Альфа·Банк

JSC SB ALFA-BANK

Financial Statements and Independent Auditor's Report

31 December 2008

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC SB Alfa-Bank

We have audited the accompanying financial statements of JSC SB Alfa-Bank ("the Bank") which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

18 March 2009
Almaty, Kazakhstan

Approved by:

Zhanbota T. Bekenov
General Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance of the Republic of Kazakhstan №0000005 dated 21 October 1999)

Signed by:

Irina K. Taskayeva
Auditor in charge
(Qualified Auditor's Certificate №00000465 dated 14 November 1998)

JSC SB Alfa-Bank
Balance Sheet

(in thousands of Tenge)	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	9,593,113	5,632,777
Due from other banks	8	683,895	-
Loans and advances to customers	9	16,402,168	17,513,465
Finance lease receivable	10	58,518	133,840
Investment securities available for sale	11	2,008,325	569,106
Current income tax prepayment		-	39,752
Intangible assets	12	100,598	51,544
Premises and equipment	12	784,166	1,136,992
Other financial assets	13	22,279	105,491
Other assets	14	63,187	28,058
TOTAL ASSETS		**29,716,249**	**25,211,025**
LIABILITIES			
Due to other banks	15	299,512	752,532
Customer accounts	16	20,836,118	17,430,871
Bonds issued on domestic market	17	698,825	-
Current income tax liability		37,496	-
Deferred income tax liability	25	34,494	291,591
Other financial liabilities	18	117,005	29,318
Other liabilities	19	77,987	18,820
TOTAL LIABILITIES		**22,101,437**	**18,523,132**
EQUITY			
Share capital	20	1,022,185	1,022,185
Retained earnings		4,866,932	4,836,610
Other reserves	21	1,725,695	829,098
TOTAL EQUITY		**7,614,812**	**6,687,893**
TOTAL LIABILITIES AND EQUITY		**29,716,249**	**25,211,025**

Approved for issue and signed on behalf of the Board on 18 March 2009.

Smirnov D.F.
Chairman of the Board

Suleimanova G.A.
Chief Accountant

JSC SB Alfa-Bank
Income Statement

(in thousands of Tenge)	Note	2008	2007
Interest income	22	3,291,717	2,046,719
Interest expense	22	(861,156)	(402,376)
Net interest income		**2,430,561**	**1,644,343**
(Provision for)/recovery of loan and finance lease impairment		(526,790)	(34,618)
Net interest income after (provision for)/ recovery of loan and finance lease impairment		**1,903,771**	**1,609,725**
Fee and commission income	23	882,648	939,143
Fee and commission expense	23	(91,476)	(123,890)
Gains less losses from financial derivatives		(183,368)	115,486
Gains less losses from trading in foreign currencies		300,717	279,169
Foreign exchange translation gains less losses		10,684	(242,228)
(Provision for)/recovery of credit related commitments	18	(4,220)	4,142
Other operating income		5,218	24,605
Administrative and other operating expenses	24	(1,285,146)	(949,081)
Profit (loss) before tax		**1,538,828**	**1,657,071**
Income tax expense	25	(471,326)	(451,394)
Profit for the year		**1,067,502**	**1,205,677**

(in thousands of Tenge)	Note	Share capital	Other Reserves	Retained earnings	Total equity
Balance at 31 December 2006		**1,022,185**	**446,912**	**3,621,440**	**5,090,537**
Available for sale investments:					
- Fair value gains less losses	11,21	-	(5,872)	-	(5,872)
- Disposals		-	(8,299)	-	(8,299)
Premises and equipment:					
- Revaluation (net-off tax effect)	21	-	405,850	-	405,850
- Realised revaluation reserve	21	-	(9,493)	9,493	-
Net income recognised directly in equity		-	382,186	9,493	391,679
Profit for the year		-	-	1,205,677	1,205,677
Total recognised income for 2007		-	382,186	1,215,170	1,597,356
Balance at 31 December 2007		**1,022,185**	**829,098**	**4,836,610**	**6,687,893**
Formation of statutory reserve		-	1,050,000	(1,050,000)	-
Available for sale investments:					
- Fair value gains less losses	11,21	-	(749)	-	(749)
- Disposals		-	-	-	-
Premises and equipment:					
- Revaluation	21	-	(322,831)	-	(322,831)
- Realised revaluation reserve	21	-	(12,820)	12,820	-
- Decrease in deferred tax due to changes in tax rates	21	-	86,773	-	86,773
- Decrease in deferred tax due to revaluation	21	-	96,224	-	96,224
Net income recognised directly in equity		-	896,597	(1,037,180)	(140,583)
Profit for the year		-	-	1,067,502	1,067,502
Total recognised income for 2008		-	896,597	30,322	926,919
Balance at 31 December 2008		**1,022,185**	**1,725,695**	**4,866,932**	**7,614,812**

(in thousands of Tenge)	Note	2008	2007
Cash flows from operating activities			
Interest received		3,097,523	2,069,700
Interest paid		(698,212)	(435,628)
Fees and commissions received		881,971	977,984
Fees and commissions paid		(91,716)	(83,939)
Income received from financial derivatives		-	161,597
Income received from trading in foreign currencies		300,717	262,299
Other operating income received		5,218	24,581
Staff costs paid		(809,200)	(573,318)
Administrative and other operating expenses paid		(332,742)	(335,066)
Income tax paid		(468,175)	(516,948)
Cash flows from operating activities before changes in operating assets and liabilities		**1,885,384**	**1,551,262**
Changes in operating assets and liabilities			
Net increase in due from other banks		(672,200)	-
Net decrease/(increase) in loans and advances to customers		662,297	(6,062,724)
Net decrease in finance lease receivable		74,867	92,907
Net increase/(decrease) in other assets		2,629	(149,141)
Net (decrease)/increase in due to other banks		(445,489)	748,204
Net increase in customer accounts		3,261,007	289,653
Net decrease in other liabilities		(19,094)	(14,626)
Net cash from/(used in) operating activities		**4,749,401**	**(3,544,465)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(19,168,201)	(6,660,783)
Proceeds from disposal/redemption of investment securities available for sale	11	17,869,344	8,018,128
Acquisition of premises and equipment	12	(54,321)	(37,449)
Proceeds from disposal of premises and equipment		-	1,499
Prepaid capital expenditures		(29,357)	-
Acquisition of intangible assets	12	(70,669)	(22,641)
Net cash used in/ from investing activities		**(1,453,204)**	**1,298,754**
Cash flows from financing activities			
Issuance of bonds on domestic market		672,590	-
Repayment of subordinated debt		-	(302,175)
Net cash from/ (used in) financing activities		**672,590**	**(302,175)**
Effect of exchange rate changes on cash and cash equivalents		**(8,451)**	**8,545**
Net increase/(decrease) in cash and cash equivalents		**3,960,336**	**(2,539,341)**
Cash and cash equivalents at the beginning of the year		**5,632,777**	**8,172,118**
Cash and cash equivalents at the end of the year	7	**9,593,113**	**5,632,777**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for JSC SB Alfa-bank (the “Bank”).

The Bank was established on 9 December 1994, incorporated and is domiciled in the Republic of Kazakhstan. The Bank is a joint stock company limited by shares and was set up in accordance with Kazakhstani regulations. The Bank’s immediate parent company is OJSC “Alfa-Bank” (Russia) (the “Shareholder”) (2007: OJSC “Alfa-Bank”). The Bank’s ultimate parent company is ABH Holding Corporation (“ABHH”), a British Virgin Islands registered company, owned by individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev collectively control and own a 77.07 percent interest in ABHH.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Kazakhstan. The Bank has operated under a full banking license reissued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the “Agency”) on 21 December 2007.

The Bank has its main office located in Almaty and operates through a branch in Astana and three representative offices in Ekibastuz, Karaganda and Ust-Kamenogorsk. The average number of the Bank’s employees during the year was 188 (2007: 166).

Registered address and place of business. The Bank’s registered address is:

Almaty, Masanchi St., 57-A
Republic of Kazakhstan

Presentation currency. These financial statements are presented in thousands of Kazakhstani Tenge ("Tenge").

2 Operating Environment of the Bank

Within last months the capital and credit markets of the largest world economies have been characterized by significant volatility. A set of major global financial institutions declared bankrupt, were sold to other financial institutions and obtained financial aid from the state.

