



KazInvestBank

International Financial Reporting Standards

Financial Statements and Independent Auditor's Report

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC Kazinvestbank

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

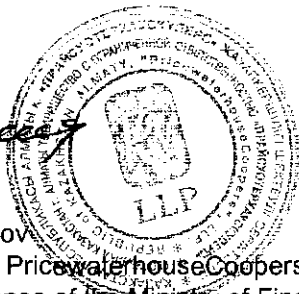
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

16 March 2009
Almaty, Kazakhstan

Approved by:

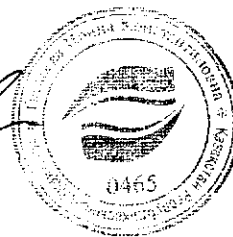
Zhanbota T. Bekenov



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

Signed by:

Irina K. Taskayeva



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

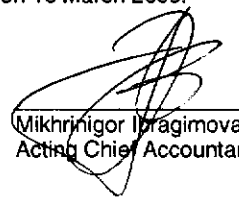
**JSC Kazinvestbank
Balance Sheet**

<i>In thousands of Tenge</i>	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	13,576,375	18,557,600
Loans and advances to customers	8	52,383,822	37,843,858
Other financial assets	9	44,118	32,764
Intangible assets	11	333,563	218,824
Premises and equipment	11	1,231,575	927,301
Current income tax prepayment		342,937	61,419
Other assets	12	311,417	274,783
TOTAL ASSETS		68,223,807	57,916,549
LIABILITIES			
Due to other banks	13	61,447	2,407,549
Customer accounts	14	47,313,414	30,517,059
Other financial liabilities	15	41,619	50,995
Debt securities in issue	16	4,984,709	4,506,122
Other borrowed funds	17	3,444,185	8,366,852
Subordinated debt	18	1,171,968	1,157,392
Other liabilities	19	349,563	251,473
Provision for liabilities and other charges	20	16,016	13,600
Deferred tax liability	27	47,312	54,386
TOTAL LIABILITIES		57,430,233	47,325,428
EQUITY			
Capital	21	9,411,778	9,466,772
Retained earnings		257,447	1,024,660
Other reserves	22	1,124,349	99,689
TOTAL EQUITY		10,793,574	10,591,121
TOTAL LIABILITIES AND EQUITY		68,223,807	57,916,549

Approved for issue and signed on behalf of the Board of Directors on 16 March 2009.


Adnan Ally Agha
Chief Executive Officer




Mikhrinigor Ibragimova
Acting Chief Accountant

**JSC Kazinvestbank
Income Statement**

<i>In thousands of Tenge</i>	Note	2008	2007
Interest income	23	9,086,151	4,092,969
Interest expense	23	(4,817,050)	(1,986,383)
Net interest income		4,269,101	2,106,586
Provision for loan impairment	8	(2,629,627)	(89,813)
Net interest income/(net interest expense) after provision for loan impairment		1,639,474	2,016,773
Fee and commission income	24	447,485	284,246
Fee and commission expense	24	(70,926)	(38,439)
Gains less losses from trading securities		-	112
Loss on redemption of bonds		(3,831)	-
Gains less losses from foreign exchange forwards		58,624	56,080
Gains less losses/(losses less gains) from foreign exchange swaps		1,725	(4,226)
Gains less losses from trading in foreign currencies		359,995	408,606
Foreign exchange translation gains less losses		47,297	(4,371)
Other operating (loss)/income	25	(11,772)	212
Administrative and other operating expenses	26	(2,195,777)	(1,411,251)
Profit before tax		272,294	1,307,742
Income tax expense	27	(14,847)	(388,123)
Profit for the year		257,447	919,619
Earnings per share – basic (Tenge per share)	28	3.74	16.12
Earnings per share - diluted (Tenge per share)	28	3.26	14.60

JSC Kazinvestbank
Statement of Changes in Equity

<i>In thousands of Tenge</i>	Note	Share capital	Other reserves	Retained earnings	Total
Balance at 31 December 2006		4,500,991	66,716	138,014	4,705,721
Profit for the year		-	-	919,619	919,619
Share issue	21	3,998,458	-	-	3,998,458
Convertible bonds issue	21	1,003,374	-	-	1,003,374
Treasury shares					
- Acquisitions	21	(41,217)	-	-	(41,217)
- Disposals	21	5,166	-	-	5,166
General reserve for credit risk	22	-	32,973	(32,973)	-
Balance at 31 December 2007		9,466,772	99,689	1,024,660	10,591,121
Profit for the year		-	-	257,447	257,447
Share issue	21	17,731	-	-	17,731
Treasury shares					
- Acquisitions	21	(72,725)	-	-	(72,725)
Change in mandatory statutory reserve	22	-	1,024,660	(1,024,660)	-
Balance at 31 December 2008		9,411,778	1,124,349	257,447	10,793,574

JSC Kazinvestbank
Statement of Cash Flows

<i>In thousands of Tenge</i>	Note	2008	2007
Cash flows from operating activities			
Interest received		8,490,346	3,807,624
Interest paid		(4,470,055)	(1,444,137)
Fees and commissions received		459,401	282,051
Fees and commissions paid		(73,817)	(10,318)
Income received from trading in trading securities		-	112
Income received from financial derivatives		50,819	45,354
Income received from trading in foreign currencies		359,995	408,606
Other operating income received		(2,185)	145
Staff costs paid		(1,088,071)	(787,339)
Administrative and other operating expenses paid		(893,158)	(667,787)
Income tax paid		(303,439)	(413,053)
Cash flows from operating activities before changes in operating assets and liabilities		2,529,836	1,221,258
Changes in operating assets and liabilities			
Net decrease in trading securities		-	250,000
Net increase in loans and advances to customers		(16,570,226)	(21,483,327)
Net increase in other financial assets		(1,235)	-
Net increase in other assets		(36,634)	(24,166)
Net (decrease)/ increase in due to other banks		(2,322,289)	1,544,450
Net increase in customer accounts		16,599,759	12,987,394
Net (decrease)/ increase in other borrowed funds		(4,896,187)	7,275,587
Net increase in provisions for liabilities and charges and other liabilities		15,650	113,555
Net cash (used in)/ from operating activities		(4,681,326)	1,884,751
Cash flows from investing activities			
Proceeds from disposal of investment securities available for sale	10	-	2,322,475
Acquisition of investment securities available for sale	10	-	(2,322,475)
Acquisition of premises and equipment	11	(426,738)	(505,586)
Proceeds from disposal of premises and equipment	11	2,045	7,587
Acquisition of intangible assets	11	(156,149)	(168,879)
Proceeds from disposal of intangible assets	11	-	323
Net cash used in investing activities		(580,842)	(666,555)
Cash flows from financing activities			
Issue of debt securities		1,185,224	4,324,453
Redemption of debt securities		(896,584)	-
Proceeds from subordinated debt	18	-	13,907
Issue of ordinary shares	21	17,731	5,001,832
Acquisition of treasury shares	21	(72,725)	(36,442)
Disposal of treasury shares	21	-	5,166
Net cash from financing activities		233,646	9,308,916
Effect of exchange rate changes on cash and cash equivalents		47,297	(4,371)
Net (decrease)/ increase in cash and cash equivalents		(4,981,225)	10,522,741
Cash and cash equivalents at the beginning of the year		18,577,600	8,034,859
Cash and cash equivalents at the end of the year	7	13,576,375	18,557,600

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Joint Stock Company KazInvestBank (the "Bank"). The Bank was established in September 1993, is incorporated and domiciled in the Republic of Kazakhstan. The Bank is a joint stock company limited by shares and was set up in accordance with Kazakhstan regulations.

Principal activity

The Bank's principal business activity is commercial and retail banking operations within the Republic of Kazakhstan. The Bank has operated under a banking license reissued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "Agency") on 25 January 2006. The Bank has six (2007: five) branches within the Republic of Kazakhstan.

Information about shareholders of the Bank is presented in Note 21.

Registered address and place of business

The Bank's registered address is: 176 Dostyk Avenue, Almaty 050051, Kazakhstan.

Presentation currency

These financial statements are presented in thousands of Tenge.

2 Operating Environment of the Bank

Whilst there have been improvements in recent years in the economic situation in the Republic of Kazakhstan, the economy of Kazakhstan continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, a low level of liquidity in the public and private debt and equity markets and lack of market conformity and transparency.

Additionally, the banking sector in Kazakhstan is particularly impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of a range of measures undertaken by the government, the Ministry of Finance of Republic of Kazakhstan (the "MFRK"), the National Bank of the Republic of Kazakhstan (the "NBRK"), the Agency and other authorities. There remains the possibility of unpredictable changes in the financial and economic environment that may have an adverse effect on the Bank's operations. Management of the Bank is unable to predict the extent and duration of future economic difficulties; consequently these financial statements do not include any adjustments that may result from the future resolution of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

Economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

Recent volatility in global and Kazakhstan financial markets

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Several large Kazakhstan banks have been acquired by state-controlled companies. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

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

2 Operating Environment of the Bank (Continued)

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

Management is unable to reliably determine the effects on the Bank's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of Preparation

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

Financial instruments - key measurement terms

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments

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

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

Derecognition of financial assets

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

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the NBRK and all interbank placements with original maturities of less than three months. The minimum reserve deposits with the NBRK are not subject to restrictions to its availability and therefore are included in cash and cash equivalents. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three to six months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the income statement as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Due from other banks

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

Loans and advances to customers

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

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost

The Bank assess at each balance sheet date whether there is objective evidence that a financial assets of group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss events') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

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

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank assesses corporate and mortgage loans, cash and cash equivalents and other financial assets on an individual basis because the number of counterparties in of these categories is insignificant.

The Bank uses collective impairment for consumer loans. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments

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

Investment securities available for sale

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

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

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

Sale and repurchase agreements and lending of securities

Sale and repurchase agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repurchase agreements") are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or pledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The proceeds from the sale are recorded in cash and the obligation to return the securities is recorded at fair value in other borrowed funds.

