

JOINT STOCK COMPANY KAZKOMMERTSBANK

Consolidated Financial Statements
For the Year Ended 31 December 2007

and Independent Auditors' Report

JOINT STOCK COMPANY KAZKOMMERTSBANK

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007	1
INDEPENDENT AUDITORS' REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007:	
Consolidated income statement	4
Consolidated balance sheet	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7-8
Notes to the consolidated financial statements	9-80

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2007 and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:


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

Management is also responsible for:

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


The consolidated financial statements for the year ended 31 December 2007 were authorised for issue on 28 February 2008 (25 March 2008 for the effects of the restatement discussed in note 40) by the Management Board of JSC Kazkommertsbank.

On behalf of the Management Board:


Zhusupova N.A.
Chairman of the Board

28 February 2008 (25 March 2008 for the effects of the restatement discussed in note 40)

Almaty


Shoibekova G.K.
Chief Accountant

28 February 2008 (25 March 2008 for the effects of the restatement discussed in note 40)

Almaty



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Kazkommertsbank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC Kazkommertsbank and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, the consolidated 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 consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

As discussed in note 40 the accompanying financial statements have been restated.



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

A handwritten signature in black ink, appearing to read "Andrew Weekes".

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice 78586,
Australia

A handwritten signature in black ink, appearing to read "Nurlan Bekenov".

Nurlan Bekenov
General Director
Deloitte, LLP

28 February 2008 (25 March 2008 as to the effects of the restatement discussed in note 40)

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Interest income	4, 34	316,458	147,250
Interest expense	4, 34	(169,528)	(83,115)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		146,930	64,135
Provisions for impairment losses on interest bearing assets	5	(69,956)	(32,887)
NET INTEREST INCOME		76,974	31,248
Net gain on financial assets and liabilities at fair value though profit or loss	6	21,627	4,744
Net (loss)/gain on foreign exchange and precious metals operations	7	(18,605)	5,204
Fee and commission income	8	23,558	17,537
Fee and commission expense	8	(2,713)	(1,672)
Net realized gain on investments available-for-sale		41	29
Dividends received		145	83
Other income	9	6,919	3,042
NET NON-INTEREST INCOME		30,972	28,967
OPERATING INCOME		107,946	60,215
OPERATING EXPENSES	10, 34	(31,200)	(19,053)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES		76,746	41,162
Provision for impairment losses on other transactions	5	(1,238)	(383)
Provision for guarantees and other off-balance sheet contingencies	5	(3,186)	(1,548)
Share of results of associates	20, 34	1,333	1,130
OPERATING PROFIT BEFORE INCOME TAX		73,655	40,361
Income tax expense	11	(15,904)	(12,600)
NET PROFIT		57,751	27,761
Attributable to:			
Ordinary shareholders of the parent		46,468	20,626
Preference shareholders of the parent		9,495	5,359
Minority interest		1,788	1,776
EARNINGS PER SHARE			
<i>Basic and diluted (KZT)</i>	12	80.85	48.08

On behalf of the Management Board of the Bank:

On behalf of the Management Board of the Bank:

Zhusupova N.A.
Chairman of the Board
28 February 2008
Almaty



Shoinbekova G.K.
Chief Accountant

28 February 2008
Almaty

The notes on pages 9-80 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	31 December 2007 (KZT million)	31 December 2006 (KZT million)
ASSETS:			
Cash and balances with national (central) banks	13	168,148	209,005
Precious metals	14	-	807
Financial assets at fair value through profit or loss	15	188,776	322,618
Loans and advances to banks	16	212,823	197,191
Loans to customers	17, 34	2,366,335	1,678,840
Investments available-for-sale	18	3,036	2,628
Investments held to maturity	19	375	357
Investments in associates	20, 34	3,222	1,755
Goodwill	21	2,405	2,405
Property, equipment and intangible assets	22	34,259	15,681
Other assets	23	17,853	10,569
TOTAL ASSETS		2,997,232	2,441,856
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks	25	723,431	884,301
Customer accounts	26, 34	895,083	687,806
Financial liabilities at fair value through profit or loss	24	7,730	3,554
Debt securities issued	27	739,688	424,162
Other borrowed funds	28	148,934	68,814
Provisions	5	10,638	6,758
Deferred income tax liabilities	11	30,496	16,850
Dividends payable		2	1
Other liabilities	29	13,845	8,587
		2,569,847	2,100,833
Subordinated debt	30	108,166	78,922
Total liabilities		2,678,013	2,179,755
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital		6,998	6,995
Share premium reserve		152,855	152,534
Property and equipment revaluation reserve		6,020	2,436
Reserves		140,794	84,864
Total equity attributable to equity holders of the parent		306,667	246,829
Minority interest		12,552	15,272
Total equity		319,219	262,101
TOTAL LIABILITIES AND EQUITY		2,997,232	2,441,856

On behalf of the Management Board of the Bank:

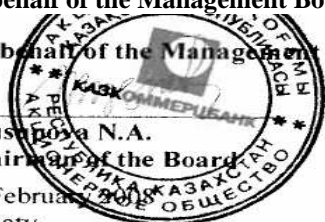
On behalf of the Management Board of the Bank:

Zhusupova N.A.

Chairman of the Board

28 February 2008

Almaty



Shoinbekova G.K.
Chief Accountant

28 February 2008

Almaty

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JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital	Treasury shares	Share premium reserve	Investments available-for-sale fair value reserve/(deficit) ¹	Cumulative translation reserve ¹	Property and equipment revaluation reserve	Retained earnings ¹	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2005	5,000	(4)	15,902	1	3	1,520	58,873	81,295	6,976	88,271
Unrealized gain on revaluation of available-for-sale investments	-	-	-	68	-	-	-	68	-	68
Revaluation of property and equipment	-	-	-	-	-	1,355	-	1,355	-	1,355
Deferred income tax recognized on revaluation of property and equipment	-	-	-	-	-	(407)	-	(407)	-	(407)
Exchange differences on translation of foreign operations	-	-	-	-	73	-	(142)	(69)	6,520	6,451
<i>Net income recognized directly in equity</i>	-	-	-	68	73	948	(142)	947	6,520	7,467
Transfers (net of any related tax):										
Depreciation of property and equipment revaluation reserve	-	-	-	-	-	(32)	32	-	-	-
Gain on sale of available-for-sale investments	-	-	-	(29)	-	-	-	(29)	-	(29)
<i>Net profit</i>	-	-	-	-	-	-	25,985	25,985	1,776	27,761
Total recognized income and expense	-	-	-	(29)	-	(32)	26,017	25,956	1,776	27,732
Share capital increase of:										
- ordinary shares	2,000	-	136,890	-	-	-	-	138,890	-	138,890
Purchase of treasury shares	(1)	-	(258)	-	-	-	-	(259)	-	(259)
31 December 2006	6,999	(4)	152,534	40	76	2,436	84,748	246,829	15,272	262,101
Unrealized loss on revaluation of available-for-sale investments	-	-	-	(151)	-	-	-	(151)	-	(151)
Revaluation of property and equipment	-	-	-	-	-	5,239	-	5,239	-	5,239
Deferred income tax recognized on revaluation of property and equipment	-	-	-	-	-	(1,536)	(36)	(1,572)	-	(1,572)
Exchange differences on translation of foreign operations	-	-	-	-	(18)	-	12	(6)	(4,508)	(4,514)
<i>Net income recognized directly in equity</i>	-	-	-	(151)	(18)	3,703	(24)	3,510	(4,508)	(998)
Transfers (net of related tax):										
Depreciation of property and equipment revaluation reserve	-	-	-	-	-	(119)	119	-	-	-
Loss on sale of available-for-sale investments	-	-	-	41	-	-	-	41	-	41
<i>Net profit</i>	-	-	-	-	-	-	55,963	55,963	1,788	57,751
Total recognized income and expense	-	-	-	41	-	(119)	56,082	56,004	1,788	57,792
Share capital increase of:										
- ordinary shares	1	-	153	-	-	-	-	154	-	154
Sale of treasury shares	-	2	168	-	-	-	-	170	-	170
31 December 2007	7,000	(2)	152,855	(70)	58	6,020	140,806	306,667	12,552	319,219

¹ The amounts included within the Investments available-for-sale fair value reserve/(deficit), Cumulative translation reserve and Retained earnings, in the above table, are included within "Reserves" in the consolidated balance sheet.

