b>
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)
	<hr/>	<hr/>
Net assets	2,963	2,963
	<hr/>	<hr/>
Group's acquired share of the fair value of net assets	1,680	1,680
	<hr/>	<hr/>
Goodwill	-	3,102
	<hr/>	<hr/>
Consideration paid in cash	-	4,782
	<hr/>	<hr/>
Less: cash and cash equivalent balances acquired	-	(269)
	<hr/>	<hr/>
	-	4,513
	<hr/> <hr/>	<hr/> <hr/>

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:

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

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.

### **33. 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 authority. 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 are approved quarterly and by region are approved 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 24). The collateral pledged was determined based on its fair value and limited to the outstanding balance of each loan.

					<b>31 December 2008</b>
	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral Pledged</b>	<b>Net exposure after offset and collateral</b>
Cash and cash equivalents*	137,170	-	137,170	660	136,510
Financial assets at fair value through profit or loss	14,987	-	14,987	1,688	13,299
Amounts due from credit institutions	10,357	-	10,357	-	10,357
Loans to customers	1,188,280	-	1,188,280	1,027,161	161,119
Available-for-sale investment securities	135,801	-	135,801	-	135,801
Investments held to maturity	8,689	-	8,689	-	8,689
Other financial assets	2,897	-	2,897	-	2,897
<b>Total financial assets</b>	<b>1,498,181</b>	<b>-</b>	<b>1,498,181</b>	<b>1,029,509</b>	<b>468,672</b>
<b>Commitments and contingencies</b>	<b>71,697</b>	<b>-</b>	<b>71,697</b>	<b>1,197</b>	<b>70,500</b>
					<b>31 December 2007</b>
	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral Pledged</b>	<b>Net exposure after offset and collateral</b>
Cash and cash equivalents*	252,327	-	252,327	7,282	245,045
Financial assets at fair value through profit or loss	48,073	-	48,073	-	48,073
Amounts due from credit institutions	3,398	-	3,398	357	3,041
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
<b>Total financial assets</b>	<b>1,456,577</b>	<b>-</b>	<b>1,456,577</b>	<b>939,279</b>	<b>517,298</b>
<b>Commitments and contingencies</b>	<b>89,574</b>	<b>-</b>	<b>89,574</b>	<b>443</b>	<b>89,131</b>

					<b>31 December 2006</b>
	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral Pledged</b>	<b>Net exposure after offset and collateral</b>
Cash and cash equivalents*	112,868	-	112,868	4,087	108,781
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	3,513	-	3,513	-	3,513
Total financial assets	891,180	-	891,180	568,760	322,420
Commitments and contingencies	76,831	-	76,831	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:

	<b>31 December 2008</b>						
	<b>AA-</b>	<b>A</b>	<b>BBB</b>	<b>BB+</b>	<b>&lt;BBB</b>	<b>Not rated</b>	<b>Total</b>
Cash and cash equivalents	107,062	24,158	104	77	107	29,580	161,088
Financial assets at fair value through profit or loss	-	-	7,092	1,454	-	6,441	14,987
Amounts due from credit institutions	3,241	-	1,721	4,084	388	940	10,374
Available-for-sale investment securities	5,424	1,922	110,661	1,060	15,727	1,007	135,801
Investments held to maturity	3,131	-	4,547	1,011	-	-	8,689
Other financial assets	-	-	-	-	-	3,971	3,971
Commitments and contingencies	-	-	-	-	-	74,586	74,586

	<b>31 December 2007</b>						
	<b>AA-</b>	<b>A</b>	<b>BBB</b>	<b>BB+</b>	<b>&lt;BBB</b>	<b>Not Rated</b>	<b>Total</b>
Cash and cash equivalents	186,653	53,511	14	9,575	-	5,492	255,245
Financial assets at fair value through profit or loss	5,967	1,852	1,964	33,472	1,341	3,477	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

	31 December 2006						
	AA-	A	BBB	BB+	<BBB	Not Rated	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	-	-	-	-	-	3,731	3,731
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 Group, and this classification is verified by the Risk Management function. At present, the Risk Management function uses classifications as follows:

*Pools of homogeneous loans* – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Collective assessment is performed on loans that were determined not to be individually significant based on the limits set by the Board of Directors and loans that are individually assessed for impairment and for which an impairment loss is not recognized.

