JSC Bank TuranAlem and subsidiaries

Consolidated Financial Statements

Years ended December 31, 2007 and 2006 together
with Independent Auditors' Report

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ERNST & YOUNG

Ernst & Young LLP
Furmanov Street, 240 G
Almaty, 050059, Kazakhstan
Tel.: 7 (327) 258-5960
Fax: 7 (327) 258-5961
www.ey.com/kazakhstan

ТОО «Эрнст энд Янг»
Казахстан, 050059 Алматы
ул. Фурманова, 240 Г
Тел.: 7 (327) 258-5960
Факс: 7 (327) 258-5961

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Bank TuranAlem

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

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

Ernst & Young LLP

March 26, 2007

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31,

(Millions of Kazakhstani tenge)

	Notes	2007	2006	2005
Assets				
Cash and cash equivalents	6	**99,723**	193,640	119,131
Obligatory reserves	7	**168,242**	125,573	10,791
Financial assets at fair value through profit or loss	8	**112,175**	221,534	110,252
Amounts due from credit institutions	9	**107,589**	87,452	23,676
Derivative financial assets	10	**31,397**	3,457	–
Available-for-sale investment securities	11	**26,422**	49,723	42,406
Loans to customers	12	**2,379,810**	1,343,414	680,385
Investments in associates	13	**67,767**	5,996	2,205
Property and equipment		**13,433**	7,480	1,940
Goodwill	14	**37,557**	22,849	26
Current income tax asset		**–**	890	–
Deferred tax assets	16	**683**	–	–
Other assets		**19,819**	13,134	6,993
Total assets		**3,064,617**	2,075,142	997,805
Liabilities				
Amounts due to the Government and the NBK	17	**913**	706	844
Amounts due to credit institutions	18	**835,304**	625,146	293,047
Derivative financial liabilities	10	**5,528**	34	128
Amounts due to customers	19	**652,508**	528,192	306,714
Debt securities issued	20	**1,084,445**	707,098	300,009
Deferred tax liability	16	**–**	1,105	–
Other liabilities		**33,888**	18,243	9,955
Total liabilities		**2,612,586**	1,880,524	910,697
Equity	21			
Issued capital:				
-common shares		**303,427**	116,451	49,614
-preferred shares		**–**	–	5,834
Treasury shares		**(555)**	(2,840)	(281)
Securities revaluation reserve		**(195)**	335	492
Foreign currency translation reserve		**104**	(45)	–
Property and equipment revaluation reserve		**–**	–	18
Retained earnings		**129,938**	68,584	30,213
Equity attributable to shareholders of the parent		**432,719**	182,485	85,890
Minority interest		**19,312**	12,133	1,218
Total equity		**452,031**	194,618	87,108
Total liabilities and equity		**3,064,617**	2,075,142	997,805

Signed and authorized for release on behalf of the Management Board of the Bank

Roman V. Solodchenko Chairman of the Board

Saule S. Yusupova Chief Accountant

March 26, 2008

The accompanying notes on pages 7 to 65are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,

(Millions of Kazakhstani tenge)

	Notes	2007	2006	2005
Interest income				
Loans		**291,724**	116,368	69,789
Securities		**14,587**	9,470	6,524
Deposits with other banks		**17,137**	6,851	1,973
		323,448	132,689	78,286
Interest expense				
Debt securities issued		**(85,683)**	(36,954)	(20,969)
Deposits from customers		**(39,935)**	(20,080)	(13,575)
Deposits and loans from credit institutions		**(53,661)**	(24,191)	(11,155)
		(179,279)	(81,225)	(45,699)
Net interest income before impairment		**144,169**	51,464	32,587
Impairment charge	9,12	**(67,810)**	(33,195)	(15,359)
Net interest income		**76,359**	18,269	17,228
Fee and commission income	23	**28,489**	25,106	12,943
Fee and commission expense	23	**(1,057)**	(629)	(489)
Fees and commissions	23	**27,432**	24,477	12,454
Net trading income	24	**2,503**	16,584	2,889
Gains less losses from foreign currencies:				
- dealing		**2,512**	5,323	2,103
- translation differences		**19,884**	6,888	(1,183)
Income from insurance operations		**12,539**	6,219	5,262
Expense from insurance operations		**(9,222)**	(6,356)	(4,723)
Share of income of associates	2	**4,234**	2,364	7
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		**–**	1,136	–
Other (loss)/income		**(62)**	(171)	1,132
Non interest income		**32,388**	31,987	5,487
Salaries and other employee benefits	25	**(25,744)**	(11,320)	(6,930)
Administrative and other operating expenses	25	**(23,400)**	(14,174)	(7,083)
Depreciation and amortisation		**(2,314)**	(900)	(892)
Taxes other than income tax		**(3,469)**	(1,520)	(1,051)
Loss on disposal of subsidiaries		**(249)**	(19)	(850)
Other provisions	15	**(4,705)**	(2,566)	(1,642)
Obligatory insurance of individuals' deposits		**(1,761)**	(604)	(446)
Non interest expense		**(61,642)**	(31,103)	(18,894)
Income before income tax expense		**74,537**	43,630	16,275
Income tax expense	16	**(9,832)**	(4,552)	(1,569)
Net income after income tax		**64,705**	39,078	14,706
Attributable to:				
Equity holders of the parent		**61,354**	38,498	14,307
Minority interest in net income		**3,351**	580	399
Net income		**64,705**	39,078	14,706
Basic earnings per share (in Kazakhstani Tenge)	26	**8,143**	8,640	5,238
Diluted earnings per share (in Kazakhstani Tenge)	26	**8,143**	8,360	4,866

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statement

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Millions of Kazakhstani Tenge)

	Issued capital-common shares	Issued capital-preferred shares	Treasury stock	Property and equipment revaluation reserve	Available-for-sale securities revaluation reserve	Retained earnings	Total	Minority interest	Total equity
January 1, 2005	27,714	1,460	(449)	2,054	375	14,099	45,253	1,667	46,920
Fair value change of available-for-sale securities, net of tax	–	–	–	–	535	–	535	–	535
Realised fair value change of available-for-sale securities	–	–	–	–	(418)	–	(418)	–	(418)
Release of property and equipment revaluation reserve on usage of previously revalued assets	–	–	–	(133)	–	133	–	–	–
Release of property and equipment revaluation reserve on disposal of previously revalued assets	–	–	–	(1,903)	–	1,903	–	–	–
Total income recognized directly in equity	–	–	–	(2,036)	117	2,036	117	–	117
Net income	–	–	–	–	–	14,307	14,307	399	14,706
Total income	–	–	–	(2,036)	117	16,343	14,424	399	14,823
Issue of common shares	21,900	–	–	–	–	–	21,900	–	21,900
Issue of preferred shares	–	4,374	–	–	–	–	4,374	–	4,374
Purchase of treasury shares	–	–	466	–	–	–	466	–	466
Issue of treasury shares	–	–	(298)	–	–	–	(298)	–	(298)
Dividends – preferred shares	–	–	–	–	–	(229)	(229)	(20)	(249)
Minority interest on acquisition	–	–	–	–	–	–	–	762	762
Minority interest on disposal	–	–	–	–	–	–	–	(1,590)	(1,590)
December 31, 2005	49,614	5,834	(281)	18	492	30,213	85,890	1,218	87,108

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (continued)

(Millions of Kazakhstani Tenge)

	Issued capital-common shares	*Issued capital-preferred shares*	*Treasury shares*	*Property and equipment revaluation reserve*	*Available-for-sale investment securities revaluation reserve*	*Foreign currency translation reserve*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*
January 1, 2006	49,614	5,834	(281)	18	492	–	30,213	85,890	1,218	87,108
Fair value change of available-for-sale securities, net of tax	–	–	–	–	(157)	–	–	(157)	10	(147)
Release of property and equipment revaluation reserve on usage of previously revalued assets	–	–	–	(18)	–	–	18	–	–	–
Foreign currency translation	–	–	–	–	–	(45)	–	(45)	–	(45)
Total loss recognized directly in equity	–	–	–	(18)	(157)	(45)	18	(202)	10	(192)
Net income	–	–	–	–	–	–	38,498	38,498	580	39,078
Total income	–	–	–	(18)	(157)	(45)	38,516	38,296	590	38,886
Issue of common shares	50,184	–	–	–	–	–	–	50,184	–	50,184
Issue of preferred shares	–	5,238	–	–	–	–	–	5,238	–	5,238
Purchase of treasury shares	–	–	(3,755)	–	–	–	–	(3,755)	–	(3,755)
Issue of treasury shares	–	–	1,196	–	–	–	–	1,196	–	1,196
Dividends – preferred shares	–	–	–	–	–	–	(145)	(145)	–	(145)
Conversion of preferred shares into common shares:						–				
-Previously classified as equity	11,072	(11,072)	–	–	–	–	–	–	–	–
-Previously classified as liability	5,581	–	–	–	–	–	–	5,581	–	5,581
Minority interest on acquisition	–	–	–	–	–	–	–	–	11,079	11,079
Minority interest on disposal	–	–	–	–	–	–	–	–	(754)	(754)
December 31, 2006	116,451	–	(2,840)	–	335	(45)	68,584	182,485	12,133	194,618

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statement

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (continued)

(Millions of Kazakhstani Tenge)

	Issued capital-common shares	*Treasury shares*	*Available-for-sale investment securities revaluation reserve*	*Foreign currency translation reserve*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*
January 1, 2007	116,451	(2,840)	335	(45)	68,584	182,485	12,133	194,618
Fair value change of available-for-sale securities, net of tax	–	–	56	–	–	56	48	104
Amortization of revaluation loss on available-for-sale securities reclassified to held-to-maturity securities (unaudited)	–	–	106	–	–	106	–	106
Release of available-for-sale securities revaluation reserve on disposal of previously revalued assets (unaudited)	–	–	(692)	–	–	(692)	–	(692)
Foreign currency translation	–	–	–	149	–	149	–	149
Total income (loss) recognized directly in equity	–	–	(530)	149	–	(381)	48	(333)
Net income	–	–	–	–	61,354	61,354	3,351	64,705
Total income	–	–	(530)	149	61,354	60,973	3,399	64,372
Issue of common shares	186,976	–	–	–	–	186,976	–	186,976
Purchase of treasury shares	–	(3,645)	–	–	–	(3,645)	–	(3,645)
Issue of treasury shares	–	5,930	–	–	–	5,930	–	5,930
Contribution to subsidiaries							8,515	8,515
Minority interest on acquisition	–	–	–	–	–	–	988	988
Minority interest on disposal	–	–	–	–	–	–	(5,723)	(5,723)
December 31, 2007	303,427	(555)	(195)	104	129,938	432,719	19,312	452,031

The accompanying notes on pages 7 to 65are an integral part of these consolidated financial statement

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,

(Millions of Kazakhstani Tenge)

	Notes	2007	2006	2005
Cash flows from operating activities:				
Interest received		**250,757**	111,570	53,805
Interest paid		**(164,573)**	(69,726)	(39,405)
Income received from trading in foreign currencies		**2,512**	5,322	1,977
Fee and commission received		**28,074**	23,924	12,497
Fee and commission paid		**(538)**	(831)	(486)
Cash paid for insurance operations		**(2,139)**	(1,466)	(1,344)
Cash received from insurance operations		**9,333**	4,829	4,376
Cash paid to employees		**(19,681)**	(7,723)	(5,798)
Recovery of loans previously written-off	9,12	**5,822**	1,906	3,582
Cash paid for obligatory deposits insurance		**(1,761)**	(604)	(446)
Operating expenses paid		**(28,849)**	(17,965)	(6,901)
Cash flows provided by operating activities before changes in operating assets and liabilities		**78,957**	49,236	21,857
Net cash increase/decrease from operating assets and liabilities				
Net increase in obligatory reserves		**(38,751)**	(101,311)	(3,820)
Net increase in financial assets at fair value at profit or loss		**109,168**	(82,117)	(2,593)
Net increase in due from credit institutions		**(19,471)**	(48,534)	(17,910)
Net increase in loans to customers		**(1,083,061)**	(541,937)	(263,486)
Net increase in other assets, including prepaid taxes		**(7,033)**	(4,050)	(1,157)
Net decrease in due to government		**44**	(898)	(3,578)
Net increase in due to credit institutions		**226,124**	297,708	152,693
Net increase in due to customers		**128,468**	188,328	70,558
Income tax paid		**(11,756)**	(5,157)	(1,300)
Net (decrease)/ increase in other liabilities		**4,815**	(12,289)	(5,936)
Net cash used in operating activities		**(612,496)**	(261,021)	(54,672)
Cash flows from investing activities				
Acquisition of investment securities available-for-sale		**20,456**	(828)	(17,275)
Acquisition/disposal of subsidiaries		**(20,344)**	(31,259)	1,944
Investment in associates		**(57,537)**	(1,896)	(3,742)
Acquisition of property and equipment		**(14,774)**	(6,687)	(5,487)
Proceeds from disposal of property and equipment		**6,615**	2,323	4,505
Net cash used in investing activities		**(65,584)**	(38,347)	(20,055)
Cash flows from financing activities				
Net proceeds from debt securities issued		**384,933**	323,371	115,573
Dividends paid		**–**	(26)	(229)
Proceeds from sale of common shares		**186,977**	50,184	21,900
Proceeds from sale of preferred shares		**–**	5,238	4,374
Contribution to subsidiaries by minorities		**8,515**	–	–
Purchase of treasury shares		**2,285**	(3,755)	(298)
Proceeds from sale of treasury shares		**–**	1,196	466
Net cash from financing activities		**582,710**	376,208	141,786
Effect of exchange rate changes on cash and cash equivalents		**1,453**	(2,331)	332
Net increase in cash and cash equivalents		**(93,917)**	74,509	67,391
Cash and cash equivalents at beginning of the year		**193,640**	119,131	51,740
Cash and cash equivalents at the end of the year	6	**99,723**	193,640	119,131
Non-cash transactions:				
Conversion of preferred shares into common shares:				
-Previously classified as equity		**–**	5,655	–
-Previously classified as liability		**–**	5,581	–
Deconsolidation of subsidiary		**249**	–	–

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

(Millions of Kazakhstani Tenge)

1. Principal activities

JSC Bank TuranAlem and its subsidiaries (together the "Group") provide retail and corporate banking services, insurance services, leasing and other financial services in Kazakhstan and Russian Federation. The parent company of the Group is joint stock company Bank TuranAlem (the "Bank"). The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 2 lists the Bank's subsidiaries.

The address of the Bank's registered office is: 97 Zholdasbekov Street, Samal-2, Almaty, 050051, Republic of Kazakhstan.

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. In addition, the Group is authorized to accept pension fund deposits. The Bank has a primary listing in the Kazakhstani Stock Exchange ("KASE"). Certain of the Group's debt securities are listed on the Luxemburg Stock Exchange and London Stock Exchange with a secondary listing on the KASE. Its head office is located in Almaty, Kazakhstan. At December 31, 2007, it had 22 regional branches and 289 cash settlement units (2006 – 22 regional branches and 213 cash settlement units, 2005 - 22 regional branches and 197 cash settlement units) located throughout Kazakhstan and representative offices in Shanghai, China; Moscow, Russia; Kiev, Ukraine; and Dubai, United Arab Emirates.

As at December 31, 2007, members of the Board of Directors and Management Board owned 79,897 shares (0.95% of issued capital) (2006 – 63,133 shares or 1.18 %, 2005 – 889 shares or 0.03%). For the list of major shareholders refer to Note 21.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect.