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

At each reporting date Management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, Management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation

Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

	<u>Annual rates</u>
Premises	2%
Computers and computer equipment	20 – 33%
Vehicles	20%
Other fixed assets	10 – 33%

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

Intangible assets

All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of three to ten years.

Operating leases

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

Due to other banks

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

3 Summary of Significant Accounting Policies (Continued)

Customer accounts

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

Debt securities in issue

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

Other borrowed funds

Other borrowed funds include shareholder loans and are carried at amortised cost.

Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts and currency rate swaps are carried at their fair value.

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

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Financial guarantees

Financial guarantees are contracts that requires the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts, other banking facilities and performance under tenders.

Financial guarantees are initially recognised in the financial statements at fair value on the date guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on judgement of Management. Any increase in the liability relating to guarantees is taken to the income statement under administrative and other operating expenses.

3 Summary of Significant Accounting Policies (Continued)

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share premium

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

Treasury shares

Where the Bank purchases its equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity attributable to the equity holders of the Bank until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The financial statements prepared in accordance with IFRS are the basis for profit distribution and other appropriations. Kazakhstan legislation identifies the basis of distribution as the current year net profit and retained earnings.

Income and expense recognition

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

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

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation

The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Bank's presentation currency is the national currency of the Republic of Kazakhstan, Kazakhstani Tenge ("Tenge"). At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 120.79 (2007: USD 1 = Tenge 120.30); and Euro 1 = Tenge 170.24 (2007: Euro 1 = Tenge 177.17).

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

Offsetting

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

Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, and bonuses are accrued in the year in which the associated services are rendered by the employees of the Bank. In accordance with the legal requirements of the Republic of Kazakhstan, the Bank withholds pension contributions from employee salaries and transfers them into state or private pension funds. Upon retirement of employees, all pension payments are administered by the above pension funds. The Bank does not have any legal or constructive obligation to provide further funding if the state or private pensions funds fail to make the pension payments.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers are reported separately.

Reclassifications of 2007 amounts

Fee and commission income receivable and penalties of Tenge 24,064 thousand were reclassified to other financial assets to comply with 2008 presentation. Fee and commission payable, operating expense accrual and cash management fee accrual of Tenge 50,995 thousand were reclassified to other financial liabilities to comply with 2008 presentation. Fee and commission expense of Tenge 2,735 thousand were reclassified to interest expense to comply with 2008 presentation.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The amount of provision for impaired loans is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral. The market in Kazakhstan for many types of collateral is at an early stage of development. This has been further affected by events in the financial market from the second half of 2007 resulting in a low level of liquidity for certain types of assets. Therefore the realisable value on foreclosure may differ from the value ascribed in estimating provisions.

As of 31 December 2008 the Bank had not collected sufficient statistical data about historical loss rates for groups of consumer loans as portfolio age was only eight months. No reliable benchmark information about historical loss rates was available. Therefore, Management's estimated future cash flows used for estimation of amount of impairment loss on consumer loans may deviate from future cash flow estimated based on historical loss experience rates, should such information be available to Management. Management will use estimated future cash flows based on historical loss rates as soon as sufficient statistical data is collected.

To the extent that the cash flow on repayment of the principal of loans provided for increases by 12 percent the provision would be approximately Tenge 354,171 thousand (2007: Tenge 29,661 thousand) lower. Should the cash flow decrease by 15 percent the provision would be approximately Tenge 442,715 thousand (2007: Tenge 30,804 thousand) higher.

Tax legislation

Kazakhstan tax and customs legislation is subject to varying interpretations. Refer to Note 32.

Deferred income tax asset recognition

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

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Bank from 1 January 2008:

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

These interpretations did not have any significant effect on the Bank's financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition*. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Bank has not elected to make any of the optional reclassifications during the period.

The Bank early adopted IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). This Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Refer to Note 29.

6 New Accounting Pronouncements

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

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Bank is currently assessing the impact of the amendment on its financial statements.

IAS 23, *Borrowing Costs* (revised March 2007; effective for annual periods beginning on or after 1 January 2009) - the revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank does not expect the amended standard to have a material effect on its financial statements.

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

6 New Accounting Pronouncements (Continued)

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

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

IFRS 3, *Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Bank as it does not expect a business combination to occur.

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

IFRIC 15, *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Bank's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 is not relevant to the Bank's operations because it does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the financial statements.

6 New Accounting Pronouncements (Continued)

Eligible Hedged Items—Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Bank financial statements as the Bank does not apply hedge accounting.

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

IFRS 1, *First-time Adoption of International Financial Reporting Standards* (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

The Bank has not early adopted the following other new standards or interpretations:

IFRIC 17, *Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted).

IFRIC 18, *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009).

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

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Notes to the Financial Statements – 31 December 2008

7 Cash and Cash Equivalents

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Cash on hand	462,691	459,915
Cash balances with the NBRK (other than mandatory reserve deposits)	3,196,348	6,608,686
Mandatory cash balances with the NBRK	1,294,178	2,678,264
Correspondent accounts and overnight placements with other banks	5,152,194	7,310,068
Placements with other banks with original maturities of less than three months	1,000,250	1,500,667
Reverse repurchase agreements with original maturities with less than three months	2,470,714	-
Total cash and cash equivalents	13,576,375	18,557,600

At 31 December 2008 cash equivalents of Tenge 2,470,714 thousand (2007: nil) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of Tenge 2,470,714 thousand (2007: nil). Interest rate analysis of cash and cash equivalents is disclosed in Note 30. The information on related party balances is disclosed in Note 36. Mandatory cash balances with the NBRK are carried at amortised cost and represent non-interest bearing mandatory reserve balances which are not available to finance the Bank's day to day operations.

The credit quality of cash and cash equivalents, except cash on hand, balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2008:

<i>In thousands of Tenge</i>	Cash balances with the NBRK	Correspondent accounts and overnight placements	Placements with other banks	Reverse repurchase agreements	Total
<i>Neither past due nor impaired</i>					
NBRK	4,490,526	-	-	-	4,490,526
AA-	-	1,562,177	-	-	1,562,177
A- to A+ rated	-	3,376,490	-	-	3,376,490
Lower than A- rated	-	213,527	1,000,250	2,470,714	3,684,491
Total cash and cash equivalents	4,490,526	5,152,194	1,000,250	2,470,714	13,113,684

The credit quality of cash and cash equivalents, except cash on hand, balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2007:

<i>In thousands of Tenge</i>	Cash balances with the NBRK	Correspondent accounts and overnight placements	Placements with other banks	Reverse repurchase agreements	Total
<i>Neither past due nor impaired</i>					
NBRK	9,286,950	-	-	-	9,286,950
AA-	-	2,928,921	-	-	2,928,921
A- to A+ rated	-	4,133,346	-	-	4,133,346
Lower than A- rated	-	247,801	1,500,667	-	1,748,468
Total cash and cash equivalents	9,286,950	7,310,068	1,500,667	-	18,097,685

The Bank did not have significant investing and financing transactions that require the use of cash and cash equivalents.

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Notes to the Financial Statements – 31 December 2008

8 Loans and Advances to Customers

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Corporate loans	52,426,393	37,084,573
Consumer loans	2,239,741	482,457
Mortgage loans	448,103	435,854
Gross loans and advances to customers	55,114,237	38,002,884
Less: Provision for loan impairment	(2,730,415)	(159,026)
Total loans and advances to customers	52,383,822	37,843,858
Current	38,303,908	29,265,505
Non-current	14,079,914	8,578,353

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

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Total
Provision for loan impairment at 1 January	159,026	-	159,026
Provision for impairment during the year	2,608,230	21,397	2,629,627
Amounts written off during the year as uncollectible	(57,057)	(1,181)	(58,238)
Provision for loan impairment at 31 December	2,710,199	20,216	2,730,415

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

<i>In thousands of Tenge</i>	Corporate loans	Total
Provision for loan impairment at 1 January	69,213	69,213
Provision for impairment during the year	89,813	89,813
Provision for loan impairment at 31 December	159,026	159,026

JSC Kazinvestbank
Notes to the Financial Statements – 31 December 2008

8 Loans and Advances to Customers (Continued)

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

<i>In thousands of Tenge</i>	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Wholesale and retail of FMCG, food & beverages	5,354,035	9.7	2,941,092	7.7
Agriculture	5,330,451	9.7	3,760,525	9.9
Wholesale and retail of consumer electronics	5,246,251	9.5	1,219,021	3.2
Hardware	4,559,999	8.3	3,828,295	10.1
Food and beverages	3,908,600	7.1	4,296,763	11.3
Recycling	3,867,860	7.0	1,277,549	3.4
Oil and oil products trading	3,617,863	6.6	3,410,620	9.0
Construction	3,614,991	6.6	3,718,235	9.8
Trading of agriculture commodities	2,925,741	5.3	1,159,658	3.1
Individuals	2,696,991	4.9	918,148	2.4
Concrete production and sale	1,897,561	3.4	1,733,435	4.6
Transport	1,790,277	3.2	534,598	1.4
Auto sales and servicing	1,742,096	3.2	2,323,432	6.1
Consumer goods	1,368,025	2.5	1,158,358	3.0
Customs brokerage	1,248,580	2.3	1,502,691	4.0
Printing and packaging	1,230,688	2.2	1,169,515	3.1
Tannery	1,222,462	2.2	-	-
Communications	755,644	1.4	498,755	1.3
Pharmaceuticals	612,741	1.1	-	-
Utilities	609,100	1.1	-	-
Private holding company	423,259	0.8	-	-
Real estate	370,005	0.6	2,074,947	5.5
Host and travel	254,568	0.5	222,982	0.6
Road repair	135,000	0.2	141,264	0.4
Aircraft servicing	121,820	0.2	-	-
Recruitment	101,568	0.2	-	-
Chemical	-	-	10,403	-
Mining and metallurgy	-	-	94,631	0.1
Other	108,061	0.2	7,967	-
Total loans and advances to customers (before impairment)	55,114,237	100.0	38,002,884	100.0

State and public organisations exclude government owned profit orientated businesses.

At 31 December 2008 the Bank had eleven borrowers (2007: ten borrowers) with aggregated loan amounts above Tenge 1,350,000 thousand. The total aggregate amount of these loans was Tenge 19,344,430 thousand (2007: Tenge 18,250,932 thousand) or 35.1 percent of the gross loan portfolio (2007: 47.2 percent).