*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 Group'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 Group'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 Group'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 Group'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.

	<b>31 December 2008</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Pools of homogeneous loans	737,434	835,901	485,911
Doubtful 1st category	369,689	180,643	101,805
Doubtful 2nd category	7,922	7,817	2,136
Doubtful 3rd category	97,430	46,456	18,221
Doubtful 4th category	16,307	4,172	2,024
Doubtful 5th category	20,447	2,763	7,842
Loss loans	54,103	19,218	11,931
	<u>1,303,332</u>	<u>1,096,970</u>	<u>629,870</u>
Less – Allowance for loan impairment (Note 20)	<u>(115,052)</u>	<u>(56,697)</u>	<u>(33,654)</u>
Loans to customers	<u><u>1,188,280</u></u>	<u><u>1,040,273</u></u>	<u><u>596,216</u></u>

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 that have been individually assessed for impairment		Financial assets past due but not impaired				31 December 2008		Total
	Financial assets that have been individually impaired	Neither past due nor individually impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have not been individually but rather collectively impaired	Financial assets that have been collectively impaired	
Financial assets at fair value through profit or loss	-	14,987	-	-	-	-	-	-	14,987
Amounts due from credit institutions	244	9,993	-	-	-	-	-	137	10,374
Loans to customers	565,898	-	-	-	-	-	319,152	418,282	1,303,332
Available-for-sale investment securities	-	135,801	-	-	-	-	-	-	135,801
Investments held to maturity	-	8,689	-	-	-	-	-	-	8,689
Other financial assets	2,142	1,829	-	-	-	-	-	-	3,971

	Financial assets that have been individually assessed for impairment		Financial assets past due but not impaired				31 December 2007		Total
	Financial assets that have been individually impaired	Neither past due nor individually impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have not been individually but rather collectively impaired	Financial assets that have been collectively impaired	
Financial assets at fair value through profit or loss	-	48,073	-	-	-	-	-	-	48,073
Amounts due from credit institutions	-	2,968	-	-	-	-	-	448	3,416
Loans to customers	261,051	-	1	-	1	16	263,767	572,134	1,096,970
Available-for-sale investment securities	-	107,839	-	-	-	-	-	-	107,839
Other financial assets	504	4,667	-	-	-	-	-	-	5,171

	Financial assets that have been individually assessed for impairment		Financial assets past due but not impaired				31 December 2006		Total
	Financial assets that have been individually impaired	Neither past due nor individually impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have not been individually but rather collectively impaired	Financial assets that have been collectively impaired	
Financial assets at fair value through profit or loss	-	53,195	-	-	-	-	-	-	53,195
Amounts due from credit institutions	166	1,889	-	-	-	-	-	-	2,055
Loans to customers	143,944	-	-	-	4	11	285,101	200,810	629,870
Available-for-sale investment securities	-	123,339	-	-	-	-	-	-	123,339
Other financial assets	510	3,217	-	-	-	-	4	-	3,731

