

**JOINT STOCK COMPANY
EXIMBANK KAZAKHSTAN**

Financial Statements
for the Year Ended 31 December 2008

JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

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JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint Stock Company Eximbank Kazakhstan (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2008 were authorized for issue on 20 March 2009 by the Management Board of the Bank.


On behalf of the Management Board:



Amirkhanov L.A.
Chairman

20 March 2009
Almaty, Kazakhstan





Rimer N.G.
Chief Accountant

20 March 2009
Almaty, Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Eximbank Kazakhstan:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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



Galymzhan Khasenov
Engagement Partner
Certified auditor
License #CP 3357,
Unites States of America

Deloitte, LLP



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



Nurlan Bekenov
Auditor-performer
Auditor's qualification
certificate №0082
dated 13 June 1994
General Director
Deloitte, LLP



20 March 2009
Almaty, Kazakhstan

JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	5, 30	5,067,517	4,174,887
Interest expense	5, 30	(2,583,280)	(1,903,932)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		2,484,237	2,270,955
Provision for impairment losses on interest bearing assets	6, 30	(1,126,388)	(343,615)
NET INTEREST INCOME		1,357,849	1,927,340
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	7	150,726	(5,508)
Net gain/(loss) on foreign exchange operations	8	290,158	(3,272)
Fee and commission income	9, 30	241,652	133,677
Fee and commission expense	9	(31,942)	(6,037)
Recovery of provision for impairment losses on other operations	6	10,199	88,929
Other income/(expense)	10	9,701	(48,569)
NET NON-INTEREST INCOME		670,494	159,220
OPERATING INCOME		2,028,343	2,086,560
OPERATING EXPENSES	11, 30	(1,254,423)	(1,262,099)
PROFIT BEFORE INCOME TAX		773,920	824,461
Income tax expense	12	(385,347)	(252,350)
NET PROFIT		388,573	572,111
EARNINGS PER SHARE			
Basic and diluted (KZT)	13	17.14	36.15

On behalf of the Management Board of the Bank:

Amirkhanov E.A.
Chairman

20 March 2009
Almaty, Kazakhstan



Rimer N.G.
Chief Accountant

20 March 2009
Almaty, Kazakhstan

The notes on pages 9-50 form an integral part of these financial statements.

JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

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

(in thousands of Kazakhstani Tenge)

	Share capital	Property and equipment revaluation reserve	Retained earnings	Total equity
31 December 2006	8,773,531	444,658	(279,241)	8,938,948
Increase in share capital through issue of ordinary shares	608,341	-	-	608,341
Write-off of property and equipment revaluation reserve	-	(16,307)	16,307	
Dividends declared on ordinary shares	-	-	(135,000)	(135,000)
Net profit	-	-	572,111	572,111
31 December 2007	9,381,872	428,351	174,177	9,984,400
Increase in share capital through issue of ordinary shares	200,000	-	-	200,000
Effect of change in income tax rate (Note 12)	-	32,250	-	32,250
Write-off of property and equipment revaluation reserve	-	(5,039)	5,039	-
Net profit	-	-	388,573	388,573
31 December 2008	9,581,872	455,562	567,789	10,605,223

On behalf of the Management Board of the Bank:

Amirkhanov E.A.
Chairman

20 March 2009
Almaty, Kazakhstan



Rimer N.G.
Chief Accountant

20 March 2009
Almaty, Kazakhstan

The notes on pages 9-50 form an integral part of these financial statements.

JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		773,920	824,461
Adjustments for:			
Provision for impairment losses on interest bearing assets		1,126,388	343,615
Recovery of provisions for impairment losses on other transactions		(10,199)	(88,929)
Unrealized loss and amortization of premiums / discounts on securities		17,249	5,539
Unrealized (gain)/loss on foreign exchange operations		(22,122)	105,802
Amortization of premium on issued debt securities		(108,351)	(6,120)
Depreciation and amortization	11	172,140	180,858
Loss on sale of property and equipment		-	64,540
Change in interest accruals, net		(952,492)	(1,752,663)
Change in fair value of derivative financial instruments		48,511	(48,511)
		<u>1,045,044</u>	<u>(371,408)</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		(2,273,120)	1,763,405
Due from banks		877,350	190,665
Loans to customers		(7,837,549)	(15,140,145)
Other assets		28,006	161,076
Increase/(decrease) in operating liabilities:			
Due to banks		589,408	(730,072)
Customer accounts		9,104,974	8,462,231
Other borrowed funds		(4,938)	(6,109)
Other liabilities		408,130	44,445
		<u>408,130</u>	<u>44,445</u>
Cash inflow/(outflow) from operating activities before income tax		1,937,305	(5,625,912)
Income tax paid		(465,387)	(330,926)
		<u>1,471,918</u>	<u>(5,956,838)</u>
Net cash inflow/(outflow) from operating activities			

JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousands of Kazakhstani Tenge)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(448,428)	(338,129)
Proceeds from sale of property and equipment		23,578	386,764
Net cash (outflow)/inflow from investing activities		(424,850)	48,635
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		200,000	608,341
Proceeds from issue of debt securities		2,060,937	8,003,242
Dividends paid		-	(135,000)
Net cash inflow from financing activities		2,260,937	8,476,583
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,308,005	2,568,380
CASH AND CASH EQUIVALENTS, beginning of year	14	4,014,871	1,369,564
Effect of changes in foreign exchange rate on cash and cash equivalents		5,250	76,927
CASH AND CASH EQUIVALENTS, end of year	14	7,328,126	4,014,871

Interest paid and received by the Bank during the year ended 31 December 2008 amounted to KZT 2,537,733 thousand and KZT 4,069,478 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2007 amounted to KZT 1,366,949 thousand and KZT 2,511,501 thousand, respectively.

On behalf of the Management Board of the Bank:

Amirkhanov E.A.
Chairman

20 March 2009
Almaty, Kazakhstan



Rimer N.G.
Chief Accountant

20 March 2009
Almaty, Kazakhstan

The notes on pages 9-50 form an integral part of these financial statements.

JOINT STOCK COMPANY EXIMBANK KAZAKHSTAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Kazakhstani Tenge)

1. ORGANISATION

JSC Eximbank Kazakhstan (the "Bank") is a joint-stock company and operates in the Republic of Kazakhstan since 1994. The Bank is regulated by the National Bank of the Republic of Kazakhstan (the "NBRK") and by the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations (FMSA) under license #232 dated 15 June 2006 for activities regulated by banking law in national and foreign currency and license #0401100862 dated 20 August 2004 for broker-dealer activity with a right to maintain clients' accounts as nominal holder. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank's registered legal address is 80 Bogenbay Batyr street, Almaty, Republic of Kazakhstan.

As at 31 December 2008 the Bank had 4 branches in the Republic of Kazakhstan. The total number of employees of the Bank as of 31 December 2008 and 2007 was 201 and 191, respectively.

As at 31 December 2008 and 2007 the following shareholders owned the issued shares of the Bank:

	31 December 2008		31 December 2007	
	Number of shares	% of direct ownership	Number of shares	% of direct ownership
JSC Central Asian Heating Energy Company	5,720,988	51.08	6,291,081	57.19
JSC APF Amanat Kazakhstan	1,645,625	14.69	648,415	5.89
Centerstroyenergy JSC	812,533	7.25	812,533	7.39
JSC Astana Finance	770,093	6.88	-	-
Stroienergoremont-Pavlodar LLP	615,953	5.50	615,953	5.60
JSC APF BTA Kazakhstan SC of JSC BTA Bank	550,000	4.91	-	-
JSC Accumulative Pension Fund Neftegaz DEM	-	-	1,065,133	9.68
Investment Technologies LLP	-	-	458,392	4.17
Stroiinservice LLP	-	-	88,000	0.80
Other shareholders owning less than 5% of shares	1,084,808	9.69	1,020,493	9.28
Total	11,200,000	100.00	11,000,000	100.00

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are presented in thousands of Kazakhstan tenge ("KZT" or "Tenge"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

Functional currency

The functional currency of these financial statements is Kazakhstani tenge.

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD").

For the purposes of determining cash flows, cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days. The minimum reserve deposits with the National Bank of the Republic of Kazakhstan are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Due from banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) which are designated by the Bank at fair value through profit or loss upon initial recognition. A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (2) the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the income statement for the period. The Bank does not reclassify financial instruments in or out of this category while they are held.