General

These financial statements are presented in millions of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Group's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group. Significant foreign currency positions are maintained as they are necessary to meet customers' requirements, manage foreign currency risks and achieve a proper assets and liabilities structure for the Group's balance sheet. Transactions in other currencies are treated as transactions in foreign currencies.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of available for sale investment securities, financial assets at fair value through profit or loss and derivative contracts as required by IAS 39 "Financial Instruments: Recognition and Measurement" and estimated market value accounting for buildings, included in property and equipment as allowed by IAS 16 "Property, Plant and Equipment".

Reclassifications

The following reclassifications have been made to 2006 balances to conform to the 2007 presentation:

December 31, 2006

	As previously reported	*Reclassification*	*As reported herein*	*Comment*
Balance sheet:				
Derivative financial assets	–	3,457	3,457	Reclassification of the SWAP and forward agreements to derivative financial assets and liabilities from other assets and liabilities.
Other assets	16,591	(3,457)	13,134	
Derivative financial liabilities	–	34	34	
Other liabilities	18,277	(34)	18,243	

December 31, 2005

	As previously reported	*Reclassification*	*As reported herein*	*Comment*
Balance sheet:				
Derivative financial liabilities	–	128	128	Reclassification of the SWAP and forward agreements to derivative financial liabilities from other liabilities.
Other liabilities	10,083	(128)	9,955	

(Millions of Kazakhstani Tenge)

2. Basis of preparation (continued)

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regards to those financial statements relate to the allowances for impairment of assets, reserves for insurance claims, income taxes, fair values of securities and properties, and other provisions. These estimates are based on information available as at the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates.

Consolidated subsidiaries

The consolidated financial statements include the following subsidiaries:

	Holding,% December 31						
Subsidiary	*2007*	*2006*	*2005*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Subsidiary of JSC BTA TuranAlem Securities	**100.00%**	100.00%	100.00%	Kazakhstan	17.10.97	Securities trading and asset management	13.12.97
JSC Subsidiary of JSC BTA Accumulative Pension Fund BTA Kazakhstan	**76.83%**	76.83%	76.83%	Kazakhstan	11.12.97	Pension fund	16.09.98
JSC BTA Ipoteka Subsidiary Mortgage company of JSC BTA	**100.00%**	100.00%	100.00%	Kazakhstan	20.11.00	Consumer mortgage lending	20.11.00
JSC Subsidiary Life Insurance company of BTA JSC BTA Zhizn	**100.00%**	100.00%	66.00%	Kazakhstan	22.07.99	Life and annuity insurance	30.03.01
JSC Subsidiary insurance company of BTA JSC BTA Zabota	**98.17%**	98.17%	57.53%	Kazakhstan	10.09.96	Health insurance	04.04.01
TuranAlem Finance B.V. LLP	**100.00%**	100.00%	100.00%	Netherlands	22.05.01	Capital markets	22.05.01
LLP Subsidiary of BTA JSC TuranAlem Finance	**100.00%**	100.00%	100.00%	Russia	22.06.04	Capital markets	28.09.04
JSC Subsidiary of JSC BTA Insurance Company London-Almaty	**99.40%**	99.40%	77.21%	Kazakhstan	20.11.97	Property and Liability insurance	5.08.04
BTA Finance Luxembourg S.A.	**86.11%**	86.11%	–	Luxemburg	05.01.06	Capital markets	06.03.06
BTA Insurance JSC Subsidiary company of JSC BTA	**100.00%**	100.00%	–	Kazakhstan	08.09.98	Property and Liability insurance	21.12.06
JSC Subsidiary of JSC BTA TemirBank	**64.32%**	50.80%	–	Kazakhstan	26.03.92	Bank activities	29.12.06
TemirCapital B.V.	**100.00%**	100.00%	–	Netherlands	29.05.01	Operations on capital markets	29.12.06
LLP BTA Finance (subsidiary of BTA JSC)	**–**	100.00%	–	Russia	27.11.06	Operations on capital markets	27.11.06
LLP BTA Capital (subsidiary of BTA JSC)	**–**	100.00%	–	Russia	27.11.06	Operations on capital markets	27.11.06
First Broker House JSC	**–**	100.00%	–	Kazakhstan	07.04.04	Brokerage services, assets management	29.12.06
LLP Force Technology Subsidiary of BTA JSC	**–**	–	–	Kazakhstan	09.04.02	IT services	–
First Kazakh Securitization Company	**–**	–	–	Netherlands	08.12.05	Securitization of financial assets	–
Second Kazakh Securitization Company	**–**	–	–	Netherlands	25.09.07	Securitization of financial assets	–
BTA DPR Finance Company	**–**	–	–	Cayman Islands	02.09.07	Financial services	02.09.07
CJSC Ineximbank	**71.00%**	–	–	Kyrgyzstan	02.12.96	Bank activities	19.11.07

In February 2007, the Group has sold its 100.00% ownership in First Broker House JSC to a non-related party.

In 2007, the Group increased its ownership in JSC TemirBank from 50.80% to 64.32% for KZT 30,205 million.

LLP Force Technology Subsidiary of BTA JSC was treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiary, because at that date the Group controlled and benefited directly from operations of this entity. During 2007 the Group ceased to exercise effective control over the entity, therefore, the entity has been deconsolidated from the Group's financial statements as of December 31, 2007.

In November 2007, the Group increased its ownership in CJSC Ineximbank from 46.00% to 71.00% for KZT 925 million, which enabled the Group to take over the effective control over the operations of CJSC Ineximbank and to consider it as a subsidiary as of December 31, 2007. CJSC Ineximbank was incorporated as a closed joint stock company and operates in Kyrgyzstan. Refer to Note 5 for the fair value of the identifiable assets and liabilities acquired and goodwill arising at the date of acquisition. Before the Group took over the effective control over the operations of CJSC Ineximbank, it was accounted as an associate under equity method. The Group's share in income of CJSC Ineximbank for 2007 amounted to KZT 151 million.

(Millions of Kazakhstani Tenge)

2. Basis of preparation (continued)

Consolidated subsidiaries (continued)

On January 5, 2006, the Group established 100% owned subsidiary, BTA Finance Luxembourg S.A, incorporated in Luxembourg as a public limited liability company.

On November 27, 2006 the Group established two 100% owned subsidiaries, BTA Finance and BTA Capital, both in Russia as limited liability partnerships (LLP). In October 2007 the Board of Directors made a decision to close LLP BTA Finance (subsidiary of BTA JSC) and LLP BTA Capital (subsidiary of BTA JSC). There were no operations in those subsidiaries starting from the date of incorporation.

Due to change introduced in Kazakh legislation subsidiaries of the Bank are not allowed to have there own subsidiaries. Therefore, on June 30, 2006 JSC TuranAlem Securities (a subsidiary of the Bank) sold 28.21% of its share in JSC Insurance Company London-Almaty ("LAIC") for KZT 415, thereby decreasing its share of ownership to 49.00%. However, on December 20, 2006 the Bank has purchased the 49% shares of LAIC from TuranAlem Securities and additional 50.4% from LAIC's other shareholders, thereby increasing the Group's share in the paid-in issued capital of LAIC up to 99.4%.

On December 21, 2006 the Group increased its share from 49.00% to 100.00% in the paid-in issued capital of BTA Insurance JSC, which enabled the Group to take over the effective control over the operations of BTA Insurance JSC and to consider it as a subsidiary. Previously BTA Insurance JSC was considered as an associate and accounted for under the equity method.

On December 29, 2006 the Group acquired 50.8% of voting shares of JSC Temir Bank, which enabled the Group to take over the effective control over the operations of JSC Temir Bank and to consider it as a subsidiary. JSC Temir Bank is incorporated as a joint stock company and operates in Kazakhstan. As at December 31, 2006 JSC Temir Bank had two 100% owned subsidiaries: TemirCapital B.V. incorporated in the Netherlands as a limited liability company, and JSC First Brokerage House, incorporated in Kazakhstan as a joint stock company. As at December 31, 2006, JSC Temir Bank also owned 43.87% shares in associate JSC Temirleasing, incorporated in Kazakhstan and 46.00% in CJSC Ineximbank, incorporated in Kyrgyzstan. As at December 31, 2006 JSC First Brokerage House manages five operating mutual funds, which total net asset value as at December 31, 2006 amounted to KZT 371.

On June 24, 2005, the Group's share in the paid-in issued capital of JSC BTA ORIX Leasing decreased from 100.00% to 45.00% as a result of disposal of the Group's 55.00% shareholding to other shareholders.

On October 22, 2005, the Group sold 25.00% of its share in the issued capital of LLP TuranAlem Capital to "Kazinvestcapital" and on 10 November 2005, the Group sold additional 65.01% and on 16 May 2006 the remaining 9.99% of the issued capital of this entity was sold to Solent Management Ltd.

Although the Group did not own any shares in First Kazakh Securitisation Company, Second Kazakh Securitisation Company and in BTA DPR Finance Company, as at and for the years ended December 31, 2007 and 2006 they were treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries, because at those dates the Group controlled and benefited directly from operations of these entities.

Associates accounted for under equity method

The following associates are accounted for under the equity method and included into other assets:

2007 *Associates*	*Holding, %*	*Country*	*Activities*	*Share in net income*	*Total assets*	*Total liabilities*	*Equity*
Astanaeximbank CJSC	**49.00%**	**Belorussia**	**Bank**	**50**	**10,707**	**9,263**	**1,444**
BTA Silk Road Bank JSC	**49.00%**	**Georgia**	**Bank**	**243**	**13,330**	**10,679**	**2,651**
BTA InvestBank CJSC	**48.87%**	**Armenia**	**Bank**	**114**	**7,114**	**4,911**	**2,203**
JSCB BTA Kazan OJSC	**47.32%**	**Russia**	**Bank**	**308**	**43,028**	**36,831**	**6,197**
BTA ORIX Leasing JSC	**45.00%**	**Kazakhstan**	**Leasing**	**141**	**7,390**	**5,323**	**2,067**
Temir Leasing JSC	**43.87%**	**Kazakhstan**	**Leasing**	**64**	**7,643**	**3,032**	**4,611**
Sekerbank	**33.98%**	**Turkey**	**Bank**	**3,163**	**626,637**	**537,603**	**89,034**
Oranta NJSIC OJSC	**25.00%**	**Ukraine**	**Insurance Company**	**0**	**15,526**	**6,630**	**8,896**

In December 2007 the Bank acquired 25%+ 1 share ownership in Oranta NJSIC OJSC for KZT 11,943 million.

(Millions of Kazakhstani Tenge)

2. Basis of preparation (continued)

Associates accounted for under equity method (continued)

2006

Associates	***Holding, %***	***Country***	***Activities***	***Share in net income/ (loss)***	***Total assets***	***Total liabilities***	***Equity***
Astanaeximbank CJSC	49.00%	Belorussia	Bank	(14)	6,035	4,915	1,120
BTA Silk Road Bank JSC	49.00%	Georgia	Bank	54	4,680	3,748	932
BTA InvestBank CJSC	48.88%	Armenia	Bank	32	3,343	2,205	1,138
JSCB BTA Kazan OJSC	47.32%	Russia	Bank	47	24,155	18,592	5,563
Ineximbank CJSC	46.00%	Kyrgyzstan	Bank	0	12,095	10,163	1,932
BTA ORIX Leasing JSC	45.00%	Kazakhstan	Leasing	135	5,570	3,820	1,750
Temir Leasing JSC	43.87%	Kazakhstan	Leasing	0	3,734	2,066	1,668

2005

Associates	***Holding, %***	***Country***	***Activities***	***Share in net income/ (loss)***	***Total assets***	***Total liabilities***	***Equity***
Astanaeximbank CJSC	49.20%	Belorussia	Bank	45	3,599	2,536	1,063
Commercial Bank BTA Silk Road JSC	49.00%	Georgia	Bank	(53)	1,635	1,185	450
BTA Insurance JSC	49.00%	Kazakhstan	Insurance	26	2,438	1,554	884
BTA Investbank CJSC	48.87%	Armenia	Bank	(37)	1,575	670	905
BTA ORIX Leasing JSC	45.00%	Kazakhstan	Leasing	26	5,153	3,703	1,450

3. Summary of accounting policies

Changes in accounting policies

During the year, the Group has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Group. The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"

This amendment requires the Group to make new disclosures to enable users of the consolidated financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

New IFRSs and IFRIC interpretations not yet effective

IAS 23 "Borrowing Costs"

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 "Service Concession Arrangements"

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

New IFRSs and IFRIC interpretations not yet effective (continued)

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements as no such schemes currently exist.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intragroup transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated statements of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to goodwill.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statements of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition of financial instruments

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

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statements of income when the investments are impaired, as well as through the amortisation process.

The Group does not classify any financial assets as held-to-maturity if the Group had during the current financial year or during the preceding two financial years sold, transferred or exercised a put option on more than an insignificant portion of held-to-maturity investments before their maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statements of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They include equity instruments and money market and other debt instruments. After initial recognition available-for sale financial investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of income. However, interest calculated using the effective interest method is recognised in the consolidated statements of income.

Determination of fair value

The fair value for financial instruments traded in active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Related parties

Related parties include the Bank's shareholders, key management personnel, close members of the key management personnel, investees and affiliated companies.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from National Bank of Kazakhstan (the "NBK") – excluding obligatory reserves, and due from other financial institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves

Obligatory reserves represent mandatory reserve deposits and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statements.

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as net gains/ (losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as a separate derivative if their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At December 31, 2007, 2006 and 2005, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the consolidated statements of income as gains less losses from financial assets through profit or loss.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

I. Finance – Group as lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

II. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included in administrative and operating expenses.

III. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated balance sheets according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statements of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax authorities of the jurisdictions in which the Group has offices, branches or subsidiaries.

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

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

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

Kazakhstan also has various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Allowances for impairment of financial assets

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statements of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statements of income – is removed from equity and recognised in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in their fair value after impairment are recognised directly in equity.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Allowances for impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statements of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Reference should be made to the accounting policy on "Derecognition of financial assets and liabilities". Interests in the securitised financial assets may be retained by the Group and are primary classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Property and equipment

Property and equipment are stated at the lower of cost less accumulated depreciation and any accumulated impairment for diminution in value.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

	Years
Buildings	40
Furniture and fixtures	4-10
Computers	4
Office equipment	8
Land	–
Construction in process	–

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in other administrative and operating expenses.

Depreciation on assets under construction is charged only when the assets are available for use and transferred into relevant property and equipment categories.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on the derecognition of the asset is included in the consolidated statements of income.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Business combinations and goodwill (continued)

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in goodwill. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

Amounts due to the NBK, other financial institutions and to customers

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the NBK, other financial institutions and to customers and initially recognised at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheets and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

Debt securities issued

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts owed to other financial institutions and to customers.

Provisions

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

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and benefits in consolidated statements of income. The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Issued Capital

Issued capital

Ordinary shares and non-redeemable preference shares convertible into common shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

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

Trust activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Underwriting income (loss)

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheets.

Losses and loss adjustments are charged to the consolidated statements of income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recognised in the income as incurred.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheets within other assets, and are amortized over the period in which the related written premiums are earned.

Underwriting income and loss are included in income from insurance operations and expense from insurance operations, respectively.

Reserve for insurance losses and loss adjustment expenses

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

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in current income.

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated balance sheets within other assets.

