

# **JSC BTA Bank and subsidiaries**

## **Consolidated Financial Statements**

*Year ended 31 December 2008 together  
with Independent Auditors' Report*

**CONTENTS****INDEPENDENT AUDITORS' REPORT**

Consolidated balance sheet.....	1
Consolidated statement of income .....	2
Consolidated statement of changes in equity .....	3
Consolidated statement of cash flows.....	5

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

1. Principal activities .....	6
2. Going concern.....	6
3. Basis of preparation.....	7
4. Summary of significant accounting policies .....	11
5. Significant accounting judgements and estimates.....	24
6. Business combination.....	26
7. Cash and cash equivalents .....	27
8. Obligatory reserves .....	27
9. Financial assets at fair value through profit or loss.....	27
10. Amounts due from credit institutions.....	28
11. Derivative financial instruments .....	28
12. Available-for-sale investment securities.....	29
13. Loans to customers .....	30
14. Investments in associates.....	33
15. Goodwill .....	33
16. Other impairment and provisions .....	35
17. Taxation .....	35
18. Amounts due to the government and central banks.....	37
19. Amounts due to credit institutions.....	37
20. Amounts due to customers .....	38
21. Debt securities issued.....	39
22. Equity .....	40
23. Commitments and contingencies .....	40
24. Fees and commissions.....	43
25. Net trading (loss) / income .....	43
26. Salaries and other administrative and operating expenses.....	44
27. Earnings per share .....	44
28. Risk management policies.....	45
29. Fair values of financial instruments.....	57
30. Segment analysis .....	58
31. Related party transactions.....	61
32. Capital adequacy.....	65
33. Subsequent events .....	66

## INDEPENDENT AUDITORS' REPORT

To the shareholders and Board of Directors of JSC BTA Bank

We have audited the accompanying consolidated financial statements of JSC BTA Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

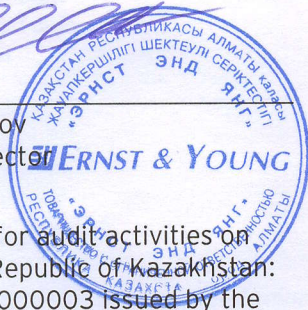
**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Group incurred a net loss amounting to KZT 1,188,050 million during the year ended 31 December 2008 and, as of that date, the Group's total liabilities exceeded its total assets by KZT 742,779 million. These conditions, along with other matters described in Note 2, including current defaults under debt agreements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

*Ernst & Young LLP*

*[Handwritten signature]*

Evgeny Zhemaletdinov  
Auditor/General Director  
Ernst & Young LLC



State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005



Auditor Qualification Certificate No. 0000553  
dated 24 December 2003

8 May 2009

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER**
*(Millions of Kazakhstani tenge)*

	<i>Notes</i>	<i>2008</i>	<i>2007</i>
<b>Assets</b>			
Cash and cash equivalents	7	87,893	99,723
Obligatory reserves	8	64,054	168,242
Financial assets at fair value through profit or loss	9	128,150	112,175
Amounts due from credit institutions	10	85,174	107,589
Derivative financial assets	11	21,650	31,397
Available-for-sale investment securities	12	20,482	26,422
Loans to customers	13	1,617,063	2,379,810
Investments in associates	14	72,371	67,767
Property and equipment		13,704	13,433
Goodwill	15	37,421	37,557
Current income tax assets		5,505	110
Deferred income tax assets	17	5,046	683
Other assets		35,688	19,709
<b>Total assets</b>		<b>2,194,201</b>	<b>3,064,617</b>
<b>Liabilities</b>			
Amounts due to the Government and central banks	18	1,718	913
Amounts due to credit institutions	19	803,366	835,304
Amounts due to customers	20	886,052	652,508
Derivative financial liabilities	11	18,789	5,528
Debt securities issued	21	1,087,726	1,084,445
Provisions	16	104,893	10,577
Other liabilities		34,436	23,311
<b>Total liabilities</b>		<b>2,936,980</b>	<b>2,612,586</b>
<b>Equity</b>			
Issued capital: common shares	22	303,456	303,427
Treasury shares		(1,568)	(555)
Available-for-sale investment securities revaluation reserve		(1,112)	(195)
Foreign currency translation reserve		(948)	104
(Accumulated deficit) / retained earnings		(1,057,646)	129,938
<b>Equity attributable to shareholders of the parent</b>		<b>(757,818)</b>	<b>432,719</b>
Minority interest		15,039	19,312
<b>Total equity</b>		<b>(742,779)</b>	<b>452,031</b>
<b>Total liabilities and equity</b>		<b>2,194,201</b>	<b>3,064,617</b>

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

Anvar Saidenov

Alma Maxutova

8 May 2009



Chairman of the Board

Chief Accountant

*The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER

(Millions of Kazakhstani Tenge)

	<i>Notes</i>	<i>2008</i>	<i>2007</i>
<b>Interest income</b>			
Loans		366,037	291,724
Securities		12,597	14,587
Deposits with other banks		17,833	17,137
		<u>396,467</u>	<u>323,448</u>
<b>Interest expense</b>			
Debt securities issued		(95,888)	(85,683)
Deposits from customers		(55,748)	(39,935)
Deposits and loans from credit institutions		(56,745)	(53,661)
		<u>(208,381)</u>	<u>(179,279)</u>
<b>Net interest income before impairment</b>		188,086	144,169
Impairment charge	10,13	(1,094,300)	(67,810)
<b>Net interest income</b>		<u>(906,214)</u>	<u>76,359</u>
Fee and commission income	24	30,334	28,489
Fee and commission expense	24	(1,179)	(1,057)
<b>Fees and commissions</b>	24	<u>29,155</u>	<u>27,432</u>
Net trading (loss)/ income	25	(29,769)	2,503
Gains less losses from foreign currencies:			
- dealing		1,665	2,512
- translation differences		(10,870)	19,884
Income from insurance operations		13,585	12,539
Expenses from insurance operations		(11,485)	(9,222)
Share of (loss)/ income of associates	3	(15,448)	4,234
Loss on disposal of subsidiaries	3	(11,252)	(249)
Impairment charge for available-for-sale investment securities	12	(42,610)	-
Impairment charge for goodwill	15	(8,107)	-
Impairment charge for investments in associates		(19,138)	-
Other income / (loss)		212	(62)
<b>Non interest (loss) / income</b>		<u>(133,217)</u>	<u>32,139</u>
Salaries and other employee benefits	26	(26,597)	(25,744)
Other administrative and operating expenses	26	(27,414)	(23,400)
Depreciation and amortisation		(4,435)	(2,314)
Taxes other than income tax		(4,163)	(3,469)
Other provisions	16	(113,130)	(4,705)
Obligatory insurance of individuals' deposits		(2,102)	(1,761)
<b>Non interest expense</b>		<u>(177,841)</u>	<u>(61,393)</u>
<b>(Loss) / income before income tax expense</b>		(1,188,117)	74,537
Income tax benefit/(expense)	17	67	(9,832)
<b>Net (loss) / income</b>		<u>(1,188,050)</u>	<u>64,705</u>
Attributable to:			
Equity holders of the parent		(1,187,584)	61,354
Minority interest		(466)	3,351
<b>Net (loss) / income</b>		<u>(1,188,050)</u>	<u>64,705</u>
<b>Basic and diluted (loss)/ earnings per share (in Kazakhstani Tenge)</b>	27	(141,878)	8,143

The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(Millions of Kazakhstani Tenge)

	<i>Issued capital- common shares</i>	<i>Treasury stock</i>	<i>Available- for-sale securities revaluation reserve</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
<b>1 January 2007</b>	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	–	–	106	–	–	106	–	106
Release of available-for-sale securities revaluation reserve on disposal of previously revalued assets	–	–	(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)
Sale of treasury shares	–	5,930	–	–	–	5,930	–	5,930
Contribution to subsidiaries	–	–	–	–	–	–	8,515	8,515
Minority interest arising on acquisition	–	–	–	–	–	–	988	988
Acquisition of minority interest	–	–	–	–	–	–	(5,723)	(5,723)
<b>31 December 2007</b>	<b>303,427</b>	<b>(555)</b>	<b>(195)</b>	<b>104</b>	<b>129,938</b>	<b>432,719</b>	<b>19,312</b>	<b>452,031</b>

The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

(Millions of Kazakhstani Tenge)

	<i>Issued capital- common shares</i>	<i>Treasury stock</i>	<i>Available-for- sale securities revaluation reserve</i>	<i>Foreign currency translation reserve</i>	<i>Accumu- lated deficit</i>	<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
<b>1 January 2008</b>	<b>303,427</b>	<b>(555)</b>	<b>(195)</b>	<b>104</b>	<b>129,938</b>	<b>432,719</b>	<b>19,312</b>	<b>452,031</b>
Fair value change of available-for-sale securities, net of tax	–	–	(261)	–	–	(261)	(58)	(319)
Release of available-for-sale securities revaluation reserve on disposal of previously revalued assets	–	–	(29)	–	–	(29)	1	(28)
Share of changes recognized directly in equity of an associate	–	–	(627)	–	–	(627)	–	(627)
Foreign currency translation	–	–	–	(1,052)	–	(1,052)	(138)	(1,190)
Total loss recognized directly in equity	–	–	(917)	(1,052)	–	(1,969)	(195)	(2,164)
Net loss	–	–	–	–	(1,187,584)	(1,187,584)	(466)	(1,188,050)
Total loss	–	–	(917)	(1,052)	(1,187,584)	(1,189,553)	(661)	(1,190,214)
Issue of common shares	29	–	–	–	–	29	–	29
Purchase of treasury shares	–	(5,508)	–	–	–	(5,508)	–	(5,508)
Sale of treasury shares	–	4,495	–	–	–	4,495	–	4,495
Minority interest arising on acquisition	–	–	–	–	–	–	15	15
Acquisition of minority interest	–	–	–	–	–	–	(3,627)	(3,627)
<b>31 December 2008</b>	<b>303,456</b>	<b>(1,568)</b>	<b>(1,112)</b>	<b>(948)</b>	<b>(1,057,646)</b>	<b>(757,818)</b>	<b>15,039</b>	<b>(742,779)</b>

The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements



## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Millions of Kazakhstani Tenge)

	<i>Notes</i>	<i>2008</i>	<i>2007</i>
<b>Cash flows from operating activities:</b>			
Interest received		299,195	250,757
Interest paid		(213,316)	(164,573)
Income received from trading in foreign currencies		1,665	2,512
Fee and commission received		29,257	28,074
Fee and commission paid		(1,174)	(538)
Cash paid for insurance operations		(5,108)	(2,139)
Cash received from insurance operations		9,859	9,333
Cash paid to employees		(24,910)	(19,681)
Recovery of loans previously written-off	10,13,16	4,786	5,822
Cash paid for obligatory deposits insurance		(2,102)	(1,761)
Operating expenses paid		(30,045)	(28,849)
<b>Cash flows provided by operating activities before changes in operating assets and liabilities</b>		<b>68,107</b>	<b>78,957</b>
<b>Net cash increase / decrease from operating assets and liabilities</b>			
Net decrease / (increase) in obligatory reserves		125,369	(38,751)
Net (increase) / decrease in financial assets at fair value through profit or loss		(38,390)	109,168
Net decrease / (increase) in due from credit institutions		9,705	(19,471)
Net increase in loans to customers		(330,564)	(1,083,061)
Net increase in other assets, including prepaid taxes		(16,991)	(7,033)
Net increase in due to the Government and central banks		93,321	44
Net increase in derivative financial instruments		(2,961)	-
Net (decrease) / increase in due to credit institutions		(62,494)	226,124
Net increase in due to customers		197,629	128,468
Income tax paid		(10,370)	(11,756)
Net increase in other liabilities		4,750	4,815
<b>Net cash from / (used in) operating activities</b>		<b>37,111</b>	<b>(612,496)</b>
<b>Cash flows from investing activities</b>			
Acquisition of available-for-sale investment securities		(58,061)	(57,057)
Proceeds from sale of available-for-sale investment securities		26,905	77,513
Acquisition of subsidiaries, net of cash paid		11,455	(692)
Investment in associates		(33,690)	(57,537)
Acquisition of minority interest		(8,970)	(19,652)
Dividends received from associates		658	-
Acquisition of property and equipment		(5,251)	(14,774)
Proceeds from disposal of property and equipment		1,102	6,615
<b>Net cash used in investing activities</b>		<b>(65,852)</b>	<b>(65,584)</b>
<b>Cash flows from financing activities</b>			
Proceeds from debt securities issued		118,828	451,931
Redemption of debt securities issued		(96,657)	(66,997)
Proceeds from issue of common shares		29	186,976
Contribution to subsidiaries by minority shareholders		-	8,515
Purchase of treasury shares		(5,508)	(3,645)
Proceeds from sale of treasury shares		4,495	5,930
<b>Net cash from financing activities</b>		<b>21,187</b>	<b>582,710</b>
Effect of exchange rate changes on cash and cash equivalents		(4,276)	1,453
<b>Net increase in cash and cash equivalents</b>		<b>(11,830)</b>	<b>(93,917)</b>
Cash and cash equivalents at beginning of the year		99,723	193,640
<b>Cash and cash equivalents at the end of the year</b>		<b>87,893</b>	<b>99,723</b>
<b>Non-cash transactions:</b>			
Transfer to investments		6,785	-
Deconsolidation of subsidiary		(13,288)	249

The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements

(Millions of Kazakhstani Tenge)

## 1. Principal activities

JSC BTA Bank and its subsidiaries (together the “Group”) provide retail and corporate banking services, insurance services, leasing and other financial services in Kazakhstan, Kyrgyzstan, Russian Federation and Belorussia. The parent company of the Group is BTA Bank (the “Bank”), a joint stock company. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 3 lists the Bank’s subsidiaries and associates.