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Notes to the Financial Statements – 31 December 2008

8 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
Loans collateralised by:				
- non residential real estate	21,621,612	-	17,179	21,638,791
- stock	23,110,193	-	-	23,110,193
- residential real estate	1,350,095	592,105	301,980	2,244,180
- equipment	2,203,299	-	-	2,203,299
- cash deposits	-	10,270	-	10,270
- other assets	3,054,034	796	-	3,054,830
Total secured loans	51,339,233	603,171	319,159	52,261,563
Unsecured loans	1,087,160	1,636,570	128,944	2,852,674
Total loans and advances to customers	52,426,393	2,239,741	448,103	55,114,237

Information about collateral at 31 December 2007 is as follows:

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
Loans collateralised by:				
- non residential real estate	19,950,826	209,450	116,638	20,276,914
- stock	8,956,668	-	-	8,956,668
- residential real estate	1,657,404	211,333	247,141	2,115,878
- equipment	1,801,208	-	-	1,801,208
- tradable securities	881,396	-	-	881,396
- cash deposits	-	5,964	-	5,964
- other assets	3,081,005	5,247	-	3,086,252
Total secured loans	36,328,507	431,994	363,779	37,124,280
Unsecured loans	756,066	50,463	72,075	878,604
Total loans and advances to customers	37,084,573	482,457	435,854	38,002,884

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Notes to the Financial Statements – 31 December 2008

8 Loans and Advances to Customers (Continued)

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

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
<i>Neither past due nor impaired</i>				
- No sign of weakness	32,602,497	2,173,817	448,103	35,224,417
- Signs of weakness	7,836,709	-	-	7,836,709
- Timely repayment at risk	3,168,890	-	-	3,168,890
Total neither past due nor impaired	43,608,096	2,173,817	448,103	46,230,116
<i>Past due but not impaired</i>				
- less than 30 days overdue	1,035,015	6,892	-	1,041,907
- 30 to 90 days overdue	2,051,834	-	-	2,051,834
Total past due but not impaired	3,086,849	6,892	-	3,093,741
<i>Loans individually determined to be impaired (gross)</i>				
- less than 180 days overdue	259,887	59,032	-	318,919
- 180 to 360 days overdue	5,234,455	-	-	5,234,455
- over 360 days overdue	237,106	-	-	237,106
Total individually impaired loans (gross)	5,731,448	59,032	-	5,790,480
Gross carrying value of loans	52,426,393	2,239,741	448,103	55,114,237
Less Impairment provisions	(2,710,199)	(20,216)	-	(2,730,415)
Total loans and advances to customers	49,716,194	2,219,525	448,103	52,383,822

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Notes to the Financial Statements – 31 December 2008

8 Loans and Advances to Customers (Continued)

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

<i>In thousands of Tenge</i>	Corporate loans	Consumer loans	Mortgage loans	Total
<i>Current and not impaired</i>				
- No sign of weakness	25,967,172	481,036	435,854	26,884,062
- Signs of weakness	10,697,212	-	-	10,697,212
- Timely repayment at risk	105,034	-	-	105,034
Total current and not impaired	36,769,418	481,036	435,854	37,686,308
<i>Past due but not impaired</i>				
- less than 30 days overdue	49,165	1,421	-	50,586
- 30 to 90 days overdue	4,994	-	-	4,994
Total past due but not impaired	54,159	1,421	-	55,580
<i>Loans individually determined to be impaired (gross)</i>				
- 180 to 360 days overdue	203,939	-	-	203,939
- over 360 days overdue	57,057	-	-	57,057
Total individually impaired loans (gross)	260,996	-	-	260,996
Gross carrying value of loans	37,084,573	482,457	435,854	38,002,884
Less impairment provisions	(159,026)	-	-	(159,026)
Total loans and advances to customers	36,925,547	482,457	435,854	37,843,858

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors that the Bank considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

Included in neither past due nor impaired, are renegotiated loans with the carrying amount of Tenge 5,087,347 thousand (2007: nil) that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

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8 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December was as follows:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
<i>Fair value of collateral – loans past due but not impaired</i>		
- real estate	4,313,395	94,874
- equipment	1,134,476	710,269
- other assets	268,150	61,167
<i>Fair value of collateral - individually impaired loans</i>		
- real estate	2,913,194	-
- equipment	108,055	101,970
Total	8,737,270	968,280

All past due but not impaired and impaired consumer loans are unsecured.

Fair value of real estate was determined by the Bank through the use of professional property appraisers. The fair value of other assets was determined by the Bank's credit department using Bank's internal guidelines.

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

9 Other Financial Assets

<i>In thousands of Tenge</i>	Note	31 December 2008	31 December 2007
Foreign exchange forward contracts	33	16,030	6,500
Fee and commission income receivable		24,639	24,050
Investments in stock exchange		2,200	2,200
Penalties		1,249	14
Total other financial assets		44,118	32,764
Current		41,918	30,564
Non-current		2,200	2,200

At 31 December 2008 the foreign exchange forward contracts balance is made up of two contracts expiring on 20 January 2009 and 21 January 2009 respectively.

Investments in stock exchange represent the Bank's 1.33 percent membership ownership in the equity of Kazakhstan Stock Exchange. These investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. Therefore, investments in stock exchange are measured at cost.

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9 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding at 31 December 2008 is as follows:

<i>In thousands of Tenge</i>	Foreign exchange forward contracts	Fee and commission income receivable	Investments in stock exchange	Penalties	Total
<i>Neither past due nor impaired</i>					
- No sign of weakness	16,030	23,019	2,200	1,249	42,498
Total neither past due nor impaired	16,030	23,019	2,200	1,249	42,498
<i>Past due but not impaired</i>					
-30 to 90 days overdue	-	1,620	-	-	1,620
Total past due but not impaired	-	1,620	-	-	1,620
Total other financial assets	16,030	24,639	2,200	1,249	44,118

Analysis by credit quality of other financial assets outstanding at 31 December 2007 is as follows:

<i>In thousands of Tenge</i>	Foreign exchange forward contracts	Fee and commission income receivable	Investments in stock exchange	Penalties	Total
<i>Neither past due nor impaired</i>					
-No sign of weakness	6,500	24,050	2,200	14	32,764
Total neither past due nor impaired	6,500	24,050	2,200	14	32,764
Total other financial assets	6,500	24,050	2,200	14	32,764

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. Information on related party balances is disclosed in Note 36. Refer to Note 34 for the disclosure of the fair value of each class of other financial assets.

10 Investment Securities Available for Sale

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

<i>In thousands of Tenge</i>	2007
Carrying amount at 1 January	-
Fair value gains less losses	27,304
Purchases	2,322,475
Disposals of current investment securities available for sale	(2,349,779)
Carrying amount at 31 December	-

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11 Premises, Equipment and Intangible Assets

<i>In thousands of Tenge</i>	Land and premises	Office and computer equipment	Vehicles	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost at 31 December 2006	151,813	248,577	52,849	102,883	556,122	84,109	640,231
Accumulated depreciation	(2,820)	(64,256)	(7,764)	-	(74,840)	(22,902)	(97,742)
Carrying amount at 31 December 2006	148,993	184,321	45,085	102,883	481,282	61,207	542,489
Additions	316,917	90,903	27,553	70,213	505,586	168,879	674,465
Transfers	51,781	-	-	(51,781)	-	-	-
Disposals	-	(7,520)	-	-	(7,520)	(323)	(7,843)
Depreciation charge	(7,207)	(38,191)	(6,649)	-	(52,047)	(10,939)	(62,986)
Carrying amount at 31 December 2007	510,484	229,513	65,989	121,315	927,301	218,824	1,146,125
Cost at 31 December 2007	520,511	327,310	80,402	121,315	1,049,538	249,894	1,299,432
Accumulated depreciation	(10,027)	(97,797)	(14,413)	-	(122,237)	(31,070)	(153,307)
Carrying amount at 31 December 2007	510,484	229,513	65,989	121,315	927,301	218,824	1,146,125
Additions	135,236	268,651	22,851	-	426,738	156,149	582,887
Transfers	-	-	-	-	-	-	-
Disposals	-	(8,605)	(3,027)	-	(11,632)	-	(11,632)
Depreciation charge	(19,732)	(72,461)	(18,639)	-	(110,832)	(41,410)	(152,242)
Carrying amount at 31 December 2008	625,988	417,098	67,174	121,315	1,231,575	333,563	1,565,138
Cost at 31 December 2008	655,747	569,723	98,473	121,315	1,445,258	406,043	1,851,301
Accumulated depreciation	(29,759)	(152,625)	(31,299)	-	(213,683)	(72,480)	(286,163)
Carrying amount at 31 December 2008	625,988	417,098	67,174	121,315	1,231,575	333,563	1,565,138

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to land and premises.

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12 Other Assets

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Prepayments for services	166,165	110,660
Prepayments for construction in progress	136,809	150,714
Settlements with employees	4,225	10,112
Inventory	2,926	2,966
Prepaid Taxes	669	134
Other	623	197
Total other assets	311,417	274,783
Current	174,608	124,069
Non-current	136,809	150,714

Information on related party balances is disclosed in Note 36.

13 Due to Other Banks

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Placements of other banks	61,447	2,407,549
Total due to other banks	61,447	2,407,549

All placements of other banks are current (2007: current).

Refer to Note 34 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 30. Information on related party balances is disclosed in Note 36.

14 Customer Accounts

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
State and public organisations		
- Current/settlement accounts	11,102,067	1,885,028
- Term deposits	1,324,569	1,748,805
Other legal entities		
- Current/settlement accounts	6,249,042	8,144,795
- Term deposits	16,237,969	16,713,847
Individuals		
- Current/demand accounts	577,337	317,204
- Term deposits	11,822,430	1,707,380
Total customer accounts	47,313,414	30,517,059

State and public organisations exclude government owned profit orientated businesses.