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

(Millions of Kazakhstani Tenge)

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Kazakh Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by KASE and reported by the NBK at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statements of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in foreign currency and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at December 31, 2007, 2006 and 2005, were KZT 120.30, KZT 127.00 and KZT 133.98 to USD 1, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into KZT at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated statements of income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Segment reporting

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

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Although the Group did not own any direct shares in the capital of First Kazakh Securitization Company, Second Kazakh Securitization Company and BTA DPR Company for the purposes of these consolidated financial statements, they were treated as subsidiaries, in accordance with SIC-12 "Consolidation – Special Purpose Entities", since the Group controlled and benefited directly from these entities' operations;

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Millions of Kazakhstani Tenge)

4. Significant accounting judgements and estimates (continued)

Judgements (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was KZT 37,557 million (2006- KZT 22,849 million, 2005- KZT 26 million). More details are provided in Note 14.

Taxation

Kazakh tax, currency 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 Group may be challenged by the relevant regional and state authorities. As such, 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 preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of IBNR claims at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are made to the provision. General insurance claims provisions are not discounted for the time value of money.

(Millions of Kazakhstani Tenge)

5. Business combination

On December 31, 2007 the Group completed its acquisition of 71.0% of voting shares in CJSC IneximBank, following the approval from Kazakh regulatory authorities. The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

	Fair value recognised on acquisition 2007							
	5-Jun-03	***28-Jul-03***	***6-Jan-04***	***24-Mar-04***	***30-Dec-05***	***2-Oct-07***	***15-Nov-07***	***Total***
Cash and cash equivalents	21	63	58	5	78	184	370	779
Obligatory reserves	6	19	11	3	181	116	542	878
Investment securities	–	–	–	4	46	51	117	218
Due from credit institutions	31	4	30	14	803	252	151	1,285
Loans to customers	111	225	114	38	1,112	1,517	3,043	6,160
Property, plant and equipment	11	19	10	3	114	141	314	612
Other assets	7	17	4	2	37	98	156	321
Total assets	**187**	**347**	**227**	**69**	**2,371**	**2,359**	**4,693**	**10,253**
Amounts due to Government and NBK	21	34	13	3	35	36	79	221
Amounts due to credit institutions	53	91	42	7	257	684	1,115	2,249
Due to customers	62	18	121	38	1,585	1,170	2,513	5,507
Income tax payable	–	–	–	–	2	3	5	10
Other liabilities	3	5	3	8	8	145	104	276
Total liabilities	**139**	**148**	**179**	**56**	**1,887**	**2,038**	**3,816**	**8,263**
Fair value of net assets	48	199	48	13	484	321	877	1,990
Goodwill	58	22	26	7	–	–	48	161
Cost of acquisition	106	221	74	20	484	321	925	2,151
Cash received from acquisition	21	63	58	5	78	184	370	779
Cash paid	(106)	(221)	(74)	(20)	(484)	(321)	(925)	(2,151)
Net cash paid	**(85)**	**(158)**	**(16)**	**(15)**	**(406)**	**(137)**	**(555)**	**(1,372)**

The carrying balances of assets and liabilities at each date of share acquisition approximated their fair values.

If the combination had taken place at the beginning of the year, the total net operating income for the year for the Group would have been KZT 112,188 million higher at KZT 420 million and the total profit for the year would have been KZT 64,783 million higher at KZT 80 million.

(Millions of Kazakhstani Tenge)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2007	*2006*	*2005*
Time deposits with contractual maturity of 90 days or less	**40,602**	73,354	41,802
Cash on hand	**12,826**	32,256	17,657
Reverse repurchase agreements with contractual maturity of 90 days or less	**16,479**	55,488	14,345
Current accounts with other financial institutions	**29,816**	20,709	23,421
Current accounts with the NBK	**–**	6,829	7,906
Time deposits with the NBK	**–**	5,004	14,000
Cash and cash equivalents	**99,723**	193,640	119,131

Interest rates on time deposits, reverse repurchase agreements and loans are as follows:

	2007	*2006*	*2005*
	Interest rate	*Interest rate*	*Interest rate*
Time deposits with contractual maturity of less than 90 days	**1.5%-11.5%**	1.5%-10.0%	1.0%-11.0%
Reverse repurchase agreements with contractual maturity of 90 days or less	**5.0%-16.0%**	1.5%-9.0%	3.0%-9.0%
Time deposits with the NBK	**–**	4.5%	3.5%

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements was mainly treasury bills of the Ministry of Finance and notes of NBK.

At December 31, 2007, top ten balances with banks accounted for 54.24% of total cash and cash equivalents and represented 11.99% of the Group's total equity (2006 – ten banks accounted for 43.52% of total cash and cash equivalents and represented 43.30% of the Group's total equity; 2005 – ten banks accounted for 59.74% of total cash and cash equivalents and represented 81.70% of the Group's total equity).

7. Obligatory reserves

Obligatory reserves comprise:

	2007	*2006*	*2005*
Due from the NBK	**139,366**	125,573	10,791
Cash on hand allocated to obligatory reserves	**28,876**	–	–
Obligatory reserves	**168,242**	125,573	10,791

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Historically, such reserves were held in either non-interest bearing deposits with the NBK or in physical cash or held on current accounts and maintained based on average monthly balances of the aggregate of deposits with the NBK and physical cash. The use of such funds is, therefore subject to certain restrictions.

During 2006 the NBK changed its reserve requirements, which resulted in significant increase in obligatory reserves balances as at December 31, 2007 and 2006.

8. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2007	*2006*	*2005*
Debt securities:			
Corporate bonds	**46,241**	56,251	2,439
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**19,156**	15,014	8,165
Bonds of Kazakhstan financial agencies	**6,881**	6,406	798
Sovereign bonds of OECD countries	**6,694**	5,255	23,875
Notes of the NBK	**3,707**	69,967	6,772
Municipal bonds	**264**	342	708
Bonds of international financial organizations	**76**	32,241	52,095
Treasury bills of the Ministry of Finance of Russian Federation	**3**	3	–
Bonds of public agencies	**–**	9,539	10,092
Sovereign bonds of the Republic of Kazakhstan	**–**	5,318	2,891
	83,022	200,336	107,835
Equity securities	**29,100**	21,145	2,417
Mutual funds shares	**53**	53	–
Financial assets at fair value through profit or loss	**112,175**	221,534	110,252
Subject to repurchase agreements	**60,129**	104,321	48,823

(Millions of Kazakhstani Tenge)

8. Financial assets at fair value through profit or loss (continued)

Interest rates and maturity of debt securities follow:

	2007		*2006*		*2005*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate bonds	**7.0%-8.9%**	**2009-2015**	5.0%-12.0%	2007-2036	2.4%-9.0%	2006-2020
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**5.5%-6.4%**	**2008-2010**	4.1%-8.3%	2007-2011	5.5%-8.3%	2006-2014
Bonds of Kazakhstan financial agencies	**6.0%-12.2%**	**2013-2026**	6.0%-10.0%	2007-2026	6.5%-8.5%	2007-2020
Sovereign bonds of OECD countries	**4.0%**	**2037**	4.8%-5.3%	2008-2012	2.5%-6.0%	2006-2009
Notes of the NBK	**7.3%**	**2008**	4.6%-5.9%	2007	2.3%-3.1%	2006
Municipal bonds	**8.5%**	**2008**	8.5%	2007-2008	8.5-8.6%	2006-2008
Bonds of international financial organizations	**4.4%-5.5%**	**2012-2013**	2.4%-6.1%	2007-2013	2.4%-6.1%	2006-2013
Treasury bills of the Ministry of Finance of Russian Federation	**7.5%**	**2030**	5.0%	2030	–	–
Bonds of public agencies	**–**	**–**	3.9%-4.9%	2007-2009	3.9%-4.9%	2007-2009
Sovereign bonds of the Republic of Kazakhstan	**–**	**–**	11.1%	2007	11.1%	2007

9. Amounts due from credit institutions

Amounts due from credit institutions as at December 31, comprise:

	2007	*2006*	*2005*
Loans	**88,221**	73,877	17,283
Deposits	**19,491**	13,655	6,393
	107,712	87,532	23,676
Less – Allowance for impairment	**(123)**	(80)	–
Amounts due from credit institutions	**107,589**	87,452	23,676

As at December 31, 2007, amounts due from ten largest credit institutions comprised 58.87% of total amounts due from credit institutions (December 31, 2006 – ten largest comprised 56%; December 31, 2005 – ten largest comprised 94%).

Interest rates and maturities of amounts due from credit institutions follow:

	2007		*2006*		*2005*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Loans	**7.0%-14.0%**	**2008-2026**	1.5%-14.0%	2007-2014	2.9%-14.0%	2006-2014
Deposits	**6.2%-14.0%**	**2008-2010**	9.0%-15.6%	On demand - 2008	9.5%-12.0%	On demand-2006

(Millions of Kazakhstani Tenge)

9. Amounts due from credit institutions (continued)

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2007	*2006*	*2005*
January 1	**80**	–	527
Impairment charge	**396**	31	–
Write-offs	**(355)**	–	(527)
Amounts arising on business combination	**2**	49	–
December 31	**123**	80	–

10. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31 and are indicative of neither the market risk nor the credit risk.

	2007			*2006*			*2005*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*		*Asset*	*Liability*
Currency swaps	**1,892,120**	**22,004**	**1,501**	144,003	3,405	–	–	–	–
Forwards and futures	**153,997**	**6,391**	**247**	8,261	3	34	1,870	–	10
Interest rate swaps	**90,908**	**2,739**	**3,780**	41,148	49	–	28,359	–	118
Options	**5,177**	**263**	–	–	–	–	–	–	–
Total derivative assets/liabilities		**31,397**	**5,528**		3,457	34		–	128

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

11. Available-for-sale investment securities

Available-for-sale investment securities as at December 31, comprise:

	2007	*2006*	*2005*
Corporate bonds	**14,179**	6,731	549
Sovereign bonds of OECD countries	**3,697**	7,395	1,316
Notes of the National Bank of Kyrgyzstan	**1,390**	–	–
Notes of the NBK	**1,165**	–	423
Treasury bills of the Ministry of Finance of Kyrgyzstan	**410**	–	–
Bonds of Kazakhstan financial agencies	**24**	29	–
Bonds of international financial organizations	**–**	29,515	34,292
Bonds of public agencies	**–**	3,218	3,407
Sovereign bonds of the Republic of Kazakhstan	**–**	664	734
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**–**	–	44
	20,865	47,552	40,765
Equity securities	**5,557**	2,171	1,641
Available-for-sale investment securities	**26,422**	49,723	42,406

(Millions of Kazakhstani Tenge)

11. Available-for-sale investment securities (continued)

Interest rates and maturities of debt securities are:

	2007		*2006*		*2005*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate bonds	**8.5%-16.0%**	**2008-2015**	8.0%-15.5%	2007-2015	2.4%-4.9%	2007-2009
Sovereign bonds of OECD countries	**5.3%-6.0%**	**2008-2009**	2.5%-6.0%	2007-2012	5.3%	2009
Notes of the NB of Kyrgyzstan	**8.2%-9.2%**	**2008**	–	–	–	–
Notes of the NBK	**7.3%**	**2008**	–	–	2.3%-3.1%	2006
Treasury bills of the Ministry of Finance of the Kyrgyzstan	**5.7%-14.6%**	**2008-2009**	–	–	–	–
Bonds of Kazakhstan financial agencies	**12.2%**	**2014**	8.8%	2014	–	–
Bonds of international financial organizations	**–**	**–**	2.4%-6.1%	2007-2013	3.8%-6.1%	2007-2013
Bonds of public agencies	**–**	**–**	4.9%	2007	4.9%	2007
Sovereign bonds of the Republic of Kazakhstan	**–**	**–**	11.1%	2007	11.1%	2007
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**–**	**–**	–	–	5.5%-8.3%	2006-2014

12. Loans to customers

Loans to customers comprise:

	2007	*2006*	*2005*
Corporate lending	**1,669,648**	862,199	498,028
Small and medium business lending	**300,325**	177,505	102,506
Individuals lending	**546,880**	373,900	120,162
Gross loans to customers	**2,516,853**	1,413,604	720,696
Less – Allowance for impairment	**(137,043)**	(70,190)	(40,311)
Loans to customers	**2,379,810**	1,343,414	680,385

As at December 31, 2007, the annual interest rates charged by the Group ranged from 12% to 19% per annum for KZT-denominated loans (2006 – from 10% to 16%; 2005 – from 10% to 20%) and from 12% to 20% per annum for US Dollar-denominated loans (2006 – from 9% to 14%; 2005 – from 10% to 18%).

Gross loans have been extended to the following types of customers:

	2007	*2006*	*2005*
Private companies	**1,963,281**	1,032,272	598,525
Individuals	**546,880**	373,900	120,162
State companies	**6,609**	7,383	1,908
Other	**83**	49	101
Loans to customers, gross	**2,516,853**	1,413,604	720,696

(Millions of Kazakhstani Tenge)

12. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2007	*Small and medium business lending 2007*	*Individuals lending 2007*	*Total 2007*
At 1 January 2007	**60,759**	**8,336**	**1,095**	**70,190**
Charge for the year	**51,913**	**13,746**	**1,755**	**67,414**
Amounts written off	**(4,339)**	**(1,073)**	**(1,124)**	**(6,536)**
Recoveries	**3,068**	**2,108**	**547**	**5,723**
Amounts arising from business combination	**101**	**114**	**37**	**252**
At 31 December 2007	**111,502**	**23,231**	**2,310**	**137,043**
Individual impairment	**56,335**	**4,248**	**–**	**60,582**
Collective impairment	**55,167**	**18,983**	**2,310**	**76,461**
	111,502	**23,231**	**2,310**	**137,043**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**264,893**	**18,868**	**–**	**283,761**

	Corporate lending 2006	*Small and medium business lending 2006*	*Individuals lending 2006*	*Total 2006*
At 1 January 2006	36,495	2,920	896	40,311
Charge for the year	27,572	4,669	923	33,164
Amounts written off	(5,774)	(2,812)	(756)	(9,342)
Recoveries	1,213	360	32	1,605
Amounts arising from business combination	1,253	3,199	–	4,452
At 31 December 2006	60,759	8,336	1,095	70,190
Individual impairment	39,197	–	–	39,197
Collective impairment	21,562	8,336	1,095	30,993
	60,759	8,336	1,095	70,190
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	344,660	–	–	344,660

	Corporate lending 2005	*Small and medium business lending 2005*	*Individuals lending 2005*	*Total 2005*
At 1 January 2005	27,208	1,939	486	29,633
Charge for the year	13,421	1,279	659	15,359
Amounts written off	(5,964)	(1,456)	(734)	(8,154)
Recoveries	1,830	1,158	485	3,473

(Millions of Kazakhstani Tenge)				
At 31 December 2005	36,495	2,920	896	40,311
Individual impairment	36,495	2,920	896	40,311
Collective impairment	–	–	–	–
	36,495	2,920	896	40,311
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	275,654	10,831	2,584	289,069

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12. Loans to customers (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at December 31, 2007, comprised KZT 20,073 million (2006- KZT 15,594 million, 2005- KZT 9,007 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2007 amounts to KZT 604,772 million (2006- KZT 570,690 million, 2005- KZT 529,673 million). In accordance with the NBK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the year, the Group took possession of collateral with an estimated value of KZT 503 million, which the Group is in the process of selling. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Derecognition of a loan portfolio

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any default loan. The Group has determined that, as a result of this transaction, not substantially all the risks and rewards of the portfolio have been transferred to KMC. Therefore, the Group continues to recognise these loans as an asset on its consolidated balance sheet with the corresponding liability recorded in loans from financial institutions for the same amount. As of December 31, 2007 these loans amounted to KZT 7,595 million.

As of December 31, 2007 loans to customers include loans of KZT 62,724 million, which are pledged as collateral for the mortgage-backed bonds (December 31, 2006 – KZT 44,221 million).