*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 2008			31 December 2007			31 December 2006		
	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total
<b>FINANCIAL ASSETS:</b>									
Cash and cash equivalents	4,282	156,806	161,088	9,831	245,414	255,245	31,957	95,842	127,799
Obligatory reserves	20,165	10,660	30,825	30,122	57,146	87,268	18,873	36,233	55,106
Financial assets at fair value through profit or loss	8,090	6,897	14,987	37,248	10,825	48,073	37,484	15,711	53,195
Amounts due from credit institutions	5,777	4,580	10,357	3,084	314	3,398	1,928	121	2,049
Available-for-sale investment securities	132,879	2,922	135,801	106,886	953	107,839	122,157	1,182	123,339
Investments held to maturity	-	8,689	8,689	-	-	-	-	-	-
Loans to customers	643,078	545,202	1,188,280	621,285	418,988	1,040,273	291,007	305,209	596,216
Other financial assets	2,579	318	2,897	3,208	1,459	4,667	2,661	852	3,513
	<u>816,850</u>	<u>736,074</u>	<u>1,552,924</u>	<u>811,664</u>	<u>735,099</u>	<u>1,546,763</u>	<u>506,067</u>	<u>455,150</u>	<u>961,217</u>
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to customers	465,863	401,529	867,392	548,136	387,293	935,429	303,199	294,736	597,935
Amounts due to credit institutions	91,522	198,086	289,608	79,989	167,463	247,452	55,042	63,677	118,719
Financial liabilities at fair value through profit or loss	-	6,048	6,048	-	2,851	2,851	-	10	10
Debt securities issued	62,873	200,118	262,991	79,869	145,017	224,886	68,182	66,231	134,413
Other financial liabilities	8,862	96	8,958	267	1,259	1,526	1,133	432	1,565
	<u>629,120</u>	<u>805,877</u>	<u>1,434,997</u>	<u>708,261</u>	<u>703,883</u>	<u>1,412,144</u>	<u>427,556</u>	<u>425,086</u>	<u>852,642</u>
Net balance sheet position	<u>187,730</u>	<u>(69,803)</u>	<u>117,927</u>	<u>103,403</u>	<u>31,216</u>	<u>134,619</u>	<u>78,511</u>	<u>30,064</u>	<u>108,575</u>

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 Group’s interest rate policy is reviewed and approved by the Group’s Assets and Liabilities Management Committee. The interest rates on the Group’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 Group’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 Group.

	31 December 2008								
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS:</b>									
Cash and cash equivalents	32,338	128,750	-	-	-	-	-	-	161,088
Obligatory reserves	7,900	7,464	1,861	9,166	1,361	1,676	806	591	30,825
Financial assets at fair value through profit or loss	14,987	-	-	-	-	-	-	-	14,987
Amounts due from credit institutions	-	1,428	778	3,676	221	14	4,235	5	10,357
Available-for-sale investment securities	725	8,825	33,355	47,027	20,352	3,941	6,852	14,724	135,801
Investments held to maturity	-	868	421	4,645	-	-	-	2,755	8,689
Loans to customers	8,620	46,261	112,823	518,568	234,252	4,103	108,710	154,943	1,188,280
Other financial assets	67	1,520	156	558	76	8	508	4	2,897
	<u>64,637</u>	<u>195,116</u>	<u>149,394</u>	<u>583,640</u>	<u>256,262</u>	<u>9,742</u>	<u>121,111</u>	<u>173,022</u>	<u>1,552,924</u>
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to customers	225,889	208,134	52,001	255,837	37,727	47,157	24,000	16,647	867,392
Amounts due to credit institutions	2,824	93,609	28,286	56,481	89,838	6,473	9,595	2,502	289,608
Financial liabilities at fair value through profit or loss	6,048	-	-	-	-	-	-	-	6,048
Debt securities issued	3	107	16,141	32,586	5,016	-	93,824	115,314	262,991
Other financial liabilities	8,401	237	235	24	-	-	61	-	8,958
	<u>243,165</u>	<u>302,087</u>	<u>96,663</u>	<u>344,928</u>	<u>132,581</u>	<u>53,630</u>	<u>127,480</u>	<u>134,463</u>	<u>1,434,997</u>
Net position	<u>(178,528)</u>	<u>(106,971)</u>	<u>52,731</u>	<u>238,712</u>	<u>123,681</u>	<u>(43,888)</u>	<u>(6,369)</u>	<u>38,559</u>	
Accumulated gap	<u>(178,528)</u>	<u>(285,499)</u>	<u>(232,768)</u>	<u>5,944</u>	<u>129,625</u>	<u>85,737</u>	<u>79,368</u>	<u>117,927</u>	