The Bank enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. These instruments include forwards on foreign currency. Derivative financial instruments entered by the Bank are not designated as hedges and do not qualify for hedge accounting.

Derivative financial instruments

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

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in statements of 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.

Repurchase and reverse repurchase agreements

The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and classified as due from banks.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the income statement.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans

Loans to banks and customers are written off against allowance for impairment losses in case of uncollectibility of loans. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

Allowance for impairment losses

Assets carried at amortized cost

The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate.

Such impairment losses are not reversed, unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

The Bank accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized value) or by a direct write-off (financial assets recorded at cost). The assets recorded in the balance sheet are reduced by the amount of the impairment. The factors the Bank evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Bank can incur losses greater compared to recorded impairment.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Property, equipment and intangible assets

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Computers	40%
Vehicles	25%
Other fixed assets	15%
Intangible assets	15%

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Kazakhstan where the Bank operates also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Due to banks, customer accounts, issued debt securities and other borrowed funds

Due to banks, customer accounts, issued debt securities and subordinated debt are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Bank 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.

Financial guarantee contracts and letters of credit issued

Financial guarantee contracts and letters of credit issued by the Bank provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital

Share capital is stated at cost.

External costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Preferred shares

Preferred shares, for which dividends are set, are considered as combined financial instruments according to the nature of a contractual agreement, accordingly the components of the liability and equity are presented separately in the balance sheet. Upon the initial recognition the component of the equity is assigned the net book value after deduction from initial carrying value of the instrument of the fair value of the component of the liability. Upon the initial recognition the fair value of the component of the liability is measured by discounting the expected future cash flows at the market rate similar to a debt instrument. Subsequently the component of the liability is measured according to the same principles as the subordinate debt and the component of the equity is measured according to the same principles as for the share capital.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Kazakhstan, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Foreign currency translation

The financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank operates. Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at the year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2008	31 December 2007
KZT/1 US Dollar	120.79	120.30
KZT/1 Euro	170.24	177.17

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans and receivables

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

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

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

The carrying value of the allowance for impairment of loans to customers in the financial statements as at 31 December 2008 amounts to KZT 3,069,900 thousand (2007: KZT 1,913,756 thousand).

Valuation of Financial Instruments

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

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

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

The carrying value of the derivative financial instruments as at 31 December 2008 and 2007 is presented below:

	31 December 2008	31 December 2007
Derivative financial instruments	-	48,511

Adoption of new and revised standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

Amendments to IAS 1 "Capital Disclosures" ("IAS 1") – On 18 August 2005, the IASB issued an amendments to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information was disclosed in the financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008. The Bank has elected not to apply the amendments to IAS 39 and IFRS 7 retrospectively.

Standards and interpretations issued and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRS 8 – The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting" for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by an entity to be based on information used by management. Management is currently assessing the impact of the adoption of IFRS 8.

IAS 1 – on 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

4. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended as current year presentation provides better view of the financial performance of the Bank. These reclassifications are not significant and do not affect the financial performance of the Bank.

Income statement effect:

	As reclassified Year ended 31 December 2007	As previously reported Year ended 31 December 2007	Difference
Interest income	4,174,887	4,126,919	47,968
Interest expense	(1,903,932)	(1,933,697)	29,765
Fee and commission income	133,677	211,410	(77,733)

5. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	4,183,787	3,643,647
- interest income on unimpaired financial assets	787,855	505,971
Interest on financial assets at fair value	<u>95,875</u>	<u>25,269</u>
Total interest income	<u>5,067,517</u>	<u>4,174,887</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	4,886,375	4,003,008
Interest on due from banks	<u>85,267</u>	<u>146,610</u>
Total interest income on financial assets recorded at amortized cost	<u>4,971,642</u>	<u>4,149,618</u>
Interest income on financial assets at fair value:		
Interest income on financial assets at fair value through profit or loss	<u>95,875</u>	<u>25,269</u>
Total interest income on financial assets at fair value	<u>95,875</u>	<u>25,269</u>
Total interest income	<u>5,067,517</u>	<u>4,174,887</u>
Interest expense comprises:		
Interest expense on liabilities at amortized cost	<u>2,583,280</u>	<u>1,903,932</u>
Total interest expense	<u>2,583,280</u>	<u>1,903,932</u>
Interest expense on liabilities at amortized cost:		
Interest on debt securities issued	1,350,320	745,237
Interest on customer accounts	1,017,017	879,203
Interest on preferred shares	200,000	200,000
Interest on deposits from banks	15,330	78,508
Interest on other borrowed funds	<u>613</u>	<u>984</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>2,583,280</u>	<u>1,903,932</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>2,484,237</u>	<u>2,270,955</u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Due from banks	Loans to customers	Total
31 December 2006	179,705	1,555,518	1,735,223
(Recovery of provision)/provision	(9,480)	353,095	343,615
Recoveries of assets previously written off	<u>-</u>	<u>5,143</u>	<u>5,143</u>
31 December 2007	170,225	1,913,756	2,083,981
(Recovery of provision)/provision	(29,505)	1,155,893	1,126,388
Recoveries of assets previously written off	<u>-</u>	<u>251</u>	<u>251</u>
31 December 2008	<u>140,720</u>	<u>3,069,900</u>	<u>3,210,620</u>

The movements in provision for impairment losses on other operations and provision for guarantees losses were as follows:

	Other assets	Guarantees	Total
31 December 2006	661,938	17,219	679,157
(Recovery of provision)/ provision	(89,351)	422	(88,929)
Write-off of assets	<u>(309,755)</u>	<u>-</u>	<u>(309,755)</u>
31 December 2007	262,832	17,641	280,473
Provision/(recovery of provision)	1,826	(12,025)	(10,199)
Write-off of assets	<u>(52)</u>	<u>-</u>	<u>(52)</u>
31 December 2008	<u>264,606</u>	<u>5,616</u>	<u>270,222</u>

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

	Year ended 31 December 2008	Year ended 31 December 2007
Net (loss)/gain on operations with derivative financial instruments	(48,511)	48,511
Net gain/(loss) on financial assets held for trading	<u>199,237</u>	<u>(54,019)</u>
Total net gain/(loss) on financial assets and liabilities at fair value through profit or loss	<u>150,726</u>	<u>(5,508)</u>
Net gain/(loss) on financial assets held for trading, including:		
Gain/(loss) on trading operations	218,788	(25,670)
Dividends received	33	38,878
Net fair value adjustment	<u>(19,584)</u>	<u>(67,227)</u>
Total net gain/(loss) on financial assets held for trading	<u>199,237</u>	<u>(54,019)</u>

8. NET GAIN/(LOSS) ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2008	Year ended 31 December 2007
Dealing, net	268,036	70,054
Translation differences, net	<u>22,122</u>	<u>(73,326)</u>
Total net gain/(loss) on foreign exchange operations	<u>290,158</u>	<u>(3,272)</u>

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income:		
Bank guarantees issued	114,097	23,064
Settlements	50,707	35,367
Cash operations	39,415	49,207
Foreign exchange operations	32,800	23,336
Opening and maintaining customer accounts	3,080	1,957
Other	1,553	746
	<u>241,652</u>	<u>133,677</u>
Total fee and commission income		
Fee and commission expense:		
Letters of credit	27,094	-
Card account services	1,730	1,360
Settlements	1,410	2,781
Information services and amendments	807	809
Cash services	376	758
Other	525	329
	<u>31,942</u>	<u>6,037</u>
Total fee and commission expense		

10. OTHER INCOME/(EXPENSE)

	Year ended 31 December 2008	Year ended 31 December 2007
Recovery of utility payments	8,103	13,288
Recovery of accrued expenses of previous years	1,537	1,336
Net loss on sale of property and equipment	-	(64,540)
Other	61	1,347
	<u>9,701</u>	<u>(48,569)</u>

11. OPERATING EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Staff costs	512,374	433,404
Depreciation and amortization	172,140	180,858
Security expenses	89,835	77,948
Telecommunications	79,999	54,706
Business trip expenses	57,887	33,669
Rent expenses	47,622	36,498
Transportation expenses	43,440	24,746
Professional services	37,460	33,486
Value added tax	35,925	31,639
Charity and sponsorship expenses	35,110	206,109
Social tax	28,790	39,770
Training and information services	24,217	6,974
Property and equipment maintenance	23,377	53,014
Taxes, other than income tax	15,477	20,731
Advertising costs	8,028	2,220
Representative expenses	6,806	4,410
Stationery	2,888	2,695
Insurance expenses	2,192	3,514
Mail and courier expenses	1,285	7,079
Other expenses	29,571	8,629
Total operating expenses	1,254,423	1,262,099