Concentration of loans to customers

As at December 31, 2007, the Group had a concentration of loans represented by KZT 274,080 million due from the ten largest borrowers that comprised 11% of the total gross loan portfolio (2006 – KZT 154,105 million, 11%; 2005 – KZT 110,893 million, 15%) and represented 61% of the Group's total equity (2006 – 79%; 2005 – 127%). Allowances amounting to KZT 7,750 million were recognised against these loans as at December 31, 2007 (2006 – KZT 2 million; 2005 – KZT 9,197 million).

As at December 31, 2007 mortgage loans issued to individuals in the aggregate amount of KZT 610 million were pledged under the financing received by the Group from OECD based banks (2006- KZT 1,077 million; 2005- 1,443 million).

As at December 31, 2007 the Group had loans in the amount of KZT 345,142 million (2006-KZT 22,606 million, 2005-KZT 28,392 million) with interest and principal repayable at maturity.

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12. Loans to customers (continued)

Loans are made to the following sectors:

	2007	*%*	*2006*	*%*	*2005*	*%*
Wholesale trade	**429,542**	**17.1%**	213,466	15.1%	137,903	19.1%
Housing construction	**350,140**	**13.9%**	141,377	10.0%	40,158	5.6%
Consumer loans	**292,463**	**11.6%**	211,881	15.0%	55,825	7.8%
Real estate investments	**286,197**	**11.4%**	78,409	5.6%	5,960	0.8%
Mortgage loans to individuals	**254,418**	**10.1%**	162,019	11.5%	64,337	8.9%
Construction of roads and industrial buildings	**185,904**	**7.4%**	133,252	9.4%	74,410	10.3%
Oil & gas	**173,948**	**6.9%**	88,213	6.2%	72,645	10.1%
Agriculture	**132,993**	**5.3%**	73,879	5.2%	64,987	9.0%
Retail trade	**64,733**	**2.6%**	32,745	2.3%	11,005	1.5%
Transport	**50,650**	**2.0%**	42,942	3.1%	27,869	3.9%
Food industry	**48,401**	**1.9%**	50,923	3.6%	36,256	5.0%
Chemical industry	**47,869**	**1.9%**	23,172	1.6%	25,025	3.5%
Mining	**30,325**	**1.2%**	19,618	1.4%	31,164	4.3%
Telecommunication	**24,233**	**1.0%**	20,046	1.4%	4,886	0.7%
Production of machinery and equipment	**16,664**	**0.7%**	20,097	1.4%	7,690	1.1%
Metallurgical industry	**11,174**	**0.4%**	12,174	0.9%	3,564	0.5%
Financial services	**8,024**	**0.3%**	25,933	1.8%	7,066	1.0%
Hospitality	**10,689**	**0.4%**	2,647	0.2%	1,776	0.2%
Energy	**7,971**	**0.3%**	11,673	0.8%	21,491	3.0%
Textile and leather industry	**4,134**	**0.2%**	2,411	0.2%	939	0.1%
Publishing	**3,072**	**0.1%**	3,459	0.2%	3,927	0.5%
Production of rubber and plastic articles	**731**	**0.0%**	1,008	0.1%	1,750	0.2%
Research & development	**724**	**0.0%**	2,352	0.2%	1,466	0.2%
Other	**81,854**	**3.3%**	39,908	2.8%	18,597	2.7%
	2,516,853	**100.0%**	1,413,604	100.0%	720,696	100.0%

Finance lease receivable

Net investment in finance leases consisted of the following:

	2007	*2006*	*2005*
Minimum lease payments receivable	**13,295**	4,206	338
Less: Unearned finance income	**(2,619)**	(1,124)	(54)
Net investment in finance leases	**10,676**	3,082	284
Allowance for uncollectible minimum lease payments receivable	**(187)**	(233)	(129)
	10,489	2,849	155
Current portion of net investment in finance leases	**3,604**	1,209	112
Long-term portion of net investment in finance leases	**7,072**	1,873	172
	10,676	3,082	284

13. Investments in associates

Movement in investments in associates was:

	2007	*2006*	*2005*
Balance, beginning of the year	**5,996**	2,205	331
Purchase cost	**58,579**	4,943	1,867
Disposal cost	**(1,042)**	(3,516)	–
Share in net income of associates	**4,234**	2,364	7
Investments in associates, end of the year	**67,767**	5,996	2,205

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13. Investments in associates (continued)

The following table illustrates summarised financial information as at December 31 of the associates:

Aggregated assets and liabilities of associates	*2007*	*2006*	*2005*
Total assets	**731,375**	59,612	14,400
Total liabilities	**(614,272)**	(45,509)	(9,648)
Net assets	**117,103**	14,103	4,752

Aggregated profit of associates	*2007*	*2006*	*2005*
Net profit	**11,004**	8,323	103

Investments in associates at 31 December 2007 include goodwill of KZT 33,479 million (excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (2006- KZT (613) million, 2005- KZT (337) million). For the general information, refer to *Note 2*.

14. Goodwill

The movements in goodwill were as follows:

	2007	*2006*	*2005*
Cost			
January 1	**22,849**	26	–
Additions	**14,547**	–	26
Acquisition through business combinations	**161**	22,823	–
31 December	**37,557**	22,849	26
Impairment of goodwill	**–**	–	–
Net book value:			
31 December	**37,557**	22,849	26

Impairment testing of goodwill

Outstanding balance of goodwill as of December 31, 2007 includes goodwill in the amount of KZT 37,396 million, which relates to the Bank's subsidiary JSC Temirbank. The recoverable amount of JSC Temirbank has been determined based on the market quotes of its shares as at 31 December 2007, which amounted to KZT 133,469 million.

Since the obtained recoverable amount of the goodwill as of December 31, 2007, 2006 and 2005 exceeded its book value, the Group considers no impairment of the goodwill existed.

15. Other impairment and provisions

The movements in allowances for other losses and provisions were as follows:

	Other assets	*Other provisions*	*Total*
December 31, 2004	423	2,031	2,454
Impairment charge	–	1,642	1,642
Write-offs	(459)	(195)	(654)
Recoveries	108	–	108
December 31, 2005	72	3,478	3,550
Impairment charge	48	2,518	2,566
Write-offs	(83)	–	(83)
Recoveries	301	–	301
Amounts arising on business combination	3	1	4
December 31, 2006	341	5,997	6,338
Impairment charge	**130**	**4,575**	**4,705**
Write-offs	**(211)**	**–**	**(211)**
Recoveries	**99**	**–**	**99**
Amounts arising on business combination	**1**	**5**	**6**
December 31, 2007	**360**	**10,577**	**10,937**

Allowances for impairment of assets are deducted from the related assets. Other provisions consist of provisions for letters of credit and guarantees, and are recorded within other liabilities.

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16. Taxation

The corporate income tax expense comprises:

	2007	*2006*	*2005*
Current tax charge	**11,413**	3,707	1,569
Deferred tax charge- origination and reversal of temporary differences	**(1,581)**	845	–
Income tax expense	**9,832**	4,552	1,569

The Bank and its subsidiaries, other than TuranAlem Finance B.V. ("TAF BV"), TuranAlem Finance ("TAF"), BTA Luxembourg, BTA Finance LLP, BTA Capital and First Kazakh Securitization Company are subject to taxation in the Republic of Kazakhstan. TAF BV and First Kazakh Securitization Company are subject to income tax in the Netherlands. TAF, BTA Finance LLP and BTA Capital are subject to income tax in Russian Federation. BTA Luxembourg is subject to income tax in Luxembourg.

A reconciliation between income tax expense in the accompanying consolidated financial statements and income before taxes multiplied by the statutory tax rate for the years ended December 31 is as follows:

	2007	*2006*	*2005*
Accounting profit before income tax	**74,537**	43,630	16,275
Income tax computed at the statutory tax rate of 30%	**22,361**	13,089	4,883
Non-deductible impairment charge	**132**	1,004	18
Non-deductible interest expenses	**422**	642	243
Non-deductible business expenses	**787**	447	351
Non taxable income on government and A,B listed securities	**(1,915)**	(6,181)	(1,431)
Non taxable income on long-term loans granted for the purchase of property and equipment by legal entities and mortgage loans	**(6,942)**	(1,832)	(2,700)
Insurance expense	**–**	(1,043)	–
Non taxable income from associates	**(1,225)**	(709)	(2)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	**–**	(340)	–
Income of subsidiaries taxed at different rates	**(3,421)**	(311)	(329)
Change in unrecognised deferred tax assets	**–**	(108)	(598)
Other permanent differences	**(367)**	(106)	1,134
Income tax expense	**9,832**	4,552	1,569

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16. Taxation (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprised the following at December 31:

	2005	*Origination and reversal of temporary differences in statement of income*	*Origination and reversal of temporary differences in equity*	*Effect of business combination*	*2006*	*Origination and reversal of temporary differences in statement of income*	*Origination and reversal of temporary differences in equity*	*2007*
Tax effect of deductible temporary differences:								
Allowances for impairment	42	(42)	–	–	–	**4,906**	**–**	**4,906**
Tax losses carried forward	–	366	–	–	366	**1,057**		**1,423**
Fair value measurement of securities	–	–	–	–	–	**–**	**221**	**221**
Property and equipment	195	(195)	–	–	–	**–**	**–**	**–**
Other	10	402	–	5	417	**598**	**–**	**1,015**
Gross deferred tax assets	247	531	–	5	783	**6,561**	**221**	**7,565**
Unrecognised deferred tax assets	(108)	108	–	–	–	**–**	**–**	**–**
Deferred tax asset	139	639	–	5	783	**6,561**	**221**	**7,565**
Tax effect of taxable temporary differences:								
Allowances for impairment	–	(1,540)	–	–	(1,540)	**(107)**	**–**	**(1,647)**
Fair value measurement of securities	–	–	(122)	–	(122)	**(4,393)**	**(14)**	**(4,529)**
Property and equipment	–	(83)	–	(143)	(226)	**(476)**	**–**	**(702)**
Other	(139)	139	–	–	–	**(4)**	**–**	**(4)**
Deferred tax liability	(139)	(1,484)	(122)	(143)	(1,888)	**(4,980)**	**(14)**	**(6,882)**
Deferred tax assets/(liability)	–	(845)	(122)	(138)	(1,105)	**1,581**	**207**	**683**

Tax loss carry-forward represents losses which arose from changes in the fair market value of certain securities. Losses from such securities are deductible only to the extent that they can be offset against gains from similar securities. In accordance with the tax legislation, such losses can be carried forward and offset against gains from similar securities during a period of 3 years from the year a loss occurs.

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The main taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government authorities; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take different positions with regard to interpretive issues.

In accordance with recent amendments in the Tax Code of the Republic of Kazakhstan adopted in 2007, only that income which was derived from sale of A, B listed securities at a stock exchange under open tender are considered as tax exempt. Previously, any income derived from sale of such securities on a stock exchange, whether under open tender or not, was tax exempt.

Certain deferred tax assets as at December 31, 2005 have not been recognised due to the uncertainties surrounding their realisation in the future.

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17. Amounts due to the Government and the NBK

Amounts due to the Government and the NBK consist of the following:

	2007	*2006*	*2005*
Amounts due to the Government:			
Interest bearing – KZT denominated	**370**	373	427
Interest bearing – EUR denominated	**212**	267	317
Interest bearing – USD denominated	**174**	38	68
Interest bearing – KGS* denominated	**107**	–	–
Non-interest bearing	**–**	–	4
Loans from the NBK	**28**	28	28
Loans from the National Bank of Kyrgyzstan	**22**	–	–
Amounts due to the Government and the NBK	**913**	706	844

* Kyrgyzstani Soms

Interest rates and maturity of the amounts due to the Government and the NBK follow:

	2007		*2006*		*2005*	
	Interest rate	*Maturity*	*Interest rate*	*Maturity*	*Interest rate*	*Maturity*
Amounts due to the Government:						
Non interest bearing	**–**	**–**	–	–	–	2006
Interest bearing:						
KZT denominated	**1.0%-11.0%**	**2008-2022**	0.5%-10.0%	2007-2011	0.5%-10.0%	2006-2010
EUR denominated	**5.0%**	**2010**	5.0%	2010	5.0%	2010
USD denominated	**5.6%-6.3%**	**2021-2022**	5.5%	2011	2.9%	2011
KGS denominated	**7.3%**	**2018-2021**	–	–	–	–
Loans from the NBK	**–**	**2008-2020**	–	2007-2020	–	2006-2015
Loans from the National Bank of Kyrgyzstan	**7.4%**	**2008-2010**	–	–	–	–

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2007	*2006*	*2005*
Loans from OECD based banks and financial institutions	**455,384**	293,511	126,371
Syndicated bank loans	**241,157**	202,535	134,249
Loans from Kazakh banks and financial institutions	**51,329**	73,642	6,744
Loans from other banks and financial institutions	**26,609**	16,841	6,265
Redeemable Convertible Preferred Shares	**–**	–	5,581
Pass-through loans	**9,482**	11,815	7,939
	783,961	598,344	287,149
Interest-bearing placements from Kazakh banks	**46,021**	2,427	2,322
Interest-bearing placements from non OECD banks	**4,034**	3,376	3,081
Loro accounts	**1,288**	20,999	495
	51,343	26,802	5,898
Amounts due to credit institutions	**835,304**	625,146	293,047
Subject to repurchase agreements	**60,129**	104,321	48,823

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18. Amounts due to credit institutions (continued)

Interest rates and maturities of amounts due to credit institutions as at December 31, follow:

	2007		2006		2005	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Loans from OECD based banks and financial institutions	**3.7%-8.8%**	**2008-2020**	2.4%-11.8%	2007-2017	1.0%-11.1%	2006-2017
Syndicated bank loans	**1.5%-6.8%**	**2008-2010**	5.8%-7.5%	2007-2009	4.3%-6.1%	2006-2008
Loans from Kazakh banks and financial institutions	**6.6%-17.8%**	**2008-2027**	2.0%-8.0%	2007-2008	5.4%-7.0%	2006
Loans from other banks and financial institutions	**3.0%-7.2%**	**2008-2017**	3.3%-7.7%	2007-2011	2.0%-6.2%	2006
Redeemable Convertible Preferred Shares	**–**	**–**	–	–	10.3%	–
Pass-through loans	**6.9%-8.9%**	**2008-2011**	7.1%-9.6%	2007-2011	6.0%-7.3%	2006-2008
Loro accounts	**up to 2.0%**	**–**	up to 3.5%	–	up to 2.0%	–
Interest-bearing placements from non OECD based banks	**6.0%-8.0%**	**2008**	2.0%-8.1%	2007	1.0%-7.9%	2006
Interest-bearing placements from Kazakh banks	**3.8%-10.0%**	**2008**	6.5%-7.6%	2007	1.0%-7.0%	2006

Financial covenants

In accordance with the contractual terms of the foreign bank loans, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. In addition, and in accordance with the terms of certain of those loans, the Group is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares. Management believes that as at December 31, 2007 and 2006 the Group is in compliance with the covenants of all debt agreements the Group has with other banks and financial institutions.

Included in loro accounts is a balance of KZT 556 million with two Russian banks (2006- KZT 20,228 million with two Russian banks, 2005- KZT 234 million with one Kazakh bank).

19. Amounts due to customers

The amounts due to customers included balances in customer current accounts, time deposits, and certain other liabilities, and include the following:

	2007	*2006*	*2005*
Time deposits	**463,450**	329,008	218,626
Current accounts	**165,685**	178,816	81,454
Guarantee and restricted deposits	**23,373**	20,368	6,634
Amounts due to customers	**652,508**	528,192	306,714

Guarantee and restricted deposits represent customer's collateral under letters of credit and guarantees issued by the Bank on behalf of clients.