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 31 December 2008, the Bank had 22 regional branches and 279 cash settlement units (2007 - 22 regional branches and 289 cash settlement units) located throughout Kazakhstan and representative offices in Shanghai, China; Moscow, Russia; Kiev, Ukraine; Dubai, United Arab Emirates; London, Great Britain.

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

Shareholders:	2008	2007
	%	%
<b>Common shares:</b>		
KT Asia Investment Group B.V.	9.66	9.66
Drey Associates Limited	9.65	9.65
Strident Energy Limited	9.56	9.56
InvestCapital Company LLP	8.14	8.50
SMKK LLP	7.77	7.53
Yassi Invest LLP	7.19	7.19
Agroinvest LLP	7.15	7.15
CP-CreditPriveSA	6.74	6.74
Makta Aral Company LLP	6.67	6.96
Other less than 5%	27.47	27.06
	<b>100.00</b>	<b>100.00</b>

As described in more detail in Note 2, in accordance with Law of the Republic of Kazakhstan on Bank and banking activities in February 2009 Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the “FMSA”) made an offer to the Government of the Republic of Kazakhstan to purchase a majority interest in BTA Bank JSC. The purchase was carried out through an additional emission. As part of this emission, the Government represented by JSC “Sovereign Wealth Fund “Samruk-Kazyna”(the “controlling shareholder”) purchased 25,246,343 shares at the price of KZT 8,401 per share that resulted in KZT 212,095 million invested to the Bank’s equity and the share of the controlling shareholder in the Bank’s equity amounted to 75.10%.

No dividends to common shareholders were paid during 2008 and 2007.

## 2. Going Concern

There has been a significant deterioration in the Group's financial position during 2008, which was identified by the current management of the Bank in 2009, principally resulting from the loss events related with the loan portfolio described in Note 5. This has led to a breach, by the Bank and the Group, of certain prudential requirements including those related to capital adequacy set by the FMSA. As a result of these loss events the Group’s total liabilities as at 31 December 2008 exceeded its total assets by KZT 742,779 million and the Group has reported a net loss amounting to KZT 1,188,050 million for the year then ended. This led the Bank to non-compliance of certain ratios, including capital adequacy ratio as calculated in accordance with Basel Capital Accord 1988 requirements.

As at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank’s default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

(Millions of Kazakhstani Tenge)

## 2 Going Concern (continued)

Due to the Bank's inability to early repay all its debts as called by creditors, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million or equivalent of KZT 83 billion, citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder, Samruk Kazyna, and the management considers that the restructuring of the above facilities will be completed in 2009.

Prior to the debt restructuring, the controlling shareholder, has committed to provide funding to enable the Bank to make all interest payments on debt outstanding and to enable the Bank to continue all banking operations other than payment of principal on external debts amounting to approximately USD 13 billion or equivalent of KZT 1,570 billion. After the debt restructuring, the controlling shareholder has committed to provide to the Bank sufficient funds to enable the Bank to both repay interest and principal in accordance with restructured maturities and to continue the Bank's operations for at least a one year period from 8 May 2009.

Starting from February 2009, the controlling shareholder and the management of the Bank have been executing several initiatives aimed at improving liquidity and enabling the Group to continue its operations including, but not limited, to the following:

- (a) In March 2009, the controlling shareholder purchased the Bank's bonds totaling KZT 645 billion;
- (b) In 2009, significant funds were placed on current accounts with the Group by entities owned by the controlling shareholder;
- (c) the Bank is an active participant of governmental programs. Under Governmental anti-crisis programs the Group received KZT 40 billion to refinance mortgage loans, KZT 22 billion to finance medium and small size entities and KZT 20 billion to complete construction projects. Furthermore the Bank is a key financial institution for realization of stabilization and support of a real sector of economy.
- (d) The controlling shareholder is looking for a strategic investor in the Bank's equity;
- (e) The Group is negotiating with FMSA a grace period to give the Bank time to restructure its debt and get its banking ratios in line with the requirements of FMSA.

Because of the negative events described above there is a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. Therefore, the Bank may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements of the Group have been prepared on a going concern basis that contemplates the realization of restructuring of its long-term debt and continued adequate support from the controlling shareholder of the Bank.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary if the restructuring of debt is unsuccessful and adequate additional resources are not available, the Bank is unable to continue as a going concern.

## 3. 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.

(Millions of Kazakhstani Tenge)

**3. Basis of preparation (continued)****General (continued)**

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”.

**Reclassifications**

The following reclassifications have been made to 2007 balances to conform to the 2008 presentation:

<i>December 31, 2007</i>	<i>As previously reported</i>	<i>Reclassification</i>	<i>As reported herein</i>	<i>Comment</i>
<b>Balance sheet:</b>				
Provisions	–	10,577	10,577	Reclassification of provisions on commitments and contingencies to provisions from other liabilities.
Other liabilities	33,888	(10,577)	23,311	

**Consolidated subsidiaries**

The consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i> Holding, % December 31</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>2008</i>	<i>2007</i>				
JSC Subsidiary of JSC BTA Bank BTA Securities	100.00%	100.00%	Kazakhstan	17.10.97	Securities trading and asset management	13.12.97
JSC Subsidiary of JSC BTA Bank Accumulative Pension Fund BTA Kazakhstan	95.20%	76.83%	Kazakhstan	11.12.97	Pension fund	16.09.98
JSC BTA Ipoteka Subsidiary Mortgage company of JSC BTA Bank	100.00%	100.00%	Kazakhstan	20.11.00	Consumer mortgage lending	20.11.00
JSC Subsidiary Life Insurance company of BTA Bank JSC BTA Zhizn	100.00%	100.00%	Kazakhstan	22.07.99	Life and annuity insurance	30.03.01
JSC Subsidiary insurance company of BTA Bank JSC BTA Zabota	98.17%	98.17%	Kazakhstan	10.09.96	Health insurance	04.04.01
TuranAlem Finance B.V. LLC Subsidiary of BTA Bank	100.00%	100.00%	Netherlands	22.05.01	Capital markets	22.05.01
JSC Subsidiary of JSC BTA Bank Insurance Company London-Almaty	100.00%	100.00%	Russia	22.06.04	Capital markets	28.09.04
JSC Subsidiary of JSC BTA Bank Insurance Company London-Almaty	99.40%	99.40%	Kazakhstan	20.11.97	Property and Liability insurance	05.08.04
BTA Finance Luxembourg S.A.	86.11%	86.11%	Luxembourg	05.01.06	Capital markets	06.03.06
BTA Insurance JSC Subsidiary company of JSC BTA Bank	100.00%	100.00%	Kazakhstan	08.09.98	Property and Liability insurance	21.12.06
JSC Subsidiary of JSC BTA Bank TemirBank	69.85%	64.32%	Kazakhstan	26.03.92	Bank activities Operations on capital markets	29.12.06
TemirCapital B.V.	100.00%	100.00%	Netherlands	29.05.01	Bank activities	29.12.06
BTA Bank CJSC	71.00%	71.00%	Kyrgyzstan	02.12.96	Bank activities	19.11.07
BTA Bank CJSC	99.29%	–	Belorussia	25.04.02	Bank activities Operations on capital markets	30.10.08
LLC BTA Finance (subsidiary of BTA Bank JSC)	–	100.00%	Russia	27.11.06	Operations on capital markets	27.11.06
LLC BTA Capital (subsidiary of BTA Bank JSC)	–	100.00%	Russia	27.11.06	Operations on capital markets	27.11.06

(Millions of Kazakhstani Tenge)

**3. Basis of preparation (continued)****Consolidated subsidiaries (continued)**

<i>Subsidiary</i>	<i> Holding, % December 31</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>2008</i>	<i>2007</i>				
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

In October 2008, the Bank finalized the acquisition of additional 50.3% equity interest in BTA Bank CJSC (Belorussia) (former Astanaeximbank CJSC) for KZT 3,501 million. As a result of the acquisition the Bank's interest in BTA Bank CJSC (Belorussia) increased to 99.29%, which provided the Bank with effective control and enabled the Bank to treat BTA Bank CJSC (Belorussia) as a subsidiary starting from November 2008. BTA Bank CJSC (Belorussia) was incorporated as a closed joint stock company and operates in Belorussia. Refer to Note 6 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 BTA Bank (Belorussia), it was accounted as an associate under equity method.

In December 2008, JSC Accumulative Pension Fund BTA Kazakhstan, the Bank's subsidiary, authorized to issue 5,000,000 common shares. As at 31 December 2008, 3,841,585 common shares were issued and paid by the Bank. As a result the Group's share in JSC Accumulative Pension Fund BTA Kazakhstan has increased to 95.20%. Gain from increase of Group's share amounted to KZT 843 million.

In 2007, the Group increased its ownership in its subsidiary JSC TemirBank from 50.80% to 64.32% for KZT 30,205 million. During 2008 the Bank increased its ownership in subsidiary of JSC BTA Bank JSC TemirBank from 64.32% to 69.85%.

In November 2007, the Group increased its ownership in CJSC BTA Bank Kyrgyzstan 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 BTA Bank and to consider it as a subsidiary as at 31 December 2007. CJSC BTA Bank was incorporated as a closed joint stock company and operates in Kyrgyzstan. 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.

In 2006, the Group established in Russian Federation two 100% owned subsidiaries, BTA Finance and BTA Capital, as limited liability companies (LLC). In October 2007, the Board of Directors made a decision to close LLC BTA Finance (subsidiary of BTA Bank JSC) and LLC BTA Capital (subsidiary of BTA Bank JSC). There were no operations in those subsidiaries starting from the date of incorporation. In 2008, these subsidiaries were liquidated.

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 31 December 2008 and 2007 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.

(Millions of Kazakhstani Tenge)

**3. Basis of preparation (continued)****Associates accounted for under equity method**

The following associates are accounted for under the equity method and included into investments in associates:

<i>2008</i>				<i>Share in net</i>	<i>Total</i>	<i>Total</i>	
<i>Associates</i>	<i> Holding, %</i>	<i>Country</i>	<i>Activities</i>	<i>income /</i> <i>(loss)</i>	<i>assets</i>	<i>liabilities</i>	<i>Equity</i>
BTA Bank LLC	22.26%	Russia	Bank	(18,827)	196,389	236,125	(39,736)
BTA Bank OJSC (Ukraine)	49.99%	Ukraine	Bank	–	35,418	11,607	23,811
BTA Bank JSC (Georgia)	49.00%	Georgia	Bank	48	11,542	8,530	3,012
BTA Bank CJSC (Armenia)	48.93%	Armenia	Bank	(195)	5,202	3,030	2,172
JSCB BTA Kazan OJSC	47.32%	Russia	Bank	376	37,770	28,943	8,827
BTA ORIX Leasing JSC	45.00%	Kazakhstan	Leasing	34	6,047	3,922	2,125
Temir Leasing JSC	45.63%	Kazakhstan	Leasing	41	4,070	1,874	2,196
Sekerbank	33.98%	Turkey	Bank	3,185	653,616	578,808	74,808

In December 2008, the Bank finalized the acquisition of additional equity interest in BTA Bank OJSC (Ukraine) in the amount of 40.038% for KZT 27,301 million. As a result the Bank's interest in BTA Bank OJSC (Ukraine) increased to 49.99%, which provided the Bank with significant influence on operations of BTA Bank OJSC (Ukraine) and enabled the Bank to treat BTA Bank OJSC (Ukraine) as an associated bank.

In July 2008, the Group acquired additional 38.64% of the statutory fund in BTA Bank LLC (Russia), which resulted in increase of the Group's interest to 52.84% and provided the Group with a controlling interest. In November 2008, BTA Bank LLC (Russia) issued additional shares in the amount of RUR 7,200 million (equivalent of KZT 31,968 million). The Bank did not use its preemptive right to purchase these shares. As a result the Bank's share in BTA Bank LLC (Russia) decreased to 22.26% resulting in a loss from deemed disposal in the amount of KZT 12,095 million.

In December 2007, the Bank acquired 25%+ 1 share ownership in Oranta NJSIC OJSC for KZT 11,943 million. In September 2005, shareholders of Oranta NJSIC OJSC made a decision to increase share capital by UAH 79.7 million. In February 2006, the shares were placed between shareholders existing at that date. However, in accordance with legislation of Ukraine the share capital can be increased only after the share issue is registered with regulatory bodies. The registration and consequent increase in share capital took place in March 2008. The Bank did not participate in this share issue since it was not a shareholder when the decision on increase in share capital was made in 2005. Therefore, the increase in share capital of Oranta NJSIC OJSC has been diluted and decreased from 25.00% as at 31 December 2007 to 14.01% as at 31 December 2008.

In November 2008, the Group acquired an additional equity interest in TemirLeasing JSC, as a result the Group's equity interest in TemirLeasing JSC increased to 45.63%.

In May 2008, BTA Silk Road Bank JSC was renamed as BTA Bank JSC (Georgia).

In December 2008, BTA InvestBank CJSC was renamed as BTA Bank CJSC (Armenia).

<i>2007</i>				<i>Share in net</i>	<i>Total</i>	<i>Total</i>	
<i>Associates</i>	<i> Holding, %</i>	<i>Country</i>	<i>Activities</i>	<i>income</i>	<i>assets</i>	<i>liabilities</i>	<i>Equity</i>
BTA Bank CJSC (Belorussia)	49.00%	Belorussia	Bank	50	10,707	9,263	1,444
BTA Bank JSC (Georgia)	49.00%	Georgia	Bank	243	13,330	10,679	2,651
BTA Bank CJSC (Armenia)	48.87%	Armenia	Bank	114	7,114	4,911	2,203
JSCB BTA Kazan JSC	47.32%	Russia	Bank	308	43,028	36,831	6,197
BTA ORIX Leasing JSC	45.00%	Kazakhst an	Leasing	141	7,390	5,323	2,067
Temir Leasing JSC	43.87%	an	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	–	15,526	6,630	8,896

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies

##### Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

##### *IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”*

IFRIC 11 became effective for annual periods beginning on or after 1 March 2007. It requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation had no impact on the Group.