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Bank to attract new deposits and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on the management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, the management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The amount of provision for impaired loans is based on the management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Kazakhstan for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

In spite of economic uncertainty that may continue in the future, the Republic of Kazakhstan retains characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, a low liquidity level of debt and equity securities of the organizations of public and private sectors.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Key measurement terms. Depending on their classification financial instruments are carried at fair value cost or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the National Bank of Republic of Kazakhstan (hereinafter "NBRK") and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Reserve assets needed to cover minimal reserve requirements. Reserve assets needed to cover minimal reserve requirements with the NBRK represent non-interest bearing deposits which are available to finance the Bank's day to day operations and hence are considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

3 Summary of Significant Accounting Policies (Continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to fully or partially recover the asset have been completed and the amount of the loss has been determined.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises of the Bank are subject to revaluation at least one a year. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revaluated carrying amount of the asset and depreciation based on the asset's original cost.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful lives as follows:

Premises	25 years;
Office and Computer Equipment	2-5 years; and
Other assets	2-10 years

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

3 Summary of Significant Accounting Policies (Continued)

Finance leases. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term, except for cases when the Bank is lessor-producer or lessor-dealer (in this case such costs are related to the results of sale, as in the case of sales, assuming immediate cash payment). Finance income from leases is recorded within interest income in the income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current taxation is calculated on the basis of amounts expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the deferred tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provisions for liabilities and charges. Provisions for liabilities and charges are liabilities of uncertain timing or amount. Provisions are recorded in the financial statements, when the Bank has a legal or constructive obligation, occurred before the balance sheet date, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss. The bank does not recognize interest income on loans overdue more than thirty days.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and presentation currency is the national currency of the Republic of Kazakhstan, Tenge ("Tenge").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBRK at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBRK are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

3 Summary of Significant Accounting Policies (Continued)

Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 120.79 (2007: USD 1 = Tenge 120.30), Euro 1 = 170.24 Tenge (2007: Euro 1 = 177.17 Tenge) and Russian Rouble 1 = 4.11 Tenge (2007: Russian Rouble 1 = 4.92 Tenge).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Segment reporting. A segment is a distinguishable component of the Bank 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. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are disclosed separately in the consolidated financial statements.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The amount of provision for impaired loans is based on our appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral. The market in Kazakhstan for many types of collateral is at an early stage of development. This has been further affected by recent events in the financial market resulting in there being a low level of liquidity for certain types of assets. Therefore the realisable value on foreclosure may differ from the value ascribed in estimating provisions.

To the extent that the cash flow on repayment of the principal of loans provided for increases by 7%, the provision would be approximately Tenge 5,257 thousand (31 December 2007: Tenge 189,599 thousand) lower. Should the cash flow decrease by 7% the provision would be approximately Tenge 20,597 thousand (31 December 2007: Tenge 130,502 thousand) higher.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Tax legislation. Kazakhstani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Valuation of premises. Premises are stated at their revalued value based on reports prepared by an independent valuation company. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Management assesses need for revaluation of the premises at each balance sheet date. The residual value of premises is nil as the Bank expects to use the asset until the end of its useful life. The premises' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRS became mandatory for the Bank from 1 January 2008.

- ***IFRIC 11, IFRS 2 "Group and Treasury Share Transactions"*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, "Service Concession Arrangements"*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not significantly affect the Bank's financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Reclassification of financial assets – amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" **and further amendment to *"Reclassification of Financial Assets: Effective Date and Transfer"*** These amendments permit companies to use following options: (a) transfer financial asset from the category of held for trading in those rare cases, when this asset is not more held for sale or reverse purchase in the nearest future; and (b) reclassificate financial asset from the category of available for sale or asset from the category of held for trading to the category "loans and receivables", if the company intends and is able to hold this financial asset in the forseeable future till maturity (in the cases, when asset conforms to definition of loans and advances to customers). These amendments may be applied retrospectively from 1 July 2008 for all types of reclassification, performed before 1 November 2008; reclassification, permitted by these changes cannot be applied before 1 July 2008, retrospective reclassification is permitted only if it was perfomed before 1 November 2008. Reclassification of financial assets, performed before or after 1 November 2008, is effective only from the date of reclassification. The Bank did not apply this.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods and which the Bank has not early adopted:

IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Bank believes that this revised standard will not significantly affect its financial statements.

'Puttable financial instruments and obligations arising on liquidation' – IAS 32 and Additional amendments to IAS 1 (effective from 1 January 2009). This additional amendment requires entities to classify certain financial instruments meeting financial liability definition, as equity instruments. Management does not expect these changes to affect the Bank's financial statements.

IAS 23 "Borrowing Costs"(revised in March, 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March, 2008. The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Bank believes that this revised standard will not significantly affect its financial statements.

IAS 1 "Presentation of Financial Statements" (revised in September, 2008, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

6 New Accounting Pronouncements (Continued)

IAS 27 "Consolidated and Separate Financial Statements" (revised in January, 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance. The current standard requires the excess losses to be allocated to the owners of the parent in most cases. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. Management does not expect IAS 27 to affect the Bank's financial statements.

Vesting Conditions and Cancellations — Amendment to IFRS 2 "Share-based Payment" (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. IFRS 2 is not applied to the Bank, since the Bank does not have share-based payment.

IFRS 3 "Business Combinations" (revised in 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Now, in a case of stage by stage business combinations, an acquirer should make revaluation of held before interest in the acquired company at fair value at acquisition date and record resulting profit or loss (if any) in the income statement. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not applied to the Bank, since the Bank does not intend to perform business combinations.

IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Bank does not implement customer loyalty programs.

IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009). This interpretation is applied to account income and respective expenses by companies, fulfilling directly or through sub-contractors construction of real estate objects, and also contains recommendations that help to determine, whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. IFRIC also establishes criteria for the identification of the moment when companies recognize income from such transactions. IFRIC 15 is not applied to Bank transactions, since Bank does not have any agreements for the construction of real estate.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008). This interpretation clarifies, in relation to which currency risks the hedge accounting is applied, and it also states that risks requiring hedge accounting arise as a result of functional currency translation into presentation currency. This interpretation allows entities to hold hedging instrument of a company or for companies within the group, except for a foreign company, being hedging object. Interpretation also clarifies, how an amount of profit or loss, carried forward from exchange differences reserve to profit or loss with the disposal of hedged foreign company, is calculated. Companies preparing statements are required to apply IAS 39 for prospective derecognition of hedging when hedging operations do not meet criteria of hedge accounting, set forth in IFRIC 16. IFRIC 16 does not affect these financial statements, since the Bank does not apply hedge accounting.

6 New Accounting Pronouncements (Continued)

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and additional amendments to IAS 27 (revised in May, 2008; effective for annual periods beginning on or after 1 January 2009). In accordance with this amendment, companies, adopting IFRS for the first time, can assess an investment in a subsidiary, jointly controlled entity or associate at fair value or at the used before carrying amount, determined in accordance with the applied before GAAP, as conditionally calculated cost in the consolidated financial statements. This amendment also requires to record net assets of an investment object before acquisition in profit and loss, and not as reimbursement of investments. These amendments will not affect the Bank's financial statements, since the Bank does not have subsidiaries, jointly controlled entities or associates.

Eligible Hedged Items – Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). This amendment clarifies how principles determining treatment applicability in hedging to a hedged risk or a part of cash flows are used in different situations. The Bank does not expect this amendment to impact its financial statements, since the Bank does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Bank does not expect the amendments to have any material effect on its financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). This amendment clarifies, when and how the distribution of non-cash assets should be recorded as dividends to owners. The Company should assess non-cash assets repayment liability as dividends to owners at fair value of assets to be distributed. Income or expenses on disposal of distributed non-cash assets should be recognized in profit or loss at the moment of settlements on repaid dividends. IFRIC 17 is not applied to Bank's operations, since the Bank does not perform distribution of non-cash assets to owners.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (applied to financial statements prepared in accordance with IFRS for the first time for the period beginning on or after 1 July 2009). Revised IFRS 1 keeps the content of previous version, but has other structure that simplifies its understanding by users and provides the best opportunity for future amendments. The Bank has concluded that the revised standard does not impact its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7 Cash and Cash Equivalents

(in thousands of Tenge)	31 December 2008	31 December 2007
Cash on hand	465,952	435,215
Cash balances with the NBRK (other than mandatory reserve deposits)	1,048,146	347,160
Mandatory cash balances with NBRK	479,510	1,100,031
Correspondent accounts and overnight placements with other banks:	5,990,902	2,249,121
- Kazakhstan	473	3,316
- Other countries	5,990,429	2,245,805
NBRK notes with maturity less than three months	1,608,438	-
Placements with other banks with original maturities of less than three months	165	1,501,250
Total cash and cash equivalents	**9,593,113**	**5,632,777**

NBRK notes for the amount of Tenge 1,608,438 thousand will mature in January 2009 (The Bank had no securities with maturity less than three months as at 31 December 2007).