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19. Amounts due to customers (continued)

Interest rates and maturities of amounts due to customers follow:

	2007		*2006*		*2005*	
	KZT denominated	***Foreign currency denominated***	***KZT denominated***	***Foreign currency denominated***	***KZT denominated***	***Foreign currency denominated***
	%	*%*	*%*	*%*	*%*	*%*
Time deposits	**2.5%-14.0%**	**2.5%-10.5%**	2.0%-13.5%	3.0%-10.0%	1.0%-12.0%	2.0%-8.5%
Current accounts	**up to 2.0%**	**up to 1.0%**	up to 2.0%	up to 1.0%	up to 2.0%	up to 1.0%
Guarantee and other restricted deposits	**up to 14.0%**	**up to 10.0%**	up to 12.6%	up 10.2%	up 11.0%	up 9.5%

Current accounts are due on demand. Maturities of other amounts due to customers follow:

	2007		*2006*		*2005*	
	KZT denominated	***Foreign currency denominated***	***KZT denominated***	***Foreign currency denominated***	***KZT denominated***	***Foreign currency denominated***
	Maturity	***Maturity***	***Maturity***	***Maturity***	***Maturity***	***Maturity***
Time deposits	**2008-2010**	**2008-2011**	2007-2010	2007-2008	2006-2010	2006-2007
Guarantee and other restricted deposits	**2008-2010**	**2008-2011**	2007-2010	2007-2020	2006	2006-2007

At December 31, 2007, the Bank's ten largest customers accounted for approximately 20.45% of the total amounts due to customers (2006 – 31.10%; 2005 – 37.19%).

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	2007	*2006*	*2005*
Time deposits:			
Commercial entities	**130,973**	82,267	109,739
Individuals	**235,620**	179,956	101,000
Governmental entities	**96,857**	66,785	7,887
Current accounts:			
Commercial entities	**125,400**	129,187	59,926
Individuals	**31,222**	27,774	15,970
Governmental entities	**9,063**	21,855	5,558
Guarantee and other restricted deposits:			
Commercial entities	**9,121**	7,448	2,664
Individuals	**13,583**	12,895	3,931
Governmental entities	**669**	25	39
Amounts due to customers	**652,508**	528,192	306,714

Included in time deposits are deposits of individuals in the amount of KZT 235,620 million (2006 – KZT 179,956 million; 2005 - 101,000 million). In accordance with the Civil Code of the Republic of Kazakhstan, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

(Millions of Kazakhstani Tenge)

19. Amounts due to customers (continued)

An analysis of customer accounts by sector follows:

	2007	*%*	*2006*	*%*	*2005*	*%*
Individuals	**280,425**	**43.0%**	220,625	41.8%	120,901	39.4%
Oil and gas	**86,213**	**13.2%**	104,940	19.9%	55,154	18.0%
Wholesale trading	**52,003**	**8.0%**	19,034	3.6%	10,387	3.4%
Transportation	**41,388**	**6.3%**	34,631	6.6%	5,828	1.9%
Construction	**33,623**	**5.2%**	35,179	6.7%	12,114	3.9%
Non-credit financial organizations	**30,255**	**4.6%**	11,508	2.2%	13,069	4.3%
Metallurgy	**12,024**	**1.8%**	19,708	3.7%	49,524	16.1%
State administration	**11,071**	**1.7%**	229	0.0%	215	0.1%
Retail trade	**8,691**	**1.3%**	4,737	0.9%	2,356	0.8%
Machinery and equipment production	**6,652**	**1.0%**	2,573	0.5%	2,221	0.7%
Research and development	**6,622**	**1.0%**	4,013	0.8%	2,125	0.7%
Agriculture	**6,596**	**1.0%**	3,456	0.6%	2,045	0.7%
Education	**5,938**	**0.9%**	5,354	1.0%	2,795	0.9%
Chemical processing	**5,720**	**0.9%**	4,463	0.8%	1,949	0.6%
Energy industry	**3,978**	**0.6%**	3,508	0.7%	1,440	0.5%
Mining	**3,688**	**0.6%**	18,439	3.5%	7,170	2.3%
Food industry	**3,620**	**0.6%**	737	0.1%	576	0.2%
Communication	**2,429**	**0.4%**	3,137	0.6%	790	0.3%
Textile and leather industry	**1,235**	**0.2%**	1,175	0.2%	703	0.2%
Entertainment	**1,207**	**0.2%**	1,011	0.2%	268	0.1%
Hotel and hospitality	**454**	**0.1%**	548	0.1%	326	0.1%
Other	**48,676**	**7.4%**	29,187	5.5%	14,758	4.8%
	652,508	**100.0%**	528,192	100.0%	306,714	100.0%

20. Debt securities issued

Debt securities issued as at December 31, consisted of the following:

	2007	*2006*	*2005*
USD notes with fixed rate	**434,793**	276,908	197,833
USD notes with floating rate	**169,471**	38,503	26,988
USD and KZT subordinated notes with fixed rate	**109,299**	89,809	20,713
EUR notes with fixed rate	**90,108**	85,168	–
KZT notes with fixed rate	**62,519**	54,858	19,333
USD perpetual financial instruments fixed rate	**54,297**	57,183	–
JPY notes with floating rate	**48,520**	–	–
GBP notes with fixed rate	**48,072**	49,903	–
KZT notes with floating rate	**34,974**	25,587	–
JPY notes with fixed rate	**21,886**	21,370	–
KZT subordinated notes with floating rate	**21,715**	21,710	22,011
CHF notes with floating rate	**21,598**	–	–
RUR notes with fixed rate	**15,023**	14,715	14,179
PLZ notes with floating rate	**9,846**	8,736	–
USD promissory notes with floating rate	**604**	638	672
	1,142,725	745,088	301,729
Own KZT notes held by the Group	**(2,780)**	(749)	(77)
Own USD notes held by the Group	**(5,579)**	(1,464)	(103)
Own USD and KZT subordinated notes held by the Group	**(21,506)**	(18,084)	–
	1,112,860	724,791	301,549
Plus unamortized premium	**983**	1,519	1,616
Less unamortized cost of issuance	**(4,548)**	(2,125)	(977)
Less unamortized discount	**(24,850)**	(17,087)	(2,179)
Debt securities issued	**1,084,445**	707,098	300,009

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20. Debt securities issued (continued)

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

	2007		*2006*		*2005*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
USD notes with fixed rate	**7.9%-9.5%**	**2009-2037**	7.8%-10.0%	2007-2015	7.9%-10.0%	2007 – 2015
USD notes with floating rate	**3 month Libor+0.9%- 1 month Libor+3.8%**	**2008-2029**	3 month Libor+1.7%-*	2008-2009	3 month LIBOR +1.7%	2008
USD and KZT subordinated notes with fixed rate	**7.0%-12.0%**	**2008-2036**	7.0%-12.0%	2009-2036	7.0%-12.0%	2009–2015
EUR notes with fixed rate	**6.3%**	**2011**	6.3%	2011	–	–
KZT notes with fixed rate	**7.6%-9.8%**	**2008-2021**	7.6%-9.8%	2008-2021	8.5%-10.0%	2010–2015
USD perpetual financial instruments with fixed rate	**8.3%-10.0%**	**Perpetual with call option in 2016**	8.3%-10.0%	Perpetual with call option in 2016	–	–
JPY notes with floating rate	**3 month Libor+2.9%- 3 month Libor+5.4%**	**2017**	–	–	–	–
GBP notes with fixed rate	**7.1%**	**2009**	7.1%	2009	–	–
KZT notes with floating rate	**15.0%-inflation - ****	**2010-2016**	15% less inflation– inflation+2%	2010-2016	–	–
JPY notes with fixed rate	**4.3%**	**2016**	4.3%	2016	–	–
KZT subordinated notes with floating rate	**Inflation +2.0%**	**2013-2014**	Inflation +2.0%	2013-2014	Inflation +2.0%	2013-2014
CHF notes with floating rate	**3 month CHF Libor +3.4%**	**2017**	–	–	–	–
RUR notes with fixed rate	**7.8%**	**2009**	7.8%	2009	6.4%	2006-2009
PLZ notes with floating rate	**3 month Libor+2.7%**	**2011**	3 month Libor+2.7%	2011	–	–
USD promissory notes with floating rate	**6 month Libor+1%**	**2008**	6 month Libor+1%	2007	6 month LIBOR +1.5%	2006

* 8.4% multiplied by 27.603 and divided by exchange rate of USD/RUR

** The Group reconsiders every 6 months, but not less than 5%

The subordinated notes at December 31, 2007, 2006 and 2005, are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

In January 2006 the Group issued Perpetual financial instruments for the total amount of USD 400,000 thousand, with a call option after ten years time from the issue date.

In accordance with the terms of the debt securities issued, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures. Management believes that the Bank was in compliance with these ratios as at December 31, 2007.

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21. Equity

As at December 31, 2007, 2006 and 2005, share capital comprise:

	Common shares			Non-redeemable CPS		
	Number of authorized shares	Number of shares issued	Placement value (KZT)	Number of authorized shares	Number of shares issued	Placement value (KZT)
December 31, 2004	2,334,435	2,334,435	27,714	774,001	84,021	1,460
Increase in issued capital	1,087,081	1,087,081	21,900	360,431	221,499	4,374
December 31, 2005	3,421,516	3,421,516	49,614	1,134,432	305,520	5,834
Increase in issued capital	807,102	807,102	50,184	–	260,042	5,238
Conversion of CPS from equity into common shares	565,562	565,562	11,072	(1,134,432)	(565,562)	(11,072)
Conversion of CPS from liability into common shares	568,870	568,870	5,581	–	–	–
December 31, 2006	5,363,050	5,363,050	116,451	–	–	–
Increase in issued capital	**3,007,108**	**3,007,108**	**186,976**	**–**	**–**	**–**
December 31, 2007	**8,370,158**	**8,370,158**	**303,427**	**–**	**–**	**–**

Issued capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of the Bank following the combination of Turan Bank and Alem Bank.

At December 31, 2007, the Group held 10,146 shares of the Bank's shares as treasury shares (2006 –34,099; 2005 – 16,600).

During the year ended December 31, 2006 the Bank issued 260,042 non-redeemable convertible preferred shares ("CPS") at a premium of 10,146 KZT per share. In accordance with the terms of the CPS issue, all holders of CPS executed their rights to convert their shares into common shares. The conversion was officially registered on May 25, 2006. As a result of the conversion, the Bank's authorised, issued and fully paid issued capital at December 31, 2006 increased by 1,134,432 common shares. Also, the Bank incurred consulting expenses (transaction cost) on the amount of KZT 107 for issuance of CPS.

At an Extraordinary General Meeting of the Bank held on 22 February 2007, the Bank's shareholders approved the eleventh issue of its common shares and the subsequent increase of the Bank's share capital by the KZT equivalent of USD 1.5 billion, which was registered on March 19, 2007 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "FMSA"). As a result, the Bank increased the number of authorised shares by 3,007,108 common shares at placement value of KZT 62,178 per share totalling KZT 186,976 million, which were fully issued and paid in 2007.

As at December 31, the following shareholders held the outstanding shares:

	2007	*2006*	*2005*
Shareholders:	*%*	*%*	*%*
Common shares:			
Asia Investment Group B.V.	**9.66**	–	–
Drey Associates Limited	**9.65**	6.81	–
Strident Energy Limited	**9.56**	1.46	–
InvestCapital Company LLP	**8.50**	8.38	4.79
SMKK LLP	**7.53**	9.99	–
Yassi Invest LLP	**7.19**	7.19	5.98
Agroinvest LLP	**7.15**	7.15	8.03
Makta Aral Company LLP	**6.96**	8.02	–
SP-CreditPriveSA	**6.74**	6.74	8.97
Orken-Invest LLP	**3.55**	4.50	4.33
East Capital Explorer Fin. Institutions Fund Cyprus Ltd	**3.10**	–	–
Bank of New York (nominee holder)	**2.77**	–	10.92
VALAXIS Asset Management SA	**2.61**	4.08	6.40
Central Securities Depository CJSC (nominee holder)	**1.90**	21.48	24.18
Management	**0.95**	1.18	0.03
RESMI COMMERCE	**0.03**	0.03	–
Torland Production INC	**–**	5.10	7.02
Refgen Technologies INC	**–**	3.60	4.80
HAWSBROK	**–**	–	9.07
Others	**12.15**	4.29	5.48
	100.00	100.00	100.00

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21. Equity (continued)

	2007	2006	2005
	%	%	%
JSC Pension Fund Kurmet-Kazakhstan (nominal holder)	–	–	59.42
JSC Halyk Pension Fund	–	–	18.53
Agroinvest LLP	–	–	15.48
JSC TuranAlem Securities (nominal holder)	–	–	6.57
	–	–	100.00

Dividends on CPS

The dividend on convertible preferred shares was calculated at the rate of 10.25% per annum on nominal value in 2006 and 2005. Such dividends calculated for the years 2006 – calculated KZT 145, paid KZT 26; (2005 – calculated KZT 229, paid 229). These dividends are cumulative. No convertible preferred shares outstanding as of December 31, 2007.

Unrealised gains(losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

22. Commitments and contingencies

Operating environment

Whilst there have been certain improvements in the Kazakhstani economy, such as an increase in the gross domestic product, the Republic of Kazakhstan continues to implement economic reforms and improve development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Legal actions and claims

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities mentioned above.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Group believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at December 31, 2006. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

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22. Commitments and contingencies (continued)

Financial commitments and contingencies

As at December 31, the Group's financial commitments and contingencies comprised the following:

	2007	*2006*	*2005*
Undrawn loan commitments	**334,171**	115,428	33,112
Commercial letters of credit	**150,644**	168,443	81,900
Guarantees	**141,931**	116,588	55,683
	626,746	400,459	170,695
Operating lease commitments			
Not later than 1 year	**217**	649	60
Later than 1 year but not later than 5 years	**1,873**	128	491
Later than 5 years	**4,792**	1,634	756
	6,882	2,411	1,307
Less: cash collateral	**(23,373)**	(20,368)	(6,634)
Less: provisions (Note 15)	**(10,577)**	(5,997)	(3,478)
Financial commitments and contingencies	**599,678**	376,505	161,890

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

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

Trust activities

The Group provides custody services for third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at December 31, 2007 such securities held in this capacity were KZT 282,908 (2006 – KZT 247,757; 2005 – KZT 73,721).

In addition, the Group manages certain pension funds through its specialised subsidiary. Below presented are statements of net assets available for pension benefits as well as changes in net assets available for pension benefits at December 31 of the pension fund under management.