12. INCOME TAX

The Bank provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2008 and 2007 comprise:

	31 December 2008	31 December 2007
Taxable temporary differences:		
Property, equipment and intangible assets	355,240	379,163
Provisions for vacations and bonuses on year results	(33,908)	(20,642)
Total taxable temporary differences	<u>321,332</u>	<u>358,521</u>
Net deferred taxable temporary differences	(321,332)	(358,521)
Net deferred tax liability at statutory tax rate	<u>(64,266)</u>	<u>(107,556)</u>
Net deferred tax liabilities	(64,266)	(107,556)
Less: Opening balance of net deferred income tax liability	107,556	186,133
Adjustment of net deferred income tax liability from reduction in income tax rate charged to equity	<u>(32,250)</u>	<u>-</u>
Deferred tax expense related to the origination and reversal of temporary differences	<u>11,040</u>	<u>78,577</u>

Reconciliation between income tax expense and accounting profit for the years ended 31 December 2008 and 2007 is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	<u>773,920</u>	<u>824,461</u>
Tax at the statutory tax rate (30%)	232,176	247,338
Effect of change in tax rate	116	-
Correction of prior years corporate income tax	72,601	-
Tax effect of permanent differences	<u>80,454</u>	<u>5,012</u>
Income tax expense	<u>385,347</u>	<u>252,350</u>
Current income tax expense	323,786	330,927
Correction of prior years corporate income tax	72,601	-
Decrease of deferred tax liabilities	<u>(11,040)</u>	<u>(78,577)</u>
Income tax expense	<u>385,347</u>	<u>252,350</u>
Deferred tax liabilities	2008	2007
Beginning of the year	107,556	186,133
Adjustment of net deferred income tax liability from reduction in income tax rate charged to equity	(32,250)	-
Decrease in income tax liability for the period charged to profit	<u>(11,040)</u>	<u>(78,577)</u>
End of the year	<u>64,266</u>	<u>107,556</u>

The tax rate used for the 2008 and 2007 reconciliations above is the corporate tax rate of 30% payable by corporate entities in the Republic of Kazakhstan on taxable profits under tax law in that jurisdiction.

In November 2008, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 30% to 20% effective from 1 January 2009, to 17.5% effective from 1 January 2010. Current year Kazakhstani income tax is measured at 30% (2007: 30%) of the estimated assessable profit for the year. Starting from December 2008 deferred taxes are measured at the rates expected to apply to the period when the asset is realized or liability is settled.

13. EARNINGS PER SHARE

	Year ended 31 December 2008	Year ended 31 December 2007
Profit:		
Net income	388,573	572,111
Less: additional dividends that would be paid on full distributions of profit to the preferred shareholders	(34,286)	(72,308)
Less: dividends on preferred shares	<u>(200,000)</u>	<u>(200,000)</u>
Net profit for the year attributable to ordinary shareholders	<u>154,287</u>	<u>299,803</u>
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share	<u>9,000,000</u>	<u>8,292,446</u>
Basic and diluted earnings per share (KZT)	<u><u>17.14</u></u>	<u><u>36.15</u></u>

14. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

	31 December 2008	31 December 2007
Balances with the National Bank of the Republic of Kazakhstan	6,706,181	2,815,181
Cash on hand	<u>215,021</u>	<u>109,669</u>
Total cash and balances with the National Bank of the Republic of Kazakhstan	<u><u>6,921,202</u></u>	<u><u>2,924,850</u></u>

The balances with the National Bank of the Republic of Kazakhstan (the "NBRK") as at 31 December 2008 and 2007 include KZT 907,028 thousand and KZT 1,923,781 thousand, respectively, which represents the permanent minimum reserve deposits required by the NBRK. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2008	31 December 2007
Balances with the National Bank of the Republic of Kazakhstan	6,921,202	2,924,850
Due from banks in OECD countries (Note 33)	<u>406,924</u>	<u>1,090,021</u>
Total cash and cash equivalents	<u><u>7,328,126</u></u>	<u><u>4,014,871</u></u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2008	31 December 2007
Financial assets held for trading		
Debt securities	2,204,150	5
Equity securities	<u>78,886</u>	<u>24,269</u>
Total financial assets held for trading	<u><u>2,283,036</u></u>	<u><u>24,274</u></u>
Derivative financial instruments	<u>-</u>	<u>48,511</u>
Total financial assets at fair value through profit or loss	<u><u>2,283,036</u></u>	<u><u>72,785</u></u>

Financial assets held for trading comprise:

	31 December 2008		31 December 2007	
	Nominal interest rate	Fair value	Nominal interest rate	Fair value
Debt securities:				
Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	3.35 – 6.30	2,151,713	5.50	5
Bonds of Kazakhstani banks	9.75	52,437	-	-
Total debt securities		<u>2,204,150</u>		<u>5</u>
	31 December 2008		31 December 2007	
	Ownership interest	Fair value	Ownership interest	Fair value
Equity securities:				
Ordinary shares of "Kazakhmys" PLC	0.0200	41,902	-	-
Ordinary shares of "Eurasian Natural Resources Corporation PLC"	0.0055	36,984	-	-
Ordinary shares of JSC "Pavlodarenergoservice"	-	-	0.230000	23,884
Ordinary shares of JSC "Kazkommertsbank"	-	-	0.000087	385
Total equity securities		<u>78,886</u>		<u>24,269</u>
Total financial assets held for trading		<u><u>2,283,036</u></u>		<u><u>24,274</u></u>

As at 31 December 2008 and 2007 accrued interest, included in assets at fair value through profit or loss, amounting to KZT 2,891 thousand and nil, respectively.

As at 31 December 2008 financial assets at fair value through profit or loss included treasury bonds of the Ministry of Finance of the Republic of Kazakhstan pledged under repurchase agreements with other banks amounting to KZT 67,112 thousand (Note 20). All the agreements have maturity within one month.

Derivative financial instruments comprise:

	31 December 2008			31 December 2007		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Asset	Liability		Asset	Liability
Forward	-	-	-	12,255,700	48,511	-
Total derivative financial instruments		<u>-</u>	<u>-</u>		<u>48,511</u>	<u>-</u>

16. DUE FROM BANKS

Due from banks comprises:

	31 December 2008	31 December 2007
Time deposits with other banks	344,252	1,668,401
Loans to banks	140,720	140,150
Correspondent accounts with other banks	97,868	72,293
Loans under reverse repurchase agreements	-	292,717
	<u>582,840</u>	<u>2,173,561</u>
Less allowance for impairment losses	<u>(140,720)</u>	<u>(170,225)</u>
Total due from banks	<u><u>442,120</u></u>	<u><u>2,003,336</u></u>

Movements in allowances for impairment losses on due from banks for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

As at 31 December 2008 and 2007 accrued interest, included in due from banks, amounting to KZT 9 thousand and KZT 2,504 thousand, respectively.

As at 31 December 2008 and 2007 the maximum credit risk exposure of loans and advances to banks amounted to KZT 442,120 thousand and KZT 2,003,336 thousand, respectively.

As at 31 December 2007 the Bank placed funds with JSC Halyk Bank Kazakhstan, which individually exceeded 5% of the Bank's equity.

As at 31 December 2007 guarantee deposits amounting to KZT 601,500 thousand are included in due from banks, which represent the security of the Bank's liabilities.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2008 and 2007 are presented as follows:

	31 December 2008		31 December 2007	
	Carrying amount of loan	Fair value of collateral	Carrying amount of loan	Fair value of collateral
Bonds of Kazakhstani companies	-	-	292,717	292,460
Total	<u>-</u>	<u>-</u>	<u>292,717</u>	<u>292,460</u>

17. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008	31 December 2007
Loans to customers	42,307,312	33,554,893
Overdrafts	500,351	386,731
	<u>42,807,663</u>	<u>33,941,624</u>
Less: allowance for impairment losses	<u>(3,069,900)</u>	<u>(1,913,756)</u>
Total loans to customers	<u><u>39,737,763</u></u>	<u><u>32,027,868</u></u>

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

As at 31 December 2008 and 2007 accrued interest, included in loans to customers, amounting to KZT 3,267,004 thousand and KZT 2,269,361 thousand, respectively.