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14 Customer Accounts (Continued)

The table below presents the split of customer accounts by term:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Current	34,886,862	27,488,762
Non-current	12,426,552	3,028,297
Total customer accounts	47,313,414	30,517,059

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Tenge</i>	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Individuals	12,399,767	26	2,024,584	7
Oil and gas sector	6,634,894	14	5,498,507	19
Communication	5,515,145	12	373,716	1
Insurance and financial services	5,112,564	11	7,945,521	27
Transportation	5,049,281	11	3,471,918	11
Government holding companies	3,155,382	7	-	-
Mining and metallurgy	2,262,764	5	3,703,089	12
Agriculture	1,818,017	4	3,042,805	10
Food and beverages	1,081,762	2	11,806	-
Education	1,046,407	2	254,391	1
Private holding companies	973,147	2	6,388	-
Construction	614,993	1	1,249,927	4
Automobile sale and servicing	450,154	1	46,638	-
Wholesale and retail	401,565	1	1,555,582	5
Utilities	288,967	1	650,302	2
Professional services	224,891	-	151,642	-
Printing and packaging	83,277	-	208,601	1
Electronic and electrical equipment	42,398	-	67,951	-
Research and development	42,032	-	28,026	-
Public associations	25,995	-	56,800	-
Health	21,843	-	35,542	-
Host and travel services	15,480	-	17,387	-
Real estate	12,692	-	601	-
Recycling	10,441	-	21,954	-
Hardware	3,403	-	65,173	-
Chemical industry	188	-	18,132	-
Other	25,965	-	10,076	-
Total customer accounts	47,313,414	100	30,517,059	100

At 31 December 2008 the Bank had ten customers (2007: six customers) with balances above Tenge 1,000,000 thousand. The aggregate balance of these customers was Tenge 30,321,632 thousand (2007: Tenge 14,462,028 thousand) or 64.1 percent (2007: 47.4 percent) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of Tenge 8,800 thousand (2007: Tenge 6,786 thousand) held as collateral for loans and advances.

Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 30. Information on related party balances is disclosed in Note 36.

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15 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Fee and commission payable	28,858	29,411
Operating expense accruals	12,761	19,246
Cash management fee accrual	-	2,338
Total other financial liabilities	41,619	50,995

All other financial liabilities are current (2007: current). Refer to Note 34 for the disclosure of the fair value of each class of other financial liabilities.

16 Debt Securities in Issue

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Bonds issued on domestic market	4,984,709	4,506,122
Total debt securities in issue	4,984,709	4,506,122
Current	257,184	1,989,536
Non-current	4,727,525	2,516,586

At 31 December 2008 the Bank has debt securities in issue with nominal amount of Tenge 5,143,680 thousand (2007: Tenge 4,808,880 thousand). These bonds mature on 14 August 2010, have a coupon rate of 10 percent and a weighted average yield to maturity of 14.5 percent.

Tenge 1,455,180 thousand of the bonds issued on the domestic market during 2007 were issued together with put options allowing the purchaser of the bond to sell the bonds back to the Bank within a year of purchasing the bonds. All issued put options expired before 31 December 2008.

Refer to Note 34 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 30.

17 Other Borrowed Funds

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Term borrowings from shareholder	3,444,185	7,215,287
Term borrowings from companies	-	1,151,565
Total other borrowed funds	3,444,185	8,366,852

All other borrowed funds are current (2007: current). Term borrowings from shareholder of Tenge 3,444,185 thousand (2007: Tenge 7,215,287 thousand) relates to loans received from the European Bank of Reconstruction and Development under a rollover trade finance facility. These loans mature between 20 January 2009 and 23 April 2009. The European Bank for Reconstruction and Development owns 24.7 percent of the Bank.

Refer to Note 34 for the disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

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18 Subordinated Debt

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Bonds issued on the domestic market	1,171,056	1,156,430
Convertible bonds	912	962
Total subordinated debt	1,171,968	1,157,392
Current	9,740	9,678
Non-current	1,162,228	1,147,714

The bonds issued on the domestic market of Tenge 1,171,056 thousand (2007: Tenge 1,156,430 thousand) carry a variable interest rate of 11 percent (2007: 10.5 percent) per annum and mature in December 2012. The debt ranks after all other creditors in case of liquidation. The above interest rate is fixed every six months at the current Kazakhstan inflation rate plus two percent, but not to exceed 11 percent. The convertible bonds of Tenge 912 thousand (2007: Tenge 962 thousand) is the liability portion of the compound instrument issued in 2007. Refer to Note 21.

Refer to Note 34 for the disclosure of the fair value of each class of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

19 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Salaries, bonuses	148,013	79,222
Advances received	111,111	85,114
Taxes other than income tax payable	53,310	14,110
Fees received from issuance of financial guarantees and letters of credit	36,476	23,971
Transit accounts	-	44,291
Other accrued liabilities	653	4,765
Total other liabilities	349,563	251,473

All other liabilities are current (2007: current). Included in salaries and bonuses is an amount of Tenge 144,000 thousand (2007: Tenge 79,222 thousand) which represents an annual performance bonus provided to the Bank's personnel.

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20 Provision for Liabilities and Other Charges

Provision for liabilities and other charges comprise the following:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Provision for loss on unsettled payments	13,600	13,600
Provision for loss on issued guarantees	2,416	-
Total provision for liabilities and charges	16,016	13,600

All provision for liabilities and other charges is current (2007: current). Provision for loss on unsettled payments relates to potential claim against the Bank by a customer. The balance at 31 December 2008 is expected to be utilised by the end of 2009 (2007: by end of 2008). In the opinion of Management, after taking appropriate legal advice, the outcome of this legal claim will not give rise to any significant loss beyond the accrued amounts.

21 Share Capital

<i>In thousands of Tenge except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Convertible bonds equity component	Treasury shares	Total
At 31 December 2006	44,970	4,500,000	3,926	-	(2,935)	4,500,991
New shares issued	24,101	2,410,085	1,588,373	-	-	3,998,458
Convertible bonds issue	-	-	-	1,003,374	-	1,003,374
Treasury shares purchased	(105)	-	(30,668)	-	(10,549)	(41,217)
Treasury shares sold	29	-	2,231	-	2,935	5,166
At 31 December 2007	68,995	6,910,085	1,563,862	1,003,374	(10,549)	9,466,772
New shares issued	50	4,992	12,739	-	-	17,731
Treasury shares purchased	(242)	-	(48,472)	-	(24,253)	(72,725)
At 31 December 2008	68,803	6,915,077	1,528,129	1,003,374	(34,802)	9,411,778

The nominal registered amount of the Bank's issued share capital is Tenge 6,915,077 thousand (2007: Tenge 6,910,085 thousand).

The total authorised number of shares is 325,000 thousand shares (2007: 325,000 thousand shares) with a par value of Tenge 100 per share (2007: Tenge 100 per share). All issued shares are fully paid and rank equally. Each share carries one vote.

At 31 December 2008 treasury shares include 348,021 shares of the Bank (2007: 105,494 shares) owned by the Bank. These shares carry no voting rights.

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

During 2007 the Bank issued 1,018 convertible bonds with a par value of Tenge 1,000 thousand. These bonds mature on 29 May 2106 and have a coupon rate of 0.01 percent. Each bond can be converted into ten thousand shares on the demand of the bond holders at any time. The bond is made up of three components being equity, subordinated debt and early redemption call options exercisable by the Bank. The early redemption call options exercisable by the Bank is callable after 25 years and has a nil value at 31 December 2008 (2007: nil) due to the very low coupon rate. The liability portion has been disclosed in Note 20.

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21 Share Capital (Continued)

As at 31 December the shareholders' structure was as follows:

Shareholder	31 December 2008 %	31 December 2007 %
European Bank for Reconstruction and Development	24.7	24.6
Mr. Kapparov N. D.	24.3	24.2
Mr. Dossaev E. A.	15.8	15.8
Mr. Kaniyev B. S.	15.0	15.0
Mr. Pak Yu. E.	10.2	10.2
Citigroup Venture Capital International G.P.L.P.	9.4	9.4
Citigroup Venture Capital International Co-Investment L.P.	0.5	0.5
Other shareholders	0.1	0.3
Total	100	100

22 Other Reserves

<i>In thousands of Tenge</i>	Mandatory statutory reserve	General provision for credit risk	Total Reserves
At 31 December 2006	66,716	-	66,716
Creation of general reserve for credit risk	-	32,973	32,973
At 31 December 2007	66,716	32,973	99,689
Change of mandatory statutory reserve	1,057,633	(32,973)	1,024,660
At 31 December 2008	1,124,349	-	1,124,349

The mandatory statutory reserve for credit risk represents mandatory statutory reserves created in accordance with the statutory requirements. Under applicable regulations, the mandatory general reserve should equal at least two percent of total loan portfolio and issued letters of credit (2007: five percent of unclassified assets) as per the statutory definition. These reserves are not provisions in line with IFRS and have therefore been taken directly to equity.

The general reserve for credit risk represents the increase in the provision for loan and customer advances specifically requested by the Agency due to the Bank's provision being the lowest in the market. This provision is not a provision in line with IFRS and has therefore been taken directly to Equity.

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23 Interest Income and Expense

<i>In thousands of Tenge</i>	2008	2007
Interest income		
Loans and advances to customers	8,533,271	3,772,419
Placements with other banks	243,797	135,775
Cash and cash equivalents	157,699	24,187
Correspondent accounts with other banks	89,392	118,482
Reverse repurchase agreements	46,340	7,481
Overnight placements with other banks	15,652	17,160
Debt trading securities	-	17,465
Total interest income	9,086,151	4,092,969
Interest expense		
Term deposits of legal entities	1,951,713	1,157,188
Term deposits of individuals	1,115,609	182,979
Debt securities in issue	747,510	102,585
Current/settlement accounts	466,057	62,938
Other borrowed funds	359,383	286,507
Subordinated debt	151,286	135,972
Term placements of other banks	20,064	55,874
Other	5,428	2,340
Total interest expense	4,817,050	1,986,383
Net interest income	4,269,101	2,106,586

Interest income accrued on impaired loans and advances is Tenge 1,052,891 thousand (2007: Tenge 14,824 thousand).