Statement of Net Assets Available for Pension Benefits

As of December 31, net assets available for pension benefits comprise:

	2007	*2006*	*2005*
Assets			
Cash and cash equivalents	**484**	872	3,275
Amounts Due from Credit Institutions:			
- Time deposits with maturity over 90 days or past due	**13,867**	14,068	8,390
- Reverse repurchase agreements	**2,024**	8,653	1,670
Available-for-sale investment securities:			
- Sovereign bonds of the Republic of Kazakhstan	**13,489**	12,017	11,571
- Corporate bonds	**66,477**	33,303	9,686
- Corporate shares	**14,655**	13,515	7,570
-Euro notes	**14,422**	–	–
Accrued investment income	**408**	–	3,480
Other receivables	**20**	9	1,991
Total assets	**125,846**	82,437	47,633
Liabilities			
Commissions payable to pension funds	**(414)**	(218)	(131)
Other liabilities	**(9)**	(6)	(5)
Net assets available for pension benefits	**125,423**	82,213	47,497

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22. Commitments and contingencies (continued)

Trust activities (continued)

Statement of Changes in Net Assets Available for Pension Benefits

During the year ended December 31, changes in net assets available for pension benefits comprise:

	2007	*2006*	*2005*
Net income	**11,282**	18,325	3,642
Additions:			
- Obligatory contributions	**23,374**	13,791	9,976
- Voluntary contributions	**1**	1	1
- Transfers between funds, net	**9,721**	3,486	(680)
- Penalties for delay	**316**	182	155
	33,412	17,460	9,452
Benefits paid to participants			
- Retirement	**(684)**	(426)	(345)
- Death or disability	**(368)**	(287)	(170)
- Expatriation	**(319)**	(287)	(212)
- Withholding taxes	**(111)**	(65)	(44)
- Other	**(3)**	(4)	–
	(1,485)	(1,069)	(771)
Net change in assets available for pension benefits	**43,209**	34,716	12,323
Net assets available for pension benefits, beginning	**82,214**	47,497	35,174
Net assets available for pension benefits, ending	**125,423**	82,213	47,497

23. Fees and commissions

Net fee and commission income for the years ended December 31 was made from the following sources:

	2007	*2006*	*2005*
Letters of credit and guarantees issued	**9,569**	9,855	4,566
Settlement and cash operations	**7,925**	3,887	2,729
Transfer operations	**4,388**	3,189	2,291
Foreign currency trading	**2,639**	1,947	1,107
Asset management fees	**2,463**	3,891	928
Brokerage services	**693**	434	338
Other	**812**	1,903	984
Fee and commission income	**28,489**	25,106	12,943
Transfer operations	**(404)**	(157)	(129)
Brokerage services	**(259)**	(267)	(139)
Foreign currency trading	**(91)**	–	(61)
Custodian services	**(45)**	(30)	(24)
Other	**(258)**	(175)	(136)
Fee and commission expense	**(1,057)**	(629)	(489)
Net fee and commission income	**27,432**	24,477	12,454

24. Net trading income

Net trading income for the years ended December 31 comprised the following:

	2007	*2006*	*2005*
Securities	**4,651**	16,585	3,015
Interest rate instruments	**(2,148)**	(1)	(126)
	2,503	16,584	2,889

Securities income includes the effect of buying and selling, and changes in the fair value of financial assets at fair value through profit or loss and effect of buying and selling of available-for-sale investment securities. The results of trading and changes in fair value of interest rate swaps are recorded under income from interest rate instruments.

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25. Salaries and administrative and other operating expenses

Salaries and other employee benefits and administrative and other operating expenses comprise:

	2007	*2006*	*2005*
Salaries and bonuses	**(22,358)**	(9,950)	(6,022)
Social security costs	**(2,436)**	(1,183)	(758)
Other payments	**(950)**	(187)	(150)
Salaries and other employee benefits	**(25,744)**	(11,320)	(6,930)
Occupancy and rent	**(4,797)**	(2,145)	(1,141)
Marketing and advertising	**(3,193)**	(1,639)	(1,108)
Insurance expense	**(2,891)**	(4,135)	(9)
Repair and maintenance of property and equipment	**(1,750)**	(433)	(659)
Communications	**(1,522)**	(868)	(480)
Transportation expenses	**(1,411)**	(397)	(306)
Legal services and consultancy	**(1,307)**	(505)	(390)
Security	**(1,117)**	(562)	(457)
Agency services	**(1,035)**	(146)	(42)
Business travel and related expenses	**(1,033)**	(864)	(547)
Plastic cards	**(786)**	(689)	(378)
Encashment	**(752)**	(496)	(374)
Office supplies	**(358)**	(217)	(159)
Data processing	**(298)**	(489)	(132)
Loss on disposals of property and equipment	**–**	(22)	(182)
Other	**(1,150)**	(567)	(719)
Administrative and other operating expenses	**(23,400)**	(14,174)	(7,083)

In 2006 the Bank decided to insure its entrepreneur risks on small and retail borrowers. In addition, changes in Kazakh legislation in 2006 obliged Kazakh legal entities to insure civil responsibility of own employees and management.

26. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2007, 2006 and 2005. During 2006 the Bank declared dividends to the CPS shareholders amounting to KZT 145 (2005 – 229).

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had one type of dilutive share: non-redeemable CPS. For the non-redeemable CPS, the number of shares that could have been converted at the contractual conversion price is added to the shares outstanding, net income is adjusted to the amount of dividends on CPS.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31:

	2007	*2006*	*2005*
Net income attributable to common shareholders for basic earnings per share, being net income less dividends declared on non-redeemable convertible preferred shares	**61,354**	38,353	14,078
Net income attributable to common and potential common shareholders for diluted earnings per share	**61,354**	38,498	14,307
Weighted average number of common shares for basic earnings per share	**7,534,395**	4,438,792	2,687,776
Weighted average number of common and potential common shares for diluted earnings per share	**7,534,395**	4,605,262	2,940,181
Basic earnings per share (in Kazakhstani Tenge)	**8,143**	8,640	5,238
Diluted earnings per share (in Kazakhstani Tenge)	**8,143**	8,360	4,866

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26. Earnings per share (continued)

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares for the years ended December 31 is as follows:

	2007	*2006*	*2005*
Weighted average number of common shares for basic earnings per share	**7,534,395**	4,438,792	2,687,776
Weighted average number of common shares resulting from the potential conversion of the non-redeemable convertible preferred shares into common shares	**–**	166,470	252,405
Weighted average number of common and potential common shares	**7,534,395**	4,605,262	2,940,181

Shares issued in 2006 were offered to all existing shareholders, therefore for calculation of basic and diluted earnings per share for all periods before the rights issue the number of ordinary and preferred shares issued was adjusted to the market value of the shares at the date of issue.

27. Risk management policies

Introduction

The Group as the combination of financial organizations is exposed to certain types of risks.

Risk management structure is arranged for prompt identification and assessment of risks associated with one or another line of activity. Management understands the high importance of risk management process as an integral part of day-to-day activities of the Group.

Of particular priority is liquidity risk, credit risk, market risk, the latter being subdivided into trading and non-trading risks and operating risks that could affect the equity and income of the Group.

Risk management structure

The Board of Directors

The risk management process is directly subordinated to and accountable to the Board of Directors. The Board of Directors is responsible for the overall risk management approach and for approving the risk management policies and adoption strategic decisions on risk management.

Risk Committee

The Risk Committee oversees the Group's activities on risk management, adopts managerial decisions as related to approval of normative documents, defining lines of activity of subdivisions and limits approval for certain operations.

Risk Management Unit

Risk management units are responsible for identification, assessment and monitoring of risks. Daily activities of these units are governed by internal regulations. Within the Group certain units responsible for management of credit, operating, liquidity and market risks are defined. These units are accountable to Risk Committee.

Risk Monitoring

Risk Monitoring Units control over compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal Audit Function

Internal audit is the most important component of internal control, including risk control. Internal audit function regularly examines adequacy of the internal procedures of the Group. The results are submitted to the Board of Directors the latter adopts relevant decisions to eliminate shortages.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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27. Risk management policies (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has Credit committees, which are responsible for credit risk management and which set limits on borrowers and on loan portfolio.

Financing of borrowers is done by through procedures of primary selection of borrowers, preliminary structuring of transaction, project assessment, monitoring and control of risks. Decision on financing of borrowers is made by the respective Credit committee.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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27. Risk management policies (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

The Group makes available to its customers guarantees and letters of credit, which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the contracts. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Gross maximum exposure 2007*	*Gross maximum exposure 2006*	*Gross maximum exposure 2005*
Cash and cash equivalents (excluding cash on hand)	6	**86,897**	161,384	101,474
Trading securities	8	**112,175**	221,534	110,252
Amounts due from credit institutions	9	**107,589**	87,452	23,676
Derivative financial assets	10	**31,397**	3,457	–
Available-for-sale investment securities	11	**26,422**	49,723	42,406
Loans to customers	12	**2,379,810**	1,343,414	680,385
Other assets		**19,819**	13,134	6,993
		2,764,109	1,880,098	965,186
Financial commitments and contingencies	22	**592,796**	374,094	160,583
Total credit risk exposure		**3,356,905**	2,254,192	1,125,769

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 12.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Group's credit rating system.

2007	*Notes*	*Neither past due nor impaired*	*Past due or individually impaired 2007*	*Total 2007*
Loans to customers	12			
Corporate lending		**1,367,965**	**274,151**	**1,642,116**
Small and medium business lending		**305,992**	**21,865**	**327,857**
Individuals lending		**541,510**	**5,370**	**546,880**
Total		**2,215,467**	**301,386**	**2,516,853**

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27. Risk management policies (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

2006	*Notes*	*Neither past due nor impaired*	*Past due or individually impaired 2006*	*Total 2006*
Loans to customers	12			
Corporate lending		476,337	385,862	862,199
Small and medium business lending		176,658	847	177,505
Individuals lending		368,187	5,713	373,900
Total		1,021,182	392,422	1,413,604

2005	*Notes*	*Neither past due nor impaired*	*Past due or individually impaired 2005*	*Total 2005*
Loans to customers	12			
Corporate lending		214,616	283,412	498,028
Small and medium business lending		90,268	12,238	102,506
Individuals lending		116,404	3,758	120,162
Total		421,288	299,408	720,696

Past due loans to customers include those that are only past due by a few days. An analysis of past due but not impaired loans, by age, is provided below.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days		
	2007	*2006*	*2005*
Loans to customers			
Corporate lending	**26**	28,927	4,621
Small and medium business lending	**513**	69	868
Individuals lending	**3,956**	259	26
Total	**4,495**	29,255	5,515

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2007 was KZT 36,068 million (2006- KZT 41,550 million, 2005- KZT 7,249 million). See 'Collateral and other credit enhancements' in Note 12 for the details of types of collateral held.

See Note 12 for more detailed information with respect to the allowance for impairment of loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2007	*2006*	*2005*
Loans to customers			
Corporate lending	**60,437**	**29,800**	**21,384**
Small and medium business lending	**3,340**	**1,233**	**8,949**
Individuals lending	**488**	**35**	**115**
Total	**64,265**	**31,068**	**30,448**

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27. Risk management policies (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Group's monetary assets and liabilities is set out below:

	2007			
	Kazakhstan	*OECD*	*CIS and other non OECD countries*	*Total*
Assets:				
Cash and cash equivalents	**48,560**	**42,473**	**8,690**	**99,723**
Obligatory reserves	**166,048**	**–**	**2,194**	**168,242**
Financial assets at fair value through profit or loss	**97,989**	**14,186**	**–**	**112,175**
Amounts due from credit institutions	**33,168**	**–**	**74,421**	**107,589**
Derivative financial instruments	**6,391**	**18,085**	**6,921**	**31,397**
Available for sale securities	**15,996**	**3,700**	**6,726**	**26,422**
Loans to customers	**1,501,465**	**118,048**	**760,297**	**2,379,810**
Deferred tax asset	**683**	**–**	**–**	**683**
Other assets	**16,962**	**1,231**	**1,626**	**19,819**
	1,887,262	**197,723**	**860,875**	**2,945,860**
Liabilities:				
Amounts due to the Government and the NBK	**627**	**–**	**286**	**913**
Amounts due to credit institutions	**150,953**	**628,449**	**55,902**	**835,304**
Amounts due to customers	**641,094**	**–**	**11,414**	**652,508**
Debt securities issued	**189,193**	**880,229**	**15,023**	**1,084,445**
Derivative financial liabilities	**395**	**3,735**	**1,398**	**5,528**
Other liabilities	**25,137**	**2,430**	**6,320**	**33,887**
	1,007,399	**1,514,843**	**90,343**	**2,612,585**
Net balance sheet position	**879,863**	**(1,317,120)**	**770,532**	**333,275**
Off-balance sheet position	**379,068**	**59,560**	**195,000**	**633,628**

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27. Risk management policies (continued)

Credit risk (continued)

	2006				2005			
	Kazakhstan	*OECD*	*CIS and other non OECD countries*	*Total*	*Kazakhstan*	*OECD*	*CIS and other non OECD countries*	*Total*
Assets:								
Cash and cash equivalents	101,384	82,334	9,922	193,640	68,909	45,358	4,864	119,131
Obligatory reserves	125,573	–	–	125,573	10,791	–	–	10,791
Financial assets at fair value through profit or loss	168,765	52,769	–	221,534	23,495	86,757	–	110,252
Amounts due from credit institutions	23,825	160	63,467	87,452	12,296	28	11,352	23,676
Derivative financial assets	52	3,405	–	3,457	–	–	–	–
Available for sale securities	7,690	40,183	1,850	49,723	2,133	39,015	1,258	42,406
Loans to customers	921,043	113,654	308,717	1,343,414	549,316	10,001	121,068	680,385
Other assets	11,871	433	830	13,134	5,998	9	986	6,993
	1,360,203	292,938	384,786	2,037,927	672,938	181,168	139,528	993,634
Liabilities:								
Amounts due to the Government and the NBK	706	–	–	706	844	–	–	844
Amounts due to credit institutions	155,200	425,327	44,619	625,146	73,480	212,178	7,389	293,047
Amounts due to customers	517,259	10,236	697	528,192	301,947	3,745	1,022	306,714
Derivative financial liabilities	34	–	–	34	–	–	128	128
Debt securities issued	162,113	530,270	14,715	707,098	61,884	223,947	14,178	300,009
Other liabilities	12,630	3,624	1,989	18,243	6,191	237	3,527	9,955
	847,942	969,457	62,020	1,879,419	444,346	440,107	26,244	910,697
Net balance sheet position	512,261	(676,519)	322,766	158,508	228,592	(258,939)	113,284	82,937
Off-balance sheet position	53,071	136,069	213,730	402,870	85,673	5,494	80,835	172,002

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its obligations when due. Liquidity risk management is one of the main directions in the Group's risk management process. When managing the liquidity risk the Group follows two main directions:

1. conformity with the liquidity norms established by the regulatory bodies; and
2. liquidity management by means of the "financial pool method" and "fund conversion method".

Under the "financial pool method" the Bank's monetary assets are considered as one pool, which are split to the primary and the secondary sources for liquidity purposes. The primary source consists of cash and balances on correspondent accounts, and the secondary source consists of highly liquid assets, which have high turnover and readily available for sale. The primary and the secondary sources are considered as not profit bearing and profit bearing, respectively.

"Fund conversion method" is the distribution of all financing sources depending on the accounts' turnover and reserve requirement for financing of the related assets.

The management of the Asset and Liability Management Committee (ALMC) analyzes the operational data on a weekly basis and make decisions concerning liquidity management. Frequency of the ALMC meetings may vary depending on the situation. ALMC considers the following issues: GAP analysis of the assets and liabilities broken down by maturity and currencies, duration of assets and liabilities and analysis of future cash flows. All business functions and risk management departments are involved in the process of the Group's liquidity management to provide the information support.

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27. Risk management policies (continued)

Liquidity risk and funding management (continued)

The Management regularly monitors high-liquid assets that may be disposed at any time. The Bank builds portfolio consisting of high-liquid assets, predominantly debt financial instruments issued by the states with high credit ratings. In addition, the Bank keeps obligatory reserves in the National Bank of Kazakhstan in the amount of 8% of certain external borrowings and 6% of the certain domestic borrowings.