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

	31 December 2008	31 December 2007
Loans collateralized by real estate and title thereto	23,991,008	19,391,636
Loans collateralized by shares and bonds of other companies	11,761,997	2,755,224
Loans collateralized by right for accounts receivable	2,026,057	1,868,271
Loans collateralized by vehicles	2,003,563	2,879,854
Loans collateralized by cash or Kazakhstan Government guarantees	1,432,626	1,651,292
Loans collateralized by guarantees of enterprises	376,242	1,662,207
Loans collateralized by inventories	104,243	925,917
Loans collateralized by equipment	89,524	118,448
Loans collateralized by intangible assets	-	2,165,344
Other collateral	30,241	55,448
Unsecured loans	992,162	467,983
	<u>42,807,663</u>	<u>33,941,624</u>
Less: allowance for impairment losses	(3,069,900)	(1,913,756)
Total loans to customers	<u><u>39,737,763</u></u>	<u><u>32,027,868</u></u>
	31 December 2008	31 December 2007
Analysis by sector:		
Trading	16,619,665	10,330,202
Construction	13,047,872	8,759,322
Energy	3,618,653	1,651,742
Individuals	2,300,911	2,666,099
Real estate	2,154,014	2,221,934
Research and development	1,359,000	673,304
Manufacturing other non-metal mineral products	904,633	-
Machinery construction	878,614	835,064
Chemical industry	638,000	1,745,186
Transport and communication	343,566	367,699
Computer related activities	197,184	52,549
Metallurgy	167,883	603,986
Investments and finance sector	52,342	11,966
Agriculture	12,603	12,415
Hotel business	-	856,660
Mining	-	3,153,496
Other	512,723	-
	<u>42,807,663</u>	<u>33,941,624</u>
Less allowance for impairment losses	(3,069,900)	(1,913,756)
Total loans to customers	<u><u>39,737,763</u></u>	<u><u>32,027,868</u></u>

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Consumer loans	1,802,650	1,883,657
Mortgage loans	394,063	332,719
Car loans	7,836	7,543
Other	96,362	442,180
	<u>2,300,911</u>	<u>2,666,099</u>
Less allowance for impairment losses	<u>(710,765)</u>	<u>(144,893)</u>
Total loans to individuals	<u><u>1,590,146</u></u>	<u><u>2,521,206</u></u>

As at 31 December 2008 and 2007 the Bank provided loans to 13 and 8 borrowers amounting to KZT 25,616,464 thousand and KZT 13,642,801 thousand, respectively, which individually exceed 10% of the Bank's equity.

As at 31 December 2008 and 2007 100% of the portfolio was issued to companies operating in the Republic of Kazakhstan, which represents a significant geographic concentration.

As at 31 December 2008 and 2007 loans to customers included loans amounting to KZT 15,430,573 thousand and KZT 1,799,900 thousand, respectively, whose terms have been renegotiated. These amounts include both impaired and unimpaired loans.

As at 31 December 2008 and 2007 the maximum credit risk exposure of loans to customers amounted to KZT 39,737,763 thousand and KZT 32,027,868 thousand, respectively.

As at 31 December 2008 and 2007 loans to customers included loans of KZT 32,344,788 thousand and KZT 27,572,639 thousand, respectively, that were individually determined to be impaired due to worsening of financial status, quality of collateral, overdue in repayment, and prolongation.

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land, buildings and constructions	Computers	Vehicles	Other fixed assets	Intangible assets	Construction in progress	Total
At original / revalued cost							
31 December 2006	1,172,193	236,084	156,739	96,960	37,260	10,034	1,709,270
Additions	397	67,406	17,926	32,198	40,940	255,453	414,320
Transfers	65,919	-	-	-	-	(65,919)	-
Disposals	<u>(463,382)</u>	<u>(12,446)</u>	<u>(15,410)</u>	<u>(4,852)</u>	<u>(3,879)</u>	<u>-</u>	<u>(499,969)</u>
31 December 2007	775,127	291,044	159,255	124,306	74,321	199,568	1,623,621
Additions	-	5,439	83,198	20,465	23,198	316,128	448,428
Transfers	257,564	-	-	20,790	-	(278,354)	-
Disposals	-	(4,478)	(36,773)	(7,998)	(5,648)	-	(54,897)
31 December 2008	<u>1,032,691</u>	<u>292,005</u>	<u>205,680</u>	<u>157,563</u>	<u>91,871</u>	<u>237,342</u>	<u>2,017,152</u>
Accumulated depreciation							
31 December 2006	43,299	88,478	20,293	33,001	9,843	-	194,914
Charge for the year	15,539	102,530	39,183	14,731	8,875	-	180,858
Eliminated on disposals	<u>(25,117)</u>	<u>(12,446)</u>	<u>(3,467)</u>	<u>(4,176)</u>	<u>(3,459)</u>	<u>-</u>	<u>(48,665)</u>
31 December 2007	33,721	178,562	56,009	43,556	15,259	-	327,107
Charge for the year	13,586	82,023	44,741	19,384	12,406	-	172,140
Eliminated on disposals	<u>-</u>	<u>(4,190)</u>	<u>(19,241)</u>	<u>(7,439)</u>	<u>(449)</u>	<u>-</u>	<u>(31,319)</u>
31 December 2008	<u>47,307</u>	<u>256,395</u>	<u>81,509</u>	<u>55,501</u>	<u>27,216</u>	<u>-</u>	<u>467,928</u>
Net book value							
31 December 2008	<u>985,384</u>	<u>35,610</u>	<u>124,171</u>	<u>102,062</u>	<u>64,655</u>	<u>237,342</u>	<u>1,549,224</u>
31 December 2007	<u>741,406</u>	<u>112,482</u>	<u>103,246</u>	<u>80,750</u>	<u>59,062</u>	<u>199,568</u>	<u>1,296,514</u>

As at 31 December 2008 and 2007 included in property, equipment and intangible assets were fully depreciated assets of KZT 178,078 thousands and KZT 34,531 thousands, respectively.

19. OTHER ASSETS

	31 December 2008	31 December 2007
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Debtors under guarantees	237,195	236,233
Debtors under the concession agreement	179,107	214,341
Other accounts receivable	16,034	43,917
Accrued commission income	10,005	5,436
Investments in non-marketable securities	200	200
	<u>442,541</u>	<u>500,127</u>
Less allowance for impairment losses	<u>(262,131)</u>	<u>(260,487)</u>
	<u>180,410</u>	<u>239,640</u>
Other non-financial assets		
Other prepayments	35,094	16,619
Prepayment for purchase of property and equipment	27,880	19,628
Inventory	14,222	8,413
Tax settlements, other than income tax	9,998	235
Settlements with employees	6,980	7,726
	<u>94,174</u>	<u>52,621</u>
Less allowance for impairment losses	<u>(2,475)</u>	<u>(2,345)</u>
	<u>91,699</u>	<u>50,276</u>
Total other assets	<u><u>272,109</u></u>	<u><u>289,916</u></u>

Movements in allowances for impairment losses on other assets for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

20. DUE TO BANKS

	31 December 2008	31 December 2007
Time deposits of banks and other financial institutions	721,027	192,956
Loans under repurchase agreements	62,622	-
Correspondent accounts of other banks	-	20
	<u>783,649</u>	<u>192,976</u>
Total due to banks	<u><u>783,649</u></u>	<u><u>192,976</u></u>

As at 31 December 2008 and 2007 accrued interest included in due to banks, amounting to KZT 1,691 thousand and KZT 2,956 thousand, respectively.

As at 31 December 2008 and 2007 due to banks amounted to KZT 721,027 thousand (92.01%) and KZT 192,256 thousand (99.99%), respectively, were due to 2 and 1 banks, which represents significant concentration.

Fair value of assets pledged and carrying value of loans under repurchase agreements (Note 15) as at 31 December 2008 are presented as follows:

	31 December 2008		31 December 2007	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Short-term bonds of Ministry of Finance of the Republic of Kazakhstan	<u>62,622</u>	<u>67,112</u>	<u>-</u>	<u>-</u>
Total	<u><u>62,622</u></u>	<u><u>67,112</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

As at 31 December 2007 the Bank did not have loans under repurchase agreements.