	31 December 2007								Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	
<b>FINANCIAL ASSETS:</b>									
Cash and cash equivalents	8,501	246,464	280	-	-	-	-	-	255,245
Obligatory reserves	24,099	15,353	10,540	25,708	2,736	4,735	543	3,554	87,268
Financial assets at fair value through profit or loss	48,073	-	-	-	-	-	-	-	48,073
Amounts due from credit institutions	-	193	127	2,460	566	24	25	3	3,398
Available-for-sale investment securities	2,045	35,350	332	56,493	2,220	2,474	4,742	4,183	107,839
Loans to customers	9,384	6,024	78,632	485,795	198,133	3,443	93,151	165,711	1,040,273
Other financial assets	833	1,675	132	1,578	165	19	212	53	4,667
	<u>92,935</u>	<u>305,059</u>	<u>90,043</u>	<u>572,034</u>	<u>203,820</u>	<u>10,695</u>	<u>98,673</u>	<u>173,504</u>	<u>1,546,763</u>
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to customers	258,322	164,571	112,974	275,565	29,331	50,747	5,821	38,098	935,429
Amounts due to credit institutions	1,836	71,323	11,656	28,393	107,858	5,782	18,089	2,515	247,452
Financial liabilities at fair value through profit or loss	2,851	-	-	-	-	-	-	-	2,851
Debt securities issued	126	-	2,418	913	65,860	6,216	-	149,353	224,886
Other financial liabilities	85	654	724	15	48	-	-	-	1,526
	<u>263,220</u>	<u>236,548</u>	<u>127,772</u>	<u>304,886</u>	<u>203,097</u>	<u>62,745</u>	<u>23,910</u>	<u>189,966</u>	<u>1,412,144</u>
Net position	<u>(170,285)</u>	<u>68,511</u>	<u>(37,729)</u>	<u>267,148</u>	<u>723</u>	<u>(52,050)</u>	<u>74,763</u>	<u>(16,462)</u>	
Accumulated gap	<u>(170,285)</u>	<u>(101,774)</u>	<u>(139,503)</u>	<u>127,645</u>	<u>128,368</u>	<u>76,318</u>	<u>151,081</u>	<u>134,619</u>	
<b>31 December 2006</b>									
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS:</b>									
Cash and cash equivalents	22,359	86,031	19,409	-	-	-	-	-	127,799
Obligatory reserves	13,718	13,797	2,575	20,248	1,309	2,560	116	783	55,106
Financial assets at fair value through profit or loss	52,163	1,032	-	-	-	-	-	-	53,195
Amounts due from credit institutions	-	-	162	148	1,600	111	28	-	2,049
Available-for-sale investment securities	-	109,302	66	182	2,206	2,391	4,917	4,275	123,339
Loans to customers	2,405	24,267	49,929	251,183	141,618	2,890	44,613	79,311	596,216
Other financial assets	-	2,544	264	421	-	-	284	-	3,513
	<u>90,645</u>	<u>236,973</u>	<u>72,405</u>	<u>272,182</u>	<u>146,733</u>	<u>7,952</u>	<u>49,958</u>	<u>84,369</u>	<u>961,217</u>
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to customers	148,844	149,704	27,941	219,707	15,533	26,448	1,269	8,489	597,935
Amounts due to credit institutions	524	48,824	11,384	32,909	4,852	256	17,573	2,397	118,719
Financial liabilities at fair value through profit or loss	10	-	-	-	-	-	-	-	10
Debt securities issued	-	-	-	3,926	94,212	9,318	-	26,957	134,413
Other financial liabilities	-	306	60	1,090	109	-	-	-	1,565
	<u>149,378</u>	<u>198,834</u>	<u>39,385</u>	<u>257,632</u>	<u>114,706</u>	<u>36,022</u>	<u>18,842</u>	<u>37,843</u>	<u>852,642</u>
Net position	<u>(58,733)</u>	<u>38,139</u>	<u>33,020</u>	<u>14,550</u>	<u>32,027</u>	<u>(28,070)</u>	<u>31,116</u>	<u>46,526</u>	
Accumulated gap	<u>(58,733)</u>	<u>(20,594)</u>	<u>12,426</u>	<u>26,976</u>	<u>59,003</u>	<u>30,933</u>	<u>62,049</u>	<u>108,575</u>	



A further analysis of the liquidity risk 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 based on the remaining contractual payments (including interest payments).