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24 Fee and Commission Income and Expense

<i>In thousands of Tenge</i>	2008	2007
Fee and commission income		
Settlement transactions	153,217	99,668
Guarantees issued	105,761	68,358
Cash transactions	76,246	78,166
Letters of credit	61,330	5,160
Card transactions	45,927	25,666
Purchase and sale of foreign currency	218	4,304
Other	4,786	2,924
Total fee and commission income	447,485	284,246
Fee and commission expense		
Settlement transactions	31,205	16,202
Cash transactions	29,636	15,085
Letters of credit	4,650	1,023
Guarantees	2,489	65
Transactions with securities	1,627	1,507
Interbank deposits	431	1,942
Other	888	2,615
Total fee and commission expense	70,926	38,439
Net fee and commission income	376,559	245,807

25 Other Operating (Loss)/Income

<i>In thousands of Tenge</i>	2008	2007
Income from sale of goods	198	144
(Loss)/gain on disposal of premises and equipment	(9,587)	67
Other operating (loss)/income	(2,383)	1
Total other operating (loss)/income	(11,772)	212

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26 Administrative and Other Operating Expenses

<i>In thousands of Tenge</i>	Note	2008	2007
Staff costs		1,164,747	775,131
Rent expense		354,758	204,139
Depreciation of premises and equipment	11	110,832	52,047
Other costs of premises and equipment		86,248	50,652
Taxes other than on income		84,440	53,044
Communication services		66,154	52,448
Business trip and representative expenses		56,131	52,856
Deposit insurance payments		49,303	20,258
Amortisation of software and other intangible assets	11	41,410	10,939
Advertising and marketing services		40,177	11,465
Insurance expenses		23,718	14,726
Professional services		19,181	18,928
Cash collection expenses		12,341	14,453
Transportation services		12,163	9,833
Software maintenance		10,906	1,195
Stationery		9,744	6,228
Membership fees		7,880	6,312
Listing fees		6,710	-
Card expenses		4,025	3,625
Provision		2,416	-
Training		1,418	13,536
Subscription fees		1,147	799
Other general and administrative expenses		29,928	38,637
Total administrative and other operating expenses		2,195,777	1,411,251

Included in staff costs is statutory social tax of Tenge 76,438 thousand (2007: Tenge 56,576 thousand) and an annual performance bonus for the Bank's personnel of Tenge 144,000 thousand (2007: Tenge 181,600 thousand).

27 Income Taxes

Income tax expense recorded in the income statement comprises the following:

<i>In thousands of Tenge</i>	2008	2007
Current tax	21,921	336,675
Deferred (benefit)/tax	(7,074)	51,448
Income tax expense for the year	14,847	388,123

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27 Income Taxes (Continued)

The income tax rate applicable to the majority of the Bank's income is 30 percent (2007: 30 percent). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Tenge</i>	2008	2007
IFRS profit before tax	272,294	1,307,742
Theoretical tax charge at statutory rate (2008: 30 percent; 2007: 30 percent)	81,688	392,323
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible leasehold improvements	37,967	-
- Non-deductible/(non-taxable) items	12,666	(352)
- Income on government securities taxed at different rates	(59,583)	(3,848)
Adjustment of prior year deferred tax expense	2,434	-
Change in deferred tax due to change in rate at which expected to be realised	(60,325)	-
Income tax expense for the year	14,847	388,123

In December 2008, the Kazakhstan reduced the standard corporate income tax rate from 30 percent to 20 percent with effect from 1 January 2009, to 17.5 percent from 1 January 2010 and to 15 percent from 1 January 2011. The impact of the change in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2008.

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate applicable to the period when the differences are expected to be deducted or taxed (2007: 30 percent).

<i>In thousands of Tenge</i>	31 December 2006	(Charged) credited to profit or loss	31 December 2007	(Charged) credited to profit or loss	31 December 2008
Tax effect of deductible temporary differences					
Accruals	29,828	(6,072)	23,756	7,786	31,542
Bonds discount accretion	-	-	-	133	133
Gross deferred tax asset	29,828	(6,072)	23,756	7,919	31,675
Tax effect of taxable temporary differences					
Loan impairment provisions	-	-	-	(4,268)	(4,268)
Premises and equipment	(32,766)	(41,910)	(74,676)	3,163	(71,513)
Foreign currency forwards	-	(1,950)	(1,950)	(1,256)	(3,206)
Accruals	-	(1,516)	(1,516)	1,516	-
Gross deferred tax liability	(32,766)	(45,376)	(78,142)	(845)	(78,987)
Net deferred tax asset/(liability)	(2,938)	(51,448)	(54,386)	7,074	(47,312)

As at 31 December 2008 no portion of deferred income tax asset (2007: nil) was expected to be recovered after more than twelve months. As at 31 December 2008 deferred income tax liability in the amount of Tenge 75,781 thousand (2007: Tenge 74,676 thousand) was expected to be settled after more than twelve months.

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28 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

<i>In thousands of Tenge</i>	Note	2008	2007
Profit for the year attributable to ordinary shareholders		257,447	919,619
Profit for the year		257,447	919,619
Weighted average number of ordinary shares in issue (thousands)	21	68,917	57,035
Basic earnings per ordinary share (Tenge per share)		3.74	16.12

Diluted earnings/(loss) per share are calculated by dividing the diluted earnings for the year by the diluted weighted average number of shares in issue during the year.

<i>In thousands of Tenge</i>	2008	2007
Profit for the year attributable to ordinary shareholders	257,447	919,619
Interest incurred on convertible bonds issued in the current year	54	59
Profit for the year	257,501	919,678
Diluted weighted average number of ordinary shares in issue (thousands)	79,097	62,973
Diluted basic earnings per ordinary share (Tenge per share)	3.26	14.60

29 Segment Analysis

The Bank's primary format for reporting segment information is business segments. The Bank is organised on the basis of two main business segments:

- Retail banking – savings, deposits, and consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation.

In 2007 the retail banking segment was managed together with the corporate banking segment.

Discrete financial information for segments includes all assets, except current income tax prepayment, deposits, interest income, fee and commission income, financial assets impairment and recovery, staff costs, rent expenses, and depreciation. Management treats current income tax prepayment, and liabilities and income statement items not specifically attributable to segments as unallocated items.

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29 Segment Analysis (Continued)

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

<i>In thousands of Tenge</i>	Retail banking	Corporate banking	Total
2008			
External revenues	148,071	9,385,565	9,533,636
Total revenues	148,071	9,385,565	9,533,636
Total revenues comprise:			
- Interest income	148,071	8,938,080	9,086,151
- Fee and commission income	-	447,485	447,485
Total revenues	148,071	9,385,565	9,533,636
Segment result	(433,056)	1,744,265	1,311,209
Unallocated costs	-	-	(1,038,915)
Profit before tax	-	-	272,294
Income tax expense	-	-	(14,847)
Profit	-	-	257,447
Total segment assets	2,301,982	65,578,888	67,880,870
Current tax asset	-	-	342,937
Total assets	-	-	68,223,807
Total segment liabilities	9,981,528	37,331,886	47,313,414
Deferred tax liabilities	-	-	47,312
Other unallocated liabilities	-	-	10,069,507
Total liabilities	-	-	57,430,233
Other segment items			
Capital expenditure	127,028	455,859	582,887
Depreciation and amortisation expense	44,571	107,671	152,242
Impairment losses charged to profit or loss	21,397	2,608,233	2,629,630
Reversals of impairment losses though profit or loss	-	(3)	(3)

30 Financial Risk Management

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

Credit risk

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

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 8.

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

The Bank has designated credit officers with personal approval limits. These credit officers have authority to approve extension of credit up to the amount of their personal approval limits. In addition, every extension of credit must be approved by at least two other authorized credit officers one of whom must be a sponsoring officer and the other must be a risk manager.

Loan applications with appropriate cash flow analysis originated by the relevant client relationship managers are passed on to the relevant credit officers for approval of extension of credit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

To monitor credit risk exposures, the credit department officers produce regular reports based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by senior credit officers

The Bank's risk management department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Notes 8.

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

Market risk

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

Currency risk

In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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30 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

<i>In thousands of Tenge</i>	At 31 December 2008				At 31 December 2007			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Tenge	48,832,322	(40,790,865)	982,350	9,023,807	37,472,378	(29,307,114)	1,209,500	9,374,764
US Dollars	16,548,772	(15,598,957)	(966,320)	(16,505)	17,410,339	(16,140,097)	(1,203,000)	67,242
Euros	552,500	(577,562)	-	(25,062)	1,305,951	(1,307,939)	-	(1,988)
Pound Sterling	36,435	(35,872)	-	563	3,976	(6,242)	-	(2,266)
Russian Roubles	14,930	(14,008)	-	922	206,840	(194,571)	-	12,269
Swiss Franc	632	-	-	632	86	(32)	-	54
Japanese Yen	494	(78)	-	416	1,888	-	-	1,888
Total	65,986,085	(57,017,342)	16,030	8,984,773	56,401,458	(46,955,995)	6,500	9,451,963

Amounts disclosed in respect of derivatives represent the fair value, at the balance sheet date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 33. The net total represents fair value of the currency derivatives.

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

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

<i>In thousands of Tenge</i>	At 31 December 2008	At 31 December 2007
US Dollars strengthening by 5% (2007: 5%)	(825)	3,362
US Dollars weakening by 5% (2007: 5%)	825	(3,362)
Euro strengthening by 10% (2007: 5%)	(2,506)	(99)
Euro weakening by 10% (2007: 5%)	2,506	99
Pounds strengthening by 10% (2007: 5%)	56	(113)
Pounds weakening by 10% (2007: 5%)	(56)	113
Russian Rouble strengthening by 5% (2007: 5%)	46	613
Russian Rouble weakening by 5% (2007: 5%)	(46)	(613)
Swiss Franc strengthening by 5% (2007: 5%)	32	3
Swiss Franc weakening by 5% (2007: 5%)	(32)	(3)
Japanese Yen strengthening by 5% (2007: 5%)	21	94
Japanese Yen weakening by 5% (2007: 5%)	(21)	(94)
Total strengthening	(3,176)	3,860
Total weakening	3,176	(3,860)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Bank. The Bank's exposure to currency risk at the balance sheet date is representative of the typical exposure during the year.