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
Current / settlement accounts and deposits on demand	9,844,817	7,843,614
Long-term deposits	9,011,615	465,815
Deposits as a collateral on loans issued	1,925,961	1,576,346
Short-term deposits	1,071,270	930,768
Deposits – guarantees	1,318,984	3,208,166
Total customer accounts	<u>23,172,647</u>	<u>14,024,709</u>

As at 31 December 2008 and 2007 customer accounts included accrued interest amounting to KZT 216,821 thousand and KZT 273,799 thousand, respectively.

As at 31 December 2008 and 2007 customer accounts amounting to KZT 18,938,621 thousand (82%) and KZT 12,782,066 thousand (91%), respectively, were due to 11 and 6 customers, which represents significant concentration.

	31 December 2008	31 December 2007
Analysis by industry:		
Finance sector	8,214,066	436,643
Trade	7,941,608	946,116
Mining and metallurgy	2,242,420	6,943,462
Energy	2,156,421	1,845,568
Construction	1,930,253	151,650
Research and development	299,625	-
Services	178,526	3,026,584
State management	61,545	339,861
Culture and art	38,942	-
Manufacturing other non-metal mineral products	33,133	-
Transport and communication	29,614	50,735
Machinery construction	3,572	12,309
Real estate	1,274	6,374
Other	41,648	265,407
Total customer accounts	<u>23,172,647</u>	<u>14,024,540</u>

22. DEBT SECURITIES ISSUED

	Maturity Date	Interest rate, %	31 December 2008	31 December 2007
Bonds of 1st issue	November 2013	9.0	9,737,524	10,039,989
Bonds of 2nd issue	June 2012	9.0	4,323,549	2,081,194
Total debt securities issued			<u>14,061,073</u>	<u>12,121,183</u>

As at 31 December 2008 and 2007 debt securities issued include accrued interest amounting to KZT 145,542 thousand and KZT 132,846 thousand, respectively.

23. OTHER BORROWED FUNDS

	Currency of instrument	Maturity date	Interest rate, %	31 December 2008	Interest rate, %	31 December 2007
Credit line from the World Bank (technical support)	USD	September 2010	4.84	9,607	4.84	14,586
Astana Holding Corporation LLP	KZT	July 2007	-	4,028	-	4,028
Total other borrowed funds				<u>13,635</u>		<u>18,614</u>

On 26 April 1996 the Bank entered into the loan agreement for USD 500,000 with the Ministry of Finance of the Republic of Kazakhstan on the credit line from the World Bank. The amount was used for purchase of computers, equipment, software and consulting services to implement the Bank's computerization plan. The maturity of the loan is 1 September 2010.

24. OTHER LIABILITIES

	31 December 2008	31 December 2007
Other financial liabilities:		
Creditors on documentary settlements	418,689	4,866
Settlements with employees	35,675	29,167
Reserves on vacations	30,585	23,131
Accrued expenses	10,441	6,121
Accounts payable	7,302	5,157
	<u>502,692</u>	<u>68,442</u>
Other non-financial liabilities:		
Taxes other than income tax	44,386	56,274
Provisions for losses on contingent liabilities	5,616	17,641
Prepaid commissions for guarantees issued	2,094	4,727
Other	1,045	619
	<u>53,141</u>	<u>79,261</u>
Total other liabilities	<u>555,833</u>	<u>147,703</u>

Movements in provision for guarantees and other commitments for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

25. SUBORDINATED DEBT

	Currency	31 December 2008	31 December 2007
Discounted value of guaranteed dividends on preferred shares	KZT	1,818,128	1,818,128
Dividends accrued on preferred shares	KZT	200,000	200,000
		<u>2,018,128</u>	<u>2,018,128</u>

In case of a bankruptcy or liquidation of the Bank repayment of this debt is made after the Bank fulfills liabilities before all other creditors.

26. SHARE CAPITAL

As at 31 December 2008 and 2007 the Bank's share capital comprised the following number of shares with nominal value of KZT 1,000 per share, minimum annual dividends on preferred shares amounted to KZT 100 per share:

	31 December 2008		31 December 2007	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares	9,200,000	9,200,000	9,000,000	9,000,000
Preferred shares	<u>2,000,000</u>	<u>381,872</u>	<u>2,000,000</u>	<u>381,872</u>
Total share capital	<u>11,200,000</u>	<u>9,581,872</u>	<u>11,000,000</u>	<u>9,381,872</u>

During 2008, 200,000 ordinary shares with nominal value of KZT 1,000 each amounted to KZT 200,000 thousand were issued and paid.

The table below represents the change in the number of shares in circulation for the years ended 31 December 2008 and 2007:

	Preferred shares	Ordinary shares
31 December 2006	2,000,000	8,391,659
Issue of shares	<u>-</u>	<u>608,341</u>
31 December 2007	2,000,000	9,000,000
Issue of shares	<u>-</u>	<u>200,000</u>
31 December 2008	<u>2,000,000</u>	<u>9,200,000</u>

The dividends declared after 31 December 2008 and 2007 on preferred shares amounted to KZT 100 and KZT 100 per share, respectively.

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance financial instruments.

Provision for losses on financial contingent liabilities amounted to KZT 5,616 thousand and KZT 17,641 thousand as at 31 December 2008 and 2007, respectively.

Movements in provisions for financial contingent liabilities and other commitments for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

As at 31 December 2008 and 2007, the nominal amounts or amounts under financial contingency contracts comprised:

	31 December 2008	31 December 2007
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	222,171	469,519
Letters of credit and other transaction related contingent obligations	398,607	-
Commitments on loans and unused credit lines	<u>6,914,143</u>	<u>9,631,410</u>
	7,534,921	10,100,929
Less allowance for impairment losses	<u>(5,616)</u>	<u>(17,641)</u>
Total contingent liabilities and credit commitments	<u><u>7,529,305</u></u>	<u><u>10,083,288</u></u>

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

Capital commitments

The Bank had no material commitments for capital expenditure outstanding as at 31 December 2008 and 2007.

Operating lease commitments

No material rental commitments were outstanding as at 31 December 2008 and 2007.

Legal proceedings

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

Taxes

Due to the presence in Kazakhstani tax legislation of provisions allowing more than one interpretation, the tax authorities can make decisions based on their own arbitrary judgment. It often requires the taxpayer to defend its interests in the court due to an interpretation of tax law by the tax authorities differing from the taxpayer's position. It should be noted that for the purpose of interpreting the activity of the Bank the tax authorities can, in particular, use explanations of the court bodies fixing notions of "unreasonable tax benefit" and "actual economic sense of an operation" and the criterion of "business purpose" of the deal.

Such uncertainty may relate to the valuation of financial instruments and determination of the market level for the pricing of deals. It can also lead to interpretation by tax authorities of arising temporary tax differences on formation and recovery of provisions for possible losses on loans and liability equated to borrowing as an understatement of the taxable basis. The management of the bank believes that it provided for all the required tax accruals and, accordingly, no allowances are required in the financial statements.

Tax authorities can audit tax reports for the last five years. However, conducting a tax audit does not mean that the superior tax authority cannot conduct a recurring audit. In addition, according to explanations of the judicial bodies the period for which the tax reports can be audited can be recovered in principle, if the court recognizes the fact of impeding the audit by the tax authorities.

Operating environment

The Bank's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting the business environment in the Republic of Kazakhstan are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

Specific volatility in global and Kazakhstan's financial markets

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

Recoverability of financial assets

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

As at 31 December 2008, the Bank has financial assets amounting to KZT 49,564,531 thousand (as at 31 December 2007: KZT 37,268,479 thousand). The recoverability of these financial assets depends to a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Bank's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Bank's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing market conditions and available information.

28. SUBSEQUENT EVENTS

Devaluation of national currency

During 2008 and 2007 the National Bank of the Republic of Kazakhstan supported exchange rate of the national currency to US Dollar in the range between 117 KZT to 1 US Dollar to 123 KZT to 1 US Dollar. On 4 February 2009 the NBRK announced a change to the supported level of exchange rate to around 150 KZT to 1 US Dollar.

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

Management is currently assessing the impact of the changes on its financial position and the results of operations.

29. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries); own packages of shares of the Bank which allow them to exercise significant influence on operations of the Bank; and which have joint control over the Bank;
- (b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at 31 December 2008 and 2007 with related parties:

	31 December 2008		31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	2,110,812	42,807,663	1,756,852	33,941,624
- <i>the parent</i>	281,557		527,527	
- <i>other related parties</i>	1,829,255		1,229,325	
Allowance for impairment losses on loans to customers	(12,795)	(3,069,900)	(9,431)	(1,913,756)
- <i>the parent</i>	-		(8,250)	
- <i>other related parties</i>	(12,795)		(1,181)	
Other assets	638	272,109	23,885	289,916
- <i>other related parties</i>	638		23,885	
Customer accounts	2,359,045	23,172,647	2,899,479	14,024,709
- <i>the parent</i>	16,139		1,803	
- <i>other related parties</i>	2,342,906		2,897,676	
Commitments on loans and unused credit lines	589,593	6,914,143	181,244	9,631,410
- <i>the parent</i>	349,444		104,000	
- <i>other related parties</i>	240,149		77,244	
Guarantees issued and other similar commitments	22,856	222,171	-	469,519
- <i>other related parties</i>	22,856		-	

	31 December 2008		31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
Short-term compensation	<u>136,274</u>	<u>512,374</u>	<u>125,018</u>	<u>433,404</u>
Total	<u>136,274</u>	<u>512,374</u>	<u>125,018</u>	<u>433,404</u>

As at 31 December 2008 JSC "Pavlodarenergoservice" placed a deposit with the Bank in the amount of KZT 1,375,287 thousand, recorded on account "Account for storage of money accepted as a security (pledge, advance) of a customer's obligations." This deposit is used as a collateral on loans issued to JSC Energocentr, JSC Pavlodarenergo, JSC CATEC. Deposit of JSC "Pavlodarenergo" in the amount of KZT 503,847 thousand, recorded at "Account for storage of money accepted as a security (pledge, advance) of customers obligation" is accepted as collateral for issued loans.

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

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	277,217	5,067,517	142,619	4,174,887
- <i>the parent</i>	61,257		28,125	
- <i>other related parties</i>	215,960		114,494	
Interest expense	(166,469)	(2,583,280)	(161,587)	(1,903,932)
- <i>other related parties</i>	(166,469)		(161,587)	
Provision for impairment losses on interest bearing assets	(51,045)	(1,126,388)	(43,812)	(343,615)
- <i>the parent</i>	(8,250)		(51,085)	
- <i>other related parties</i>	(42,795)		7,273	
Fee and commission income	15,030	241,652	16,490	133,677
- <i>the parent</i>	8,993		5,249	
- <i>other related parties</i>	6,037		11,241	
Operating expenses	(224,019)	(1,254,423)	(142,848)	(1,262,099)
- <i>the parent</i>	(3,312)		(129,630)	
- <i>other related parties</i>	(220,707)		(13,218)	

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the National Bank of the Republic of Kazakhstan	6,921,202	6,921,202	2,924,850	2,924,850
Due from banks	442,120	442,120	2,003,336	2,007,826
Loans to customers	39,737,763	38,168,366	32,027,868	29,683,170
Due to banks	783,649	783,392	192,976	192,976
Customer accounts	23,172,647	22,248,506	14,024,709	13,724,578
Debt securities issued	14,061,073	12,102,007	12,121,183	12,002,247
Subordinated debt	2,018,128	1,628,569	2,018,128	2,018,128

The financial assets at fair value through profit or loss are recorded at their fair value. The carrying value of Cash and balances with the National Bank of the Republic of Kazakhstan, due from banks and due to banks approximates their fair value due to short-term nature of these financial instruments. The evaluation of the fair value of other borrowed funds is impracticable.

31. REGULATORY MATTERS

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

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the NBRK
0%	State debt securities
20%	Due from banks for up to 1 year
100%	Loans to customers
100%	Guarantees issued
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2008 the Bank's total capital amount for Capital Adequacy purposes was KZT 12,042,097 thousand and tier 1 capital amount was KZT 9,765,927 thousand with ratios of 26.05% and 21.12%, respectively.

As at 31 December 2007 the Bank's total capital amount for Capital Adequacy purposes was KZT 11,612,289 thousand and tier 1 capital amount was KZT 11,183,938 thousand with ratios of 30.45% and 30.39%, respectively.

As at 31 December 2008 and 2007 the Bank included subordinated debt received, limited to 50% of Tier 1 capital, in the computation of Total capital for Capital adequacy purposes. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

32. CAPITAL MANAGEMENT

The Bank manages capital by maximizing profits of shareholders by optimizing the ratio of borrowed funds and equity.

The structure of the capital of the Bank comprises borrowed funds including subordinated debt which is disclosed in Note 25, and equity of shareholders of the parent, which includes issued capital, provisions and retained earnings, which is disclosed in the statement on changes in shareholders' equity.

The structure of the capital is reviewed by the management of the Bank semiannually. During this review the board, in particular, analyzes the value of capital and risks related to each class of capital. Based on recommendations of the board the Bank adjusts the structure of the capital by paying dividends, additional issue of shares, attraction of additional borrowed funds or payment under existing loans.

The general policy of the Bank regarding risks relating to capital management did not change compared to year 2007.

33. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's banking business. The main risks inherent to the Bank's operations are as follows:

- credit risk,
- liquidity risk,
- market risk.

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

Credit risk

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

Maximum Exposure

Maximum size of credit risk of the Bank can significantly vary depending on individual risks inherent in certain assets and general market risks.

The following table reflects the maximum size of credit risk on financial assets and contingent liabilities. For financial assets recorded on balance accounts the maximum size of credit risk equals the carrying value of these assets without taking into account offsets of assets and liabilities and security. For the financial guarantees and other contingent liabilities maximum size of credit risk represents the maximum amount the Bank would have to pay upon maturity of a guarantee or in case of calling loans within open credit lines.

	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	31 December 2008 Net exposure after offset and collateral
Financial assets at fair value through profit or loss	2,283,036	-	2,283,036	-	2,283,036
Due from banks	442,120	-	442,120	-	442,120
Loans to customers	39,737,763	-	39,737,763	(29,652,455)	10,085,308
Other financial assets	180,410	-	180,410	-	180,410
					31 December 2007 Net exposure after offset and collateral
Financial assets at fair value through profit or loss	72,785	-	72,785	-	72,785
Due from banks	2,003,336	-	2,003,336	(11,917)	1,991,419
Loans to customers	32,027,868	-	32,027,868	(23,941,141)	8,086,727
Other financial assets	239,640	-	239,640	-	239,640

The financial assets are classified taking into account current credit ratings assigned by international rating agencies. The highest possible rating is AAA. The investment level of financial assets meets the ratings from AAA to BBB. The financial assets with a rating less than BBB are referred to the speculative level.

The following is the classification of financial assets of the Bank by credit ratings:

	AA	A	BBB	<BBB	Credit rating unassigned	31 December 2008 Total
Financial assets at fair value through profit or loss	-	-	2,151,713	52,437	78,886	2,283,036
Due from banks	118	406,782	20,489	14,731	-	442,120
Loans to customers	-	-	-	-	39,737,763	39,737,763
Other financial assets	-	-	-	-	180,410	180,410

	AA	A	BBB	<BBB	Credit rating unassigned	31 December 2007 Total
Financial assets at fair value through profit or loss	-	-	5	750	72,030	72,785
Due from banks	1,087,275	2,746	25,973	594,625	292,717	2,003,336
Loans to customers	-	-	-	-	32,027,868	32,027,868
Other financial assets	-	-	-	-	239,640	239,640

Generally the banking sector is exposed to credit risk arising from financial instruments and contingent liabilities. Credit risk of the Bank is focused in the Republic of Kazakhstan. The degree of credit risk is subject to ongoing monitoring in order to ensure observance of credit limits and creditworthiness according to risk management policy approved by the Bank.