Cash settlement accounts are held at banks with a credit rating equal to or above than that of, Kazakhstani banks, which are rated at BB.

Interest rate analysis of cash and cash equivalents is disclosed in Note 27. The information on related party balances is disclosed in Note 33. Fair value of cash and cash equivalents is disclosed in Note 31.

8 Due from other banks

(in thousands of Tenge)	Note	31 December 2008	31 December 2007
Short-term placements with other banks with original maturities of more than three months	33	683,895	-
Total due from other banks		**683,895**	**-**

Amounts due from other banks are not collateralised and not impaired as at 31 December 2008.

Interest rate analysis of due from other banks is disclosed in Note 27. The information on related party balances is disclosed in Note 33. Fair value of due from other banks is disclosed in Note 31.

9 Loans and Advances to Customers

(in thousands of Tenge)	31 December 2008	31 December 2007
Corporate loans	17,335,847	17,798,995
Loans to individuals	204,268	293,072
Gross loans and advances to customers	**17,540,115**	**18,092,067**
Less: Provision for loan impairment	(1,137,947)	(578,602)
Total loans and advances to customers	**16,402,168**	**17,513,465**

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 and 2007 are as follows:

(in thousands of Tenge)	2008	2007
Provision for loan impairment at 1 January	**578,602**	**468,239**
Provision for loan impairment during the year, net of recovery	898,100	174,688
Recovery of specific provision for loan impairment created in prior years	(338,730)	(64,277)
Amounts written off during the year as uncollectible	(25)	(48)
Provision for loan impairment at 31 December	**1,137,947**	**578,602**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2008		31 December 2007	
(in thousands of Tenge)	Amount	%	Amount	%
Production	4,685,331	27	4,535,045	25
Wholesale trade	4,467,866	26	7,264,284	40
Transportation	2,169,572	12	1,949,005	10
Mining	1,635,858	9	1,798,860	10
Hotel services	1,225,582	7	-	-
Rent	1,009,350	6	1,090,549	6
Crude oil and natural gas production	606,316	3	-	-
Utilities	333,627	2	707,123	4
Construction	239,982	1	169,186	1
Individuals	204,268	1	293,072	2
Publishing	113,328	1	120,219	1
Other	849,035	5	164,724	1
Total loans and advances to customers	**17,540,115**	**100**	**18,092,067**	**100**

At 31 December 2008 the Bank had twelve borrowers (2007: ten borrowers) with aggregated amount of issued loans to each borrower above Tenge 500,000 thousand. The total aggregate amount of these loans was Tenge 11,186,712 thousand (2007: Tenge 9,599,907 thousand) or 63.8% of the gross loan portfolio (2007: 53.2%).

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

(in thousands of Tenge)	Corporate loans	Loans to individuals	Total
Unsecured loans	**632,773**	**236**	**633,009**
Loans collateralised by:	**16,703,074**	**204,032**	**16,907,106**
- other real estate	5,444,633	-	5,444,633
- third party guarantees	4,660,691	1,455	4,662,146
- factored accounts receivable	1,750,794		1,750,794
- residential real estate	1,725,890	116,702	1,842,592
- inventory	1,255,437	-	1,255,437
- vehicles	645,689	-	645,689
- cash deposits	617,406	85,168	702,574
- production equipment	206,523	-	206,523
- other	396,011	707	396,718
Total loans and advances to customers	**17,335,847**	**204,268**	**17,540,115**

Information about collateral at 31 December 2007 is as follows:

(in thousands of Tenge)	Corporate loans	Loans to individuals	Total
Unsecured loans	**423,550**	**308**	**423,858**
Loans collateralised by:	**17,375,445**	**292,764**	**17,668,209**
- other real estate	6,021,848	-	6,021,848
- third party guarantees	3,193,280	27,813	3,221,093
- inventory	2,674,733	-	2,674,733
- factored accounts receivable	1,716,570	7,551	1,724,121
- production equipment	1,576,577	-	1,576,577
- vehicles	1,099,807	1,153	1,100,960
- residential real estate	583,490	189,000	772,490
- cash deposits	509,140	67,247	576,387
Total loans and advances to customers	**17,798,995**	**293,072**	**18,092,067**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

(in thousands of Tenge)	Corporate loans	Loans to individuals	Total
Current and not impaired			
- Large borrowers with credit history over two years	7,915,028	-	7,915,028
- Large new borrowers	3,927,452	-	3,927,452
- Loans to medium size entities	862,134	-	862,134
- Loans to small entities	308,092	-	308,092
- Loans to individuals	-	202,317	202,317
Total current and not impaired	**13,012,706**	**202,317**	**13,215,023**
Loans individually determined to be impaired (gross)			
- stable financial position	870,999	-	870,999
- satisfactory financial position	2,443,107	-	2,443,107
- unstable financial position	1,009,035	1,951	1,010,986
Total individually impaired loans (gross)	**4,323,141**	**1,951**	**4,325,092**
Less impairment provisions	(1,137,225)	(722)	(1,137,947)
Total loans and advances to customers	**16,198,622**	**203,546**	**16,402,168**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

(in thousands of Tenge)	Corporate loans	Loans to individuals	Total
Current and not impaired			
- Large borrowers with credit history over two years	5,731,107	-	5,731,107
- Large new borrowers	6,412,833	-	6,412,833
- Loans to medium size entities	1,574,837	-	1,574,837
- Loans to small entities	564,840	-	564,840
- Loans to individuals	-	292,844	292,844
Total current and not impaired	**14,283,617**	**292,844**	**14,576,461**
Loans individually determined to be impaired (gross)			
- stable financial position	641,913	228	642,141
- satisfactory financial position	2,873,465	-	2,873,465
Total individually impaired loans (gross)	**3,515,378**	**228**	**3,515,606**
Less impairment provisions	(578,349)	(253)	(578,602)
Total loans and advances to customers	**17,220,646**	**292,819**	**17,513,465**

The Bank's policy in respect of quality of loans provides the following criteria: large borrowers determined as the borrowers with outstanding debt above Tenge 120,029 thousand (USD 1,000,000), medium borrowers with outstanding debt from Tenge 40,000 thousand to Tenge 120,790 thousand, small borrowers with outstanding debt below Tenge 40,000 thousand.

The primary factors that the Bank considers as to whether a loan is impaired are its overdue status and realisability of related collateral, if any. In addition, for corporate loans the Bank considers impairment based on the financial position of the borrower.

The Bank does not have past due but impaired loans at 31 December 2008 and 31 December 2007.

Fair value of collateral in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

(in thousands of Tenge)	Carrying amount of loans	Fair value of collateral
Fair value of collateral - individually impaired loans		
- third party guarantees	2,010,097	-
- other real estate	781,647	259,267
- vehicles	645,690	645,690
- inventory	367,441	330,697
- production equipment	206,523	206,523
- residential real estate	147,789	147,789
- unsecured	26,692	-
- cash deposits	17,407	17,406
- other assets	121,806	122,510
Total	**4,325,092**	**1,729,882**

9 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

(in thousands of Tenge)	**Carrying amount of loans**	**Fair value of collateral**
Fair value of collateral - individually impaired loans		
- production equipment	1,064,108	157,655
- inventory	973,909	876,518
- other real estate	605,753	198,573
- third party guarantees	857,668	-
- residential real estate	12,737	12,737
- unsecured	1,157	-
- vehicles	274	274
Total	**3,515,606**	**1,245,757**

The amount of provision for impaired loans is based on our appraisals of these assets at the balance sheet date after taking into consideration the limited access the Bank has to some of the collateral and the present forced sale value of collateral. The market in Kazakhstan for many types of collateral is at an early stage of development. This has been further affected by events in the financial market observed in 2008 resulting in there being a low level of liquidity for certain types of assets. Therefore the realisable value on foreclosure may differ from the value ascribed in estimating provisions.

Fair values of other real estate and other assets were determined by the Bank through the use of professional property appraisers. For the estimated fair value of loans and advances to customers refer to Note 31.

Interest rate analysis of loans and advances to customers is disclosed in Note 27. The information on related party balances is disclosed in Note 33.