##### *IFRIC 12 “Service Concession Arrangements”*

IFRIC 12 was issued in November 2006 and became 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 had no impact on the Group.

##### *IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”*

IFRIC 14 was issued in July 2007 and became 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. This Interpretation had no impact on the financial position or performance of the Group.

##### *Reclassification of Financial Assets – Amendments to IAS 39 “Financial instruments: Recognition and measurement” and IFRS 7 “Financial instruments: Disclosures”*

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available for sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. Reclassifications are disclosed in Note 12.

##### **New IFRSs and IFRIC interpretations not yet effective**

##### *Standards and interpretations issued but not yet effective*

##### *Improvements to IFRS*

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

##### *IAS 1 Presentation of Financial Statements (Revised)*

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### New IFRSs and IFRIC interpretations not yet effective (continued)

*Standards and interpretations issued but not yet effective (continued)*

*IAS 23 "Borrowing Costs" (Revised)*

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.

*Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation*

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. The Group does not expect that these amendments will have an impact on the Group's financial statements.

*Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items.*

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group does not expect the amendment to IAS 39 will affect the Group's financial statements as the Group has not entered into any such hedges.

*Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate as at the date of transition to IFRS in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The new requirements affect only the separate financial statements and do not have an impact on the consolidated financial statements.

*Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations*

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The Group did not enter into such type of transactions, accordingly, these amendments have no impact on the financial statements of the Group.

*IFRS 3 "Business Combinations" (revised) and IAS 27 "Consolidated and Separate Financial Statements" (revised).*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.



(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### New IFRSs and IFRIC interpretations not yet effective (continued)

*Standards and interpretations issued but not yet effective (continued)*

###### *IFRS 8 "Operating Segments"*

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group is currently evaluating the potential impact that this standard will have on its consolidated financial statements.

###### *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 financial statements as no such schemes currently exist.

###### *IFRIC 15 "Agreements for the Construction of Real Estate"*

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Group expects that this interpretation will have no impact on the Group's financial statements.

###### *IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"*

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group expects that this interpretation will have no impact on the Group's financial statements.

###### *IFRIC 17 "Distribution of Non-Cash Assets to Owners"*

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. This interpretation applies to pro rata distributions of non-cash assets to owners except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that this interpretation will have no impact on the Group's financial statements.

###### *IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### New IFRSs and IFRIC interpretations not yet effective (continued)

*Standards and interpretations issued but not yet effective (continued)*

*Amendments to IFRS 7 “Improving Disclosures about Financial Instruments”*

Amendments to IFRS 7 “Improving Disclosures about Financial Instruments” were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Group is currently evaluating the potential impact that this standard will have on its consolidated financial statements.

##### 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 statement 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 statement 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)

#### 4. Summary of significant 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 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 as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

###### *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, short-term instruments 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 statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement 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.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### Financial assets (continued)

###### *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 associates.

##### 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 amounts 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.

##### 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 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 consolidated statement of income as net trading income or gains less 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 and recorded at fair value if their risks and economic 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 31 December 2008 and 2007 embedded derivatives held by the Group were not material.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### 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 specific 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 balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the statement 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, and 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 laws 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.

##### 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.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### 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 risk 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 statement 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 statement 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 statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in equity.

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 statement 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 statement of income, the impairment loss is reversed through the consolidated statement of income.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### *Allowances for impairment of financial assets*

##### *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; 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 statement 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)

#### 4. Summary of significant 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 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 income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

##### Property and equipment

Property and equipment are carried at cost excluding costs of day-to-day maintenance less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

	<u>Years</u>
Buildings	40
Furniture and fixtures	4-1
Computers	4
Office equipment	8
Land	–
Construction in process	–

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 recorded in income statement 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 statement of income.

##### Goodwill

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 at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in goodwill. 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".



(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### Goodwill (continued)

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 unamortized goodwill is recognised in the consolidated statement of income.

##### Amounts due to Government and central banks, credit institutions and 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 Government and central banks, credit 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 due to credit 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)

#### 4. Summary of significant accounting policies (continued)

##### Equity

###### *Issued capital*

Ordinary shares with discretionary dividends are 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 purchase 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 of economic benefits 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 financial instruments classified as available-for-sale investments, 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 loans.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (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 costs.

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 consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated statement 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 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 consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

##### **Reserve for insurance losses and loss adjustment expenses**

The reserve for insurance losses and loss adjustment expenses are included in the consolidated balance sheet 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. The resulting adjustments are reflected in 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 consolidated balance sheet 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.

##### **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 statement 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.

(Millions of Kazakhstani Tenge)

#### 4. Summary of significant accounting policies (continued)

##### Foreign currency translation (continued)

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 31 December 2008 and 2007 were KZT 120.79 and KZT 120.30 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 statement 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.

#### 5. 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.

##### *Special purpose entities*

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;

##### 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 regard to these 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 financial statements. Actual results, therefore, could differ from these estimates.

##### 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)

## 5. Significant accounting judgements and estimates (continued)

### Estimation uncertainty (continued)

#### *Allowance for impairment of loans and receivable (continued)*

As described in Note 2, during 2008, the quality of the Bank's loan portfolio has significantly deteriorated as a result of circumstances and actions taken before the current management of the Bank were appointed by the controlling shareholder. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. Consequently all transferred loans are unsecured. A number of significant borrowers, primarily registered outside Kazakhstan, have ceased servicing their loans, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers has not been possible, there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and has created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, in 2008 the Bank has recorded an impairment charge for losses on loans to customers of KZT 1,090,127 million.

#### *Write-off of available-for-sale investment securities*

During 2008 the Bank placed certain available-for-sale securities with a carrying amount of KZT 35,402 million with a custodian in an offshore jurisdiction. Subsequent to 31 December 2008, the Bank received a statement from its custodian, which indicated that these securities were disposed of in January 2009. No consideration was received by the Bank from this disposal. The Bank initiated an internal investigation with respect to the disposal and passed the information to the Procuracy of the Republic of Kazakhstan and FMSA. Management of the Bank believes that the circumstances above indicate that these securities were not recoverable as at 31 December 2008. Therefore, these securities have been fully written-off as at 31 December 2008.

#### *Allowance for counterparty risk – off-shore derivatives*

The Managing Board considers that some of the Bank's derivative financial assets with off-shore counterparties during 2008 have become uncollectible. The counterparties under these agreements did not respond to the Bank's inquiries. In addition, the Bank was not able to collect the amounts receivable under such agreements that expired subsequent to 31 December 2008. Therefore, the new Managing Board of the Bank decided to fully provide against these receivables on derivative financial assets with these counterparties as at 31 December 2008 for the aggregate amount of KZT 16,298 million.

#### *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 2008 was KZT 37,421 million (2007- KZT 37,557 million). More details are provided in Note 15.

#### *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 2008 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

*(Millions of Kazakhstani Tenge)***5. Significant accounting judgements and estimates (continued)****Estimation uncertainty (continued)***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 claim 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.

**6. Business combination**

During 2008 the Group increased its shareholdings from 49.00% to 99.29% of voting shares in BTA Bank CJSC (Belorussia) following the approval from Kazakh regulatory authorities. In July 2008, the share in BTA Bank LLC (Russia) increased from 14.20% to 52.84%. As described in Note 3, in November 2008 BTA Bank LLC (Russia) issued additional shares in the amount of RUR 7,200 million (equivalent of KZT 31,968 million). The Bank did not use its preemptive right to purchase these shares. As a result the Bank's share in BTA Bank LLC (Russia) decreased to 22.26% resulting in a loss from deemed disposal in the amount of KZT 12,095 million.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition of BTA Bank CJSC (Belorussia) was:

	<i>Fair value recognized on acquisition</i>	
	<i>BTA Bank CJSC (Belorussia)</i>	
	<i>30 November 2004</i>	<i>30 October 2008</i>
Cash and cash equivalents	21	1,670
Obligatory reserves	–	343
Financial assets at fair value through profit or loss	97	
Investment securities	39	1,218
Amounts due from credit institutions	419	270
Loans to customers	985	11,866
Property, plant and equipment	260	390
Current income tax asset	–	32
Other assets	385	88
<b>Total assets</b>	<b>2,206</b>	<b>15,877</b>
Amounts due to credit institutions	674	8,000
Due to customers	161	5,601
Debt securities issued	1	–
Other liabilities	256	85
<b>Total liabilities</b>	<b>1,092</b>	<b>13,686</b>
<b>Fair value of net assets</b>	<b>1,114</b>	<b>2,191</b>
Group's share in fair value of net assets	546	1,103
Goodwill	(220)	2,398
Cost of acquisition	326	3,501
Cash received from acquisition	21	1,670
Cash paid	(326)	(3,501)
Net cash received / (paid)	<b>(305)</b>	<b>(1,831)</b>

If the combination had taken place at the beginning of 2008, the total net operating loss for 2008 for the Group would have been KZT 1,003 million less at KZT 1,009,273 million and the total loss for the year would have been KZT 204 million less at KZT 1,187,846 million.

*(Millions of Kazakhstani Tenge)***7. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<u>2008</u>	<u>2007</u>
Cash on hand	5,248	12,826
Current accounts with other financial institutions	34,931	29,816
Current accounts with central banks	195	–
Time deposits with other financial institutions with contractual maturity of 90 days or less	27,200	40,602
Reverse repurchase agreements with contractual maturity of 90 days or less	20,109	16,479
Time loans with contractual maturity of less than 90 days from the date of origination	238	–
Cash and cash equivalents, gross	<u>87,921</u>	<u>99,723</u>
Less – Allowance for impairment	<u>(28)</u>	<u>–</u>
Cash and cash equivalents	<u><u>87,893</u></u>	<u><u>99,723</u></u>

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements was mainly corporate securities issued by Kazakhstani companies. Fair value of the collateral as at 31 December 2008 was KZT 29,406 million (2007 – KZT 19,198 million).

At 31 December 2008 balances with ten banks accounted for 72.81% of total cash and cash equivalents (2007 – balances with ten banks accounted for 54.24% of total cash and cash equivalents).

**8. Obligatory reserves**

Obligatory reserves comprise:

	<u>2008</u>	<u>2007</u>
Due from the NBK	27,601	139,366
Cash on hand allocated to obligatory reserves	36,453	28,876
<b>Obligatory reserves</b>	<u><b>64,054</b></u>	<u><b>168,242</b></u>

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Such reserves must be held in either non-interest bearing deposits with the NBK or in physical cash computed based on average monthly balances of the aggregate of non-interest bearing deposits with the NBK and physical cash in national and hard currencies during the period of reserves creation. The use of such funds is, therefore subject to certain restrictions.

In 2008 in accordance with the financial markets stability program, the NBK decreased obligatory reserve requirements from 6% to 2% for domestic liabilities, and from 8% to 3% for external debt.

**9. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise:

	<u>2008</u>	<u>2007</u>
Debt securities:		
Corporate bonds	59,979	46,241
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	25,019	19,156
Notes of the NBK	9,918	3,707
Bonds of Kazakhstan non-financial institutions	4,841	–
Sovereign bonds of OECD countries	3,793	6,694
Bonds of Kazakhstan financial institutions	2,887	6,881
Bonds of international financial organizations	80	76
Treasury bills of the Ministry of Finance of Russian Federation	2	3
Municipal bonds	–	264
	<u>106,519</u>	<u>83,022</u>
Equity securities	21,631	29,100
Mutual funds shares	–	53
<b>Financial assets at fair value through profit or loss</b>	<u><b>128,150</b></u>	<u><b>112,175</b></u>
Subject to repurchase agreements	65,472	60,129

(Millions of Kazakhstani Tenge)

**10. Amounts due from credit institutions**

Amounts due from credit institutions as at 31 December comprise:

	<u>2008</u>	<u>2007</u>
Loans	70,224	88,221
Deposits	19,389	19,491
	<b>89,613</b>	107,712
Less – Allowance for impairment	<b>(4,439)</b>	(123)
<b>Amounts due from credit institutions</b>	<b>85,174</b>	107,589

As at 31 December 2008 amounts due from ten largest credit institutions comprised 80.17% of total amounts due from credit institutions (31 December 2007 – ten largest comprised 58.87%).

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

	<u>2008</u>	<u>2007</u>
<b>1 January</b>	<b>123</b>	80
Impairment charge	4,173	396
Write-offs	–	(355)
Recovery	313	–
Revaluation	<b>(170)</b>	2
<b>31 December</b>	<b>4,439</b>	123

**11. 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 at 31 December and are indicative of neither the market risk nor the credit risk.

	<u>2008</u>			<u>2007</u>		
	<u>Notional principal</u>	<u>Fair values</u>		<u>Notional principal</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
Currency swaps	136,115	562	(472)	358,631	22,004	(1,501)
Currency forwards and futures	201,038	6,961	(1,420)	204,128	6,391	(247)
Securities forwards	19,864	10,136	–	–	–	–
Interest rate swaps	462,318	20,289	(16,897)	392,888	2,739	(3,780)
Options	–	–	–	5,177	263	–
<b>Total derivative assets/liabilities, gross</b>		<b>37,948</b>	<b>(18,789)</b>		31,397	(5,528)
Less - Allowance (Note 16)		<b>(16,298)</b>	–		–	–
<b>Total derivative assets/liabilities</b>		<b>21,650</b>	<b>(18,789)</b>		31,397	(5,528)

*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.