On behalf of the Management Board of the Bank:

Zhusupova N.A.

Chairman of the Board

28 February 2008

Almaty



Shoinbekova G.K.

Shoinbekova G.K.
Chief Accountant

28 February 2008

Almaty

The notes on pages 9-80 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Year ended 31 December 2007* (KZT million)	Year ended 31 December 2006* (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		73,655	40,361
Adjustments for:			
Provision for impairment losses on interest bearing assets	5	69,956	32,887
Provision for impairment losses on other transactions	5	1,238	383
Provision for guarantees and other off-balance sheet contingencies	5	3,186	1,548
Amortization of discount on investments held to maturity		(9)	(7)
Amortization of discount on debt securities issued		278	156
Income from acquisition of subsidiaries		1,555	-
Depreciation and amortization	10	2,519	1,833
Change in interest accruals, net		(7,190)	(10,215)
Unrealized foreign exchange (gain)/loss		13,409	2,993
Share of results of associates	20	(1,333)	(1,130)
Net gain on sale of property, equipment and intangible assets		(26)	(17)
Net change in fair value of financial assets and liabilities at fair value though profit or loss		<u>(31,905)</u>	<u>1,024</u>
Cash inflow from operating activities before changes in operating assets and liabilities		125,333	69,816
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposit with National Bank of the Republic of Kazakhstan		29,414	(162,542)
Minimum reserve deposit with Central Bank of Russian Federation		(718)	(1,071)
Minimum reserve deposit with National Bank of the Kyrgyz Republic		(15)	(66)
Precious metals	14	807	(807)
Financial assets at fair value through profit or loss		173,811	(174,314)
Loans and advances to banks		88,295	(82,872)
Loans to customers		(701,115)	(892,293)
Other assets		(5,749)	(2,573)
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		(171,383)	399,210
Customer accounts		164,344	422,316
Other borrowed funds		79,756	18,200
Other liabilities		<u>(5,380)</u>	<u>1,950</u>
Cash outflow from operating activities before taxation		(222,600)	(405,046)
Income tax paid		<u>(2,259)</u>	<u>(3,800)</u>
Net cash outflow from operating activities		<u>(224,859)</u>	<u>(408,846)</u>

**JOINT STOCK COMPANY KAZKOMMERTSBANK
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	Year ended 31 December 2007* (KZT million)	Year ended 31 December 2006* (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(16,261)	(7,715)
Proceeds on sale of property, equipment and intangible assets		1,362	460
Proceeds on sale of investments available-for-sale		6,295	4,516
Purchase of investments available-for-sale		(6,946)	(6,845)
Proceeds on maturity of investments held to maturity		842	251
Purchase of investments held to maturity		(848)	(40)
Purchase of investments in associates		(134)	(200)
Purchase of subsidiaries, net of cash of entities acquired		(1,525)	-
Net cash outflow from investing activities		(17,215)	(9,573)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		154	138,890
Proceeds from sale/(repurchase) of own shares		170	(259)
Proceeds from debt securities issued		321,632	120,254
Repayment of debt securities issued		(23,944)	(7,096)
Proceeds from subordinated debt		33,919	28,809
Repayment of subordinated debt		(4,878)	(3,129)
Dividends paid		(603)	(636)
Net cash inflow from financing activities		326,450	276,833
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		84,376	(141,586)
CASH AND CASH EQUIVALENTS, beginning of period	13	59,403	200,271
Effect of changes in foreign exchange rate on cash and cash equivalents		567	718
CASH AND CASH EQUIVALENTS, end of period	13	144,346	59,403

*As restated, see note 40.