The following table reflects the carrying value of overdue financial assets and assets which are not impaired, which are also classified upon occurrence of an outstanding liability:

	Neither past due nor impaired	Financial assets past due but not impaired				Financial assets that have been impaired	31 December 2008 Total
		0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Financial assets at fair value through profit or loss	2,283,036	-	-	-	-	-	2,283,036
Due from banks	442,120	-	-	-	-	-	442,120
Loans to customers	7,392,975	-	-	-	-	32,344,788	39,737,763
Other financial assets	10,212	-	-	-	-	170,198	180,410

	Neither past due nor impaired	Financial assets past due but not impaired				Financial assets that have been impaired	31 December 2007 Total
		0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Financial assets at fair value through profit or loss	72,785	-	-	-	-	-	72,785
Due from banks	2,003,336	-	-	-	-	-	2,003,336
Loans to customers	4,455,229	-	-	-	-	27,572,639	32,027,868
Other financial assets	35,969	-	-	-	-	203,671	239,640

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Bank's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of financial assets and liabilities is set out below:

	Kazakhstan	OECD countries	Non-OECD countries	31 December 2008 Total
FINANCIAL ASSETS:				
Cash and balances with the National Bank of the Republic of Kazakhstan	6,921,202	-	-	6,921,202
Financial assets at fair value through profit or loss	2,204,150	78,886	-	2,283,036
Due from banks	14,731	406,924	20,465	442,120
Loans to customers	39,609,935	121,812	6,016	39,737,763
Other financial assets	180,410	-	-	180,410
TOTAL FINANCIAL ASSETS	48,930,428	607,622	26,481	49,564,531
FINANCIAL LIABILITIES:				
Due to banks	783,649	-	-	783,649
Customer accounts	23,146,291	24,086	2,270	23,172,647
Debt securities issued	14,061,073	-	-	14,061,073
Other borrowed funds	13,635	-	-	13,635
Other financial liabilities	104,085	398,607	-	502,692
Subordinated debt	2,018,128	-	-	2,018,128
TOTAL FINANCIAL LIABILITIES	40,126,861	422,693	2,270	40,551,824
NET POSITION	8,803,567	184,929	24,211	
	Kazakhstan	OECD countries	Non-OECD countries	31 December 2007 Total
FINANCIAL ASSETS:				
Cash and balances with the National Bank of the Republic of Kazakhstan	2,924,850	-	-	2,924,850
Financial assets at fair value through profit or loss	72,785	-	-	72,785
Due from banks	887,066	1,090,021	26,249	2,003,336
Loans to customers	32,027,868	-	-	32,027,868
Other financial assets	239,640	-	-	239,640
TOTAL FINANCIAL ASSETS	36,152,209	1,090,021	26,249	37,268,479
FINANCIAL LIABILITIES:				
Due to banks	192,976	-	-	192,976
Customer accounts	10,737,986	3,261,966	24,757	14,024,709
Debt securities issued	12,121,183	-	-	12,121,183
Other borrowed funds	18,614	-	-	18,614
Other financial liabilities	68,442	-	-	68,442
Subordinated debt	2,018,128	-	-	2,018,128
TOTAL FINANCIAL LIABILITIES	25,157,329	3,261,966	24,757	28,444,052
NET POSITION	10,994,880	(2,171,945)	1,492	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The analysis of interest rate and liquidity risk is presented below:

(a) the remaining period to the maturity of financial liabilities not being the derivative financial instruments determined for undiscounted cash flows on financial liabilities (principal and interest) at the earliest date, when the Bank would be liable to repay the liability; and

(b) expected maturity of financial assets not being derivative financial instruments determined for undiscounted cash flows on financial assets taking into account interest to be received on these assets, based on contractual maturity except when the Bank expects that cash flows would occur some other time.

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS:							
Financial assets at fair value through profit or loss	2,283,036	-	-	-	-	-	2,283,036
Due from banks	364,717	-	-	-	-	-	364,717
Loans to customers	5,686,542	11,167,232	11,688,135	9,543,818	1,652,036	-	39,737,763
Total interest bearing financial assets	8,334,295	11,167,232	11,688,135	9,543,818	1,652,036	-	42,385,516
Cash and balances with the National Bank of the Republic of Kazakhstan	6,921,202	-	-	-	-	-	6,921,202
Due from banks	77,403	-	-	-	-	-	77,403
Other financial assets	2,789	15,636	25,101	136,684	-	200	180,410
TOTAL FINANCIAL ASSETS	15,335,689	11,182,868	11,713,236	9,680,502	1,652,036	200	49,564,531
FINANCIAL LIABILITIES:							
Due to banks	783,649	-	-	-	-	-	783,649
Customer accounts	8,047,790	763,185	1,904,737	9,394,520	1,265,388	-	21,375,620
Debt securities issued	-	-	145,542	4,296,570	9,618,961	-	14,061,073
Other borrowed funds	-	2,460	2,460	4,687	-	-	9,607
Subordinated debt	-	-	200,000	-	1,818,128	-	2,018,128
Total interest bearing financial liabilities	8,831,439	765,645	2,252,739	13,695,777	12,702,477	-	38,248,077
Customer accounts	1,797,027	-	-	-	-	-	1,797,027
Other borrowed funds	-	-	4,028	-	-	-	4,028
Other financial liabilities	7,302	10,441	484,949	-	-	-	502,692
TOTAL FINANCIAL LIABILITIES	10,635,768	776,086	2,741,716	13,695,777	12,702,477	-	40,551,824
Liquidity gap	4,699,921	10,406,782	8,971,520	(4,015,275)	(11,050,441)	200	
Interest sensitivity gap	(497,144)	10,401,587	9,435,396	(4,151,959)	(11,050,441)	-	
Cumulative interest sensitivity gap	(497,144)	9,904,443	19,339,839	15,187,880	4,137,439	4,137,439	
Cumulative interest sensitivity gap as a percentage of total financial assets	(1%)	20%	39%	31%	8%	8%	

	Up to 1 month	1 month to 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
FINANCIAL ASSETS:							
Financial assets at fair value through profit or loss	-	-	-	72,785	-	-	72,785
Due from banks	1,931,043	-	-	-	-	-	1,931,043
Loans to customers	<u>1,622,538</u>	<u>4,594,063</u>	<u>7,688,723</u>	<u>16,634,883</u>	<u>1,483,092</u>	<u>4,569</u>	<u>32,027,868</u>
Total interest bearing financial assets	3,553,581	4,594,063	7,688,723	16,707,668	1,483,092	4,569	34,031,696
Cash and balances with the National Bank of the Republic of Kazakhstan	2,924,850	-	-	-	-	-	2,924,850
Due from banks	72,293	-	-	-	-	-	72,293
Other financial assets	<u>2,789</u>	<u>41,394</u>	<u>25,101</u>	<u>170,156</u>	<u>-</u>	<u>200</u>	<u>239,640</u>
TOTAL FINANCIAL ASSETS	<u>6,553,513</u>	<u>4,635,457</u>	<u>7,713,824</u>	<u>16,877,824</u>	<u>1,483,092</u>	<u>4,769</u>	<u>37,268,479</u>
FINANCIAL LIABILITIES:							
Due to banks	-	192,956	-	-	-	-	192,956
Customer accounts	6,727,978	439,082	698,701	4,845,377	-	-	12,711,138
Debt securities issued	-	-	-	2,081,194	10,039,989	-	12,121,183
Other borrowed funds	-	2,450	4,900	7,236	-	-	14,586
Subordinated debt	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>1,818,128</u>	<u>-</u>	<u>2,018,128</u>
Total interest bearing liabilities	6,727,978	634,488	903,601	6,933,807	11,858,117	-	27,057,991
Due to banks	20	-	-	-	-	-	20
Customer accounts	1,313,571	-	-	-	-	-	1,313,571
Other borrowed funds	-	-	-	4,028	-	-	4,028
Other financial liabilities	<u>5,157</u>	<u>6,121</u>	<u>57,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,442</u>
TOTAL FINANCIAL LIABILITIES	<u>8,046,726</u>	<u>640,609</u>	<u>960,765</u>	<u>6,937,835</u>	<u>11,858,117</u>	<u>-</u>	<u>28,444,052</u>
Liquidity gap	<u>(1,493,213)</u>	<u>3,994,848</u>	<u>6,753,059</u>	<u>9,939,989</u>	<u>(10,375,025)</u>	<u>4,769</u>	
Interest sensitivity gap	<u>(3,174,397)</u>	<u>3,959,575</u>	<u>6,785,122</u>	<u>9,773,861</u>	<u>(10,375,025)</u>	<u>4,569</u>	
Cumulative interest sensitivity gap	<u>(3,174,397)</u>	<u>785,178</u>	<u>7,570,300</u>	<u>17,344,161</u>	<u>6,969,136</u>	<u>6,973,705</u>	
Cumulative interest sensitivity gap as a percentage of total financial assets	<u>(9%)</u>	<u>2%</u>	<u>20%</u>	<u>47%</u>	<u>19%</u>	<u>19%</u>	