30 Financial Risk Management (Continued)

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Bank applies gap analysis for interest rate risk management. The Bank combines financial assets and financial liabilities into periods of maturity or contractual repricing, whichever occurs earlier, and identifies the gap. The positive gap implies that increase in interest rates for this particular maturity would lead to increase of net interest income (decrease of interest rates would lead to decrease of net interest income). The negative gap implies that increase in interest rates for this particular maturity would lead to decrease of net interest income (decrease of interest rates would lead to increase of net interest income).

When interest rates are expected to increase the Bank increases maturity of borrowings; reduces fixed rate loans; reduces maturity of investment portfolio; disposes of securities; and recalls credit lines.

When interest rates are expected to decrease the Bank decreases maturity of borrowings; increases share of fixed rate loans; invests in securities with longer maturity; and extends credit lines.

To mitigate interest risk exposure the Bank includes provisions that envisage variable interest rates and early repayment into loan agreements; changes interest rates on deposits; may enter into swap and option agreements; and revises loan portfolio structure.

The table below summarises the model used by the Bank to monitor its exposure to interest rate risks at 31 December 2008. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2008						
Total financial assets	63,397,452	199,527	30,883	2,374,253	2,200	66,004,315
Total financial liabilities	25,670,168	10,612,124	5,090,795	15,644,255	-	57,017,342
Net interest sensitivity gap at 31 December 2008						
	37,727,284	(10,412,597)	(5,059,912)	(13,270,002)	2,200	8,986,973

The table below summarises the model used by the Bank to monitor its exposure to interest rate risks at 31 December 2007. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2007						
Total financial assets	28,454,364	17,085,517	2,982,822	7,885,253	1,528,055	57,936,011
Total financial liabilities	22,504,744	12,762,947	4,540,148	8,157,920	379,089	48,344,848
Net interest sensitivity gap at 31 December 2007						
	5,949,620	4,322,570	(1,557,326)	(272,667)	1,148,966	9,591,163

30 Financial Risk Management (Continued)

The Bank also calculates the Earnings at Risk (EaR) which measures the potential pre-tax earnings impact on the non-trading portfolio for the given period of a specified parallel movement in interest rates. The Bank combines financial assets and liabilities at the balance sheet date into groups with expected, rather than contractual, maturities or repricing periods. The Bank identifies gaps for maturities ranging from overnight to five years. The Bank applies possible shift in the interest rates to identified gaps and computes effect on the earnings.

At 31 December 2008, if interest rates at that date had been 200 basis points lower with all other variables held constant, profit for the year would have been Tenge 143,354 thousand higher, mainly as a result of lower interest expense on interest bearing liabilities.

At 31 December 2007, if interest rates at that date had been 100 basis points higher with all other variables held constant, profit for the year would have been Tenge 34,911 thousand lower, mainly as a result of higher interest expense on interest bearing liabilities.

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

<i>In % p.a.</i>	2008				2007			
	KZT	USD	Euro	Other	KZT	USD	Euro	Other
Assets								
Cash and cash equivalents	9.0	2.0	4.0	-	5.2	-	-	-
Loans and advances to customers	17.7	16.6	17.8	-	15.2	15.1	16.5	-
Liabilities								
Due to other banks	-	6.5	-	-	5.0	5.8	-	-
Customer accounts								
- current and settlement accounts	3.6	5.1	2.9	2.0	2.7	3.4	2.0	1.0
- term deposits	9.1	11.1	6.0	-	10.4	7.9	5.9	-
Debt securities in issue	14.5	-	-	-	10.0	-	-	-
Other borrowed funds	-	6.9	-	-	-	6.9	7.0	-
Subordinated debt	11.5	-	-	-	5.4	-	-	-

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

Other price risk

The Bank is exposed to prepayment risk through providing fixed and variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year profit and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2007: no material impact).

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30 Financial Risk Management (Continued)

Geographical risk concentrations

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

<i>In thousands of Tenge</i>	Kazakhstan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	8,626,728	4,938,706	10,941	13,576,375
Loans and advances to customers	52,376,576	7,246	-	52,383,822
Other financial assets	44,118	-	-	44,118
Total financial assets	61,047,422	4,945,952	10,941	66,004,315
Non-financial assets	2,219,492	-	-	2,219,492
Total assets	63,266,914	4,945,952	10,941	68,223,807
Liabilities				
Due to other banks	-	61,447	-	61,447
Customer accounts	46,333,611	979,790	13	47,313,414
Other financial liabilities	38,731	2,888	-	41,619
Debt securities in issue	4,984,709	-	-	4,984,709
Other borrowed funds	-	3,444,185	-	3,444,185
Subordinated debt	1,171,056	912	-	1,171,968
Total financial liabilities	52,528,107	4,489,222	13	57,017,342
Non-financial liabilities	412,891	-	-	412,891
Total liabilities	52,940,998	4,489,222	13	57,430,233
Net balance sheet position	10,325,916	456,730	10,928	10,793,574
Credit related commitments	16,322,259	-	-	16,322,259

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

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30 Financial Risk Management (Continued)

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

<i>In thousands of Tenge</i>	Kazakhstan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	11,165,608	7,187,613	204,379	18,557,600
Loans and advances to customers	37,730,980	112,878	-	37,843,858
Other financial assets	32,764	-	-	32,764
Total financial assets	48,929,352	7,300,491	204,379	56,434,222
Non-financial assets	1,460,995	21,332	-	1,482,327
Total assets	50,390,347	7,321,823	204,379	57,916,549
Liabilities				
Due to other banks	2,035,248	372,301	-	2,407,549
Customer accounts	30,289,859	227,185	15	30,517,059
Other financial liabilities	48,657	2,338	-	50,995
Debt securities in issue	4,506,122	-	-	4,506,122
Other borrowed funds	8,366,852	-	-	8,366,852
Subordinated debt	1,156,430	962	-	1,157,392
Total financial liabilities	46,403,168	602,786	15	47,005,969
Non-financial liabilities	319,459	-	-	319,459
Total liabilities	46,722,627	602,786	15	47,325,428
Net balance sheet position	3,667,720	6,719,037	204,364	10,591,121
Credit related commitments	19,446,448	-	-	19,446,448

Other risk concentrations

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10 percent of net assets. Refer to Note 8.

30 Financial Risk Management (Continued)

Liquidity risk

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

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

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

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short - term deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by market risk department.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, gross loan commitments, and interest payments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

Significant portion of deposits with maturity of less than one month have a specific structure envisaged in the deposit agreements. This structure prescribes customers' commitment not to withdraw the deposits for the period of at least six months. Any withdrawal of deposits before the agreed date entails penalty in favor of the Bank. The assessable penalty makes withdrawal of deposits before the agreed date economically unfavorable.

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

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	61,447	-	-	-	-	61,447
Customer accounts	24,901,668	6,681,093	5,437,766	13,943,706	-	50,964,233
Other financial liabilities	41,619	-	-	-	-	41,619
Debt securities in issue	-	257,184	257,184	5,658,048	-	6,172,416
Other borrowed funds	704,508	2,769,561	-	-	-	3,474,069
Subordinated debt	-	68,406	68,305	1,652,134	1,027,467	2,816,312
Forward exchange contract	966,320	-	-	-	-	966,320
Total potential future payments	26,675,562	9,776,244	5,763,255	21,253,888	1,027,467	64,496,416

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30 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	2,063,339	348,000	-	-	-	2,411,339
Customer accounts	17,277,422	8,290,432	3,818,115	2,012,380	11,997	31,410,346
Other financial liabilities	50,995	-	-	-	-	50,995
Debt securities in issue	-	1,671,403	143,464	3,586,591	-	5,401,458
Other borrowed funds	2,923,841	4,515,036	1,100,226	-	-	8,539,103
Subordinated debt	-	68,305	68,406	1,788,336	1,027,976	2,953,023
Forward exchange contract	1,203,000	-	-	-	-	1,203,000
Total potential future payments	23,518,597	14,893,176	5,130,211	7,387,307	1,039,973	51,969,264

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 33. Customer accounts are classified in the above analysis based on contractual maturities. The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2008:

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	9,920,000	1,000,000	-	2,653,000	-	13,573,000
Loans and advances to customers	-	-	-	51,201,000	-	51,201,000
Other financial assets	16,000	1,887,000	-	-	-	1,903,000
Fixed assets	-	-	-	-	1,568,000	1,568,000
Total financial assets	9,936,000	2,887,000	-	53,854,000	1,568,000	68,245,000
Liabilities						
Due to other banks	-	49,000	-	-	-	49,000
Customer accounts	6,747,000	5,000,000	-	34,875,000	-	46,622,000
Other financial liabilities	-	1,469,000	-	-	-	1,469,000
Debt securities in issue	-	-	-	4,790,000	-	4,790,000
Other borrowed funds	-	-	3,394,000	-	-	3,394,000
Subordinated debt	-	-	-	511,000	652,000	1,163,000
Capital	-	-	-	-	10,758,000	10,758,000
Total financial liabilities	6,747,000	6,518,000	3,394,000	40,176,000	11,410,000	68,245,000
Net liquidity gap at 31 December 2008	3,189,000	(3,631,000)	(3,394,000)	13,678,000	(9,842,000)	-
Cumulative liquidity gap at 31 December 2008	3,189,000	(442,000)	(3,836,000)	9,842,000	-	-

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30 Financial Risk Management (Continued)

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

<i>In thousands of Tenge</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	16,793,000	-	-	1,752,000	-	18,545,000
Loans and advances to customers	-	-	-	37,346,000	-	37,346,000
Other financial assets	7,000	888,000	-	-	-	895,000
Fixed assets	-	-	-	-	1,149,000	1,149,000
Total financial assets	16,800,000	888,000	-	39,098,000	1,149,000	57,935,000
Liabilities						
Due to other banks	2,035,000	180,000	168,000	-	-	2,383,000
Customer accounts	14,593,000	-	-	15,500,000	-	30,093,000
Other financial liabilities	-	1,106,000	-	-	-	1,106,000
Debt securities in issue	-	-	-	4,320,000	-	4,320,000
Other borrowed funds	-	-	1,063,000	7,215,000	-	8,278,000
Subordinated debt	-	-	-	1,146,000	1,018,000	2,164,000
Capital	-	-	-	-	9,591,000	9,591,000
Total financial liabilities	16,628,000	1,286,000	1,231,000	28,181,000	10,609,000	57,935,000
Net liquidity gap at 31 December 2007	172,000	(398,000)	(1,231,000)	10,917,000	(9,460,000)	-
Cumulative liquidity gap at 31 December 2007	172,000	(226,000)	(1,457,000)	9,460,000	-	-

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

The Bank set limits on liquidity gap, which allow these negative gaps. The Bank accepts the following assumptions in order to monitor liquidity in more realistic way (business as usual situation):

- Loan portfolio is long term based on assumption of continued short-term loan rollover basis in the 'business as usual' environment. Committed lines and unused overdrafts are also included.
- Portion of reserve requirement will be deducted from customer accounts and added to 'Over 12 months' amount. This part is the function of long-term stable liabilities including assumed stable balances.
- Foreign exchange swap / forwards impact future cash flow in particular currency. Universal balance sheet will not be affected.
- Current accounts are split between stable and unstable based on volatility analysis of the daily balances for the last 12 months for each currency. Volatility calculation will be performed monthly. Amount of stable balances will be updated accordingly.