(Millions of Kazakhstani Tenge)

**12. Available-for-sale investment securities**

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

	<i>2008</i>	<i>2007</i>
Bonds of international financial organizations	<b>35,402</b>	–
Corporate bonds	<b>15,142</b>	14,179
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	<b>2,129</b>	–
Treasury bills of the Ministry of Finance of the Republic of Belarussia	<b>912</b>	–
Treasury bills of the Ministry of Finance of Kyrgyzstan	<b>409</b>	410
Bonds of Kazakhstan financial institutions	<b>312</b>	24
Notes of the NBK	<b>218</b>	1,165
Sovereign bonds of OECD countries	–	3,697
Notes of the National Bank of Kyrgyzstan	–	1,390
	<hr/> <b>54,524</b>	<hr/> 20,865
Equity securities	<b>8,536</b>	5,557
Mutual fund shares	<b>32</b>	–
<b>Available-for-sale investment securities, gross</b>	<hr/> <b>63,092</b>	<hr/> 26,422
Less – Write-off	<b>(42,610)</b>	–
<b>Available-for-sale investment securities</b>	<hr/> <b>20,482</b> <hr/>	<hr/> 26,422 <hr/>

As discussed in Note 5, during 2008 the Bank placed certain available-for-sale securities with a carrying amount of KZT 35,402 million with a custodian in an offshore jurisdiction. Subsequent to 31 December 2008, the Bank received a statement from its custodian, which indicated that these securities were disposed of in January 2009. No consideration was received by the Bank from this disposal. The Bank initiated an internal investigation with respect to the disposal and passed the information to the Procuracy of the Republic of Kazakhstan and FMSA. Management of the Bank believes that the circumstances above indicate that these securities were not recoverable as at 31 December 2008. Therefore, these securities have been fully written-off as at 31 December 2008.

During 2008 the Group has recognized an impairment loss on equity securities in the amount of KZT 7,208 million (2007 – nil).

In accordance with amendments to IAS 39 and IFRS 7, “Reclassification of Financial Assets”, the Bank reclassified certain financial assets acquired for the purpose of current liquidity management from held for trading category because the Bank no longer had an intention to sell them in the near term. Reclassification was performed as at 1 July 2008 at fair value at that date. The impact of this reclassification is presented below:

	<i>Financial assets held for trading were reclassified into Financial assets available for sale category</i>
Fair value at the date of reclassification	<hr/> <b>35,420</b>
Carrying amount of reclassified assets as at 31 December 2008	<b>35,402</b>
Write-off of reclassified available-for-sale securities	<b>(35,402)</b>
Fair value of reclassified assets as at 31 December 2008	–
Losses from change in fair value of reclassified assets recognized before reclassification for the year ended 31 December 2008	<b>(546)</b>
Interest income recognized after reclassification in income statement for the year ended 31 December 2008	<b>728</b>
Effective interest rate at the date of reclassification	<b>4.06%</b>
Cash flows expected to be reimbursed at the date of reclassification	<b>41,376</b>

*(Millions of Kazakhstani Tenge)***13. Loans to customers**

Loans to customers comprise:

	<i>2008</i>	<i>2007</i>
Corporate lending	2,071,991	1,669,648
Small and medium business lending	256,833	300,325
Individuals lending	505,517	546,880
<b>Gross loans to customers</b>	<b>2,834,341</b>	<b>2,516,853</b>
Less – Allowance for impairment	<b>(1,217,278)</b>	<b>(137,043)</b>
<b>Loans to customers</b>	<b>1,617,063</b>	<b>2,379,810</b>

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

	<i>2008</i>	<i>2007</i>
Private companies	2,321,272	1,963,281
Individuals	505,517	546,880
State companies	7,353	6,609
Other	199	83
<b>Loans to customers, gross</b>	<b>2,834,341</b>	<b>2,516,853</b>

*Allowance for impairment of loans to customers*

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

	<i>Corporate lending 2008</i>	<i>Small and medium business lending 2008</i>	<i>Individuals lending 2008</i>	<i>Total 2008</i>
<b>At 1 January 2008</b>	111,502	23,231	2,310	137,043
Charge for the year	1,067,075	(824)	23,876	1,090,127
Amounts written off	(1,705)	(2,818)	(6,006)	(10,529)
Recoveries	308	1,606	2,485	4,399
Revaluation	(868)	(33)	(249)	(1,150)
Amount arising from disposal of subsidiaries	(2,002)	–	(610)	(2,612)
<b>At 31 December 2008</b>	<b>1,174,310</b>	<b>21,162</b>	<b>21,806</b>	<b>1,217,278</b>
Individual impairment	1,141,870	9,094	15,031	1,165,995
Collective impairment	32,440	12,068	6,775	51,283
	<b>1,174,310</b>	<b>21,162</b>	<b>21,806</b>	<b>1,217,278</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>1,355,897</b>	<b>15,637</b>	<b>25,846</b>	<b>1,397,380</b>

	<i>Corporate lending 2007</i>	<i>Small and medium business lending 2007</i>	<i>Individuals lending 2007</i>	<i>Total 2007</i>
<b>At 1 January 2007</b>	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
<b>At 31 December 2007</b>	<b>111,502</b>	<b>23,231</b>	<b>2,310</b>	<b>137,043</b>
Individual impairment	56,335	4,248	–	60,583
Collective impairment	55,167	18,983	2,310	76,460
	<b>111,502</b>	<b>23,231</b>	<b>2,310</b>	<b>137,043</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>264,893</b>	<b>18,868</b>	<b>–</b>	<b>283,761</b>

(Millions of Kazakhstani Tenge)

### 13. Loans to customers (continued)

#### *Individually impaired loans*

As described in Note 5, during 2008, the quality of the Bank's loan portfolio has significantly deteriorated. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. Consequently all transferred loans are unsecured. A number of significant borrowers, primarily registered outside Kazakhstan, have ceased servicing their loans, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers has not been possible, there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and has created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, in 2008 the Bank has recorded an impairment charge for losses on loans to customers of KZT 1,090,127 million.

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2008, comprised KZT 141,743 million (2007: KZT 20,073 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2008 amounts to KZT 583,015 million (2007: KZT 329,678 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 of third parties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and civil liability insurance agreements.

Management 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 11,207 million which the Group is in the process of selling (2007 – KZT 503 million). 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.

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 2008 was KZT 83,629 million (2007- KZT 36,068 million).

#### *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 these transactions, substantially all the risks and rewards of the portfolio have not 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 at 31 December 2008 these loans amounted to KZT 9,082 million.

As at 31 December 2008 loans to customers include loans of KZT 64,917 million, which are pledged as collateral for the mortgage-backed bonds (31 December 2007 – KZT 62,724 million).

*(Millions of Kazakhstani Tenge)***13. Loans to customers (continued)***Concentration of loans to customers*

As at 31 December 2008, the Group had a concentration of loans represented by KZT 409,465 million due from the ten largest borrowers that comprised 14% of the total gross loan portfolio (2007 – KZT 274,080 million, 11%). Allowances amounting to KZT 315,565 million were recognised against these loans as at 31 December 2008 (2007 – KZT 7,750 million).

As at 31 December 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. As at 31 December 2008, there were no pledged loans due to repayment of financing received from OECD based banks.

As at 31 December 2008, the Group had loans in the amount of KZT 494,799 million (2007 – KZT 361,838 million) with interest and principal repayable at maturity. Allowances amounting to KZT 236,111 million were recognised against these loans as at 31 December 2008 (2007 – KZT 25,003 million).

Loans are made to the following sectors:

	<i>2008</i>	<i>%</i>	<i>2007</i>	<i>%</i>
Individuals	505,517	17.8%	546,880	21.7%
Real estate investments	435,188	15.4%	365,741	14.5%
Housing construction	415,536	14.7%	316,222	12.6%
Oil & gas	314,970	11.1%	173,948	6.9%
Wholesale trade	298,573	10.5%	415,817	16.5%
Construction of roads and industrial buildings	206,066	7.3%	154,495	6.1%
Agriculture	142,819	5.0%	139,615	5.6%
Energy	84,266	3.0%	7,971	0.3%
Chemical industry	62,783	2.2%	47,869	1.9%
Retail trade	62,116	2.2%	71,836	2.9%
Transport	51,087	1.8%	50,650	2.0%
Food industry	40,152	1.4%	48,401	1.9%
Mining	35,580	1.3%	30,325	1.2%
Metallurgical industry	25,374	0.9%	11,174	0.5%
Telecommunication	25,244	0.9%	24,233	1.0%
Hospitality	13,903	0.5%	10,689	0.4%
Financial services	12,968	0.5%	8,024	0.3%
Production of machinery and equipment	12,259	0.4%	16,664	0.7%
Textile and leather industry	11,241	0.4%	4,134	0.2%
Publishing	1,059	0.0%	3,072	0.1%
Production of rubber and plastic articles	894	0.0%	731	0.0%
Research & development	818	0.0%	724	0.0%
Other	75,928	2.7%	67,638	2.7%
	<b>2,834,341</b>	<b>100.0%</b>	<b>2,516,853</b>	<b>100.0%</b>

Loans to individuals are presented as follows:

	<i>2008</i>	<i>2007</i>
Consumer loans	271,387	292,463
Mortgage loans	234,130	254,417
	<b>505,517</b>	<b>546,880</b>

*Finance lease receivable*

Net investment in finance leases consisted of the following:

	<i>2008</i>	<i>2007</i>
Minimum lease payments receivable	22,696	13,295
Less: Unearned finance income	(5,549)	(2,619)
<b>Net investment in finance leases</b>	<b>17,147</b>	<b>10,676</b>
Allowance for uncollectible minimum lease payments receivable	(2)	(187)
	<b>17,145</b>	<b>10,489</b>
Current portion of net investment in finance leases	4,153	3,604
Long-term portion of net investment in finance leases	12,994	7,072
	<b>17,147</b>	<b>10,676</b>

(Millions of Kazakhstani Tenge)

**14. Investments in associates**

Movement in investments in associates was:

	<u>2008</u>	<u>2007</u>
Balance, beginning of the year	67,767	5,996
Purchase cost	34,298	58,579
Disposal cost	(608)	(1,042)
Impairment charge	(19,138)	–
Transfer to investments in associates	6,785	–
Share in net (loss) / income of associates	(15,448)	4,234
Dividends received	(658)	–
Share of reserve for revaluation of securities of associates	(627)	–
<b>Investments in associates, end of the year</b>	<u><u>72,371</u></u>	<u><u>67,767</u></u>

Included in 31 December 2007 balance were investments in BTA Bank CJSC (Belorussia) in the amount of KZT 574 million and Oranta OJSC in the amount of KZT 11,943 million. Investment in Oranta OJSC were reclassified to available-for-sale investments as the Group's share decreased from 25.00% as at 31 December 2007 to 14.01% as at 31 December 2008.

In October 2008 the Bank finalized the acquisition of additional 50.3% equity interest in BTA Bank CJSC (Belorussia) (former Astanaeximbank CJSC) for KZT 3,501 million. As a result of the acquisition the Bank's interest in BTA Bank CJSC (Belorussia) increased to 99.29%, which provided the Bank with effective control and enabled the Bank to treat BTA Bank CJSC (Belorussia) as a subsidiary starting from November 2008 (Refer to Note 6).

As at 31 December 2007 investments in BTA Bank OJSC (Ukraine) in the amount of KZT 364 million were included in available for sale category. In December 2008 the Bank finalized the acquisition of additional equity interest in BTA Bank OJSC (Ukraine) of 40.038% for KZT 27,301 million which provided the Bank with significant influence and allowed the Bank to treat this entity as its associate.

On 7 November 2008 BTA Bank LLC (Russia) issued additional shares in the amount of RUR 7,200 million (equivalent of KZT 31,968 million). The Bank did not use its preemptive right to purchase these shares. As a result the Bank's share in BTA Bank LLC (Russia) decreased from 52.84% to 22.26%. As a result, the Bank has lost effective control over BTA Bank LLC (Russia), but retained a significant influence. This allowed the Bank to consider BTA Bank LLC (Russia) as an associate. The carrying amount of investment at the date BTA Bank LLC (Russia) became an associate was KZT 18,938 million, before any share in loss.

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

<i><b>Aggregated assets and liabilities of associates</b></i>	<u>2008</u>	<u>2007</u>
Total assets	950,054	731,375
Total liabilities	(872,839)	(614,272)
<b>Net assets</b>	<u><u>77,215</u></u>	<u><u>117,103</u></u>
<i><b>Aggregated profit of associates</b></i>	<u>2008</u>	<u>2007</u>
Net profit	(103,923)	11,004

Investments in associates at 31 December 2008 include goodwill of KZT 23,944 million (excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost less allowance for impairment (2007 – KZT 33,479 million). For general information, refer to Note 3.

**15. Goodwill**

The movements in goodwill were as follows:

	<u>2008</u>	<u>2007</u>
<b>Cost</b>		
January 1	37,557	22,849
Additions	6,173	14,547
Acquisition through business combinations	12,567	161
Foreign currency revaluation	(1,891)	–
Disposal	(8,878)	–
<b>31 December</b>	<u>45,528</u>	<u>37,557</u>
<b>Impairment charge</b>	(8,107)	–
<b>Net book value:</b>		
<b>31 December</b>	<u><u>37,421</u></u>	<u><u>37,557</u></u>

(Millions of Kazakhstani Tenge)

## 15. Goodwill (continued)

### *Impairment testing of goodwill*

The impairment is largely the result of uncertainties in the Kazakhstan economy, especially in the retail and mortgage sectors. Another key factor in the evaluation of goodwill is the discount rate used to determine the present value of projected cash flows. During 2008, the discount rate required for this calculation has increased substantially, contributing to the reduction in the present value of projected cash flows.

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, which are also reportable segments, for impairment testing as follows:

- Corporate Banking; and
- Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	<b>2008</b>
Corporate Banking	<b>12,771</b>
Retail Banking	<b>24,650</b>
	<b>37,421</b>

### *Key assumptions used in value in use calculations*

The recoverable amount of each cash generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a one-year period. The discount rate applied to cash flow projections beyond the one-year period are extrapolated using a projected growth rate. The following rates are used by the Group.

	<i>Temirbank</i>	
	<i>Corporate Banking</i>	<i>Retail Banking</i>
Discount rate	12.66%	12.66%
Projected growth rate	2%	2%

The calculation of value in use for both Corporate and Retail Banking units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the budget period;
- Projected growth rates used to extrapolate cash flows beyond the budget period;
- Current local Gross Domestic Product (GDP); and
- Local inflation rates.