Interest paid and received by the Group in cash during the year ended 31 December 2007 amounted to KZT 143,935 million (2006: KZT 74,881 million) and KZT 282,461 million (2006: KZT 128,164 million)

On behalf of the Management Board of the Bank:

On behalf of the Management Board of the Bank:

 Zhustova N.A.
 Chairman of the Board

28 February 2008 (25 March 2008 for the effects of the restatement discussed in note 40)
 Almaty


 Shoibekova G.K.
 Chief Accountant

28 February 2008 (25 March 2008 for the effects of the restatement discussed in note 40)
 Almaty

The notes on pages 9-80 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007

1. ORGANISATION

JSC Kazkommertsbank (the “Bank”, or “Kazkommertsbank”) is a joint stock bank and operates in the Republic of Kazakhstan since 1990. The Bank’s activities are regulated by the Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial organizations (“FMSA”) in accordance with the license № 48 and by the National Bank of the Republic of Kazakhstan (“NBRK”). The Bank’s primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 135Zh, Gagarin str., Almaty, Republic of Kazakhstan.

The Bank has 25 branches in the Republic of Kazakhstan, and a representative office in Dushanbe (Tajikistan).

Kazkommertsbank is a parent company of the banking group (the “Group”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Proportion or ownership interest/voting rights		Type of operation
		2007	2006	
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
LLP Processing Company	Republic of Kazakhstan	100%	100%	Payment card and related services
Kazkommerts International B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
JSC OCOPAIM Grantum Asset Management	Republic of Kazakhstan	100%	100%	Investment management of pension assets
LLP Kazkommertsbank RFCA	Republic of Kazakhstan	100%	-	Operations with financial instruments on Regional financial centre of Almaty
JSC Kazkommerts Life	Republic of Kazakhstan	100%	100%	Life insurance
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	-	Commercial bank
JSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	93.58%	93.58%	Commercial bank
JSC Grantum APF	Republic of Kazakhstan	80.01%	80.01%	Pension fund
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	65%	65%	Insurance
LLP Commercial bank Moskommertsbank	Russia	52.11%	-	Commercial bank
LLP Investment Company East Capital	Russia	50%	-	Securities market transactions

JSC Kazkommerts Securities is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1997. The company's primary business consists of trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of security issuances, allocation and underwriting of securities, and purchase and sale of securities in the capacity of the agent. The company has license № 0401200324 dated 27 November 2000 issued by the National Bank of the Republic of Kazakhstan. In 2005 the company received a license for investment portfolio management № 0403200363 dated 30 September 2005 issued by the National Bank of the Republic of Kazakhstan.

LLP Processing Company is a limited liability partnership and has operated under the laws of the Republic of Kazakhstan since 9 July 2004. The company is registered with the Ministry of Justice of the Republic of Kazakhstan under № 64313-1910-TOO. The Company's primary business is to provide payment card processing.

Kazkommerts International BV is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands since 1 October 1997. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company has license №24278506 dated 1 October 1997 issued by the Chamber of Commerce of the Netherlands for raising funds, including the issuance of bonds and other securities and entering into agreements regarding those activities.

Kazkommerts Finance II BV is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands since 13 February 2001. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license №24317181 dated 13 February 2001 issued by the Chamber of Commerce of the Netherlands for conducting separate types of banking and other types of operations.

Kazkommerts Capital II BV is a limited liability partnership (B.V.) and has operated under the laws of the Kingdom of the Netherlands since 11 April 2000. The Company was established for the primary purpose of raising funds for the Bank in foreign capital markets. The company has license №24305284 dated 11 April 2000 issued by the Chamber of Commerce of the Netherlands for conducting operations.

JSC OCOPAİM Grantum Asset Management ("Grantum PAMC") is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1998. The company's primary business is investment management of pension funds. The company has license № 0412200149 dated 18 August 2004 on investment management of pension funds issued by the FMSA, license № 0403200199 dated 18 August 2004 on management of investment portfolio issued by the FMSA, license № 0402200216 dated 18 August 2004 on broker and dealer activity without right to custody activities issued by the FMSA.