	Weighted average effective interest rate	Up to 1 month	1 month to 3 year	3 months to 1 year	1year to 2 years	2 to 3 years	3 to 5 years	Over 5 years	31 December 2008 Total
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to credit institutions	5.72%	96,967	43,739	68,502	127,232	8,602	9,802	2,560	357,404
Amounts due to customers	6.86%	435,843	56,512	273,376	58,017	63,558	56,989	17,121	961,416
Financial liabilities at fair value through profit or loss	-	122,007	-	-	-	-	-	-	122,007
Debt securities issued	9.66%	111	16,375	62,466	33,732	29,998	237,157	232,779	612,618
Other financial liabilities	-	8,638	235	24	-	-	61	-	8,958
Commitments to extend credit	-	23,489	-	-	-	-	-	-	23,489
		<u>687,055</u>	<u>116,861</u>	<u>404,368</u>	<u>218,981</u>	<u>102,158</u>	<u>304,009</u>	<u>252,460</u>	<u>2,085,892</u>
Derivative financial assets		122,450	-	-	-	-	-	-	122,450
	Weighted average effective interest rate	Up to 1 month	1 month to 3 year	3 months to 1 year	1year to 2 years	2 to 3 years	3 to 5 years	Over 5 years	31 December 2007 Total
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to credit institutions	5.83%	87,213	11,995	42,263	124,454	6,550	18,266	2,541	293,282
Amounts due to customers	5.38%	429,083	121,083	292,115	33,653	57,301	6,071	40,629	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	84,021	18,010	27,253	253,967	402,251
Other financial liabilities	-	739	724	15	48	-	-	-	1,526
Commitments to extend credit	-	37,746	-	-	-	-	-	-	37,746
		<u>665,543</u>	<u>136,620</u>	<u>350,314</u>	<u>242,176</u>	<u>81,861</u>	<u>51,590</u>	<u>297,137</u>	<u>1,825,241</u>
Derivative financial assets		103,150	-	-	-	-	-	-	103,150
	Weighted average effective interest rate	Up to 1 month	1 month to 3 year	3 months to 1 year	1year to 2 years	2 to 3 years	3 to 5 years	Over 5 years	31 December 2006 Total
<b>FINANCIAL LIABILITIES:</b>									
Amounts due to credit institutions	6.40%	41,845	5,755	20,278	59,706	3,150	8,785	1,198	140,717
Amounts due to customers	4.31%	274,270	77,396	186,720	21,511	36,627	3,882	25,969	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	47,125	4,661	25,668	247,777	338,824
Other financial liabilities	-	306	60	1,090	109	-	-	-	1,565
Commitments to extend credit	-	21,629	-	-	-	-	-	-	21,629
		<u>513,021</u>	<u>84,874</u>	<u>219,864</u>	<u>128,451</u>	<u>44,438</u>	<u>38,335</u>	<u>274,944</u>	<u>1,303,927</u>
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 2008.

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.

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 2008, 2007 and 2006 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 2008, 2007 and 2006:

	31 December 2008		31 December 2007		31 December 2006	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
<b>FINANCIAL ASSETS:</b>						
Financial assets at fair value through profit or loss	225	(319)	(1,365)	1,556	(2,360)	2,682
Amounts due to credit institutions	85	(85)	-	-	-	-
Loans to customers	1,620	(1,620)	1,441	(1,441)	823	(823)
Available-for-sale investment securities	-	-	-	-	-	-
<b>FINANCIAL LIABILITIES:</b>						
Amounts due to credit institutions	2,931	(2,931)	(811)	811	(561)	561
Amounts due to customers	-	-	(1,684)	1,684	-	-
Net impact on profit before tax	<u>4,861</u>	<u>(4,955)</u>	<u>(2,419)</u>	<u>2,610</u>	<u>(2,098)</u>	<u>2,420</u>