### *Interest margins*

Interest margins are based on effective interest rates charged during 2008. These are increased over the budget period for anticipated inflation rates.

### *Discount rates*

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

### *Market share assumptions*

These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period. Management expects the Group's share of the Retail Banking and Corporate Banking markets, including customer deposits, to be stable over the budget period.

(Millions of Kazakhstani Tenge)

## 15. Goodwill (continued)

*Projected growth rates, GDP and local inflation rates*

Assumptions are based on published industry research.

*Sensitivity to changes in assumptions*

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount of segments will not result in an additional impairment of goodwill.

## 16. Other impairment and provisions

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

	<i>Other assets</i>	<i>Derivative financial instruments</i>	<i>Guarantees and letters of credit</i>	<i>Total</i>
<b>31 December 2006</b>	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
<b>31 December 2007</b>	<b>360</b>	<b>–</b>	<b>10,577</b>	<b>10,937</b>
Impairment charge	1,435	16,298	95,397	113,130
Write-offs	(476)	–	–	(476)
Recoveries	74	–	–	74
Revaluation	(6)	–	(1,081)	(1,087)
<b>31 December 2008</b>	<b>1,387</b>	<b>16,298</b>	<b>104,893</b>	<b>122,578</b>

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

## 17. Taxation

The corporate income tax expense comprises:

	<i>2008</i>	<i>2007</i>
Current tax charge	4,297	11,413
Deferred tax charge- origination and reversal of temporary differences	(4,364)	(1,581)
<b>Income tax (benefit) / expense</b>	<b>(67)</b>	<b>9,832</b>

The Bank and its subsidiaries, other than TuranAlem Finance B.V. (“TAF BV”), Temir Capital B.V (“TK BV”), TuranAlem Finance (“TAF”), BTA Bank (Kyrgyzstan), BTA Bank (Belorussia), BTA Luxembourg, First Kazakh Securitization Company, Second Kazakh Securitization Company and BTA DPR Finance Company are subject to taxation in the Republic of Kazakhstan. TAF BV, TK BV, First Kazakh Securitization Company and Second Kazakh Securitization Company are subject to taxation in the Netherlands. TAF is subject to income tax in the Russian Federation. BTA Luxembourg is subject to income tax in Luxembourg. BTA Bank (Kyrgyzstan) is subject to income tax in Kyrgyzstan. BTA Bank (Belorussia) is subject to income tax in Belorussia. BTA DPR Finance Company is not subject to income tax.

(Millions of Kazakhstani Tenge)

**17. Taxation (continued)**

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 31 December is as follows:

	<i>2008</i>	<i>2007</i>
<b>Accounting profit before income tax</b>	<b>(1,188,117)</b>	74,537
Statutory tax rate	30%	30%
<b>Theoretical income tax (benefit) / expense at the statutory rate</b>	<b>(356,435)</b>	22,361
Non-deductible impairment charge	23,411	132
Non-deductible interest expenses	–	422
Non-deductible losses from disposal of subsidiaries	3,376	–
Non-deductible business expenses	1,110	787
Impairment loss on goodwill	2,432	–
Write-down of inventories	719	–
Non taxable income on long-term loans granted for the purchase of property and equipment by legal entities and mortgage loans and financial leasing	(241)	(6,942)
Non taxable income on state securities and securities at the highest and next to the highest listing categories	(496)	(1,915)
Non taxable income from associates	4,634	(1,225)
Income of subsidiaries taxed at different rates	(2,347)	(3,421)
Differences arising from changes in tax rates	131,997	–
Change in unrecognised deferred tax assets	192,315	–
Other permanent differences	(542)	(367)
<b>Income tax (benefit) / expense</b>	<b>(67)</b>	9,832

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:

	<i>Origination and reversal of temporary differences in statement of income</i>		<i>Origination and reversal of temporary differences in equity</i>		<i>Origination and reversal of temporary differences in statement of income</i>		<i>Origination and reversal of temporary differences in equity</i>	
	<i>2006</i>		<i>2007</i>		<i>2007</i>		<i>2008</i>	
<b>Tax effect of deductible temporary differences:</b>								
Allowances for loan impairment	–	4,906	–	4,906	189,653	–	194,559	
Fair value measurement of securities	366	1,057	221	1,644	4,783	11	6,438	
Interest written-off	–	–	–	–	1,684	–	1,684	
Property and equipment	–	–	–	–	56	–	56	
Other	417	598	–	1,015	417	–	1,432	
<b>Gross deferred tax assets</b>	<b>783</b>	<b>6,561</b>	<b>221</b>	<b>7,565</b>	<b>196,593</b>	<b>11</b>	<b>204,169</b>	
Unrecognised deferred tax assets	–	–	–	–	(192,315)	–	(192,315)	
<b>Deferred tax asset</b>	<b>783</b>	<b>6,561</b>	<b>221</b>	<b>7,565</b>	<b>4,278</b>	<b>11</b>	<b>11,854</b>	
<b>Tax effect of taxable temporary differences:</b>								
Allowances for impairment	(1,540)	(107)	–	(1,647)	1,647	–	–	
Fair value measurement of securities	(122)	(4,393)	(14)	(4,529)	(2,263)	(12)	(6,804)	
Property and equipment	(226)	(476)	–	(702)	702	–	–	
Other	–	(4)	–	(4)	–	–	(4)	
<b>Deferred tax liability</b>	<b>(1,888)</b>	<b>(4,980)</b>	<b>(14)</b>	<b>(6,882)</b>	<b>86</b>	<b>(12)</b>	<b>(6,808)</b>	
<b>Deferred tax assets / (liability)</b>	<b>(1,105)</b>	<b>1,581</b>	<b>207</b>	<b>683</b>	<b>4,364</b>	<b>(1)</b>	<b>5,046</b>	



(Millions of Kazakhstani Tenge)

## 17. Taxation (continued)

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 amendments in the Tax Code of the Republic of Kazakhstan adopted in 2008, interest income on mortgage loans issued to individuals for a term of more than three years is subject to tax. Previously such income was tax exempt. Also in accordance with applicable tax legislation, at 31 December 2008, 30% corporate income tax rate applied will be reduced to 20.0%, 17.5%, 15.0% in 2009, 2010 and 2011, respectively.

## 18. Amounts due to the Government and central banks

Amounts due to the Government and central banks consist of the following:

	<i>2008</i>	<i>2007</i>
Amounts due to the Government:		
Interest bearing – KZT denominated	1,292	370
Interest bearing – USD denominated	193	174
Interest bearing – EUR denominated	136	212
Interest bearing – KGS denominated	55	107
Loans from the NBK	28	28
Loans from the National Bank of Kyrgyzstan	14	22
Amounts due to the Government and central banks	<b>1,718</b>	<b>913</b>

## 19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>2008</i>	<i>2007</i>
Loans from OECD based banks and financial institutions	451,737	455,384
Syndicated bank loans	156,617	241,157
Loans from Kazakh banks and financial institutions	126,434	51,329
Loans from other banks and financial institutions	24,201	26,609
Pass-through loans	17,278	9,482
	<b>776,267</b>	<b>783,961</b>
Interest-bearing placements from Kazakh banks	21,112	46,021
Loro accounts	2,503	1,288
Interest-bearing placements from non OECD banks	3,484	4,034
	<b>27,099</b>	<b>51,343</b>
<b>Amounts due to credit institutions</b>	<b>803,366</b>	<b>835,304</b>
Subject to repurchase agreements	65,472	60,129

### Financial covenants

In accordance with the contractual terms of loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies. As at 31 December 2008 the Bank was in breach of capital adequacy, lending exposure and cross default covenants on these loan facilities. As a result these loan facilities for the total amount of KZT 492,324 million became due immediately. As discussed in Note 2, the Bank is in the process of restructuring these debts.

(Millions of Kazakhstani Tenge)

## 19. Amounts due to credit institutions (continued)

The Bank was in breach of these capital adequacy, lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Due to the Bank's inability to early repay all its debt as called by creditors in full, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million or equivalent of KZT 83 billion, citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2009.

## 20. 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:

	<u>2008</u>	<u>2007</u>
Time deposits	684,330	463,450
Current accounts	179,658	165,685
Guarantee and restricted deposits	22,064	23,373
<b>Amounts due to customers</b>	<b>886,052</b>	<b>652,508</b>

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

At 31 December 2008, the Bank's ten largest customers accounted for approximately 34.80% of the total amounts due to customers (2007 – 20.45%).

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

	<u>2008</u>	<u>2007</u>
<b>Time deposits:</b>		
Commercial entities	201,240	130,973
Individuals	262,644	235,620
Governmental entities	218,209	95,317
Non-commercial entities	2,237	1,540
<b>Current accounts:</b>		
Commercial entities	124,350	125,400
Individuals	33,864	31,222
Governmental entities	20,371	7,921
Non-commercial entities	1,073	1,142
<b>Guarantees and other restricted deposits:</b>		
Commercial entities	10,762	9,121
Individuals	10,837	13,583
Governmental entities	463	666
Non-commercial entities	2	3
<b>Amounts due to customers</b>	<b>886,052</b>	<b>652,508</b>

Included in time deposits are deposits of individuals in the amount of KZT 262,644 million (2007 – KZT 235,620 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)***20. Amounts due to customers (continued)**

An analysis of customer accounts by sector follows:

	<i>2008</i>	<i>%</i>	<i>2007</i>	<i>%</i>
Individuals	307,345	34.7%	280,425	43.0%
Oil and gas	233,290	26.3%	86,213	13.2%
Wholesale trading	81,303	9.2%	52,003	8.0%
Construction	49,060	5.5%	33,623	5.2%
Transportation	33,113	3.7%	41,388	6.3%
Energy	30,788	3.5%	3,978	0.6%
Government investment funds	28,501	3.2%	11,071	1.7%
Non-credit financial organizations	19,226	2.2%	38,578	5.9%
Research and development	11,594	1.3%	6,622	1.0%
Metallurgy	11,475	1.3%	12,024	1.8%
Education	7,014	0.8%	5,938	0.9%
Machinery and equipment production	5,873	0.7%	6,652	1.0%
Communication	5,425	0.6%	2,429	0.4%
Retail trade	4,265	0.5%	8,691	1.3%
Agriculture	3,887	0.4%	6,596	1.0%
Mining	1,912	0.2%	3,688	0.6%
Textile and leather industry	1,607	0.2%	1,235	0.2%
Chemical processing	1,480	0.2%	5,720	0.9%
Entertainment	1,241	0.1%	1,207	0.2%
Food industry	1,091	0.1%	3,620	0.6%
Hotel and hospitality	353	0.0%	454	0.1%
Other	46,209	5.3%	40,353	6.1%
	<b>886,052</b>	<b>100.0%</b>	<b>652,508</b>	<b>100.0%</b>

**21. Debt securities issued**

As at 31 December debt securities issued consisted of the following:

	<i>2008</i>	<i>2007</i>
USD bonds with fixed rate	411,068	434,793
USD and KZT subordinated bonds with fixed rate	174,271	104,720
USD bonds with floating rate	165,251	169,471
EUR bonds with fixed rate	85,844	90,108
JPY bonds with floating rate	57,598	48,520
USD perpetual financial instruments with fixed rate	54,623	54,420
KZT bonds with floating rate	39,555	35,187
GBP bonds with fixed rate	34,926	48,072
KZT bonds with fixed rate	28,358	66,762
JPY bonds with fixed rate	26,609	21,886
CHF bonds with floating rate	23,147	21,598
KZT subordinated bonds with floating rate	21,756	21,715
RUR bonds with fixed rate	12,555	15,023
PLZ bonds with floating rate	8,162	9,846
RUR deposit certificate	19	-
USD promissory notes with floating rate	-	604
	<b>1,143,742</b>	<b>1,142,725</b>
USD treasury bonds held by Group	<b>(1,359)</b>	<b>(5,579)</b>
KZT treasury bonds held by Group	<b>(3,061)</b>	<b>(2,780)</b>
USD and KZT treasury subordinated bonds held by Group	<b>(22,365)</b>	<b>(21,506)</b>
	<b>1,116,957</b>	<b>1,112,860</b>
Plus unamortized premium	622	983
Less unamortized cost of issuance	<b>(699)</b>	<b>(4,548)</b>
Less unamortized discount	<b>(29,154)</b>	<b>(24,850)</b>
<b>Debt securities issued</b>	<b>1,087,726</b>	<b>1,084,445</b>

In accordance with terms of debt securities issued the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies. As at 31 December 2008, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on debt securities issued. As a result, debt securities issued for the total amount of KZT 693,071 million became due immediately. As discussed in Note 2, the Bank in the process of restructuring these debts.

(Millions of Kazakhstani Tenge)

## 22. Equity

As at 31 December 2008 and 2007 share capital comprises:

	<i>Common shares</i>			<i>Non-redeemable CPS</i>		
	<i>Number of authorized shares</i>	<i>Number of shares issued</i>	<i>Placement value (KZT million)</i>	<i>Number of authorized shares</i>	<i>Number of shares issued</i>	<i>Placement value (KZT million)</i>
<b>31 December 2006</b>	5,363,050	5,363,050	116,451	–	–	–
<b>Increase in issued capital</b>	3,007,108	3,007,108	186,976	–	–	–
<b>31 December 2007</b>	8,370,158	8,370,158	303,427	–	–	–
<b>Increase in issued capital</b>	<b>467</b>	<b>467</b>	<b>29</b>	<b>100,000</b>	–	–
<b>31 December 2008</b>	<b>8,370,625</b>	<b>8,370,625</b>	<b>303,456</b>	<b>100,000</b>	–	–

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.

As at 31 December 2008 the Group held 30,586 shares of the Bank as treasury shares (2007 –10,146).