On 11 January 2007, LLP Kazkommertsbank RFCA started its operations. The Company received a license, № 0401201454, dated 2 March 2007 from the FMSA.

JSC Kazkommerts Life is a joint stock company and has operated under the laws of the Republic of Kazakhstan. The company's primary business consists of life insurance. The company has a license on life insurance services № 42-1/1 dated 28 December 2006 issued by the FMSA.

On 29 May 2007, the Board of Directors of the Bank decided to establish a wholly-owned subsidiary bank, CJSC Kazkommertsbank Tajikistan. The Bank received an approval from the FMSA #93 on 6 September 2007 for the creation of a subsidiary bank in Tajikistan. On 22 November 2007 and 25 December 2007 the Bank transferred cash to fund the capital of CJSC Kazkommertsbank Tajikistan in the amount of KZT 604 million and KZT 602 million, respectively. As at 31 December 2007, CSJC Kazkommertsbank Tajikistan had yet to receive its operating license.

JSC Kazkommertsbank Kyrgyzstan is a joint stock bank and has operated under the laws of the Kyrgyz Republic since 1991. The Bank's operations are regulated by the National Bank of the Kyrgyz Republic according to license № 010. The Bank's primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, issuance of loans, operations with foreign exchange and derivative instruments, originating loans and guarantees.

Grantum APF is a joint stock company and has operated since 1998 under the laws of the Republic of Kazakhstan. The company's primary business consists of the receipt of pension contributions of depositors and making pension payments to recipients under the laws of the Republic of Kazakhstan. The company operates based on a state license on the receipt of pension contributions and making pension payments № 0000019 dated 22 January 2004, issued by the FMSA.

JSC Insurance Company Kazkommerts-Policy is a joint stock company and operates under laws of the Republic of Kazakhstan since 1996. The company's primary business consists of insurance of property, cargoes, auto insurance, civil liability insurance of vehicle owners, insurance of other civil liabilities and reinsurance. The company has licenses on voluntary insurance services № 13-8/1 DOS dated 1 July 2005 and on obligatory insurance services № 13-8/1 OS dated 1 July 2005 issued by the National Bank of the Republic of Kazakhstan.

LLP Investment Company East Capital operates on the securities market. The main activities of LLP Investment Company East Capital are broker dealer activities and depository services. The company has a license on depository activities operations #177-08298-000100 dated 08 February 2005, license on brokerage services №177-08289-100000 dated 08 February 2005, license on dealer services №177-08292-010000 dated 08 February 2005 and License on securities management №177-08295-001000 dated 08 February 2005. At the date of acquisition the estimated fair value of the net assets of LLP Investment Company East Capital approximated their carrying values.

Acquisitions

On 24 July 2007 the Bank acquired a 52.11% ownership interest in the share capital of LLP Moscommertsbank. Prior to this date, the Bank consolidated LLP Moscommertsbank as the Bank had control enabled by the trust management agreements with LLP Moscomertsbank's shareholders. The Bank also entered into an agreement for trust management of the remaining 47.89%. Due to the nature of the assets acquired, management has estimated that the fair value of the net assets of LLP Moscommertsbank approximated their carrying values.

The purchase price on acquisition of LLP Moscommertsbank has been allocated as follows:

	Book value at 24 July 2007 KZT million (unaudited)	Fair value at 24 July 2007 KZT million (unaudited)
Assets		
Cash and balances with national (central) banks	6,705	6,705
Financial assets at fair value through profit or loss	14,250	14,250
Loans and advances to banks	4,414	4,414
Loans to customers	181,533	181,533
Loans under reverse repurchase agreements	13,693	13,693
Property, equipment and intangible assets	1,673	1,673
Other assets	1,961	1,961
	<u>224,229</u>	<u>224,229</u>
Liabilities		
Loans and advances from banks	47,405	47,405
Customer accounts	29,752	29,752
Debt securities issued	109,440	109,440
Subordinated debt	19	19
Securities purchased under repurchase agreements	336	336
Derivative financial liabilities	13	13
Other liabilities	561	561
	<u>187,526</u>	<u>187,526</u>
Net assets	36,703	36,703
Minority interest		(17,577)
Share of net assets acquired, being 52.11%		19,126
Purchase consideration		<u>(17,740)</u>
Excess of the Bank's interest in fair value of net assets of LLP Moscommertsbank over cash consideration paid		<u><u>1,386</u></u>
Purchase consideration consists of the following:		
Elimination of intercompany balances with LLP Moscommertsbank on acquisition		11,525
Net cash outflow on acquisition:		
Cash consideration paid		6,215
Less: cash and cash equivalents acquired, being 52.11%		<u>(3,494)</u>
Total		<u><u>(2,721)</u></u>

The purchase price was agreed in 2006, however, the acquisition did not occur in 2007. The negative goodwill resulted from a change in the net asset value between these dates.

On 4 October 2007, the Bank acquired 50% of the ownership interest of LLP Investment Company East Capital for KZT 146 million. In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Bank has opted to consolidate its interest in LLP Investment Company East Capital as under the requirements of IFRS, it is of the opinion that it exerts sufficient control over the operations of the company, as the Bank has control over the Board of Directors of LLP Investment Company East Capital.

The purchase price on acquisition of LLP Investment Company East Capital has been allocated as follows:

	Book value at 4 October 2007 (KZT million) (unaudited)	Fair value at 4 October 2007 (KZT million) (unaudited)
Assets		
Cash and balances with national (central) banks	2,684	2,684
Loans to customers	2,271	2,271
Property, equipment and intangible assets	166	166
Other assets	9,014	9,014
	<u>14,135</u>	<u>14,135</u>
Liabilities		
Loans and advances from banks	6,025	6,025
Other liabilities	7,481	7,481
	<u>13,506</u>	<u>13,506</u>
Net assets	629	629
Minority interest		<u>(314)</u>
Share of net assets acquired, being 50.00 %		315
Purchase consideration		<u>(146)</u>
Excess of the Bank's interest in fair value of net assets of LLP Investment Company East Capital over cash consideration paid		<u>169</u>
Net cash inflow on acquisition:		
Cash consideration paid		(146)
Less: cash and cash equivalents acquired, being 50.00%		<u>1,342</u>
Total		<u><u>1,196</u></u>

Negative goodwill on acquisition of LLP Investment Company East Capital, recognized through consolidated income statement, arose due to the fact that LLP Investment Company East Capital is attributable to the access to resources available to LLP Investment Company East Capital under the combination. These resources include affiliation to the Kazkommerts brand, access to the branch system of the Bank and LLP Commercial bank Moskommertsbank and to the financing through the Bank.

The excess of the Bank's interest in fair value of net assets of LLP Investment Company East Capital and LLP Commercial bank Moskommertsbank is credited to the consolidated income statement on the dates of acquisition.

Shareholders

As at 31 December 2007 and 2006, the following shareholders owned the issued ordinary shares of the Bank:

	31 December 2007		31 December 2006	
	Number of shares	Direct ownership, %	Number of shares	Direct ownership, %
JSC Central-Asian Investment Company *	184,679,013	32.13%	184,679,013	32.13%
European Bank of Reconstruction and Development	48,597,741	8.45%	48,597,741	8.45%
Subkhanberdin N.S. (direct)	72,570,672	12.62%	72,570,672	12.63%
The Central Depository ** <i>Including the Bank of New York</i>	268,227,096	46.66%	268,154,766	46.66%
Other shareholders	256,589,812	44.63%	260,780,242	45.37%
	<u>775,299</u>	<u>0.14%</u>	<u>758,506</u>	<u>0.13%</u>
Total	<u><u>574,849,821</u></u>	<u><u>100%</u></u>	<u><u>574,760,698</u></u>	<u><u>100%</u></u>

Amount of ordinary shares is calculated net of the treasury shares.