30 Financial Risk Management (Continued)

- Contractually other borrowed funds are not long term. However funds are used for trade deals on back to back basis. If the Bank repays other borrowed funds as per maturity schedule the Bank believe that the Bank would be able to collect trade loans accordingly. Therefore the Bank classifies other borrowed funds into long term ('Over 12 months') based on assumed rollovers of trade loans. Alternatively the Bank may put trade loans into contractual profile to match EBRD repayment schedule. The former assumption is more realistic. Both options have the same neutral impact on liquidity.
- Term deposits are substantial part of funding. Contractual schedule will be ignored except for large fund providers. Instead the Bank will run volatility analysis of daily balances for the last 12 month to determine stable balances.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Should the Bank face significant unexpected liquidity gap, Management will apply to the NBRK for financing required to support the Bank's liquidity. Management believes that the NBRK will be able to provide requested financing. Management carefully monitors the Bank's liquidity and believes that significant liquidity gaps are unlikely.

Management's response to financial distress

As described in Note 2 the ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. Management believes that the crisis affected primarily the Bank's exposure to liquidity and credit risks while change in the Bank's exposure to market risk has less significant magnitude.

To address change in exposure to credit risk, the Bank revised its loan portfolio management. The Bank shifted the focus from most affected industries, such as construction and metal processing, to customers engaged in businesses that are less subject to credit risk exposure (primarily, fast moving consumer goods). The Bank also reduced placements in Kazakhstan banks.

The Bank also regularly performs stress tests over its loan portfolio. The stress test comprises a two steps assessment of loan portfolio. The first step includes defining external factors influencing borrowers' performance and ranking the borrowers according to their vulnerability to actual and/or potential negative changes in the environment. The Bank scores borrowers' vulnerability to the negative change in environment on a scale of one to five, with one being the smallest degree of vulnerability to the negative change. Based on the borrowers' scores, the Bank assesses overall rating of the loan portfolio as a weighted average of borrowers' scores. At 31 December 2008, the loan portfolio rating is 3.4 (2007: 3.33). In addition to that Management decides on necessary actions to be taken on more vulnerable exposures such as reduction of exposure and/or improvement of collateral structure. Additional protective measures are defined through the second step of the stress test. It is made based on Management decision and assumes determination of quantitative impact of external factors on borrowers with higher scores.

Management responses to change in liquidity risk included decrease of investments in available-for-sale securities and increase of investments in NBRK notes that have higher liquidity and maturity of less than three months. To compensate the decrease in other borrowed funds the Bank extended its customer base. Overall, Management closely monitors the Bank's liquidity and believes it makes all necessary measures to avoid liquidity problems.

31 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by Agency, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a strong capital base to support the development of its business. The Bank considers total capital under management to be equity as shown in the balance sheet. The amount of capital that the Bank managed as of 31 December 2008 was Tenge 10,793,574 thousand (2007: Tenge 10,591,121 thousand).

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's Management, employing techniques based on the guidelines developed by the Agency for supervisory purposes. The required information is filed with the Agency on a monthly basis.

31 Management of Capital (Continued)

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

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

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

Under the current capital requirements set by the Agency banks have to maintain a ratio of Tier 1 capital to total assets (K1) of not less than 6 percent (2007: 6 percent) and a ratio of total regulatory capital to risk weighted assets (K2) of not less than 12 percent (2007: 6 percent). Regulatory capital is based on the Bank's reports prepared under Agency regulations and comprises:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Tier 1 capital		
Share capital	9,411,778	9,466,772
Reserves	1,124,349	99,689
Retained earnings under Agency regulations	212,500	1,025,356
Total Tier 1 capital	10,733,924	10,591,817
Tier 2 capital		
Subordinated debt	1,171,968	1,157,392
Total Tier 2 capital	1,171,968	1,157,392
Total regulatory capital	11,905,892	11,749,209

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of credit, market, operational and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank's K1 and K2 ratios were:

	31 December 2008	31 December 2007
K1	15.4%	14.9%
K2	18.5%	25.6%

Other external requirements

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

EBRD as a creditor to the Bank under Trade Facilitation Program imposes certain affirmative covenants of compliance with the Agency requirements including a financial covenant in respect of capital adequacy. Under the Trade Facilitation Program requirements the Bank should at all times maintain a ratio of capital to risk weighted assets of not less than 10 percent. EBRD's definition for capital is borrowed from Basel Committee guidelines, except that the capital adequacy ratio is more restrictive than those imposed by Basel Committee. Compared to the Bank's internal requirements and those imposed by the Agency, EBRD's covenant is not as stringent.

Compliance with the Trade Facilitation Program requirements is monitored on a quarterly basis by EBRD officers.

32 Contingencies and Commitments

Tax legislation

Kazakhstan tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. The Kazakhstani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in Kazakhstan and the changes in the approach of the Kazakhstan tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Kazakhstan transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

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

On 10 December 2008, the new tax code and accompanying legislative acts were signed by the President of the Republic of Kazakhstan. The new tax code became effective from 1 January 2009. Key changes include: reduction of the corporate income tax rate from 30 percent to 20 percent in the financial year 2009, 17.5 percent in 2010, and 15 percent in 2011; reduction of the VAT rate from 13 percent to 12 percent; introduction of flat social tax rate of 11 percent; increase of property tax rate from 1 percent to 2 percent with the tax base limited to immovable property; and other changes.

Capital expenditure commitments

At 31 December 2008 the Bank has no contractual capital expenditure commitments in respect of premises and equipment or in respect of software and other intangible assets (2007: nil).

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Not later than 1 year	242,204	226,539
Later than 1 year and not later than 5 years	506,914	619,060
Total operating lease commitments	749,118	845,599

The most significant operating lease relates to the rental of the Bank's head office in Almaty. The terms of this loan were renegotiated in April 2007 and expire on 31 October 2011.

32 Contingencies and Commitments (Continued)

Compliance with covenants

The Bank is subject to certain covenants related primarily to its Other Borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including the amount outstanding to become payable on demand. The primary conditions for the covenant state that the Bank:

- Maintains the agreed upon capital adequacy ratios. Refer Note 31.
- Does not sell or pledge more than ten percent of the Bank's assets.
- Maintain a ratio of operating expenses to operating revenues of not more than seventy percent.
- At all times maintains a ratio of overdue loans to matured total loans of not more than seven percent.

The Bank breached the ratio of overdue loans to matured total loans in the second and third quarters of 2008 set as a covenant under a short term revolving Trade Finance facility extended by the EBRD. Following the breach, EBRD issued an official waiver to the subject financial covenant until 1 May 2009. EBRD commenced the process of the waiver extension. The Bank is in compliance with all other covenants resulting from the loan received from the EBRD.

Credit related commitments

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

Undrawn credit lines represent unused portions of credit facilities approved for which credit agreements have been signed with clients. The Bank does not have a legal commitment to extend unused portion.

Commitments to extend credit represent the Bank's unconditional commitment to extend credit to clients.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Undrawn credit lines	12,092,838	17,205,448
Guarantees issued	879,208	2,130,013
Import letters of credit	1,785,604	77,528
Commitments to extend credit	1,564,609	33,459
Total commitments and undrawn credit lines	16,322,259	19,446,448

The total amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was Tenge 16,322,259 thousand at 31 December 2008 (2007: Tenge 19,446,448 thousand). Credit related commitments are denominated in currencies as follows:

<i>In thousands of Tenge</i>	31 December 2008	31 December 2007
Tenge	6,581,194	12,543,763
US Dollars	9,173,177	6,902,661
Euro	567,888	24
Total	16,322,259	19,446,448

33 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

<i>In thousands of Tenge</i>	Notes	Contracts with positive fair value	
		31 December 2008	31 December 2007
Foreign exchange forwards: fair values, at the balance sheet date, of			
- US dollar payable on settlement (-)		(966,320)	(1,203,000)
- Tenge receivable on settlement (+)		982,350	1,209,500
Net fair value of foreign exchange forwards	9	16,030	6,500

The above balance consists of two forward exchange contracts of equal value that mature on 20 January 2009 and 21 January 2009 respectively.