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES								
Due to banks	7%	785,556	-	-	-	-	-	785,556
Customer accounts	6%	8,047,790	812,107	2,010,007	9,750,203	1,391,031	-	22,011,138
Debt securities issued	9%	-	1,024,795	4,712,295	9,618,961	-	-	15,356,051
Other borrowed funds	5%	-	2,460	2,800	4,960	-	-	10,220
Subordinated debt	10%	-	250,000	-	-	1,968,128	-	2,218,128
Total interest bearing financial liabilities		8,833,346	2,089,362	6,725,102	19,374,124	3,359,159	-	40,381,093
Customer accounts		1,797,027	-	-	-	-	-	1,797,027
Other borrowed funds		-	-	4,028	-	-	-	4,028
Other financial liabilities		7,302	10,441	484,949	-	-	-	502,692
Total financial liabilities		10,637,675	2,099,803	7,214,079	19,374,124	3,359,159	-	42,684,840

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
FINANCIAL LIABILITIES								
Due to banks	7%	-	200,025	4,741	-	-	-	204,766
Customer accounts	6%	6,727,978	519,980	1,296,905	4,845,377	-	-	13,390,240
Debt securities issued	9%	91,985	286,865	863,118	2,081,194	10,039,989	-	13,363,151
Other borrowed funds	5%	-	2,790	5,173	7,236	-	-	15,199
Subordinated debt	10%	-	50,000	350,000	-	1,818,128	-	2,218,128
Total interest bearing financial liabilities		6,819,963	1,059,660	2,519,937	6,933,807	11,858,117	-	29,191,484
Due to banks		20	-	-	-	-	-	20
Customer accounts		1,313,571	-	-	-	-	-	1,313,571
Other borrowed funds		-	-	-	4,028	-	-	4,028
Other financial liabilities		5,157	6,121	57,164	-	-	-	68,442
Total financial liabilities		8,138,711	1,065,781	2,577,101	6,937,835	11,858,117	-	30,577,545

Market Risk

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

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

All of the Bank's loan contracts and other financial assets and liabilities that bear interest are fixed. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Treasury Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at 31 December 2008 and 31 December 2007 is presented below:

	At 31 December 2008		At 31 December 2007	
	Interest rate +3%	Interest rate -3%	Interest rate +1%	Interest rate -1%
Assets:				
Financial assets at fair value through profit or loss	(237,102)	279,915	(0.32)	0.35
Net impact on profit before tax	<u>(237,102)</u>	<u>279,915</u>	<u>(0.32)</u>	<u>0.35</u>

There is no direct impact on capital.

Currency risk

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

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

The Bank's exposure to foreign currency exchange rate risk is presented in the tables below:

	KZT	USD USD 1 = KZT 120.79	EUR EUR 1 = KZT 170.24	Other currencies	31 December 2008 Total
FINANCIAL ASSETS:					
Cash and balances with NBRK	3,395,345	3,523,977	488	1,392	6,921,202
Financial assets at fair value through profit or loss	2,204,150	78,886	-	-	2,283,036
Due from banks	140	409,676	10,654	21,650	442,120
Loans to customers	39,479,455	253,563	4,745	-	39,737,763
Other financial assets	180,410	-	-	-	180,410
TOTAL FINANCIAL ASSETS	45,259,500	4,266,102	15,887	23,042	49,564,531
FINANCIAL LIABILITIES:					
Due to banks	783,649	-	-	-	783,649
Customer accounts	19,384,759	3,754,772	33,116	-	23,172,647
Debt securities issued	14,061,073	-	-	-	14,061,073
Other borrowed funds	4,028	9,607	-	-	13,635
Other financial liabilities	104,073	398,607	-	12	502,692
Subordinated debt	2,018,128	-	-	-	2,018,128
TOTAL FINANCIAL LIABILITIES	36,355,710	4,162,986	33,116	12	40,551,824
NET BALANCE SHEET POSITION	8,903,790	103,116	(17,229)	23,030	
	KZT	USD USD 1 = KZT 120.30	EUR EUR 1 = KZT 177.17	Other currencies	31 December 2007 Total
FINANCIAL ASSETS:					
Cash and balances with NBRK	1,703,432	1,219,564	1,360	494	2,924,850
Financial assets at fair value through profit or loss	72,785	-	-	-	72,785
Due from banks	293,092	1,682,903	893	26,448	2,003,336
Loans to customers	31,398,748	629,120	-	-	32,027,868
Other financial assets	239,633	-	7	-	239,640
TOTAL FINANCIAL ASSETS	33,707,690	3,531,587	2,260	26,942	37,268,479
FINANCIAL LIABILITIES:					
Due to banks	192,976	-	-	-	192,976
Customer accounts	10,737,986	3,260,162	1,804	24,757	14,024,709
Debt securities issued	12,121,183	-	-	-	12,121,183
Other borrowed funds	4,028	14,586	-	-	18,614
Other financial liabilities	68,428	-	-	14	68,442
Subordinated debt	2,018,128	-	-	-	2,018,128
TOTAL FINANCIAL LIABILITIES	25,142,729	3,274,748	1,804	24,771	28,444,052
NET BALANCE SHEET POSITION	8,564,961	256,839	456	2,171	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	KZT	USD USD 1 = KZT 120.30	31 December 2007 Total
Accounts payable on spot and derivative contracts	6,315,940	5,891,249	12,207,189
Accounts receivable on spot and derivative contracts	<u>(6,361,000)</u>	<u>(5,894,700)</u>	<u>(12,255,700)</u>
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	<u>(45,060)</u>	<u>(3,451)</u>	

The fair value of derivative financial instruments and spot contracts is included in the above analysis on types of currencies. The analysis of currency risk on derivative financial instruments and spot contracts is presented in the following table:

Currency risk sensitivity

The following table gives an analysis of sensitivity of the Bank to increase or decrease in USD and EUR exchange rate against the KZT. 25% and 10% is the sensitivity rate used inside the bank in preparation of currency risk reports for key management personnel of the Bank and represents an evaluation by the management of the Bank of a possible change in exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2008 for a 25% and at 31 December 2007 for 10% change in foreign currency rates, respectively compared to effective ones. The sensitivity analysis includes loans to customers of the Bank, if such loans are issued in the currency other than the functional currency of the creditor or borrower.

	As of 31 December 2008		As of 31 December 2007	
	KZT/USD +25%	KZT/USD -25%	KZT/USD +10%	KZT/USD -10%
Impact on profit and loss	25,779	(25,779)	25,684	(25,684)
	As of 31 December 2008		As of 31 December 2007	
	KZT/EUR +25%	KZT/EUR -25%	KZT/EUR +10%	KZT/EUR -10%
Impact on profit and loss	(4,307)	4,307	29	(29)

Limitations of the sensitivity analysis

The above tables reflect the effect of change based on the main assumption whereas other assumptions remain unchanged. In fact, there is a connection between assumptions and other factors. It should also be noted that sensitivity does not have a linear nature, therefore interpolation or extrapolation of received results should not be performed.

The sensitivity analysis does not take into account that the Bank actively manages assets and liabilities. In addition, the financial position of the Bank can be exposed to changes depending on changes occurring on the market. For example, the Bank's strategy in the area of management of financial risks is focused on management of the risk of fluctuations in the market. In case of sharp negative fluctuations in prices on the stock market the management can use such methods as disposal of investments, change in the composition of the investment portfolio and other protection methods. Therefore, changes in assumptions may not affect the liabilities and significantly affect assets recorded in the balance sheet at the market price. In this situation the methods of evaluation of assets and liabilities can result in significant fluctuations of own assets.

Other restrictions in the above sensitivity analysis include the use of hypothetical movements in the market with the purpose to disclose the potential risk representing only the Bank's projection on projected changes in the market, which cannot be projected with any degree of certainty. A restriction is only an assumption that all interest rates change identically.

Price risk

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

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

The results of the analysis of the sensitivity of the Bank's profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 10% (for 2008) and 5% (for 2007) symmetrical increase or decrease in all securities prices are given in the table below:

	As of 31 December 2008		As of 31 December 2007	
	10% increase in securities price	10% decrease in securities price	5% increase in securities price	5% decrease in securities price
Impact on profits and losses	7,631	(7,631)	1,323	(1,323)
Impact on equity	7,631	(7,631)	1,323	(1,323)