* JSC Central-Asian Investment Company (“CAIC”) is one of the entities through which the Directors and Management Board members own shares of the Bank. As at 31 December 2007, CAIC held 184,679,013 shares of the Bank (2006: 184,679,013 shares). As at 31 December 2007 this issued share capital was owned by the following: Subkhanberdin N.S. 87.21% (2006: 44.77%), Zhusupova N.A. 12.79% (2006: 12.79%) and others nil (2006: 42.44%). As at 31 December 2007, Subkhanberdin N.S. owns 40.64% (2006: 27.01%) of the ordinary share capital of the Group through direct and indirect ownership as a result of his holdings in CAIC, and Zhusupova N.A. owns 4.11% (2006: 4.11%) through indirect ownership.

** The Central Depository is the nominal holder of the shares; shares under nominal holding with the Bank of New York reflect the number of the issued Global Depositary Receipts (“GDRs”). Due to the nature of GDRs, information on the owners is undisclosed. As such, according to the legislation of the Republic of Kazakhstan those shares are recognized as non-voting shares. Owners of GDRs have the option to disclose their information to the Central Depository at any time. On disclosure of the ownership information those shares would be considered to be voting.

These consolidated financial statements were authorized for issue by the Bank’s Management Board on 28 February 2008 (25 March 2008 for the effects of the restatement discussed in note 40).

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in millions of Kazakhstan tenge (“KZT”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of land and buildings at revalued amounts according to International Accounting Standard (“IAS”) No. 16 “Property, Plant and Equipment”.

Kazkommertsbank and its subsidiaries maintain their accounting records in accordance with IFRS. These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiaries. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the “functional currency”). The reporting currency of the consolidated financial statements is the Kazakhstan tenge.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank for the year ended 31 December 2007. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”) and performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated income statement.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The minority interest is initially measured at the minority’s proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity attributable to equity holders of the parent and net income attributable to minority shareholders’ interests are shown separately in the consolidated balance sheet and income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group’s interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those entities

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated balance sheet at cost and adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Details of the Group's investments in associates, including summarized financial information of the associates, as at and for the years ended 31 December 2007 and 2006 are presented below:

As at and for the year ended 31 December 2007:

Name of associated company	Ownership interest	Fair value of investments in associates	Total assets of associated company	Total liabilities of associated company	Revenue of associated company	Net profit
		(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
JSC APF Ular Umit	49.35%	1,752	3,840	342	5,143	1,805
JSC OCOPAIM Zhetysu	50.00%	1,433	2,909	12	1,522	902
LLP First Credit Bureau	18.40%	37	227	7	170	77

As at and for the year ended 31 December 2006:

Name of associated Company	Ownership interest	Fair value of investments in associates	Total assets of associated company	Total liabilities of associated company	Revenue of associated company	Net profit
		(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
JSC APF Ular Umit	41.18%	725	2,568	778	3,469	806
JSC OCOPAIM Zhetysu	50.00%	993	1,995	10	1,483	823
LLP First Credit Bureau	18.40%	37	146	3	19	(37)

On 1 November 2006 the Group acquired 50% share in JSC OCOPAIM Zhetysu. As at 31 December 2007 and 2006, the Group has not consolidated JSC OCOPAIM Zhetysu as the Bank does not have the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. This is attributable to there being no representatives of the Group on the Board of Directors.

On 17 July 2007, the Bank acquired 327 ordinary shares of JSC APF Ular Umit, which relates to 8.175% of the share capital of the company. After the acquisition the Bank's interest in the share capital of JSC APF Ular Umit was 49.35%.

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment loss. The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- (a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (b) Recognizes immediately in consolidated income statement any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

Recognition and measurement of financial instruments

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

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

Cash and balances with national (central) banks

Cash and balances with national (central) banks include cash on hand and unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation, and National Bank of Kyrgyz Republic with original maturity within 90 days.

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. The minimum reserve deposit required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan and the National Bank of the Kyrgyz Republic are not included in cash equivalents.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange and precious metals operations.