10 Finance Lease Receivable

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

(in thousands of Tenge)	Due in 1 year	Due between 1 and 5 years	Total
Finance lease payments receivable at 31 December 2008	**66,737**	**-**	**66,737**
Unearned finance income	(2,752)	-	(2,752)
Impairment loss provision	(5,467)	-	(5,467)
Present value of lease payments receivable at 31 December 2008	**58,518**	**-**	**58,518**
Finance lease payments receivable at 31 December 2007	**134,332**	**66,737**	**201,069**
Unearned finance income	(32,124)	(2,752)	(34,876)
Impairment loss provision	(21,614)	(10,739)	(32,353)
Present value of lease payments receivable at 31 December 2007	**80,594**	**53,246**	**133,840**

Finance lease receivables of Tenge 58,518 thousand (2007: Tenge 133,840 thousand) are represented by leases of equipment. For the estimated fair value of finance lease receivable refer to Note 31.

11 Investment Securities Available for Sale

(in thousands of Tenge)	31 December 2008	31 December 2007
Notes of NBRK	2,008,325	569,106
Total investment securities available for sale	**2,008,325**	**569,106**

The Notes of the NBRK are discount notes redeemable at par value of Tenge 100 within 182 days from the issue date (2007: 360 days). The notes mature in February 2009 for the amount of Tenge 990,212 thousand and in May 2009 for the amount of Tenge 1,018,113 thousand (2007: in May 2008) and have a yield to maturity of 6.46% (2007: 7.96 %).

11 Investment Securities Available for Sale (Continued)

The movements in investment securities available for sale are as follows:

(in thousands of Tenge)	31 December 2008	31 December 2007
Carrying amount at 1 January	**569,106**	**1,908,640**
Fair value gains less losses	(749)	(5,872)
Interest income accrued	141,111	95,675
Purchases	19,168,201	6,660,783
Disposals and redemption of current investment securities available for sale	(17,869,344)	(8,090,120)
Carrying amount at 31 December	**2,008,325**	**569,106**

Interest rate analysis of investment securities available for sale is disclosed in Note 27. Fair value of investment securities available for sale is disclosed in Note 31.

12 Premises, Equipment and Intangible Assets

(in thousands of Tenge)	Note	Premises	Office and computer equipment	Other assets	Total premises and equipment	Computer software licences	Total
At 1 January 2007							
Cost or valuation		**495,102**	**91,639**	**123,353**	**710,094**	**106,721**	**816,815**
Additions		301	8,964	28,184	37,449	22,641	60,090
Disposals		-	(9,852)	(8,433)	(18,285)	(50)	(18,335)
Revaluation		528,105	-	-	528,105	-	528,105
At 31 December 2007							
Cost or valuation		**1,023,508**	**90,751**	**143,104**	**1,257,363**	**129,312**	**1,386,675**
Additions		220	18,949	35,152	54,321	70,669	124,990
Disposals			(4,555)	(2,258)	(6,813)	(5,183)	(11,996)
Revaluation		(374,469)	-	-	(374,469)	-	(374,469)
At 1 January 2009							
Cost or valuation		**649,259**	**105,145**	**175,998**	**930,402**	**194,798**	**1,125,200**
At 1 January 2007							
Accumulated depreciation		**(23,836)**	**(56,632)**	**(51,304)**	**(131,772)**	**(62,984)**	**(194,756)**
Depreciation charge for the year	24	(28,943)	(12,063)	(16,061)	(57,067)	(14,834)	(71,901)
Written off on disposal		-	9,572	7,214	16,786	50	16,836
Written off on revaluation		51,682	-	-	51,682	-	51,682
At 31 December 2007							
Accumulated depreciation		**(1,097)**	**(59,123)**	**(60,151)**	**(120,371)**	**(77,768)**	**(198,139)**
Depreciation charge for the year	24	(51,818)	(13,300)	(18,943)	(84,061)	(21,614)	(105,675)
Written off on disposal		-	4,540	2,018	6,558	5,182	11,740
Written off on revaluation		51,638	-	-	51,638	-	51,638
At 1 January 2009							
Accumulated depreciation		**(1,277)**	**(67,883)**	**(77,076)**	**(146,236)**	**(94,200)**	**(240,436)**
Carrying amount at 31 December 2007		**1,022,411**	**31,628**	**82,953**	**1,136,992**	**51,544**	**1,188,536**
Carrying amount at 31 December 2008		**647,982**	**37,262**	**98,922**	**784,166**	**100,598**	**884,764**

Premises were revalued on 22 December 2008. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who has recent experience in valuation of assets of similar location and category. Sales comparison approach was used as basis for the appraisal of land and income approach for the appraisal of premises.

12 Premises, Equipment and Intangible Assets (Continued)

The revaluation net of applicable deferred income taxes was credited to other reserves in shareholder's equity (Note 21).

Included in the above carrying amount is Tenge 592,976 thousand (2007: Tenge 962,028 thousand) representing revaluation surplus relating to premises of the Bank. At 31 December 2008 the carrying amount of premises would have been Tenge 33,124 thousand (2007: Tenge 35,355 thousand) had the assets been carried at cost less depreciation.

13 Other Financial Assets

(in thousands of Tenge)	Note	31 December 2008	31 December 2007
Debtors on guarantees		12,079	12,030
Investments		10,200	10,200
Trade receivable		-	2,454
Foreign exchange forward/spot contracts	31	-	80,807
Total other financial assets		**22,279**	**105,491**

Included into investments are shares of "Central Depository" JSC and "Processing Center" JSC in accordance with the requirements of regulatory bodies. The investments are accounted at cost.

Other financial assets are placed with local unquoted companies.

Fair value of other financial assets is disclosed in Note 31.

14 Other Assets

(in thousands of Tenge)	31 December 2008	31 December 2007
Advances for capital expenditures	31,765	2,408
Prepayments for services	18,035	15,400
Inventories	5,991	7,219
Taxes receivable	5,243	2,559
Other	2,153	472
Total other assets	**63,187**	**28,058**

15 Due to Other Banks

(in thousands of Tenge)	31 December 2008	31 December 2007
Short-term placements of other banks	292,232	752,188
Correspondent accounts and overnight placements of other banks	7,280	344
Total due to other banks	**299,512**	**752,532**

Interest rate analysis of due to other banks is disclosed in Note 27. The information on related party balances is disclosed in Note 33. Fair value of due to other banks is disclosed in Note 31.

16 Customer Accounts

(in thousands of Tenge)	31 December 2008	31 December 2007
State and public organisations		
- Current/settlement accounts	227,659	399,583
- Term deposits	1,330	77,907
Other legal entities		
- Current/settlement accounts	12,126,102	9,662,543
- Term deposits	2,823,699	1,896,865
Individuals		
- Current/demand accounts	1,819,615	1,860,019
- Term deposits	3,837,713	3,533,954
Total customer accounts	**20,836,118**	**17,430,871**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 December 2008		31 December 2007	
(in thousands of Tenge)	Amount	%	Amount	%
Construction	5,385,100	26	3,771,682	22
Individuals	5,343,769	26	5,217,280	30
Services	3,536,603	17	1,562,250	9
Wholesale trade	2,892,194	14	2,939,811	17
Research and development	799,624	4	990,607	6
Energy production	711,024	3	562,474	3
Mining	597,543	3	707,553	4
Retail trade	518,061	2	375,877	2
Real estate	251,201	1	-	-
Metal production	193,600	1	408,589	2
State and public organizations	145,095	1	212,312	1
Publishing	120,219	1	123,235	1
Transport	106,428	-	149,867	1
Other	235,657	1	409,334	2
Total customer accounts	**20,836,118**	**100**	**17,430,871**	**100**

At 31 December 2008 the Bank had four customers (2007: one customer) with balances above Tenge 500,000 thousand. The aggregate balance of these customers was Tenge 6,065,056 thousand (2007: Tenge 590,400 thousand) or 29.96% (2007: 3.4%) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of Tenge nil thousand (2007: Tenge 163,607 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 29.

Interest rate analysis of customer accounts is disclosed in Note 27. The information on related party balances is disclosed in Note 33. For the estimated fair value of customer accounts refer to Note 31.

17 Bonds issued on domestic market

(in thousands of Tenge)	31 December 2008	31 December 2007
Bonds issued on domestic market	698,825	-
Total bonds issued on domestic market	**698,825**	**-**

Bonds issued on domestic market are denominated in Tenge (2007: Tenge nil thousand) and mature on March 2011, have coupon rate of 12 % and yield to maturity of 12.38%.

Information on fair value of bonds issued on domestic market is disclosed in Note 31. Interest rate analysis of bonds issued on domestic market is disclosed in Note 27.