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 19 March 2007 by FMSA. As a result, in 2007 the Bank increased the number of authorised shares by 3,007,575 common shares. During 2008 the Bank issued 467 common shares at placement value of KZT 62,178 per share totalling KZT 29 million, which were fully issued and paid in 2008 (2007 - 3,007,108 common shares totalling KZT 186,976 million).

At an Extraordinary General Meeting of the Bank held on 14 May 2008, the Bank's shareholders approved the issue of 100,000 convertible cumulative preferred shares ("CPS"), which was registered on 9 June 2008 by the FMSA. As at 31 December 2008 no CPS were issued.

### *Dividends on CPS*

The dividends on convertible preferred shares authorised in 2008 were established at the rate of 11.00% per annum of placement value. No convertible preferred shares were outstanding as at 31 December 2008 and 2007. Accordingly, no dividends on CPS were accrued or paid.

### *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.

## 23. Commitments and contingencies

### **Political and economic environment**

Kazakhstan continues economic reforms and 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.

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstani Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Also, the borrowers of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group. Due to the fall in prices in global and Kazakhstani securities markets, the Group may face a significant decrease in the fair value of securities pledged as collateral against loans extended by the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

(Millions of Kazakhstani Tenge)

## 23. Commitments and contingencies (continued)

### Political and economic environment (continued)

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. Also refer to Note 2.

### 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. Also refer to Note 33.

### 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 31 December 2008. 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.

### Financial commitments and contingencies

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

	<u>2008</u>	<u>2007</u>
Undrawn loan commitments	363,490	334,171
Commercial letters of credit	139,524	150,644
Guarantees	175,196	141,931
	<u>678,210</u>	<u>626,746</u>
<b>Operating lease commitments</b>		
Not later than 1 year	1,199	217
Later than 1 year but not later than 5 years	3,065	1,873
Later than 5 years	5,881	4,792
	<u>10,145</u>	<u>6,882</u>
Less: cash collateral	(22,064)	(23,373)
Less: provisions (Note 16)	(104,893)	(10,577)
<b>Financial commitments and contingencies</b>	<u><u>561,398</u></u>	<u><u>599,678</u></u>

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 may include deposits held in the bank, government's and international prime financial organisations' securities, and other assets.

*(Millions of Kazakhstani Tenge)***23. Commitments and contingencies (continued)****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 31 December 2008 such securities held in this capacity were KZT 294,852 million (2007 – KZT 282,908 million).

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 31 December 2008 and 2007 of the pension fund under management.

*Statement of Net Assets Available for Pension Benefits*

As at 31 December net assets available for pension benefits comprise:

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	2,228	484
Amounts due from credit institutions:		
- Time deposits with maturity over 90 days or past due	6,107	13,867
- Reverse repurchase agreements	612	2,024
Available-for-sale investment securities:		
- Sovereign bonds of the Republic of Kazakhstan	17,388	13,489
- Corporate bonds	54,381	66,477
- Corporate shares	29,783	14,655
- Euro notes	–	14,422
Investment securities, held to maturity:		
- Agency bonds	460	–
- Corporate bonds	66,887	–
Accrued investment income	1,996	408
Other receivables	181	20
<b>Total assets</b>	<u>180,023</u>	<u>125,846</u>
<b>Liabilities</b>		
Commissions payable to pension funds	(83)	(414)
Other liabilities	(8)	(9)
<b>Net assets available for pension benefits</b>	<u>179,932</u>	<u>125,423</u>

*Statement of Changes in Net Assets Available for Pension Benefits*

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

	<u>2008</u>	<u>2007</u>
<b>Net income</b>	<u>11,784</u>	<u>11,282</u>
<b>Additions:</b>		
- Obligatory contributions	30,715	23,374
- Voluntary contributions	2	1
- Transfers between funds, net	14,945	9,721
- Penalties for delay	213	316
	<u>45,875</u>	<u>33,412</u>
<b>Benefits paid to participants</b>		
- Retirement	(1,712)	(684)
- Death or disability	(603)	(368)
- Expatriation	(638)	(319)
- Withholding taxes	(185)	(111)
- Other	(12)	(3)
	<u>(3,150)</u>	<u>(1,485)</u>
<b>Net change in assets available for pension benefits</b>	<u>54,509</u>	<u>43,209</u>
Net assets available for pension benefits, beginning	<u>125,423</u>	<u>82,214</u>
<b>Net assets available for pension benefits, ending</b>	<u>179,932</u>	<u>125,423</u>

*(Millions of Kazakhstani Tenge)***24. Fees and commissions**

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

	<u>2008</u>	<u>2007</u>
Letters of credit and guarantees issued	9,893	9,569
Settlement and cash operations	7,633	7,925
Transfer operations	5,193	4,388
Asset management fees	3,161	2,463
Foreign currency trading	2,898	2,639
Brokerage services	479	693
Other	1,077	812
<b>Fee and commission income</b>	<b>30,334</b>	<b>28,489</b>
Transfer operations	(542)	(404)
Brokerage services	(211)	(259)
Foreign currency trading	(52)	(91)
Custodian services	(49)	(45)
Other	(325)	(258)
<b>Fee and commission expense</b>	<b>(1,179)</b>	<b>(1,057)</b>
<b>Net fee and commission income</b>	<b>29,155</b>	<b>27,432</b>

**25. Net trading (loss) / income**

Net trading (loss)/ income for the years ended 31 December comprised the following:

	<u>2008</u>	<u>2007</u>
Securities	(6,381)	4,651
Interest rate instruments	(23,388)	(2,148)
	<b>(29,769)</b>	<b>2,503</b>

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 as well as changes in fair value of forward transactions with securities. The results of trading and changes in fair value of interest rate swaps are recorded under income from interest rate instruments.

*(Millions of Kazakhstani Tenge)***26. Salaries and other administrative and operating expenses**

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

	<u>2008</u>	<u>2007</u>
Salaries and bonuses	(23,722)	(22,358)
Social security costs	(2,010)	(2,436)
Other payments	(865)	(950)
<b>Salaries and other employee benefits</b>	<b>(26,597)</b>	<b>(25,744)</b>
Occupancy and rent	(7,056)	(4,797)
Marketing and advertising	(3,984)	(3,193)
Repair and maintenance of property and equipment	(2,548)	(1,750)
Transportation expenses	(2,077)	(1,411)
Communications	(1,639)	(1,522)
Security	(1,572)	(1,117)
Legal services and consultancy	(1,499)	(1,307)
Agency services	(1,047)	(1,035)
Business travel and related expenses	(1,041)	(1,033)
Encashment	(909)	(752)
Plastic cards	(767)	(786)
Office supplies	(445)	(358)
Penalties	(427)	(59)
Data processing	(346)	(298)
State duties and customs	(294)	(75)
Postal charges	(191)	(161)
Trainings	(100)	(117)
Representation	(99)	(80)
Insurance	(59)	(2,891)
Participation in forums, seminars and conferences	(43)	(54)
Loss on disposals of property and equipment	(12)	–
Other	(1,259)	(604)
<b>Administrative and other operating expenses</b>	<b>(27,414)</b>	<b>(23,400)</b>

**27. 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 2008 and 2007.

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

	<u>2008</u>	<u>2007</u>
Net (loss) / income attributable to common shareholders for basic earnings per share, being net income less dividends declared on convertible preferred shares	(1,187,584)	61,354
Net (loss) / income attributable to common and potential common shareholders for diluted earnings per share	(1,187,584)	61,354
Weighted average number of common shares for basic and diluted earnings per share	8,370,461	7,534,395
Basic and diluted (loss)/earnings per share (in Kazakhstani Tenge)	(141,878)	8,143



(Millions of Kazakhstani Tenge)

## 28. Risk management policies

### Introduction

The Group as a 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 and defining lines of activity of subdivisions.

##### *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 and Management Board.

##### *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.

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.

(Millions of Kazakhstani Tenge)

## 28. Risk management policies (continued)

### Introduction (continued)

#### *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 Bank 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. Regional credit committee is responsible for credit risk function over issuance of the loans to Russian Federation and other CIS countries.

Financing of borrowers is done by thorough procedures of primary selection of borrowers, preliminary structuring of transaction, project assessment, borrower's financial statement analysis and monitoring and control of risks. Decision on financing of borrowers is made by the respective Credit committee depending on the borrower's limit.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions based on the requirements of kazakhstani regulation. 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 Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

During 2008, regional credit committee was chaired by the former Chairman of the Board of Directors. This created a conflict of interest, as the regional credit committee reports to the Managing Board, which in its turn reports to the Board of Directors. Therefore, the control from Managing Board was not effective and potentially contributed to the issuance of loans to off-shore companies, which became uncollectible in 2008 and for which the Bank has created an allowance as at 31 December 2008. (Refer to Notes 5 and 13). In 2009 the structure of credit committee was improved by the decision of the new management.

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

*(Millions of Kazakhstani Tenge)***28. Risk management policies (continued)****Credit risk (continued)**

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.

	<i>Note</i>	<i>Gross maximum exposure 2008</i>	<i>Gross maximum exposure 2007</i>
Cash and cash equivalents (excluding cash on hand)	7	82,645	86,897
Obligatory reserves (excluding cash on hand)	8	27,601	139,366
Financial assets at fair value through profit or loss (excluding equity securities)	9	106,519	83,022
Amounts due from credit institutions	10	85,174	107,589
Derivative financial assets	11	21,650	31,397
Available-for-sale investment securities (excluding equity securities)	12	19,122	20,865
Loans to customers	13	1,617,063	2,379,810
Other assets		23,000	18,854
		<b>1,982,774</b>	<b>2,867,800</b>
Financial commitments and contingencies	23	551,253	592,796
<b>Total credit risk exposure</b>		<b>2,534,027</b>	<b>3,460,596</b>

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 13.

*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.

	<i>Note</i>	<i>2008</i>		<i>Total</i>
		<i>Neither past due nor impaired</i>	<i>Past due or individually impaired</i>	
Loans to customers	13			
Corporate lending		702,587	1,369,404	2,071,991
Small and medium business lending		234,748	22,085	256,833
Individuals lending		468,695	36,822	505,517
<b>Total</b>		<b>1,406,030</b>	<b>1,428,311</b>	<b>2,834,341</b>

	<i>Note</i>	<i>2007</i>		<i>Total</i>
		<i>Neither past due nor impaired</i>	<i>Past due or individually impaired</i>	
Loans to customers	13			
Corporate lending		1,396,467	273,181	1,669,648
Small and medium business lending		278,461	21,864	300,325
Individuals lending		541,511	5,369	546,880
<b>Total</b>		<b>2,216,439</b>	<b>300,414</b>	<b>2,516,853</b>

(Millions of Kazakhstani Tenge)

## 28. Risk management policies (continued)

### Credit risk (continued)

*Credit quality per class of financial assets (continued)*

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*

	<i>Less than 30 days</i>	
	<i>2008</i>	<i>2007</i>
<b>Loans to customers</b>		
Corporate lending	13,507	8,288
Small and medium business lending	6,448	2,996
Individuals lending	10,976	5,369
<b>Total</b>	<b>30,931</b>	<b>16,653</b>

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 2008 was KZT 83,629 million (2007- KZT 36,068 million). See 'Collateral and other credit enhancements' in Note 13 for the details of types of collateral held.

See Note 13 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.

	<i>2008</i>	<i>2007</i>
<b>Loans to customers</b>		
Corporate lending	234,372	60,437
Small and medium business lending	5,202	3,340
Individuals lending	1,982	488
	241,556	64,265
Amounts due from credit institutions	1,922	-
<b>Total</b>	<b>243,478</b>	<b>64,265</b>

*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. Note 5 and Note 13 explain in detail for effects of such circumstances

*Collectively assessed allowances*

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.

*(Millions of Kazakhstani Tenge)***28. Risk management policies (continued)**

Credit risk (continued)

*Collectively assessed allowances (continued)*

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 incurred 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:

	<i>2008</i>			<i>Total</i>
	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other non OECD countries</i>	
<b>Assets:</b>				
Cash and cash equivalents	25,510	42,107	20,276	87,893
Obligatory reserves	62,953	–	1,101	64,054
Financial assets at fair value through profit or loss	115,320	12,830	–	128,150
Amounts due from credit institutions	23,277	–	61,897	85,174
Derivative financial assets	445	20,937	268	21,650
Available-for-sale securities	15,272	2	5,208	20,482
Loans to customers	915,099	253,163	448,801	1,617,063
Other assets (monetary)	18,794	1,093	3,113	23,000
	<b>1,176,670</b>	<b>330,132</b>	<b>540,664</b>	<b>2,047,466</b>
<b>Liabilities:</b>				
Amounts due to the Government and central banks	1,472	–	246	1,718
Amounts due to credit institutions	152,328	588,622	62,416	803,366
Amounts due to customers	859,216	15,512	11,324	886,052
Derivative financial liabilities	2,375	16,391	23	18,789
Debt securities issued	216,850	858,302	12,574	1,087,726
Provisions	2,347	28,491	74,055	104,893
Other liabilities	22,784	1,163	10,489	34,436
	<b>1,257,372</b>	<b>1,508,481</b>	<b>171,127</b>	<b>2,936,980</b>
<b>Net balance sheet position</b>	<b>(80,702)</b>	<b>(1,178,349)</b>	<b>369,537</b>	<b>(889,514)</b>
<b>Off-balance sheet position</b>	<b>388,567</b>	<b>87,103</b>	<b>212,685</b>	<b>688,355</b>

*(Millions of Kazakhstani Tenge)***28. Risk management policies (continued)****Credit risk (continued)***Collectively assessed allowances (continued)*

	<i>2007</i>			<i>Total</i>
	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other non OECD countries</i>	
<b>Assets:</b>				
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 assets	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
Other assets	16,018	1,231	1,605	18,854
	<b>1,885,635</b>	<b>197,723</b>	<b>860,854</b>	<b>2,944,212</b>
<b>Liabilities:</b>				
Amounts due to the Government and central banks	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
Derivative financial liabilities	395	3,735	1,398	5,528
Debt securities issued	189,193	880,229	15,023	1,084,445
Provisions	2,598	1,772	6,207	10,577
Other liabilities	22,539	658	114	23,311
	<b>1,007,399</b>	<b>1,514,843</b>	<b>90,344</b>	<b>2,612,586</b>
<b>Net balance sheet position</b>	<b>878,236</b>	<b>(1,317,120)</b>	<b>770,510</b>	<b>331,626</b>
<b>Off-balance sheet position</b>	<b>379,068</b>	<b>59,560</b>	<b>195,000</b>	<b>633,628</b>

**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 Group'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.

(Millions of Kazakhstani Tenge)

## 28. Risk management policies (continued)

### Liquidity risk and funding management (continued)

The management of the Asset and Liability Management Committee (ALMC) analyzes the operational data on a weekly basis and makes 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.