The following table demonstrates the FMSA requirements to the Bank and conformity of the Bank with said norms to ensure general and currency liquidity as of December 31:

	2007, %	*2006, %*	*2005, %*
K4 "Current Liquidity Ratio" (monthly average highly liquid assets/ average monthly liabilities repayable on demand), min 30.0%	**148.5%**	161.1%	65.0%
K5 "Short-term Liquidity Ratio" (monthly average assets maturing within three months, including highly liquid assets/monthly average liabilities maturing within three months, including on demand liabilities), min 50.0%	**109.5%**	143.7%	70.0%
Current liquidity ratios by currencies (monthly average highly liquid assets in foreign currency/highly liquid average monthly liabilities in foreign currencies, min 90.0%*	**527.4%**	245.7%	–
USD	**285.3%**	221.8%	–
EUR	**346.6%**	1,122.1%	–
Short-term currency liquidity ratios (monthly average assets maturing within three months in foreign currency/ monthly average liabilities maturing within three months in same currency, 80.0%*	**142.2%**	140.9%	–
USD	**97.2%**	136.1%	–
EUR	**179.9%**	241.5%	–
Mid-term currency liquidity ratios (average monthly assets maturing within 1 year in foreign currency/average monthly liabilities maturing within 1 year in same currency), min 60.0%*	**116.1%**	102.4%	–
USD	**95.5%**	99.8%	–
EUR	**109.4%**	187.1%	–

* Current, short-term and mid-term currency liquidity ratios were introduced since May 27, 2006

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007, 2006 and 2005 based on contractual undiscounted repayment obligations.

Financial liabilities As at 31 December 2007	*On demand*	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 3 years*	*Over 3 years*	
Amounts due to the Government and the NBK	**30**	**7**	**6**	**87**	**438**	**446**	
Amounts due to credit institutions	**4,881**	**70,690**	**122,905**	**186,308**	**390,368**	**168,737**	
Derivative financial instruments	**–**	**300**	**165**	**2,665**	**446**	**1,953**	
Amounts due to customers	**167,357**	**77,455**	**54,432**	**190,424**	**170,847**	**54,228**	
Debt securities issued	**–**	**8,413**	**10,790**	**144,807**	**350,851**	**1,122,719**	**1,**
Other liabilities	**25,724**	**3,420**	**584**	**3,271**	**2,366**	**3,032**	
Total undiscou	**197,992**	**160,285**	**188,882**	**527,562**	**915,316**	**1,351,115**	**3,**

(Millions of Kazakhstani Tenge)

nted financial liabilities

Financial liabilities

As at 31 December 2006	***On demand***	***Less than 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 3 years***	***Over 3 years***	***Tc***
Amounts due to the Government and the NBK	15	1	6	153	115	520	810
Amounts due to credit institutions	22,922	139,315	17,037	123,946	300,136	62,850	666,206
Derivative financial instruments	–	34	–	–	–	–	34
Amounts due to customers	181,619	39,495	63,304	178,040	88,229	19,108	569,795
Debt securities issued	–	683	8,794	66,246	261,076	646,836	983,635
Other liabilities	18,200	1,234	373	2,056	3,866	769	26,498
Total undiscounted financial liabilities	222,756	180,762	89,514	370,441	653,422	730,083	2,246,9

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27. Risk management policies (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities As at 31 December 2005	*On demand*	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 3 years*	*Over 3 years*	*Total*
Amounts due to the Government and the NBK	–	–	8	120	267	580	975
Amounts due to credit institutions	646	56,852	14,101	147,285	57,904	29,071	305,859
Derivative financial instruments	128	–	–	–	–	–	128
Amounts due to customers	80,928	34,487	64,081	107,562	25,335	3,562	315,955
Debt securities issued	–	109	5,522	20,860	87,963	349,963	464,417
Other liabilities	7,036	339	300	2,846	1,321	520	12,362
Total undiscounted financial liabilities	88,738	91,787	84,012	278,673	172,790	383,696	1,099,696

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	On demand	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 3 years*	*Over 3 years*	*Total*
2007	**17,775**	**16,478**	**28,756**	**146,621**	**250,623**	**166,493**	**626,746**
2006	18,151	14,876	18,210	117,946	177,008	54,268	400,459
2005	5,907	11,258	16,956	75,206	39,049	22,319	170,695

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

2007	*On demand*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	**62,634**	**31,890**	**4,634**	**565**	**–**	**–**	**–**	**99,723**
Obligatory reserves	**11,608**	**9,593**	**10,919**	**20,146**	**47,087**	**68,889**	**–**	**168,242**
Financial assets at fair value through profit or loss	**112,175**	**–**	**–**	**–**	**–**	**–**	**–**	**112,175**
Amounts due from credit institutions	**20**	**1,061**	**15,298**	**42,459**	**20,951**	**27,547**	**253**	**107,589**
Derivative financial assets	**–**	**375**	**–**	**–**	**13,094**	**17,928**	**–**	**31,397**
Available-for-sale Securities	**–**	**2,099**	**132**	**5,980**	**4,685**	**13,526**	**–**	**26,422**
Loans to customers	**–**	**38,630**	**109,458**	**394,504**	**653,172**	**1,168,076**	**15,970**	**2,379,810**
	186,437	**83,648**	**140,441**	**463,654**	**738,989**	**1,295,966**	**16,223**	**2,925,358**
Liabilities:								
Amounts due to the Government and NBK	**–**	**37**	**–**	**58**	**395**	**423**	**–**	**913**
Amounts due to credit institutions	**2,709**	**59,908**	**58,230**	**134,753**	**378,057**	**201,647**	**–**	**835,304**
Derivative financial liabilities	**–**	**–**	**394**	**1,514**	**253**	**3,367**	**–**	**5,528**
Amounts due to customers	**165,211**	**77,852**	**110,360**	**106,380**	**136,031**	**56,674**	**–**	**652,508**
Debt securities issued	**–**	**–**	**–**	**66,912**	**214,143**	**803,390**	**–**	**1,084,445**
	167,920	**137,797**	**168,984**	**309,617**	**728,879**	**1,065,501**	**–**	**2,578,698**
Net position	**18,517**	**(54,149)**	**(28,543)**	**154,037**	**10,110**	**230,465**	**16,223**	**346,660**
Accumulated gap	**18,517**	**(35,632)**	**(64,175)**	**89,862**	**99,972**	**330,437**	**346,660**	

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27. Risk management policies (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

2006	*On demand*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	74,608	106,115	12,852	65	–	–	–	193,640
Obligatory reserves	23,295	10,439	4,045	18,664	35,342	33,788	–	125,573
Financial assets at fair value through profit or loss	221,534	–	–	–	–	–	–	221,534
Amounts due from credit institutions	182	14,576	12,684	10,182	29,358	20,356	194	87,532
Derivative financial assets	–	–	–	–	4	3,453	–	3,457
Available-for-sale Securities	–	82	4,682	2,063	17,762	25,134	–	49,723
Loans to customers	26	47,874	79,222	227,722	350,349	597,520	40,701	1,343,414
	319,645	179,086	113,485	258,696	432,815	680,251	40,895	2,024,873
Liabilities:								
Amounts due to the Government and NBK	–	15	–	123	61	507	–	706
Amounts due to credit institutions	21,003	125,803	9,878	122,503	289,508	56,451	–	625,146
Derivative financial liabilities	–	–	–	34	–	–	–	34
Amounts due to customers	179,591	39,063	55,859	167,029	65,895	20,755	–	528,192
Debt securities issued	–	–	–	13,401	219,796	473,901	–	707,098
	200,594	164,881	65,737	303,090	575,260	551,614	–	1,861,176
Net position	119,051	14,205	47,748	(44,394)	(142,445)	128,637	40,895	163,697
Accumulated gap	119,051	133,256	181,004	136,610	(5,835)	122,802	163,697	

2005	*On demand*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	76,004	33,438	9,689	–	–	–	–	119,131
Obligatory reserves	984	1,138	1,187	3,236	1,230	3,016	–	10,791
Financial assets at fair value through profit or loss	110,252	–	–	–	–	–	–	110,252
Amounts due from credit institutions	47	754	3,296	7,405	2,022	10,152	–	23,676
Available-for-sale Securities	–	444	2,867	206	9,926	28,963	–	42,406
Loans to customers	704	30,807	62,295	195,821	100,128	282,206	8,424	680,385
	187,991	66,581	79,334	206,668	113,306	324,337	8,424	986,641
Liabilities:								
Amounts due to the Government and NBK	–	35	–	101	203	505	–	844
Amounts due to credit institutions	279	61,942	6,175	148,213	48,435	28,003	–	293,047
Derivative financial liabilities	–	–	–	–	–	128	–	128
Amounts due to customers	81,869	33,017	59,379	99,086	27,852	5,511	–	306,714
Debt securities issued	–	–	–	672	38,375	260,962	–	300,009
	82,148	94,994	65,554	248,072	114,865	295,109	–	900,742
Net position	105,843	(28,413)	13,780	(41,404)	(1,559)	29,228	8,424	85,899
Accumulated gap	105,843	77,430	91,210	49,806	48,247	77,475	85,899	

(Millions of Kazakhstani Tenge)

27. Risk management policies (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2007*	*Sensitivity of net interest income 2007*	*Sensitivity of equity 2007*
LIBOR:			
USD	**+46**	**(1,570)**	**(1)**
KZT	**+46**	**(719)**	**(168)**
EUR	**+46**	**(427)**	**–**
CHF	**+46**	**(90)**	**–**
JPY	**+46**	**(806)**	**–**

Currency	*Increase in basis points 2006*	*Sensitivity of net interest income 2006*	*Sensitivity of equity 2006*
LIBOR:			
USD	+32	(1,855)	(194)
KZT	+32	(572)	(73)
EUR	+32	(43)	(23)

Currency	*Increase in basis points 2005*	*Sensitivity of net interest income 2005*	*Sensitivity of equity 2005*
LIBOR:			
USD	+40	(1,227)	(410)
KZT	+40	(400)	(5)
EUR	+40	(59)	–

(Millions of Kazakhstani Tenge)

27. Risk management policies (continued)

Market risk (continued)

Interest rate risk (continued)

As at December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

	2007		2006		2005	
	KZT	Foreign currency	KZT	Foreign currency	KZT	Foreign currency
Financial assets at fair value through profit or loss	**6.6%**	**5.9%**	3.0%	6.1%	3.9%	4.5%
Amounts due from credit institutions	**7.6%**	**10.1%**	4.2%	4.8%	2.7%	4.0%
Available-for-sale securities	**11.2%**	**3.7%**	6.0%	4.4%	6.3%	3.3%
Loans to customers	**17.8%**	**13.0%**	18.2%	11.8%	19.7%	11.3%
Amounts due to the Government and the NBK	**5.8%**	**4.3%**	5.2%	6.2%	4.9%	4.9%
Amounts due to credit institutions	**8.4%**	**7.1%**	6.0%	7.0%	9.1%	5.7%
Amounts due to customers	**8.8%**	**6.3%**	7.5%	5.5%	7.5%	5.4%
Debt securities issued	**9.8%**	**9.2%**	9.0%	9.1%	9.9%	8.7%

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee has set limits on positions by currency based on the FMSA regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2007 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the income statement. The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2007	Effect on profit before tax 2007	Change in currency rate in % 2006	Effect on profit before tax 2006	Change in currency rate in % 2005	Effect on profit before tax 2005
USD	**-4**	**(5,591)**	-4	(6,736)	-5	(3,008)
EUR	**-7**	**1,044**	-8	6,616	+9	355
RUR	**-5**	**(1,681)**	-5	(1,393)	+5	281
CHF	**-8**	**1,609**	+9	3	-10	(21)
JPY	**-9**	**831**	-10	(602)	+8	1
PLZ	**-10**	**792**	-12	1,008	–	–
GBP	**-8**	**3,476**	+8	76	–	–

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27. Risk management policies (continued)

Market risk (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Bank's investment and trading portfolios.

The effect on profit before tax and equity (as a result of a change in the fair value of financial assets at fair value through profit or loss and equity instruments held as available-for-sale at 31 December 2007) due to a reasonably possible change in equity indices using Capital Asset Pricing Model, with all other variables held constant, is as follows:

Market index	*Increase in indices 2007, %*	*Effect on profit before tax and equity 2007*	*Increase in indices 2006, %*	*Effect on profit before tax and equity 2006*	*Increase in indices 2005, %*	*Effect on profit before tax and equity 2005*
KASE	**9.6**	**534**	20.0	384	198.8	224
RTS	**27.3**	**290**	64.5	121	85.3	69
PFTS (Ukraine)	**131.1**	**70**	–	–	–	–
MSCI World Index	**2.8**	**1,581**	13.4	(399)	–	–
FTSE World Oil & Gas Index	**14.3**	**2**	15.6	1	–	–
FTSE All Share Mining Index	**47.5**	**19**	20.3	8	–	–
FTSE All Share Support Services Index	**13.0**	**(1)**	–	–	–	–
FTSE All Share Banks Index	**22.5**	**–**	–	–	–	–
Toronto SE 300 Composite Index	**7.0**	**2**	–	–	–	–
PRIME Xetra Insurance Index	**–**	**–**	20.5	10	–	–
S&P Multi-Line Insurance Sub-Industry Index	**–**	**–**	4.3	11	–	–

Market index	*Decrease in indices 2007, %*	*Effect on profit before tax and equity 2007*	*Decrease in indices 2006, %*	*Effect on profit before tax and equity 2006*	*Decrease in indices 2005, %*	*Effect on profit before tax and equity 2005*
KASE	**-9.6**	**455**	-20.0	(254)	-198.8	131
RTS	**-27.3**	**212**	-64.5	76	-85.3	72
PFTS (Ukraine)	**-131.1**	**(28)**	–	–	–	–
MSCI World Index	**-2.8**	**1,513**	-13.4	7,544	–	–
FTSE World Oil & Gas Index	**-14.3**	**(1)**	-15.6	1	–	–
FTSE All Share Mining Index	**-47.5**	**(11)**	-20.3	–	–	–
FTSE All Share Support Services Index	**-13.0**	**3**	–	–	–	–
FTSE All Share Banks Index	**-22.5**	**–**	–	–	–	–
Toronto SE 300 Composite Index	**-7.0**	**–**	–	–	–	–
PRIME Xetra Insurance Index	**–**	**–**	–	11	–	–

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Having analyzed historical data on repayments, the Group has defined the most reasonable amount of assets and liabilities that could be early repaid. The effect on profit before tax assuming 5% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income		
	2007	*2006*	*2005*
KZT	**(4,648)**	(340)	(280)
USD	**(1,700)**	(371)	(137)
EUR	**75**	30	20

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Other	**(1)**	(47)	(25)

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27. Risk management policies (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2007	*Fair value 2007*	*Unrecognised gain/(loss) 2007*	*Carrying value 2006*	*Fair value 2006*	*Unrecognised gain/(loss) 2006*
Financial assets						
Cash and cash equivalents	**99,723**	**99,723**	**–**	193,640	193,640	–
Obligatory reserves	**168,242**	**168,242**	**–**	125,573	125,573	–
Financial assets at fair value through profit or loss	**112,175**	**112,175**	**–**	221,534	221,534	–
Amounts due from credit institutions	**107,589**	**107,589**	**–**	87,452	87,452	–
Derivative financial assets	**31,397**	**31,397**	**–**	3,457	3,457	–
Loans to customers	**2,379,810**	**2,385,763**	**5,953**	1,343,414	1,383,413	39,999
Available-for-sale investment securities	**26,422**	**26,422**	**–**	49,723	49,723	–
Financial liabilities						
Amounts due to the Government and the NBK	**913**	**913**	**–**	706	706	–
Amounts due to credit institutions	**835,304**	**848,660**	**(13,356)**	625,146	630,384	(5,238)
Derivative financial liabilities	**5,528**	**5,528**	**–**	34	34	–
Amounts due to customers	**652,508**	**652,508**	**–**	528,192	528,192	–
Debt securities issued	**1,084,445**	**1,016,976**	**67,469**	707,098	728,810	(21,712)
Total unrecognised change in unrealised fair value			**60,066**			13,049

	Carrying value 2005	*Fair value 2005*	*Unrecognised gain/(loss) 2005*
Financial assets			
Cash and cash equivalents	119,131	119,131	–
Obligatory reserves	10,791	10,791	–
Financial assets at fair value through profit or loss	110,252	110,252	–
Amounts due from credit institutions	23,676	23,676	–
Available-for-sale investment securities	42,406	42,406	–
Loans to customers	680,385	680,427	42
Financial liabilities			
Amounts due to the Government and the NBK	844	844	–
Amounts due to credit institutions	293,047	302,262	(9,215)
Derivative financial liabilities	128	128	–
Amounts due to customers	306,714	306,714	–
Debt securities issued	300,009	314,860	(14,851)
Total unrecognised change in unrealised fair value			(24,024)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

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28. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

29. Segment analysis

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

Business Segments. The Group is organised on a basis of four main business segments:

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

Corporate banking – representing other than small and medium size legal entities direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Small and medium business – representing individual entrepreneurs and small enterprises current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Investment activity - representing financial assets and liabilities used for trading or investment purposes, financing, and merger and acquisitions transaction support.