18 Other Financial Liabilities

Other financial liabilities comprise the following:

(in thousands of Tenge)	Note	31 December 2008	31 December 2007
Foreign exchange spot/forward contracts		102,561	-
Trade payables		9,395	28,489
Provision for credit related commitments	29	5,049	829
Total other financial liabilities		**117,005**	**29,318**

Information on fair value of other financial liabilities is disclosed in Note 31.

Movements in provisions for credit related commitments are as follows:

(in thousands of Tenge)	Note	2008	2007
Carrying amount at 1 January		**829**	**4.971**
Provisions created		4,220	-
Unused amounts reversed		-	(4,142)
Carrying amount at 31 December	**30**	**5,049**	**829**

Credit related commitments: Specific provisions were created for losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated. The balance at 31 December 2008 is expected to be utilised by the end of 2009.

The information on related party balances is disclosed in Note 33.

19 Other Liabilities

Other liabilities comprise the following:

(in thousands of Tenge)	31 December 2008	31 December 2007
Accrued employee costs	38,679	12,461
Trade payables	33,504	920
Taxes other than on income payable	5,804	5,439
Total other liabilities	**77,987**	**18,820**

20 Share Capital

As at 31 December 2008 and 31 December 2007 the share capital structure was as follows:

(In thousands of Tenge except for number of shares)	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 31 December	**100,000**	**100,000**	**22,185**	**1,022,185**

Nominal registered amount of the Bank's issued share capital was Tenge 1,000,000 thousand as at 31 December 2008 (2007: Tenge 1,000,000 thousand). At 31 December 2008, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of Tenge 10 per share (2007: Tenge 10 per share) and rank equally. Each share carries one vote.

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

21 Other Reserves

	Revaluation reserve for			
(in thousands of Tenge)	Available for sale securities	Premises and equipment	Reserve capital	Total reserves
At 31 December 2006	**9,918**	**286,994**	**150,000**	**446,912**
Revaluation	(5,872)	579,787	-	573,915
Income tax effect	-	(173,937)	-	(173,937)
Realised revaluation reserve	(8,299)	(9,493)	-	(17,792)
At 31 December 2007	**(4,253)**	**683,351**	**150,000**	**829,098**
Statutory reserve fund	-	-	1,050,000	1,050,000
Revaluation	(749)	(322,831)	-	(323,580)
Realised revaluation reserve	-	(12,820)	-	(12,820)
Change in deferred tax due to changes in tax rates	-	86,773	-	86,773
Change in deferred tax due to revaluation	-	96,224	-	96,224
At 31 December 2008	**(5,002)**	**530,697**	**1,200,000**	**1,725,695**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

In accordance with the local legislation and regulations of the NBRK, the Bank makes an appropriation from retained earnings to statutory reserve fund for unforeseeable risks and future losses. Statutory reserve fund can only be distributed through the approval of a formal shareholders' meeting.

22 Interest Income and Expense

(in thousands of Tenge)	2008	2007
Interest income		
Loans and advances to customers	2,847,647	1,532,024
Due from other banks	213,942	221,852
Investment securities available for sale	141,111	95,675
Correspondent accounts with other banks	44,558	128,502
Loan origination fee	21,880	38,841
Finance lease receivables	14,272	29,825
NBRK notes with maturity less than three months	8,307	-
Total interest income	**3,291,717**	**2,046,719**
Interest expense		
Current/settlement accounts	294,476	79,629
Term deposits of individuals	288,966	216,711
Term deposits of legal entities	183,412	34,567
Term placements of other banks	41,087	42,551
Bond issued on domestic market	35,413	-
Long-term loans of banks	16,155	-
Subordinated debt	-	26,783
Other	1,647	2,135
Total interest expense	**861,156**	**402,376**
Net interest income	**2,430,561**	**1,644,343**

The information on related party transactions is disclosed in Note 33.

23 Fee and Commission Income and Expense

(in thousands of Tenge)	2008	2007
Fee and commission income		
- Settlement transactions	360,043	368,296
- Transactions on sale and purchase of foreign currency	251,758	276,742
- Cash transactions	187,591	216,134
- VISA	25,899	21,362
- Encashment services	13,779	12,303
- Guarantees issued	12,951	7,819
- Letters of credit	4,586	8,647
- Safe operation	4,497	5,747
- Other	21,544	22,093
Total fee and commission income	**882,648**	**939,143**
Fee and commission expense		
- Cash transactions	36,553	68,742
- Settlement transactions	24,896	22,931
- Fund of deposits guaranteeing	24,239	31,825
- Other	5,788	392
Total fee and commission expense	**91,476**	**123,890**
Net fee and commission income	**791,172**	**815,253**

The information on related party transactions is disclosed in Note 33.

24 Administrative and Other Operating Expenses

(in thousands of Tenge)	Note	2008	2007
Staff costs		835,418	582,065
Depreciation of premises and equipment	12	84,061	57,067
Administrative expenses		69,931	66,893
Communication expense		41,031	27,058
Taxes other than on income		39,847	36,992
Professional services		36,408	26,054
Software support expense		25,430	31,887
Amortisation of software and other intangible assets	12	21,614	14,834
Transportation		18,807	11,134
Advertising and marketing services		17,946	13,549
Cash collection expenses		16,783	22,958
Business trip expenses		13,545	6,841
Operating lease expense		13,007	6,913
Professional membership fee		9,228	5,209
Insurance expense		5,620	4,562
Stationery		3,502	3,228
Staff trainings		2,861	1,057
Other		30,107	30,780
Total administrative and other operating expenses		**1,285,146**	**949,081**

Included in staff costs are statutory social tax and social security payments of Tenge 54,911 thousand (2007: Tenge 53,243 thousand).

24 Income Taxes

Income tax expense comprises the following:

(in thousands of Tenge)	2008	2007
Current income tax expense	545,426	460,248
Deferred taxation	(74,100)	(8,854)
Income tax expense for the year	**471,326**	**451,394**

On 10 December 2008, the new tax code and accompanying legislative acts were signed by the President of the Republic of Kazakhstan. The new tax code became effective from 1 January 2009. Key changes include: reduction of the corporate income tax rate from 30% to 20% in 2009, 17.5% in 2010, and 15% in 2011.

The income tax rate applicable to the majority of the Bank's income in 2008 is 30% (2007: 30%). A reconciliation between the expected and the actual taxation charge is provided below.

25 Income Taxes (Continued)

(in thousands of Tenge)	2008	2007
IFRS profit before tax	**1,538,828**	**1,657,071**
Theoretical tax charge at statutory rate (2008: 30%; 2007: 30%)	461,648	497,121
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(25,272)	(37,587)
- Non-deductible expenses	15,426	16,975
- Other non temporary differences	(7,307)	(1,220)
- Non-deductible interest expense	494	640
- (Recovery of)/non-deductible provision for impairment of loans and advances to customers	(1,976)	(24,535)
- Reduction in opening deferred taxes resulting from reduction of tax rate	28,313	-
Income tax expense for the year	**471,326**	**451,394**

A gross deferred tax liability of Tenge 45,778 thousand (2007: Tenge 309,269 thousand) has been recorded directly in equity in respect of the revaluation of the Bank's premises. Refer to Notes 12 and 21.

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% except differences raised due to revaluation of premises and recorded at 15% (in 2007 all differences were recorded at 30%).

25 Income Taxes (Continued)

In thousands of Tenge	31 December 2007	Credited/(Charged) to profit or loss: Amortization of revaluation reserve	Credited/(Charged) to profit or loss: Other	Charged directly to equity: Revaluation	Charged directly to equity: Effect of Change in tax rates	31 December 2008
Tax effect of deductible temporary differences						
Accruals	7,144	-	4,965	-	-	12,109
Fixed assets	10,534	-	(10,534)	-	-	-
Loan impairment reserve	-	-	54,746	-	-	54,746
Net deferred tax asset	**17,678**	**-**	**49,177**	**-**	**-**	**66,855**
Tax effect of taxable temporary differences						
Revaluation reserve of premises	309,269	(35,151)	-	(96,224)	(86,773)	91,121
Fixed assets without revaluation	-	-	10,228	-	-	10,228
Gross deferred tax liability	**309,269**	**(35,151)**	**10,228**	**(96,224)**	**(86,773)**	**101,349**
Net deferred tax liability	**291,591**	**(35,151)**	**(38,949)**	**(96,224)**	**(86,773)**	**34,494**

In thousands of Tenge	31 December 2006	Credited to profit or loss	Charged directly to equity	31 December 2007
Tax effect of deductible temporary differences				
Accruals	900	6,244	-	7,144
Fixed assets	7,924	2,610	-	10,534
Net deferred tax asset	**8,824**	**8,854**	**-**	**17,678**
Tax effect of taxable temporary differences				
Revaluation reserve of premises	135,333	-	173,936	309,269
Gross deferred tax liability	**135,333**	**-**	**173,936**	**309,269**
Net deferred tax liability	**126,509**	**(8,854)**	**173,936**	**291,591**

26 Segment Analysis

A segment is a distinguishable component of the Bank 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.