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 3% of certain external borrowings and 2% of the certain domestic borrowings.

As discussed in Note 2, as at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Due to the Bank's inability to early repay all its debt as called by creditors, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million or equivalent of KZT 83 billion citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2009.

### *Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on undiscounted repayment obligations.

<b>Financial liabilities as at 31 December 2008</b>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Amounts due to the Government and central banks	217	1,902	2,119
Amounts due to credit institutions	698,139	127,258	825,397
Derivative financial instruments	16,689	2,100	18,789
Amounts due to customers	680,055	300,393	980,448
Debt securities issued	769,514	637,713	1,407,227
Other liabilities	34,957	1,306	36,263
<b>Total undiscounted financial liabilities</b>	<b>2,199,571</b>	<b>1,070,672</b>	<b>3,270,243</b>

*(Millions of Kazakhstani Tenge)***28. Risk management policies (continued)**

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

<b>Financial liabilities as at 31 December 2007</b>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Amounts due to the Government and central banks	130	884	1,014
Amounts due to credit institutions	384,784	559,105	943,889
Derivative financial instruments	3,130	2,398	5,528
Amounts due to customers	489,668	225,075	714,743
Debt securities issued	164,010	1,473,570	1,637,580
Other liabilities	32,999	5,398	38,397
<b>Total undiscounted financial liabilities</b>	<b>1,074,721</b>	<b>2,266,430</b>	<b>3,341,151</b>

As discussed in Note 2, there has been a significant deterioration in the Group's financial position principally resulting from the loss events related with the loan portfolio described in Note 5. This has led to a breach, by the Bank and the Group, of certain prudential requirements including those related to capital adequacy set by the FMSA. As a result of these loss events the Group's total liabilities as at 31 December 2008 exceeded its total assets by KZT 742,779 million and the Group has reported a net loss amounting to KZT 1,188,050 million for the year then ended.

As at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations. Therefore, the Bank started restructuring process with its creditors.

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

	<i>On demand</i>	<i>Less than month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Total</i>
<i>2008</i>	14,694	21,095	39,854	192,546	249,788	160,233	678,210
<i>2007</i>	17,775	16,478	28,756	146,621	250,623	166,493	626,746



*(Millions of Kazakhstani Tenge)***28. Risk management policies (continued)****Liquidity risk and funding management (continued)**

In accordance with terms of debt securities issued the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies.

Losses on loans, derivative financial instruments and securities, existed in 2008 and identified in 2009 by the current management resulted in the following breaches.

As at 31 December 2008, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on certain debt securities issued. Due to breach of covenants described above, amounts due to credit institutions and debt securities issued of KZT 1,185,395 million have become current. As discussed in Note 2, the Bank is in the process of restructuring these debts.

The table below summarises an analysis of assets and liabilities according to when they are expected to be recovered or settled at 31 December 2008.

	<i>2008</i>		<i>Total</i>
	<i>Within one year</i>	<i>More than one year</i>	
<b>Assets:</b>			
Cash and cash equivalents	87,893	–	87,893
Obligatory reserves	24,173	39,881	64,054
Financial assets at fair value through profit or loss	128,150	–	128,150
Amounts due from credit institutions	71,925	13,249	85,174
Derivative financial assets	655	20,995	21,650
Available-for-sale Securities	3,810	16,672	20,482
Loans to customers	851,289	765,774	1,617,063
Other assets	15,994	7,006	23,000
	<b>1,183,889</b>	<b>863,577</b>	<b>2,047,466</b>
<b>Liabilities:</b>			
Amounts due to the Government and central banks	125	1,593	1,718
Amounts due to credit institutions	708,182	95,184	803,366
Derivative financial liabilities	16,689	2,100	18,789
Amounts due to customers	536,302	349,750	886,052
Debt securities issued	722,510	365,216	1,087,726
Provisions	54,294	50,599	104,893
Other liabilities	33,930	506	34,436
	<b>2,072,032</b>	<b>864,948</b>	<b>2,936,980</b>
<b>Net position</b>	<b>(888,143)</b>	<b>(1,371)</b>	<b>(889,514)</b>
<b>Accumulated gap</b>	<b>(888,143)</b>	<b>(889,514)</b>	

(Millions of Kazakhstani Tenge)

**28. Risk management policies (continued)****Liquidity risk and funding management (continued)**

	<i>2007</i>		<i>Total</i>
	<i>Within one year</i>	<i>More than one year</i>	
<b>Assets:</b>			
Cash and cash equivalents	99,723	–	99,723
Obligatory reserves	52,266	115,976	168,242
Financial assets at fair value through profit or loss	112,175	–	112,175
Amounts due from credit institutions	59,091	48,498	107,589
Derivative financial assets	375	31,022	31,397
Available-for-sale Securities	8,211	18,211	26,422
Loans to customers	558,562	1,821,248	2,379,810
Other assets	16,299	2,555	18,854
	<u>906,702</u>	<u>2,037,510</u>	<u>2,944,212</u>
<b>Liabilities:</b>			
Amounts due to the Government and central banks	95	818	913
Amounts due to credit institutions	255,600	579,704	835,304
Derivative financial liabilities	1,908	3,620	5,528
Amounts due to customers	459,803	192,705	652,508
Debt securities issued	66,912	1,017,533	1,084,445
Provisions	5,276	5,301	10,577
Other liabilities	22,016	1,295	23,311
	<u>811,610</u>	<u>1,800,976</u>	<u>2,612,586</u>
<b>Net position</b>	<u>95,092</u>	<u>236,534</u>	<u>331,626</u>
<b>Accumulated gap</b>	<u>95,092</u>	<u>331,626</u>	

**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 of Group's income statement 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 2008. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

(Millions of Kazakhstani Tenge)

**28. Risk management policies (continued)****Market risk (continued)***Interest rate risk (continued)*

<i>Currency</i>	<i>Increase in basis points 2008</i>	<i>Sensitivity of net interest income 2008</i>	<i>Sensitivity of equity 2008</i>
<b>LIBOR:</b>			
USD	+59	(2,372)	(711)
KZT	+59	(1,699)	(217)
EUR	+59	(1,080)	–
CHF	+59	(177)	–
JPY	+59	(804)	–
<i>Currency</i>	<i>Increase in basis points 2007</i>	<i>Sensitivity of net interest income 2007</i>	<i>Sensitivity of equity 2007</i>
<b>LIBOR:</b>			
USD	+46	(1,570)	(1)
KZT	+46	(719)	(168)
EUR	+46	(427)	–
CHF	+46	(90)	–
JPY	+46	(806)	–

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

	<i>2008</i>		<i>2007</i>	
	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>
Financial assets at fair value through profit or loss	8.1%	5.1%	6.6%	5.9%
Amounts due from credit institutions	9.7%	7.8%	7.6%	10.1%
Available-for-sale securities	11.1%	3.1%	11.2%	3.7%
Loans to customers	17.8%	12.1%	17.8%	13.0%
Amounts due to the Government and central banks	4.1%	3.5%	5.8%	4.3%
Amounts due to credit institutions	7.9%	6.2%	8.4%	7.1%
Amounts due to customers	10.1%	7.4%	8.8%	6.3%
Debt securities issued	11.6%	8.0%	9.8%	9.2%

*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 2008 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. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate in % 2008</i>	<i>Effect on profit before tax 2008</i>	<i>Change in currency rate in % 2007</i>	<i>Effect on profit before tax 2007</i>
	USD	-15.4	(71,743)	-4
EUR	-15.2	6,143	-7	1,044
RUR	-8.3	1,081	-5	(1,681)
CHF	-16.4	(218)	-8	1,609
JPY	-22.4	(1,474)	-9	831
KGS	-15.0	(669)	–	–
BYR	-3.6	(39)	–	–
PLZ	–	–	-10	792
GBP	-23.2	(221)	-8	3,476

*(Millions of Kazakhstani Tenge)***28. 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 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) due to a reasonably possible change in equity indices using Capital Asset Pricing Model, with all other variables held constant, is as follows:

<i>Market index</i>	<b>Increase in indices</b>	<i>Effect on profit</i>	<b>Increase in indices</b>	<i>Effect on profit</i>
	<b>2008, %</b>	<i>before tax and equity 2008</i>	<b>2007, %</b>	<i>before tax and equity 2007</i>
KASE	<b>66.49</b>	<b>773</b>	9.6	534
RTS	<b>72.77</b>	<b>7,913</b>	27.3	290
PFTS (Ukraine)	<b>73.85</b>	<b>481</b>	131.1	70
MSCI World Index	<b>39.61</b>	<b>3,422</b>	2.8	1,581
FTSE	<b>59.35</b>	<b>3</b>	–	–
FTSE World Oil & Gas Index	–	–	14.3	2
FTSE All Share Mining Index	–	–	47.5	19
FTSE All Share Support Services Index	–	–	13.0	(1)
FTSE All Share Banks Index	–	–	22.5	–
Toronto SE 300 Composite Index	–	–	7.0	2
<i>Market index</i>	<b>Decrease in indices 2008, %</b>	<i>Effect on profit before tax and equity 2008</i>	<b>Decrease in indices 2007, %</b>	<i>Effect on profit before tax and equity 2007</i>
KASE	<b>-66.49</b>	<b>1,024</b>	-9.6	455
RTS	<b>-72.77</b>	<b>(5,827)</b>	-27.3	212
PFTS (Ukraine)	<b>-73.85</b>	<b>601</b>	-131.1	(28)
MSCI World Index	<b>-39.61</b>	<b>(3,151)</b>	-2.8	1,513
FTSE	<b>-59.35</b>	<b>4</b>	–	–
FTSE World Oil & Gas Index	–	–	-14.3	(1)
FTSE All Share Mining Index	–	–	-47.5	(11)
FTSE All Share Support Services Index	–	–	-13.0	3
FTSE All Share Banks Index	–	–	-22.5	–
Toronto SE 300 Composite Index	–	–	-7.0	–

(Millions of Kazakhstani Tenge)

**28. 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.

**29. 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.

	<i>Carrying value 2008</i>	<i>Fair value 2008</i>	<i>Unrecognised gain/(loss) 2008</i>	<i>Carrying value 2007</i>	<i>Fair value 2007</i>	<i>Unrecognised gain/(loss) 2007</i>
<b>Financial assets</b>						
Cash and cash equivalents	87,893	87,893	–	99,723	99,723	–
Obligatory reserves	64,054	64,054	–	168,242	168,242	–
Financial assets at fair value through profit or loss	128,150	128,150	–	112,175	112,175	–
Amounts due from credit institutions	85,174	85,174	–	107,589	107,589	–
Derivative financial assets	21,650	21,650	–	31,397	31,397	–
Loans to customers	1,617,063	1,617,063	–	2,379,810	2,385,763	5,953
Available-for-sale investment securities	20,482	20,482	–	26,422	26,422	–
<b>Financial liabilities</b>						
Amounts due to the Government and central banks	1,718	1,718	–	913	913	–
Amounts due to credit institutions	803,366	794,637	8,729	835,304	848,660	(13,356)
Derivative financial liabilities	18,789	18,789	–	5,528	5,528	–
Amounts due to customers	886,052	886,052	–	652,508	652,508	–
Debt securities issued	1,087,726	727,839	359,887	1,084,445	1,016,976	67,469
<b>Total unrecognised change in unrealised fair value</b>			<b>368,616</b>			<b>60,066</b>

*(Millions of Kazakhstani Tenge)*

## **29. Fair values of financial instruments (continued)**

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.

### *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 three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and variable rate financial instruments.

### *Fixed rate financial instruments*

The fair values 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.