Asset management- principally providing investment products and services to institutional investors and intermediaries.

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29. Segment analysis (continued)

Segment information for the main reportable business segments of the Group for the years ended December 31, 2007, 2006 and 2005 is set out below

2007	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Asset management*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	170,830	38,679	81,803	32,190	–	(54)	–	323,448
Internal interest income	22,470	5,709	28,186	214,547	–	–	(270,912)	–
External interest expense	(14,604)	(3,829)	(28,996)	(131,850)	–	–	–	(179,279)
Internal interest expense	(132,014)	(19,957)	(37,748)	(81,193)	–	–	270,912	–
Net interest income before impairment	46,682	20,602	43,245	33,694	–	(54)	–	144,169
Impairment charge	(52,722)	(5,623)	(9,431)	(12)	–	(22)	–	(67,810)
Net interest (loss)/income after impairment	(6,040)	14,979	33,814	33,682	–	(76)	–	76,359
Net commission and non-interest income	35,049	9,100	5,149	15,235	1,953	2,433	(13,333)	55,586
Non-interest expenses	(20,265)	(9,859)	(28,497)	(8,302)	(88)	(3,259)	13,333	(56,937)
Other provisions	(4,495)	123	(25)	–	–	(308)	–	(4,705)
Income from associate organizations	–	–	–	4,234	–	–	–	4,234
Income before income tax expense	4,249	14,343	10,441	44,849	1,865	(1,210)	–	74,537
Income tax expense	–	–	–	–	–	(9,832)	–	(9,832)
Net income after income tax	4,249	14,343	10,441	44,849	1,865	(11,042)	–	64,705
Total assets	1,642,359	295,840	526,287	1,526,106	33	245,343	(1,171,351)	3,064,617
Total liabilities	329,158	140,980	346,719	2,836,257	3	10,837	(1,051,369)	2,612,585

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29. Segment analysis (continued)

2006	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Asset management*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	76,191	16,460	22,540	17,498	–	–	–	132,689
Internal interest income	25,342	2,062	15,886	100,087	–	–	(143,377)	–
External interest expense	(8,327)	(644)	(14,579)	(57,675)	–	–	–	(81,225)
Internal interest expense	(57,135)	(13,289)	(13,293)	(59,660)	–	–	143,377	–
Net interest income before impairment	36,071	4,589	10,554	250	–	–	–	51,464
Impairment charge	(28,139)	(2,564)	(2,502)	14	–	(4)	–	(33,195)
Net interest income after impairment	7,932	2,025	8,052	264	–	(4)	–	18,269
Net commission and non-interest income	8,455	4,550	8,004	19,956	3,718	15,956	(6,539)	54,100
Non-interest expenses	(522)	(3,472)	(11,908)	(5,864)	(28)	(13,282)	6,539	(28,537)
Other provisions	(2,383)	(99)	(85)	1	–	–	–	(2,566)
Income from associate organizations	–	–	–	2,364	–	–	–	2,364
Income before income tax expense	13,482	3,004	4,063	16,721	3,690	2,670	–	43,630
Income tax expense	–	–	–	–	–	(4,552)	–	(4,552)
Net income after income tax	13,482	3,004	4,063	16,721	3,690	(1,882)	–	39,078
Total assets	927,204	181,922	313,641	1,315,482	226	113,772	(777,105)	2,075,142
Total liabilities	313,815	86,727	267,892	1,943,781	255	3,441	(735,387)	1,880,524

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29. Segment analysis (continued)

2005	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Asset management*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	48,500	10,055	11,158	8,573	–	–	–	78,286
Internal interest income	17,689	1,121	10,664	58,628	–	–	(88,102)	–
External interest expense	(6,491)	(29)	(8,599)	(30,580)	–	–	–	(45,699)
Internal interest expense	(45,266)	(5,537)	(7,002)	(30,297)	–	–	88,102	–
Net interest income before impairment	14,432	5,610	6,221	6,324	–	–	–	32,587
Impairment charge	(13,004)	(1,763)	(674)	79	–	3	–	(15,359)
Net interest income after impairment	1,428	3,847	5,547	6,403	–	3	–	17,228
Net commission and non-interest income	8,042	641	3,647	2,415	859	5,311	(2,981)	17,934
Non-interest expenses	(4,259)	(1,537)	(5,586)	(2,273)	(17)	(6,561)	2,981	(17,252)
Other provisions	(1,239)	(169)	(55)	(179)	–	–	–	(1,642)
Income from associate organizations and banks	–	–	–	7	–	–	–	7
Income before income tax expense	3,972	2,782	3,553	6,373	842	(1,247)	–	16,275
Income tax expense	–	–	–	–	–	(1,569)	–	(1,569)
Net income after income tax	3,972	2,782	3,553	6,373	842	(2,816)	–	14,706
Total assets	506,963	88,761	99,455	643,729	580	7,874	(349,557)	997,805
Total liabilities	242,669	27,156	152,117	834,190	–	936	(346,371)	910,697

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29. Segment analysis (continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the year ended December 31, 2007, 2006 and 2005.

	Kazakhstan	*OECD*	*Non OECD*	*Total*
2007				
Segment assets	**2,003,504**	**208,669**	**976,537**	**3,188,710**
External revenues	**242,667**	**109,810**	**158,402**	**510,879**
Capital expenditure	**14,202**	**–**	**1,653**	**15,855**
Commitments to extend credit	**256,166**	**20,476**	**57,529**	**334,171**
2006				
Segment assets	1,425,104	298,894	414,275	2,138,273
External revenues	192,249	48,597	20,771	261,617
Capital expenditure	(9,665)	–	–	(9,665)
Commitments to extend credit	78,354	26,713	10,361	115,428
2005				
Segment assets	705,007	181,932	149,309	1,036,248
External revenues	105,230	21,296	34,728	161,254
Capital expenditure	(4,389)	–	–	(4,389)
Commitments to extend credit	31,974	1,019	119	33,112

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

30. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties, except those, who are subject to the restriction of the legislation, may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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30. Related party transactions (continued)

As at December 31, 2007, 2006 and 2005, the Group had the following transactions with related parties:

	December 31, 2007			*December 31, 2006*				*December 31, 2005*			
	Associates	***Key management personnel***	***Other related parties***	***Shareholders***	***Associates***	***Key management personnel***	***Other related parties***	***Shareholders***	***Associates***	***Key management personnel***	***Other related parties***
Loans outstanding at January 1, gross	**–**	**8,683**	**6,510**	–		916	7,940	–	–	463	982
Loans issued during the year	**–**	**7,742**	**5,790**	–	–	12,215	10,481	–	–	693	10,123
Loan repayments during the year	**–**	**(8,215)**	**(10,948)**	–	–	(4,448)	(11,911)	–	–	(240)	(3,165)
Loans outstanding at December 31, gross	**–**	**8,210**	**1,352**	–	–	8,683	6,510	–	–	916	7,940
Less: allowance for impairment December 31	**–**	**–**	**–**	–	–	–	(308)	–	–	(27)	(328)
Loans outstanding December 31, net	**–**	**8,210**	**1,352**	–	–	8,683	6,202	–	–	889	7,612
Amounts due from credit institutions (deposits)											
Deposits at January 1	**2,246**	**–**	**6,570**	–	–	–	–	–	–	–	–
Deposits placed during the year	**8,307**	**–**	**19,887**	–	2,261	–	12,872	–	–	–	–
Deposits withdrawn during the year	**(5,457)**	**–**	**(20,875)**	–	(15)	–	(6,302)	–	–	–	–
Deposits at December 31	**5,096**	**–**	**5,582**	–	2,246	–	6,570	–	–	–	–
Amounts due from credit institutions (loans)											
Loans at January 1	**12,625**	**–**	**3,190**	–	3,144	–	–	–	–	–	–
Loans placed during the year	**17,892**	**–**	**9,374**	–	31,742	–	10,286	–	5,836	–	–
Loans withdrawn during the year	**(21,020)**	**–**	**(4,166)**	–	(22,261)	–	(7,096)	–	(2,692)	–	–
Loans at December 31	**9,497**	**–**	**8,398**	–	12,625	–	3,190	–	3,144	–	–
Amounts due to credit institutions											
Loans at January 1	**3,529**	**–**	**17,481**	7,312	2	–	39	14,907	1	–	48
Loans received during the year	**79,809**	**–**	**329,572**	–	46,262	–	172,352	1,630	5	–	76,032
Loans repaid during the year	**(82,908)**	**–**	**(346,495)**	(7,312)	(42,735)	–	(154,910)	(9,225)	(4)	–	(76,041)
Loans at December 31	**430**	**–**	**558**	–	3,529	–	17,481	7,312	2	–	39

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30. Related party transactions (continued)

	December 31, 2007				December 31, 2006				December 31, 2005			
	Shareholders	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*
Financial assets at fair value through profit or loss												
Deposits at January 1	–	1,620	–	–	–	–	–	–	–	–	–	–
Deposits received during the year	–	336	–	–	–	1,641	–	–	–	–	–	–
Deposits repaid during the year	–	(337)	–	–	–	(21)	–	–	–	–	–	–
Deposits December 31	–	1,619	–	–	–	1,620	–	–	–	–	–	–
Cash and cash equivalents												
Deposits at January 1	–	128	–	617	–	136	–	197	–	–	–	94
Deposits received during the year	–	48,639	–	358,894	–	1,385	–	224,751	–	2,170	–	145,011
Deposits repaid during the year	–	(48,766)	–	(358,230)	–	(1,393)	–	(224,331)	–	(2,034)	–	(144,908)
Deposits December 31	–	1	–	1,281	–	128	–	617	–	136	–	197
Amounts due to customers												
Deposits at January 1	4,583	–	982	500	–	–	313	–	–	–	266	–
Deposits received during the year	55,158	–	78,375	18,901	12,309	–	18,407	620	–	8	1,903	–
Deposits repaid during the year	(59,723)	–	(75,206)	(14,605)	(7,726)	–	(17,738)	(120)	–	(8)	(1,856)	–
Deposits December 31	18	–	4,151	4,796	4,583	–	982	500	–	–	313	–
Commitments and guarantees issued	–	3,796	4,824	9,158	–	1,585	23	5,971	–	813	10	7,662
Commitments and guarantees received	–	503	8	1,456	–	1,585	54	5,971	–	–	–	–
Interest income on loans	–	–	1,614	666	–	–	574	987	–	–	52	864
Interest income on due from credit institutions	–	1,284	–	1,127	–	391	–	697	–	325	–	–
Interest expense on due to credit institutions	–	(57)	–	(8)	–	(2)	–	(1)	(297)	–	–	(2)
Interest expense on due to customers	–	–	(255)	(2)	(471)	–	(71)	(1)	–	–	(13)	–
Interest income on financial assets	–	147	–	–	–	100	–	–	–	–	–	–
Interest income on deposits with contractual maturity less than 90 days	–	16	–	2	–	1	–	40	–	–	–	–
Fee and commission income	–	46	–	34	–	42	304	72	–	–	–	117
Other income	–	40	–	–	–	–	–	–	–	–	–	–
Fee and commission expense	–	–	–	(245)	–	–	–	–	–	–	–	–

(Millions of Kazakhstani Tenge)

30. Related party transactions (continued)

For the years ended December 31, the Group had the following transactions with related parties:

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2007 was KZT 610 million (2006 - KZT 626 million; 2005 - KZT 389 million).

As at December 31, 2007 the Bank had loans in the aggregate amount of KZT 4,381 million issued to the Group's management for the purpose of investing in the mutual investment funds managed by the subsidiary of the Group (2006-KZT 6,440 million, 2005-Nil), the rest are consumer loans.

Included in the table above are the following transactions with related parties outstanding as at December 31, 2007, 2006 and 2005:

- Operations with associates such as: loans - including provisioning matters, due from credit institutions (loans issued and deposits placed) with the Group and guarantees and letters of credit to investees, and mutual investments.
- Shareholders: loans - including provisioning matters, deposits placed with the Group.
- Members of Board of Directors: loans - including provisioning matters, deposits attracted with the Group, total remuneration paid during the year.

31. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the FMSA in supervising the Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

FMSA capital adequacy ratio

FMSA requires banks to maintain a tier 1 capital adequacy ratio of 6% of assets and general capital adequacy of 12% of risk-weighted assets. In 2007, 2006 and 2005, risk-weighted assets calculated in accordance with the FMSA requirements were derived from the Bank's stand-alone financial statements prepared in accordance with Kazakhstani Accounting Standards. As at December 31, 2007, the Bank's capital adequacy ratio on this basis was as follows:

	2007	***2006***	***2005***
Tier 1 capital	**401,831**	172,526	77,513
Tier 2 capital	**136,818**	120,946	53,146
Less: deductions from capital	**(64,356)**	(33,427)	(24)
Total capital	**474,293**	260,045	130,634
Total assets	**2,648,603**	1,824,994	963,653
Risk weighted assets	**3,436,493**	1,930,212	940,769
Less: deductions from assets	**(1,700)**	–	–
Capital adequacy ratio tier 1	**13.6%**	8.5%	8.0%
General capital adequacy ratio	**13.8%**	13.5%	13.9%

(Millions of Kazakhstani Tenge)

31. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as at December 31, 2007, 2006 and 2005, exceeded the minimum ratio of 8% recommended by the Basle Accord for Tier 1 and Tier 2 capital adequacy ratio and assessed based on credit risks approach.

	Balance Sheet Notional Amount			Risk Weighted Amount		
	2007	2006	2005	2007	2006	2005
Total assets	**3,575,462**	2,440,759	1,172,002	**2,730,706**	1,664,364	782,534

	Capital			BIS%		
	2007	2006	2005	2007	2006	2005
Tier 1 capital	**462,320**	201,740	86,572	**16.93%**	12.12%	11.06%
Tier 2 capital	**85,168**	95,293	42,929			
Gross available capital	**547,488**	297,033	129,501	**–**	–	–
Less investments	**(67,767)**	(5,996)	(2,205)	**–**	–	–
Tier 1 + Tier 2 capital	**479,721**	291,037	127,296	**17.57%**	17.49%	16.27%

32. Subsequent events

In January 2008 the Bank changed its name to JSC BTA Bank. In March 2008 the Bank made a decision to increase its ownership share in Slavinvestbank LLP from 15.6% to 51.0%.

In February 2008 the Bank acquired 100.00% share of ownership in TemirCpital BV from its subsidiary TemirBank for EUR 20 thousand KZT equivalent of 3,572 thousand.