The Bank is organised on the basis of one main business segment – corporate banking which represents direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products. The Bank also has retail banking which represents private banking services, private customer current accounts, savings, deposits and debit cards, consumer loans. However, retail banking compromises less than ten percent of total revenue and total assets. Geographical segments of the Bank have been reported in Note 27 of these financial statements based on the ultimate domicile of the counterparty, i.e. based on economic risk rather than legal risk of the counterparty.

27 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 29.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

In addition the Bank has following concentration limits based on the total amount of finance arrangement of the borrower/group of borrowers:
- limits on the risk concentration;
- limits on collateral concentration;
- limits on industry concentration;
- limits on geographical concentration.

The Bank established several credit committees which are responsible for approving credit limits for borrowers:
- The Board of Directors reviews and approves limits above USD 3 million, which is approximately Tenge 362,370 thousand and meets when necessity arises. It is also responsible for issuing guidance to credit committee;

- The credit committee reviews and approves credit limits below USD 3 million, which is approximately Tenge 362,370 thousand and meets weekly.

Loan applications originated by the relevant client relationship managers are passed on to the Credit Committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

27 Financial Risk Management (Continued)

In order to monitor credit risk exposures, the Bank has established a Credit risk monitoring department. Monitoring is performed by means of regular reviews of reports that are produced by the credit department's officers based on a structured analysis focusing on the following:

- customer's business and financial performance;
- compliance with intended use of the credit product;
- adequacy of collateral;
- deteriorating creditworthiness.

As a result of the monitoring, Credit risk monitoring department prepares monthly reports that include any necessity to review the internal rating of the borrower. Reports are submitted to the Credit Department for final disposition.

The Bank's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

In the light of current economic environment, the Bank reviewed values of all collaterals in autumn of 2008.

Market risk. The Bank is exposed to market risks. Market risks arise from open positions in (a) currency, (b) interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

27 Financial Risk Management (Continued)

(In thousands of Tenge)	31 December 2008 Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	31December 2007 Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Tenge	14,592,110	14,906,798	6,829,000	6,514,312	12,297,801	7,645,108	5,046,000	9,698,693
US Dollars	12,422,431	5,241,806	(6,866,039)	314,586	10,142,344	4,726,194	(4,965,193)	450,957
Euros	1,081,859	1,119,416	-	(37,557)	539,739	534,920	-	4,819
Russian Roubles	671,872	683,433	-	(11,561)	861,895	817,550	-	44,345
Pound Sterling	9	7	-	2	3,971	3,063	-	908
Other	17	-	-	17	222	67	-	155
Total	**28,768,298**	**21,951,460**	**(37,039)**	**6,779,799**	**23,845,972**	**13,726,902**	**80,807**	**10,199,877**

Derivatives in each column represents the fair value, at the balance sheet date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 30. As of 31 December 2008 the net total amount of Tenge 37,039 thousand (2007: Tenge 80,807 thousand) represents fair value of the currency derivatives.

The above analysis includes only monetary assets and liabilities. The Bank believes that investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

In thousands of Tenge	31 December 2008 Impact on profit or loss	31 December 2007 Impact on profit or loss
US Dollars strengthening by 10% (2007: 5%)	24,906	34,246
US Dollars weakening by 10% (2007: 5%)	(31,454)	(34,246)
Euro strengthening by 13% (2007: 5%)	(4,882)	667
Euro weakening by 13% (2007: 5%)	4,882	(667)
Russian Rouble strengthening by 5% (2007: 5%)	578	2,215
Russian Rouble weakening by 5% (2007: 5%)	(578)	(2,215)
Pound Sterling strengthening by 5% (2007: 5%)	-	45
Pound Sterling weakening by 5% (2007: 5%)	-	(45)
Swiss Franc weakening by 5% (2007: 5%)	-	8
Swiss Franc strengthening by 5% (2007: 5%)	-	(8)
Total effect of strengthening	**20,602**	**37,181**
Total effect of weakening	**(27,150)**	**(37,181)**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank. Significant devaluation took place on 4 February 2009. Should this devaluation have happened in 2008 the Bank would have gained Tenge 59,775 thousands as exchange differences. Subsequent events are disclosed in Note 34.

27 Financial Risk Management (Continued)

The Bank's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to average exposure to currency risk during the year, with all other variables held constant:

(in thousands of Tenge)	**Average exposure during 2008 Impact on profit or loss**	**Average exposure during 2007 Impact on profit or loss**
US Dollars strengthening by 10% (2007: 5%)	(9,728)	3,548
US Dollars weakening by 10% (2007: 5%)	(7,077)	(3,548)
Euro strengthening by 13% (2007: 5%)	2,069	54
Euro weakening by 13% (2007: 5%)	(2,069)	(54)
Russian Rouble strengthening by 5%	2,210	4,509
Russian Rouble weakening by 5%	(2,210)	(4,509)
Pound Sterling strengthening by 5%	111	52
Pound Sterling weakening by 5%	(111)	(52)
Swiss Franc strengthening by 5%	5	-
Swiss Franc weakening by 5%	(5)	-
Total effect of strengthening	**(5,333)**	**8,163**
Total effect of weakening	**(11,472)**	**(8,163)**

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a regular basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

At 31 December 2007, if interest rates at that date had been 50 basis points lower with all other variables held constant, profit for the year would have been Tenge 74,687 thousand (2007: Tenge 77,649 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

27 Financial Risk Management (Continued)

In thousands of tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2008						
Total financial assets	26,182,284	2,392,421	171,314	22,279	947,951	29,716,249
Total financial liabilities	(15,259,595)	(2,414,849)	(2,644,017)	(1,632,999)	(149,977)	(22,101,437)
Net interest sensitivity gap at 31 December 2008	**10,922,689**	**(22,428)**	**(2,472,703)**	**(1,610,720)**	**797,974**	**7,614,812**
31 December 2007						
Total financial assets	23,363,343	569,106	-	22,230	1,256,346	25,211,025
Total financial liabilities	(13,121,401)	(3,190,566)	(1,170,928)	(729,826)	(310,411)	(18,523,132)
Net interest sensitivity gap at 31 December 2007	**10,241,942**	**(2,621,460)**	**(1,170,928)**	**(707,596)**	**945,935**	**6,687,893**

If interest rates had been 50 basis points higher, with all other variables held constant, profit would have been Tenge 74,687 thousand (2007: Tenge 77,649 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2008				**2007**			
In % p.a.	**Tenge**	**USD**	**Euro**	**Other**	**Tenge**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	-	1.3	3.0	1.9	4.9	5.2	2.4	0.8
Due from other banks	-	-	10.9	11.8	-	-	-	-
Loans and advances to customers	15.3	15.3	5.2	-	11.7	11.7	8.8	6.2
Investment securities available for sale	6.6	-	-	-	5.7	-	-	-
Liabilities								
Due to other banks	-	4.7	6.7	-	6.7	7.1	5.8	4.3
Customer accounts								
- current and settlement accounts	2.7	0.3	-	-	0.8	0.4	-	-
- term deposits of legal entities	9.5	8.9	-	-	5.8	0.5	5.5	-
- term deposits of individuals	9.8	8.9	6.1	-	6.9	4.8	3.3	3.2
Bonds issued on domestic market	12.0	-	-	-	-	-	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

27 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2008 is set out below:

(in thousands of Tenge)	Note	Kazakhstan	OECD	Other countries	Total
Assets					
Cash and cash equivalents	7	3,602,684	5,584,584	405,845	9,593,113
Due from other banks	8	-	-	683,895	683,895
Loans and advances to customers	9	16,402,168	-	-	16,402,168
Finance lease receivable	10	58,518	-	-	58,518
Investment securities available for sale	11	2,008,325	-	-	2,008,325
Other financial assets	13	10,200	12,079	-	22,279
Total financial assets		**22,081,895**	**5,596,663**	**1,089,740**	**28,768,298**
Non-financial assets		**911,635**	**33,924**	**2,392**	**947,951**
Total assets		**22,993,530**	**5,630,587**	**1,092,132**	**29,716,249**
Liabilities					
Due to other banks	15	108	292,232	7,172	299,512
Customer accounts	16	20,139,524	188,500	508,094	20,836,118
Bonds issued on domestic market	17	698,825	-	-	698,825
Other financial liabilities	18	117,005	-	-	117,005
Total financial liabilities		**20,955,462**	**480,732**	**515,266**	**21,951,460**
Non-financial liabilities		**149,252**	**668**	**57**	**149,977**
Total liabilities		**21,104,714**	**481,400**	**515,323**	**22,101,437**
Net balance sheet position		**1,888,816**	**5,149,187**	**576,809**	**7,614,812**
Credit related commitments	**29**	**9,729,895**	**-**	**-**	**9,729,895**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Kazakhstani counterparties actually outstanding to/from off-shore companies of these Kazakhstani counterparties are allocated to the caption "Kazakhstan". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

27 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2007 is set out below:

(in thousands of Tenge)	Note	Kazakhstan	OECD	Other countries	Total
Assets					
Cash and cash equivalents	7	3,386,760	2,030,076	215,941	5,632,777
Loans and advances to customers	9	17,502,311	-	11,154	17,513,465
Finance lease receivable	10	133,840	-	-	133,840
Investment securities available for sale	11	569,106	-	-	569,106
Other financial assets	13	93,673	11,818	-	105,491
Total financial assets		**21,685,690**	**2,041,894**	**227,095**	**23,954,679**
Non-financial assets		**1,256,346**	**-**	**-**	**1,256,346**
Total assets		**22,942,036**	**2,041,894**	**227,095**	**25,211,025**
Liabilities					
Due to other banks	15	455,729	296,588	215	752,532
Customer accounts	16	16,518,687	233,924	678,260	17,430,871
Other financial liabilities	18	29,318	-	-	29,318
Total financial liabilities		**17,003,734**	**530,512**	**678,475**	**18,212,721**
Non-financial liabilities		**-**	**-**	**310,411**	**310,411**
Total liabilities		**17,003,734**	**530,512**	**988,886**	**18,523,132**
Net balance sheet position		**5,938,302**	**1,511,382**	**(761,791)**	**6,687,893**
Credit related commitments	**29**	**8,343,727**	**-**	**-**	**8,343,727**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

27 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

(in thousands of Tenge)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	7,280	-	305,801	-	-	313,081
Customer accounts	14,931,535	1,088,572	4,200,576	1,031,513	2,767	21,254,963
Bonds issued on domestic market	-	40,709	40,709	800,618	-	882,036
Other financial liabilities	14,444	-	-	-	-	14,444
Net settled forwards	-	-	102,561	-	-	102,561
Total potential future payments for financial obligations	**14,953,259**	**1,129,281**	**4,649,647**	**1,832,131**	**2,767**	**22,567,085**

27 Financial Risk Management (Continued)

The maturity analysis of financial liabilities in accordance with contract terms at 31 December 2007 is as follows:

(in thousands of Tenge)	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	344	464,709	27,327	297,226	-	789,606
Customer accounts	12,030,466	1,260,328	3,335,399	847,422	28	17,473,643
Other financial liabilities	2,454	-	-	12,030	10,200	24,684
Net settled forwards	80,807	-	-	-	-	80,807
Total potential future payments for financial obligations	**12,114,071**	**1,725,037**	**3,362,726**	**1,156,678**	**10,228**	**18,368,740**

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 30. Customer accounts are classified in the above analysis based on contractual maturities.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2008:

(in thousands of Tenge)	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	9,593,113	-	-	-	-	9,593,113
Due from other banks	128,660	-	555,235	-	-	683,895
Loans and advances to customers	2,677,717	4,003,315	5,342,645	4,378,491		16,402,168
Finance lease receivable	-	-	58,518	-	-	58,518
Investment securities available for sale	-	989,814	1,018,511	-	-	2,008,325
Other financial assets	-	-	-	-	22,279	22,279
Total financial assets	**12,399,490**	**4,993,129**	**6,974,909**	**4,378,491**	**22,279**	**28,768,298**
Liabilities						
Due to other banks	7,280	-	292,232	-	-	299,512
Customer accounts	14,843,076	1,073,950	3,984,916	933,106	1,070	20,836,118
Bonds issued on domestic market	-	-	-	698,825	-	698,825
Other financial liabilities	117,005	-	-	-	-	117,005
Total financial liabilities	**14,967,361**	**1,073,950**	**4,277,148**	**1,631,931**	**1,070**	**21,951,460**
Net liquidity gap at 31 December 2008	**(2,567,871)**	**3,919,179**	**2,697,761**	**2,746,560**	**21,209**	**6,816,838**
Cumulative liquidity gap at 31 December 2008	**(2,567,871)**	**1,351,308**	**4,049,069**	**6,795,629**	**6,816,838**	**-**

27 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2007:

(in thousands of Tenge)	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5,632,777	-	-	-	-	5,632,777
Loans and advances to customers	1,003,224	3,441,881	7,235,578	5,832,782	-	17,513,465
Finance lease receivable	-	-	-	133,840	-	133,840
Investment securities available for sale	-	-	569,106	-	-	569,106
Other financial assets	2,454	13,506	67,301	12,030	10,200	105,491
Total financial assets	**6,638,455**	**3,455,387**	**7,871,985**	**5,978,652**	**10,200**	**23,954,679**
Liabilities						
Due to other banks	344	455,600	296,588	-	-	752,532
Customer accounts	12,346,687	1,086,799	3,267,558	729,799	28	17,430,871
Other financial liabilities	-	29,318	-	-	-	29,318
Total financial liabilities	**12,347,031**	**1,571,717**	**3,564,146**	**729,799**	**28**	**18,212,721**
Net liquidity gap at 31 December 2007	**(5,708,576)**	**1,883,670**	**4,307,839**	**5,248,853**	**10,172**	**5,741,958**
Cumulative liquidity gap at 31 December 2007	**(5,708,576)**	**(3,824,906)**	**482,933**	**5,731,786**	**5,741,958**	**-**

Excess of current liabilities over amount of corresponding assets is associated with settlement accounts of customers. The Bank analyzes balances on such accounts on a daily basis by using certain statistical models and defines core amounts remaining on long term periods. Such funds might be invested in highly liquid assets such as state securities or more long term instruments.

Therefore the management believes that despite the fact that a substantial portion of customers accounts are on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28 Magement of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Agency, (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the Agency is monitored monthly in accordance with the guidelines set by the Agency. The reports outlining their calculation reviewed and signed by the Bank's Chairman and Chief Accountant are filed with the Agency on a monthly basis.

Under the current capital requirements set by the AFN banks have to maintain minimum level of the regulatory capital and capital adequacy ratios (k1 – a ratio of Tier 1 capital to total assets at or above the required minimum of 5% and k2 - a ratio of total regulatory capital to the risk-weighted assets at or above the required minimum of 10%).

The Bank's regulatory capital as managed by the Bank's Asset and Liability Committee is divided into two tiers:

- *Tier 1 capital:* capital (net of any book values of the treasury shares), additional capital, retained earnings and reserves created by appropriations of retained earnings of previous period, perpetual agreements. The book value of intangible assets (except for licensed software), previous and this period's losses are deducted in arriving at Tier 1 capital; and

- *Tier 2 capital:* current period net profits, qualifying subordinated loan capital and perpetual instruments, collective impairment allowances and unrealized gains arising on the fair valuation of fixed assets and securities.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of, and reflecting an estimate of credit, market, operational 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 Bank has complied with all externally imposed capital requirements throughout 2008 and 2007.

29 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Kazakhstani tax and customs legislation is 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 Bank may be challenged by the relevant authorities.

The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years proceeding the year of review.

Kazakhstani tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

29 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

(in thousands of Tenge)	Note	31 December 2008	31 December 2007
Undrawn credit lines		9,283,384	7,238,575
Guarantees issued		451,560	942,374
Import letters of credit		-	163,607
Less: Provision for credit related commitments	18	(5,049)	(829)
Total credit related commitments		**9,729,895**	**8,343,727**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was Tenge 9,729,895 thousand at 31 December 2008 (2007: Tenge 8,343,727 thousand). Credit related commitments are denominated in currencies as follows:

(in thousands of Tenge)	31 December 2008	31 December 2007
Tenge	6,405,837	2,596,248
US Dollars	3,000,033	5,064,476
Euro	247,784	-
Russian Roubles	76,241	683,003
Total	**9,729,895**	**8,343,727**

The information on related party balances is disclosed in Note 33.