## **30. 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.

*(Millions of Kazakhstani Tenge)***30. Segment analysis (continued)**

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

<i>2008</i>	<i>Corporate banking</i>	<i>Small and medium business</i>	<i>Retail banking</i>	<i>Investing activity</i>	<i>Unallocated amounts</i>	<i>Elimination</i>	<i>Total</i>
External interest income	236,914	39,874	78,033	41,682	(36)	–	396,467
Internal interest income	52,093	9,649	36,964	244,688	–	(343,394)	–
External interest expense	(20,811)	(4,792)	(36,524)	(146,143)	(111)	–	(208,381)
Internal interest expense	(200,542)	(23,846)	(44,474)	(74,532)	–	343,394	–
<b>Net interest income before impairment</b>	<b>67,654</b>	<b>20,885</b>	<b>33,999</b>	<b>65,695</b>	<b>(147)</b>	<b>–</b>	<b>188,086</b>
Impairment charge	(1,003,422)	(42,364)	(48,071)	(443)	–	–	(1,094,300)
<b>Net interest (loss)/income after impairment</b>	<b>(935,768)</b>	<b>(21,479)</b>	<b>(14,072)</b>	<b>65,252</b>	<b>(147)</b>	<b>–</b>	<b>(906,214)</b>
<b>Net commission and non-interest income</b>	<b>23,256</b>	<b>10,823</b>	<b>4,672</b>	<b>(49,857)</b>	<b>245</b>	<b>(7,898)</b>	<b>(18,759)</b>
Depreciation and amortizations	(487)	(432)	(1,212)	(106)	(2,198)	–	(4,435)
Non-interest expenses	(26,247)	(12,088)	(20,808)	(7,113)	(1,918)	7,898	(60,276)
Other provisions	(96,429)	(143)	(149)	(16,331)	(78)	–	(113,130)
Share in net loss of associate organizations	–	–	–	(15,448)	–	–	(15,448)
Impairment loss of available-for-sale securities	–	–	–	(42,610)	–	–	(42,610)
Impairment of investments in associates	–	–	–	(19,138)	–	–	(19,138)
Impairment loss on goodwill	–	–	–	(8,107)	–	–	(8,107)
<b>Loss before income tax expense</b>	<b>(1,035,675)</b>	<b>(23,319)</b>	<b>(31,569)</b>	<b>(93,458)</b>	<b>(4,096)</b>	<b>–</b>	<b>(1,188,117)</b>
Income tax benefit	–	–	–	–	67	–	67
<b>Loss after income tax</b>	<b>(1,035,675)</b>	<b>(23,319)</b>	<b>(31,569)</b>	<b>(93,458)</b>	<b>(4,029)</b>	<b>–</b>	<b>(1,188,050)</b>
<b>Total assets</b>	<b>1,063,977</b>	<b>213,297</b>	<b>437,161</b>	<b>1,391,441</b>	<b>312,200</b>	<b>(1,223,875)</b>	<b>2,194,201</b>
<b>Total liabilities</b>	<b>701,257</b>	<b>152,140</b>	<b>372,745</b>	<b>2,758,664</b>	<b>26,250</b>	<b>(1,074,076)</b>	<b>2,936,980</b>

*(Millions of Kazakhstani Tenge)***30. Segment analysis (continued)**

<i>2007</i>	<i>Corporate Banking</i>	<i>Small and medium busines</i>	<i>Retail banking</i>	<i>Investing activity</i>	<i>Unallocated amounts</i>	<i>Elimination</i>	<i>Total</i>
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	–
<b>Net interest income before impairment</b>	46,682	20,602	43,245	33,694	(54)	–	144,169
Impairment charge	(52,722)	(5,623)	(9,431)	(12)	(22)	–	(67,810)
<b>Net interest (loss)/income after impairment</b>	(6,040)	14,979	33,814	33,682	(76)	–	76,359
<b>Net commission and non-interest income</b>	35,049	9,100	5,149	14,986	4,386	(13,333)	55,337
Depreciation and amortization	(101)	(210)	(732)	(280)	(991)	–	(2,314)
Non-interest expenses	(20,164)	(9,649)	(27,765)	(7,773)	(2,356)	13,333	(54,374)
Other provisions	(4,495)	123	(25)	–	(308)	–	(4,705)
Income from associate organizations	–	–	–	4,234	–	–	4,234
<b>Income before income tax expense</b>	4,249	14,343	10,441	44,849	655	–	74,537
Income tax expense	–	–	–	–	(9,832)	–	(9,832)
<b>Net income after income tax</b>	4,249	14,343	10,441	44,849	(9,177)	–	64,705
<b>Total assets</b>	1,642,359	295,840	526,287	1,526,106	245,376	(1,171,351)	3,064,617
<b>Total liabilities</b>	329,158	140,980	346,719	2,836,257	10,841	(1,051,369)	2,612,586



(Millions of Kazakhstani Tenge)

### 30. Segment analysis (continued)

Geographical segments. Segment information for the main geographical segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

	<i>Kazakhstan</i>	<i>OECD</i>	<i>Non OECD</i>	<i>Total</i>
<b>2008</b>				
Segment assets	1,970,957	595,956	941,896	3,508,809
External revenues	463,275	204,351	263,069	930,695
Capital expenditure	6,734	–	335	7,069
Credit related commitments	253,790	44,456	65,244	363,490
<b>2007</b>				
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
Credit related commitments	256,166	20,476	57,529	334,171

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

### 31. 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.

*(Millions of Kazakhstani Tenge)***31. Related party transactions (continued)**

As at 31 December 2008 and 2007 the Group had the following transactions with related parties:

	<i>31 December 2008</i>				<i>31 December 2007</i>			
	<i>Shareholders</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Shareholders</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Loans outstanding at 1 January, gross	–	–	8,210	1,352	–	–	8,683	6,510
Loans issued during the period	–	–	1,439	2	–	–	7,742	5,790
Loan repayments during the period	–	–	(8,354)	(1,347)	–	–	(8,215)	(10,948)
Loans outstanding at 31 December, gross	–	–	1,295	7	–	–	8,210	1,352
Less: allowance for impairment at 31 December	–	–	–	–	–	–	–	–
Loans outstanding at 31 December, net	–	–	1,295	7	–	–	8,210	1,352
Interest rates	–	–	12%-19%	15%	–	–	12%-16%	12%-19%
Maturities	–	–	2010-2016	2010-2014	–	–	2009-2027	2008-2026
Amounts due from credit institutions (deposits)								
Deposits at 1 January	–	5,096	–	5,582	–	2,246	–	6,570
Deposits placed during the period	–	24,842	–	–	–	8,307	–	19,887
Deposits withdrawn during the period	–	(23,579)	–	(5,582)	–	(5,457)	–	(20,875)
Deposits at 31 December	–	6,359	–	–	–	5,096	–	5,582
Interest rates	–	12%-14%	–	11%	–	9%	–	11%-14%
Maturity	–	2009	–	2008	–	2008-2009	–	2008
Amounts due from credit institutions (loans)								
Loans at 1 January	–	9,497	–	8,398	–	12,625	–	3,190
Loans placed during the period	–	26,394	–	–	–	17,892	–	9,374
Loans withdrawn during the period	–	(28,562)	–	(8,398)	–	(21,020)	–	(4,166)
Loans at 31 December	–	7,329	–	–	–	9,497	–	8,398
Less: allowance for impairment at 31 December	–	(3,683)	–	–	–	–	–	–
Loans at 31 December	–	3,646	–	–	–	9,497	–	8,398
Interest rates	–	7%-15%	–	8%	–	8%-13%	–	8%-11%
Maturity	–	2009-2013	–	2008	–	2008-2013	–	2008-2013

*(Millions of Kazakhstani Tenge)***31. Related party transactions (continued)**

	<i>31 December 2008</i>				<i>31 December 2007</i>			
	<i>Shareholders</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Shareholders</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Amounts due to credit institutions								
Loans at 1 January	–	430	–	558	–	3,529	–	17,481
Loans received during the period	–	494,489	–	–	–	79,809	–	329,572
Loans repaid during the period	–	(488,036)	–	(558)	–	(82,908)	–	(346,495)
Loans at 31 December	–	6,883	–	–	–	430	–	558
Interest rates	–	up to 11%	–	–	–	up to 10%	–	–
Maturity	–	On demand-2009	–	On demand	–	2008	–	On demand
Financial assets at fair value through profit or loss								
Balances at 1 January	–	1,619	–	–	–	1,620	–	–
Securities purchased during the period	–	416	–	–	–	336	–	–
Securities sold during the period	–	(2,035)	–	–	–	(337)	–	–
Balances at 31 December	–	–	–	–	–	1,619	–	–
Interest rates	–	9%	–	–	–	9%	–	–
Maturity	–	2008	–	–	–	2008	–	–
Cash and cash equivalents								
Deposits at 1 January	–	1	–	1,281	–	128	–	617
Deposits received during the period	–	859,637	–	–	–	48,639	–	358,894
Deposits repaid during the period	–	(858,943)	–	(1,281)	–	(48,766)	–	(358,230)
Deposits at 31 December	–	695	–	–	–	1	–	1,281
Less: allowance for impairment at 31 December	–	(28)	–	–	–	–	–	–
Deposits at 31 December, net of impairment	–	667	–	–	–	1	–	1,281
Interest rates	–	1%-12%	–	–	–	–	–	–
Maturity	–	On demand-2009	–	On demand	–	On demand	–	On demand

(Millions of Kazakhstani Tenge)

**31. Related party transactions (continued)**

	<i>31 December 2008</i>				<i>31 December 2007</i>			
	<i>Shareholders</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Shareholders</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Amounts due to customers								
Deposits at 1 January	18	–	4,151	4,796	4,583	–	982	500
Deposits received during the period	668	–	48,083	1,379	55,158	–	78,375	18,901
Deposits repaid during the period	(680)	–	(51,529)	(5,888)	(59,723)	–	(75,206)	(14,605)
Deposits at 31 December	6	–	705	287	18	–	4,151	4,796
Interest rates	–	–	9%-13%	9%-10%	–	–	up to 12%	10%
Maturity	On demand	–	2009-2011	2009-2011	On demand	–	2008-2012	2008
Commitments and guarantees issued	–	9,145	3	–	–	3,796	17	8,557
Less: allowance for impairment	–	(7,741)	–	–	–	–	–	–
	–	1,404	3	–	–	3,796	17	8,557
Interest rates	–	2%-3%	–	–	–	2%-7%	–	2%-3%
Maturity	–	2009-2010	2009-2010	–	–	2008-2009	2008-2010	2008-2011
Commitments and guarantees received	–	3,105	–	–	–	503	8	1,456
Interest rates	–	2%	–	–	–	3%	–	2%-3%
Maturity	–	2009	–	–	–	2008	2011	2008
Interest income on loans	–	–	553	2	–	–	1,614	666
Interest income on due from credit institutions	–	1,319	–	1,721	–	1,284	–	1,127
Interest expense on due to credit institutions	–	(189)	–	(17)	–	(57)	–	(8)
Interest expense on due to customers	–	–	(113)	(34)	–	–	(255)	(2)
Interest income on financial assets	–	147	–	–	–	147	–	–
Interest income on deposits up to 90 days	–	64	–	9	–	16	–	2
Allowance for impairment	–	(11,452)	–	–	–	–	–	–
Fee and commission income	–	163	1	68	–	46	–	34
Other income	–	28	1	–	–	40	–	–
Fee and commission expense	–	(76)	–	–	–	–	–	(245)
Other expense	–	(51)	–	–	–	–	–	–

*(Millions of Kazakhstani Tenge)*

### **31. Related party transactions (continued)**

As at 31 December 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 2008 was KZT 624 million (2007 - KZT 610 million).

As at 31 December 2008 the Bank had loans totaling to KZT 807 million issued to the Group management for investment to mutual investment funds, managed by a subsidiary of the Group (2007 - KZT 4,381 million), the rest of loans are presented by consumer loans.

Included in the table above are the following transactions with related parties outstanding as at 31 December 2008 and 2007:

- 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 period.

### **32. 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.

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.

As at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Due to the Bank's inability to repay all its debt as called by creditors in full, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2009.

(Millions of Kazakhstani Tenge)

### 33. Subsequent events

On 23 January 2009 the Bank has repaid, at maturity, its notes for the total amount of USD 250,000 thousand, issued under the Bank's Global Medium Term Notes Program.

On 2 February 2009 in accordance with the Law of the Republic of Kazakhstan on Banks and banking activity the FMSA has made an offer to the Government and the Government represented by JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna") agreed to purchase the controlling stake in the Bank's capital. The purchase was carried out through issue of additional 25,246,343 shares at the price of KZT 8,401 per share, for the total amount of KZT 212,095 million, which provided the Government with 75.1% interest in the Bank's capital.

On 4 February 2009 the Kazakh Tenge devalued against US Dollars and other major currencies. The exchange rates for USD 1 before and after devaluation were KZT 120 and KZT 150, respectively. Should the devaluation happen as at 31 December 2008, its effect on the Group's consolidated income statement would be KZT 68,543 million less.

In February 2009, in order to support the Bank's liquidity, the Government decided to transfer some of the state owned entities' accounts to the Bank. This provided the Bank with additional funds for the total amount of KZT 129,690 million.

In March 2009, the Bank repaid, at maturity, its bilateral loan to Morgan Stanley for the total amount of KZT 46,620 million. On 10 March 2009 the Bank has also repaid USD 193,366,666.67 in accordance with the schedule part of the Global Syndicated Loan Facility.

On 3 March 2009 the National Bank of the Republic of Kazakhstan has decreased the obligatory reserve requirements for commercial banks from 2% to 1.5% on internal obligations and from 3% to 2.5% on external obligations.

During March 2009, the Bank has made several placements of its notes at local market for the total amount of KZT 645 billion, with final maturity of 2024 and with repayments starting from 2015. All of these notes were purchased by Samruk-Kazyna.

On 14 February 2009 the Bank has signed a general agreement with Samruk-Kazyna and "DAMU Fund for development of entrepreneurship", on providing the Bank with funds in the amount of KZT 22 billion for the purposes of financing and refinancing of small and medium size entities under the Government's anti-crisis program, for the period of seven years.

In March 2009 the Group acquired 33,978,708 shares in its associate Sekerbank for amount of KZT 2,996 million from an additional share issue and to maintain its current share interest of 33.98%.

In February 2009 rating agencies have downgraded ratings of the Bank's notes issued under the Diversified payment rights program from Baa3 to B1, which lead to a breach of the covenants of the notes.

On 20 April 2009 certain lenders demanded from the Bank accelerated repayment of the Bank's debt due to these creditors for the total amount of USD 550 million, based on a breach of financial and non-financial covenants of the Bank's debt agreements, as a result of change in control by Samruk-Kazyna and as a result of downgrade of the Bank's ratings in 2009. Since the Bank's debt agreements with other creditors have a cross-default clauses, in order to avoid acceleration claims by other creditors, the management of the Bank has decided to suspend repayments of principal amounts of all of its debt, starting from 20 April 2009, until such time that the Bank finalizes its negotiations with all the creditors on restructuring of the Bank's debt. The Bank has also announced that it will continue interest payments on its debts.

For the period from January to April 2009 international ratings agencies have downgraded in stages, the Bank's short and long-term counterparty credit ratings, as follows: Standard&Poor's from BB to D; Fitch from BB to RD, Moody's from Ba1 to Caa3. This has led to breach of some of financial and non-financial covenants of the Bank's debt agreements, as described in Note 2.