## Impact on equity:

	31 December 2008		31 December 2007		31 December 2006	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
<b>FINANCIAL ASSETS:</b>						
Financial assets at fair value						
through profit or loss	225	(319)	(1,365)	1,556	(2,360)	2,682
Amounts due to credit institutions	85	(85)	-	-	-	-
Loans to customers	1,620	(1,620)	1,441	(1,441)	823	(823)
Available-for-sale investment securities	(2,948)	3,264	(766)	766	(685)	685
<b>FINANCIAL LIABILITIES:</b>						
Amounts due to credit institutions	2,931	(2,931)	(811)	811	(561)	561
Amounts due to customers	-	-	(1,684)	1,684	-	-
Net impact on equity	<u>1,913</u>	<u>(1,691)</u>	<u>(3,185)</u>	<u>3,376</u>	<u>(2,783)</u>	<u>3,105</u>

## 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.

The table below indicates the currencies in which the Group had significant exposure at 31 December 2008, 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.

Impact on profit before tax based on asset values as at 31 December 2008, 2007 and 2006 calculated using currency rate fluctuations analysis:

	31 December 2008		31 December 2007		31 December 2006	
	+25% KZT/USD	-25% KZT/USD	+10% KZT/USD	-10% KZT/USD	+10% KZT/USD	-10% KZT/USD
Impact on profit before tax	(19,340)	19,340	5,383	(5,383)	(484)	484

## Impact on equity:

	31 December 2008		31 December 2007		31 December 2006	
	+25% KZT/USD	-25% KZT/USD	+10% KZT/USD	-10% KZT/USD	+10% KZT/USD	-10% KZT/USD
Impact on equity	(19,340)	(19,340)	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 consolidated 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:

The Group estimates the price risk at 31 December 2008, 2007 and 2006 to be not material and therefore quantitative information is not disclosed.

#### *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.

### 34. 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 three 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 2008	31 December 2007	31 December 2006
<b>Composition of regulatory capital</b>			
<b>Tier 1</b>			
Share capital	65,531	65,531	60,684
Share premium	1,908	1,952	2,183
Retained earnings and other reserves	123,428	92,253	56,736
Less: revaluation, available-for-sale and translation reserves	(20,826)	15	(543)
Less: goodwill	(3,190)	(3,265)	(3,265)
Minority interest	257	1,355	1,062
Total qualifying tier 1 capital	<u>167,108</u>	<u>157,841</u>	<u>116,857</u>
<b>Tier 2</b>			
Subordinated debt	36,755	33,884	30,708
Revaluation reserve, available-for-sale and translation	20,826	(15)	543
Total qualifying tier 2 capital	57,581	33,869	31,251
Less investments in associates	<u>(272)</u>	<u>(262)</u>	<u>(293)</u>
Total regulatory capital	<u>224,417</u>	<u>191,448</u>	<u>147,815</u>
Risk weighted assets	<u>1,673,780</u>	<u>1,484,559</u>	<u>945,707</u>
Tier 1 capital ratio	<u>9.9%</u>	<u>10.6%</u>	<u>12.4%</u>
Total capital adequacy ratio	<u>13.4%</u>	<u>12.9%</u>	<u>15.6%</u>

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.

### **35. 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 offers a range of personal banking, savings and mortgage products and services.

Corporate banking offers business banking services principally to small and medium sized companies and commercial loans to larger corporate and commercial customers.

The products are:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages to individuals 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 to legal entities.

Retail banking offers a range of personal banking, savings and mortgage products and services.

Corporate banking offers business banking services principally to small and medium sized companies and commercial loans to larger corporate and commercial customers.

There were no transactions between business segments during the years ended 31 December 2008, 2007 and 2006. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet but excluding items such as taxation.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008, 2007 and 2006 is set out below:

	<b>Retail Banking</b>	<b>Corporate banking</b>	<b>Other</b>	<b>Total</b>
<b>Year ended 31 December 2008</b>				
External revenues	94,462	137,124	4,513	236,099
Total revenues	94,462	137,124	4,513	236,099
<b>Total revenues comprise:</b>				
- Interest income	75,395	117,265	-	192,660
- Fee and commission income	18,033	9,175	-	27,208
- Net loss from financial assets and liabilities at fair value through profit or loss	-	-	(9,650)	(9,650)
- Net realized gains from available-for-sale investment securities	-	-	223	223
- Net gain from repurchase of debt securities issued	-	-	2,439	2,439
- Net gains on foreign exchange operations	1,034	10,719	-	11,753
- Share of loss of associates	-	(35)	-	(35)
- Insurance underwriting income and other income	-	-	11,501	11,501
Total revenues	94,462	137,124	4,513	236,099
- Interest expense on amounts due to customers	(37,630)	(29,248)	-	(66,878)
- Impairment charge	(11,641)	(48,374)	-	(60,015)
- Fee and commission expense	(327)	(1,354)	-	(1,681)
- Salaries and other employee benefits	(5,717)	(14,767)	-	(20,484)
- Deposit insurance and advertisement expenses	(3,067)	-	-	(3,067)
- Other provisions	(169)	(818)	-	(987)
- Losses incurred from management of pension assets	(7,209)	-	-	(7,209)
Segment result	28,702	42,563	4,513	75,778
Total unallocated costs				(59,600)
Income before income tax expense				16,178
Income tax expense				(1,624)
Net income				14,554
Total segment assets	339,940	1,020,057	159,477	1,519,474
Unallocated assets				131,875
Total assets				1,651,349
Total segment liabilities	(330,847)	(539,434)	-	(870,281)
Unallocated liabilities				(590,013)
Total liabilities				(1,460,294)
<b>Other segment items:</b>				
Capital expenditure (unallocated)				(19,104)
Depreciation and amortization expense (unallocated)				(5,040)

	<b>Retail Banking</b>	<b>Corporate banking</b>	<b>Other</b>	<b>Total</b>
<b>Year ended 31 December 2007</b>				
External revenues	<u>68,882</u>	<u>94,528</u>	<u>11,725</u>	<u>175,135</u>
Total revenues	<u>68,882</u>	<u>94,528</u>	<u>11,725</u>	<u>175,135</u>
<b>Total revenues comprise:</b>				
- Interest income	50,811	81,755	-	132,566
- Fee and commission income	16,459	8,969	-	25,428
- 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
- Net gains on foreign exchange operations	1,612	3,835	-	5,447
- Share of loss of associates	-	(31)	-	(31)
- Insurance underwriting income and other income	-	-	7,737	7,737
Total revenues	<u>68,882</u>	<u>94,528</u>	<u>11,725</u>	<u>175,135</u>
- 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	<u>37,712</u>	<u>45,401</u>	<u>11,725</u>	<u>94,838</u>
Total unallocated costs				<u>(43,671)</u>
Income before income tax expense				51,167
Income tax expense				<u>(10,642)</u>
Net income				<u><u>40,525</u></u>
Total segment assets	323,093	976,073	155,912	1,455,078
Unallocated assets				<u>139,997</u>
Total assets				<u>1,595,075</u>
Total segment liabilities	(357,672)	(579,641)	-	(937,313)
Unallocated liabilities				<u>(496,737)</u>
Total liabilities				<u><u>(1,434,050)</u></u>
<b>Other segment items:</b>				
Capital expenditure (unallocated)				(24,018)
Depreciation and amortization expense (unallocated)				(3,366)



	<b>Retail Banking</b>	<b>Corporate banking</b>	<b>Other</b>	<b>Total</b>
<b>Year ended 31 December 2006</b>				
External revenues	47,464	58,854	1,698	108,016
Total revenues	47,464	58,854	1,698	108,016
<b>Total revenues comprise:</b>				
- Interest income	33,025	47,622	-	80,647
- Fee and commission income	13,396	8,668	-	22,064
- Net loss from financial assets at fair value through profit or loss	-	-	(193)	(193)
- Net realized gains from available-for-sale investment securities	-	-	202	202
- Net gains on foreign exchange operations	1,043	2,397	-	3,440
- Share of income of associates	-	167	-	167
- 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)
<b>Other segment items:</b>				
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 2008, 2007 and 2006 and for the years then ended.