34 Fair Value of Financial Instruments

Fair values of financial instruments are as follows at 31 December 2008:

<i>In thousands of Tenge</i>	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
FINANCIAL ASSETS					
Cash and cash equivalents					
- Cash on hand	462,691	-	-	462,691	462,691
- Cash balances with the NBRK	3,196,348	-	-	3,196,348	3,196,348
- Mandatory cash balances with the NBRK	1,294,178	-	-	1,294,178	1,294,178
- Correspondent accounts and overnight placements	5,152,194	-	-	5,152,194	5,152,194
- Placements with other banks with original maturities of less than three months	1,000,250	-	-	1,000,250	1,000,250
- Reverse repurchase agreements with other banks with original maturities of less than three months	2,470,714	-	-	2,470,714	2,470,714
Loans and advances to customers					
- Corporate loans	-	-	49,716,194	49,716,194	49,716,194
- Consumer loans	-	-	2,219,525	2,219,525	2,219,525
- Mortgage loans	-	-	365,896	365,896	448,103
Other financial assets					
- Foreign exchange forward contracts	-	16,030	-	16,030	16,030
- Fee and commission income receivable	-	-	24,639	24,639	24,639
- Penalties	-	-	1,249	1,249	1,249
TOTAL FINANCIAL ASSETS	13,576,375	16,030	52,327,503	65,919,908	66,002,115
FINANCIAL LIABILITIES					
Due to other banks					
- Short-term placements of other banks	-	-	61,447	61,447	61,447
Customer accounts					
- Current/settlement accounts of state and public organisations	-	-	11,102,067	11,102,067	11,102,067
- Term deposits of state and public organisations	-	-	1,324,569	1,324,569	1,324,569
- Current/settlement accounts of other legal entities	-	-	6,249,042	6,249,042	6,249,042
- Term deposits of other legal entities	-	-	16,237,969	16,237,969	16,237,969
- Current/demand accounts of individuals	-	-	577,337	577,337	577,337
- Term deposits of individuals	-	-	11,822,430	11,822,430	11,822,430
Other financial liabilities					
- Fee and commission payable	-	-	28,858	28,858	28,858
- Operating expense accruals	-	-	12,761	12,761	12,761
Debt securities in issue					
- Bonds issued on domestic market	4,735,061	-	-	4,735,061	4,984,709
Other borrowed funds					
- Term borrowings from shareholder	-	-	3,444,185	3,444,185	3,444,185
Subordinated debt					
- Subordinated debt	1,285,118	-	-	1,285,118	1,171,056
- Convertible bonds	-	912	-	912	912
TOTAL FINANCIAL LIABILITIES	6,020,179	912	50,860,665	56,881,756	57,017,342

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34 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows at 31 December 2007:

<i>In thousands of Tenge</i>	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
FINANCIAL ASSETS					
<i>Cash and cash equivalents</i>					
- Cash on hand	459,915	-	-	459,915	459,915
- Cash balances with the NBRK	6,608,686	-	-	6,608,686	6,608,686
- Mandatory cash balances with the NBRK	2,678,264	-	-	2,678,264	2,678,264
- Correspondent accounts and overnight placements	7,310,068	-	-	7,310,068	7,310,068
- Placements with other banks with original maturities of less than three months	1,500,667	-	-	1,500,667	1,500,667
<i>Loans and advances to customers</i>					
- Corporate loans	-	-	36,925,547	36,925,547	36,925,547
- Consumer loans	-	-	482,457	482,457	482,457
- Mortgage loans	-	-	435,854	435,854	435,854
<i>Other financial assets</i>					
- Foreign exchange forward contracts	-	6,500	-	6,500	6,500
- Fee and commission income receivable	-	-	24,050	24,050	24,050
- Penalties	-	-	14	14	14
TOTAL FINANCIAL ASSETS	18,557,600	6,500	37,867,922	56,432,022	56,432,022
FINANCIAL LIABILITIES					
<i>Due to other banks</i>					
- Short-term placements of other banks	-	-	2,407,549	2,407,549	2,407,549
<i>Customer accounts</i>					
- Current/settlement accounts of state and public organisations	-	-	1,885,028	1,885,028	1,885,028
- Term deposits of state and public organisations	-	-	1,748,805	1,748,805	1,748,805
- Current/settlement accounts of other legal entities	-	-	8,144,795	8,144,795	8,144,795
- Term deposits of other legal entities	-	-	16,713,847	16,713,847	16,713,847
- Current/demand accounts of individuals	-	-	317,204	317,204	317,204
- Term deposits of individuals	-	-	1,707,380	1,707,380	1,707,380
<i>Other financial liabilities</i>					
- Fee and commission payable	-	-	29,411	29,411	29,411
- Operating expense accruals	-	-	19,246	19,246	19,246
- Cash management fee accrual	-	-	2,338	2,338	2,338
<i>Debt securities in issue</i>					
- Bonds issued on domestic market	4,733,847	-	-	4,733,847	4,506,122
<i>Other borrowed funds</i>					
- Term borrowings from shareholder	-	-	7,215,287	7,215,287	7,215,287
- Term borrowings from companies	-	-	1,151,565	1,151,565	1,151,565
<i>Subordinated debt</i>					
- Subordinated debt	1,180,174	-	-	1,180,174	1,156,430
- Convertible bonds	-	962	-	962	962
TOTAL FINANCIAL LIABILITIES	5,914,021	962	41,342,455	47,257,438	47,005,969

34 Fair Value of Financial Instruments (Continued)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The total net fair value gain estimated using valuation techniques that was recognised in profit or loss amounts Tenge 16,030 thousand (2007: Tenge 6,500 thousand).

Financial instruments carried at fair value

Trading securities, other securities at fair value through profit or loss, investment securities available for sale and financial derivatives are carried on the balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations and certain trading securities. These securities have been fair valued by the Bank on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost

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

<i>In thousands of Tenge</i>	2008	2007
<i>Loans and advances to customers – Note 8</i>		
Corporate loans	13% to 28% p.a.	10% to 24% p.a.
Consumer loans	12% to 28% p.a.	10% to 20% p.a.
Mortgage loans	6.5% to 20% p.a.	6.5% to 20% p.a.

For loans and advances to customers, fair value incorporates expected future losses while the carrying value (amortised cost and related impairment) includes only incurred losses at the balance sheet date.

Liabilities carried at amortised cost

The fair value of subordinated debt and notes issued on the domestic market is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 9.8 percent per annum to 14.5 percent per annum. (2007: from 9.8 percent per annum to 14.5 percent per annum)

Derivative financial instruments

All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. Refer to Note 33.

35 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2008.

<i>In thousands of Tenge</i>	Loans and receivables	Held for trading	At cost	Total
ASSETS				
Cash and cash equivalents	13,576,375	-	-	13,576,375
Loans and advances to customers				
- Corporate loans	49,716,194	-	-	49,716,194
- Consumer loans	2,219,525	-	-	2,219,525
- Mortgage loans	448,103	-	-	448,103
Other financial assets:				
- Foreign exchange forward contracts	-	16,030	-	16,030
- Fee and commission income receivable	24,639	-	-	24,639
- Investments in stock exchange	-	-	2,200	2,200
- Penalties	1,249	-	-	1,249
TOTAL FINANCIAL ASSETS	65,986,085	16,030	2,200	66,004,315
NON-FINANCIAL ASSETS	-	-	-	2,219,492
TOTAL ASSETS	65,986,085	16,030	2,200	68,223,807

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

<i>In thousands of Tenge</i>	Loans and receivables	Held for trading	At cost	Total
ASSETS				
Cash and cash equivalents	18,557,600	-	-	18,557,600
Loans and advances to customers				
- Corporate loans	36,925,547	-	-	36,925,547
- Consumer loans	482,457	-	-	482,457
- Mortgage loans	435,854	-	-	435,854
Other financial assets:				
- Foreign exchange forward contracts	-	6,500	-	6,500
- Fee and commission income receivable	24,050	-	-	24,050
- Investments in stock exchange	-	-	2,200	2,200
- Penalties	14	-	-	14
TOTAL FINANCIAL ASSETS	56,425,522	6,500	2,200	56,434,222
NON-FINANCIAL ASSETS	-	-	-	1,482,327
TOTAL ASSETS	56,425,522	6,500	2,200	57,916,549

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

All of the Bank's financial assets except for derivatives and investments in stock exchange are carried at amortised cost as at 31 December 2008 and 31 December 2007. Derivatives belong to the fair value through profit or loss measurement category. Investments in stock exchange do not have a quoted market price in an active market and their fair value cannot be reliably measured, therefore they are measured at cost

All liabilities on the balance sheet are recorded at amortised cost.

36 Related Party Transactions

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

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

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel	Entities under common control
Assets			
Gross amount of loans and advances to customers	111,843	221,584	467,525
Liabilities			
Customer accounts	341,581	54,695	1,339,084
Other borrowed funds	3,444,185	-	-
Subordinated debt	912	-	-

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

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel	Entities under common control
Interest income	11,871	12,198	3,181
Interest expense	292,857	7,289	24,672
Administrative and other operating expenses	-	-	295,494

At 31 December 2008, other rights and obligations with related parties were as follows:

<i>In thousands of Tenge</i>	Entities under common control
Guarantees received by the Bank at the year end	96,653

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

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel	Entities under common control
Amounts lent to related parties during the period	131,991	60,929	39,669
Amounts repaid by related parties during the period	137,560	21,229	17,776

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36 Related Party Transactions (Continued)

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

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel
Assets		
Gross amount of loans and advances to customers	117,412	251,010
Liabilities		
Customer accounts	8,779	718,802
Other borrowed funds	7,301,764	-
Subordinated debt	962	-

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

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel	Entities under common control
Interest income	6,605	17,935	-
Interest expense	143,407	33,873	-
Administrative and other operating expenses	-	-	235,789

At 31 December 2007, other rights and obligations with related parties were as follows:

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel
Guarantees received by the Bank at the year end	-	84,210

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

<i>In thousands of Tenge</i>	Significant shareholders	Key management personnel
Amounts lent to related parties during the period	117,412	221,544
Amounts repaid by related parties during the period	-	108,946

Key management compensation is presented below:

<i>In thousands of Tenge</i>	2008		2007	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	195,322	-	163,729	-
- Short-term bonuses	36,249	79,507	132,590	42,814
Total	231,571	79,507	296,319	42,814

Short-term bonuses fall due wholly within twelve months after the end of the period in which Management rendered the related services.

37 Events After the Balance Sheet Date

On 4 February 2009, NBRK devalued Tenge by approximately 25 percent against major currencies, reduced the mandatory reserve deposits requirement to 1.5-2 percent and refinancing rate to 9.5 percent. Should the devaluation have been made on the balance sheet date the profit before tax of the Bank would have been Tenge 9,759 thousand less.