30 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Bank are generally traded with corporate clients of the Bank on the basis of standardized contracts. The instruments have favourable conditions (and are assets), or potentially unfavorable conditions (and are liabilities) as a result of interest rates fluctuations in the market, currency exchange rates or other variable factors associated with these instruments. The total fair value of derivative financial instruments may significantly change from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

		31 December 2008		**31 December 2007**	
(in thousands of Tenge)	**Note**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the balance sheet date, of					
- USD payable on settlement (-)		-	(3,625,561)	(3,661,728)	(1,303,465)
- Tenge receivable on settlement (+)		-	3,523,000	3,752,500	1,293,500
Net fair value of foreign exchange forwards	**18**	**-**	**(102,561)**	**90,772**	**(9,965)**

As at 31 December 2008 the Bank had eleven open forward contracts to sell of USD 54,000 thousand (31 December 2007: nine contracts on USD 39,800 thousand). None of the forward contracts concluded in 2007 were exercised at their maturity dates. Devaluation of Tenge from 120 to 150 Tenge per 1 USD exposed the Bank to a potential loss of Tenge 1,183 million under forward contracts. Subsequent events are disclosed in Note 34.

The Bank had no outstanding obligations from unsettled spot transactions with foreign currencies as at 31 December 2008 and 31 December 2007.

31 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distressed sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment securities available for sale are carried on the balance sheet at their fair value. Fair values were determined based on quoted market prices.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

31 Fair Value of Financial Statement (Continued)

Customer accounts. Customer accounts are carried at amortised cost. Fair values were determined based on average market rates.

Fair values of financial instruments are as follows:

(in thousands of Tenge)	31 December 2008 Carrying value	31 December 2008 Fair value	31 December 2007 Carrying value	31 December 2007 Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	9,593,113	9,593,113	5,632,777	5,632,777
Due from other banks	683,895	683,895	-	-
Loans and advances to customers	16,402,168	15,617,098	17,513,465	17,513,465
Investment securities available for sale	2,008,325	2,008,325	569,106	569,106
Other financial assets				
- Trade receivables	12,079	12,079	14,484	14,484
- Investments	10,200	10,200	10,200	10,200
- Finance lease receivables	58,518	58,518	133,840	133,840
- Foreign exchange spot/forward contracts	-	-	80,807	80,807
TOTAL FINANCIAL ASSETS	**28,768,298**	**27,983,228**	**23,954,679**	**23,954,679**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks	299,512	299,512	752,532	752,532
Customer accounts	20,836,118	21,273,065	17,430,871	17,423,143
Bonds issued on domestic market	698,825	706,772	-	-
Other financial liabilities				
- Trade payables	9,395	9,395	28,489	28,489
- Provision for credit related commitments	5,049	5,049	829	829
- Foreign exchange contracts	102,561	102,561	-	-
TOTAL FINANCIAL LIABILITIES	**21,951,460**	**22,396,354**	**18,212,721**	**18,204,993**

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

31 Fair Value of Financial Statement (Continued)

(in thousands of Tenge)	**2008**	**2007**
Due from other banks		
Short-term deposits in other banks with initial maturity less than three months	9.5 % - 4 % p.a.	6 % - 6 % p.a.
Loans and advances to customers		
Corporate	2 % - 22 % p.a.	2 % - 19 % p.a.
Individuals	2 % - 19.25 % p.a.	2 % - 17 % p.a.
Other financial assets		
Debtors on finance lease agreements	12 % - 12.5 % p.a.	12 % - 12.5 % p.a.
Debtors on operations with debit and credit cards	10 % - 14 % p.a.	11 % - 15 % p.a.
Due to other banks		
Short-term deposits of other banks	-	8 % - 8 % p.a.
Loans from other banks	4.69 % - 6.65 % p.a.	5.82 % - 6.69 % p.a.
Customer accounts		
Current accounts of legal entities	9 % - 9 % p.a.	9 % - 9 % p.a.
Term deposits of legal entities	5 % - 12 % p.a.	5 % - 9.5 % p.a.
Term deposits of individuals	2 % - 15.6 % p.a.	2 % - 15.6 % p.a.
Debt securities in issue		
Bond issued on domestic market	12 % - 12 % p.a.	-

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices.

32 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories at 31 December 2008.

(in thousands of Tenge)	**Loans and receivables**	**Available-for-sale assets**	**Assets designated at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	9,593,113	-	-	9,593,113
Due from other banks	683,895	-	-	683,895
Loans and advances to customers:				
- Corporate loans	16,198,622	-	-	16,198,622
- Loans to individuals	203,546	-	-	203,546
Investment securities available for sale	-	2,008,325	-	2,008,325
Other financial assets:				
- Finance lease receivables	58,518	-	-	58,518
- Foreign exchange forward contracts	-	-	-	-
- Other financial assets	22,279	-	-	22,279
TOTAL FINANCIAL ASSETS	**26,759,973**	**2,008,325**	**-**	**28,768,298**
NON-FINANCIAL ASSETS	947,951	-	-	947,951
TOTAL ASSETS	**27,707,924**	**2,008,325**	**-**	**29,716,249**

All of the Bank's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

32 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories at 31 December 2007.

In thousands of Tenge	Loans and receivables	Available-for-sale assets	Assets designated at FVTPL	Total
ASSETS				
Cash and cash equivalents	5,632,777	-	-	5,632,777
Loans and advances to customers				
- Corporate loans	17,220,646	-	-	17,220,646
- Loans to individuals	292,819	-	-	292,819
Investment securities available for sale	-	569,106	-	569,106
Other financial assets:				
- Trade receivables	2,454	-	-	2,454
- Finance lease receivables	133,840	-	-	133,840
- Foreign exchange forward contracts	-	-	80,807	80,807
- Other financial assets	22,230	-	-	22,230
TOTAL FINANCIAL ASSETS	**23,304,766**	**569,106**	**80,807**	**23,954,679**
NON-FINANCIAL ASSETS	1,256,346	-	-	1,256,346
TOTAL ASSETS	**24,561,112**	**569,106**	**80,807**	**25,211,025**

33 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2008 and 2007, the outstanding balances with related parties were as follows:

(in thousands of Tenge)	Note	31 December 2008 Share-holder	31 December 2008 Members of the Board	31 December 2007 Share-holder	31 December 2007 Members of the Board
Cash and cash equivalents (contractual interest rate: 2008: 2%; 2007: 2%)		86,941	-	33,098	-
Due from other banks	8	683,895	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2008: 13%; 2007: 11%)		-	-	-	19,704
Provision for loan impairment		-	-	-	-
Due to other banks		7,172	-	215	-
Customer accounts (contractual interest rate: 2008: 6.5-11% , 2007: 6.5-9%)		-	21,893	-	24,556

33 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2008 and 2007 were as follows:

(in thousands of Tenge)	2008 Share-holder	2008 Members of the Board	2007 Share-holder	2007 Members of the Board
Interest income	1,038	1,183	3,086	2,037
Interest expense	-	(656)	-	(1,070)
(Recovery)/provision for loan impairment during the year	-	-	-	(1,892)
Commission income	-	67	-	163

At 31 December 2008 and 2007 the Bank had no other rights and obligations in respect of related parties except guarantees issued and accepted from members of the Board:

(in thousands of Tenge)	31 December 2008	31 December 2007
Guarantees received by the Bank at the year end	13,703	48,662
Guarantees issued by the Bank at the year end	12,082	3,609

Aggregate amounts lent to and repaid by related parties during 2008 and 2007 were:

(in thousands of Tenge)	2008 Members of the Board	2007 Members of the Board
Amounts lent to related parties during the period	23,599	25,512
Amounts repaid by related parties during the period	43,303	43,937

The Bank's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

In 2008, the remuneration of members of the Board comprised salaries, discretionary bonuses and other short-term benefits totalling to Tenge 224,168 thousand (2007: Tenge 159,697 thousand).

34 Subsequent Events

Devaluation of Tenge took place on 4 February 2009. The exchange rate jumped from USD 1 = Tenge 122.32 to USD 1 = Tenge 143.98. Currency risk is disclosed in Note 27.

Management expects quality of portfolio to worsen as a result of current market situation. Additional provision was booked in the amount of Tenge 785,070 thousand on 26 February 2009.

No other significant subsequent events have taken place from the balance sheet date up until 18 March 2009.