	<b>Kazakhstan</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>2008</b>				
Total segment assets	1,500,007	134,850	7,460	1,642,317
External revenues	227,550	8,101	448	236,099
Capital expenditure	(19,104)	-	-	(19,104)
<b>2007</b>				
Total segment assets	1,343,705	242,031	9,339	1,595,075
External revenues	165,034	9,726	375	175,135
Capital expenditure	(24,018)	-	-	(24,018)
<b>2006</b>				
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.

### **36. 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 2008		31 December 2007		31 December 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>						
Amounts due from credit institutions	10,357	10,239	3,398	3,193	2,049	2,049
Loans to customers	1,188,280	1,164,318	1,040,273	1,084,619	596,216	597,849
<b>Financial liabilities</b>						
Amounts due to customers	867,392	830,951	935,429	901,563	597,935	598,249
Amounts due to credit institutions	289,608	291,900	247,452	267,413	118,719	122,911
Debt securities issued	262,991	195,587	224,886	212,925	134,413	134,867

Financial assets and liabilities 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.

### 37. SUBSEQUENT EVENTS

On 15 January 2009 the Group and JSC “Sovereign Wealth Fund “Samruk-Kazyna” (an entity controlled by Kazakhstan Government) have signed a series of agreements related to the realization of joint measures towards the support of the economy of the Republic of Kazakhstan within the terms of a stabilization program of the Kazakhstan Government. In accordance with the signed documents the Group will issue and JSC “Sovereign Wealth Fund “Samruk-Kazyna” will acquire approximately KZT 60,000 million worth of share capital of the Group, made up of a contribution of common and preferred shares. It is expected that this acquisition will amount to as much as 25% of the issued common share capital of the issued capital of the Group.

On 30 January 2009 JSC “Sovereign Wealth Fund “Samruk-Kazyna” has placed two term deposits with the Group totaling amount of KZT 120,000 million. The funds from the first deposit of KZT 60,000 million will be used by JSC “Sovereign Wealth Fund “Samruk-Kazyna” for the purpose of the acquisition of the common and preferred shares of the Group. The funds from the second deposit of KZT 60,000 million will be used for provision of loans to local Kazakhstan businesses.

During 2008 the NBK supported the exchange rate of the Kazakhstan tenge to the US Dollar within a range of KZT 117 to 1 US Dollar to KZT 123 to 1 US Dollar. From 4 February 2009, the NBK reduced the support level of the exchange rate to a corridor of KZT 145.5 and 155.5 to 1 US Dollar in the short to medium term.

Due to the fact that the Group operates in the Republic of Kazakhstan and has certain assets and liabilities in foreign currencies, the financial position and the results of operations of the Group may be significantly influenced by a change in the exchange rates.

On 25 February 2009 JSC “Fund for Entrepreneurial Development “Damu” (an entity controlled by Kazakhstan Government) has placed a term deposit with the Group in the amount of KZT 11,700 million. The funds would be used to refinance the loans to small and medium entrepreneurs.

On 26 February 2009 FMSA has registered two new issues of the Group’s debt securities in the amount of KZT 8,775 million and KZT 9,000 million (the fourth and fifth issuance within the terms of the third bond program respectively). The inception date of these issuances is 5 March 2009.

On 11 March 2009 and the Group has repaid the debt securities issued as the fourth issuance within the terms of the second bond program in amount of KZT 12,701 million.



Included in the consolidated income statement for the years ended 31 December 2008, 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		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	Related party transactions	Total category as per financial statements caption
Interest income	651	192,660	-	132,566	464	80,647
- <i>the parent</i>	-	-	-	-	73	-
- <i>entities with joint control or significant influence over the entity</i>	219	-	-	-	385	-
- <i>key management personnel of the entity or its parent</i>	-	-	-	-	6	-
- <i>other related parties</i>	432	-	-	-	-	-
Interest expense	4,458	100,753	59	61,532	4,664	34,184
- <i>the parent</i>	3,132	-	11	-	1,944	-
- <i>entities with joint control or significant influence over the entity</i>	1,187	-	-	-	2,696	-
- <i>associates</i>	-	-	-	-	4	-
- <i>key management personnel of the entity or its parent</i>	97	-	22	-	20	-
- <i>other related parties</i>	42	-	26	-	-	-