Loans and advances to banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest rate method, and are carried net of an allowance for impairment. Those that do not have fixed maturities are carried at cost. Loans and advances to banks are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

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

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

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

Derivative financial instruments

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

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business the Group enters into sale and purchase back agreements (“repos”) and securities purchased under agreements to resell (“reverse repos”). Repos and reverse repos are utilized by the Group as an element of its treasury management.

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

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

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

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

As at 31 December 2007 the fair value of securities transferred as collateral under loans under repurchase agreements amounted to KZT 82,147 million (2006: KZT 262,008 million).

As at 31 December 2007 securities received as collateral under reverse repurchase agreements amounted to KZT 21,501 million (2006: KZT 96,117 million).

Loans to customers

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

Loans to customers granted by the Group with fixed maturities are initially recognized at fair value plus initial direct costs and fees that are integral to the interest rate. For loans issued at lower than market terms the difference between the nominal amount of consideration given and the present value of future cash flows discounted at market rate at inception is recognized in the consolidated income statement in the period the loan is issued as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income using the effective interest rate method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

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

Allowance for impairment losses

Assets carried at amortised cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless 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 recoveries, in which case the previously recognised impairment loss is reversed by adjustment of an allowance account.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Finance leases

Financial leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, using the effective interest rate method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Investments available for sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled through the consolidated income statement.

Dividends received on equity investments are included in dividend received in the consolidated income statement.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

Property, equipment and intangible assets

Property and equipment, except for buildings and other real estate and construction, and intangible assets are carried at historical cost less accumulated depreciation. Buildings and other real estate and construction are carried at market value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

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

Buildings and other real estate	1-10%
Furniture and equipment	4-50%
Intangible assets	15-50%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by an appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Loans and advances from banks, customer accounts, debt securities issued and other borrowed funds

Loans and advances from banks, customer accounts, debt securities issued and other borrowed funds are initially recognized at fair value less transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Provisions

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

Financial guarantee contracts issued and letters of credit

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

Contingencies

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

Share capital and share premium reserve

Share capital is recognized at historic cost. Share premium reserve represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium reserve.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

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

Preference shares

Preference shares having a prescribed dividend amount are considered to be compound financial instruments in accordance with the substance of the contractual arrangement and accordingly the liability and equity components are presented separately in the consolidated balance sheet. On initial recognition the equity component is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. The fair value of the liability component on initial recognition is estimated by discounting expected future cash flows at a market interest rate for a comparable debt instrument. Subsequently the liability component is measured according to the same principles used for subordinated debt, and the equity component is measured according to the same principles used for share capital.

Retirement and other benefit obligations

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

Recognition of income and expense

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

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

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed.

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

Underwriting income and expenses

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

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

Losses and loss adjustments are charged to the consolidated income statement as incurred.

Commissions earned on ceded reinsurance contracts are recorded to the consolidated income statement at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

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

Due to the absence of prior experience, the reserve for incurred but not reported claims (“IBNR”) is determined by applying current government guidance as provided by the FMSA. Under this guidance, the IBNR reserve is calculated as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

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

Reinsurance

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

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

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

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). In preparing the financial statements of the individual entities, monetary assets and liabilities denominated in currencies other than the entity's functional currency (foreign currencies) are translated at the appropriate spot rates of exchange rates prevailing at the balance sheet date. Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KZT using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognized in the Group's foreign currency translation reserve. Such exchange differences are recognized in the consolidated income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Rates of exchange

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

	31 December 2007	31 December 2006
KZT/1 US Dollar	120.30	127.00
KZT/1 Euro	177.17	167.12
KZT/1 Kyrgyz Som	3.43	3.36
KZT/1 Russian Rouble	4.92	4.82

Offsetting of financial assets and liabilities

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

Fiduciary activities

The Group provides trustee services to its customers. Also the Group provides depository services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have not been reported separately within these consolidated financial statements since the management of the Group believes that the main segment is the Commonwealth of Independent States, including the Republic of Kazakhstan, (CIS), which is characterized by similar risks and profitability. In addition, over 90% of the Group's operations are conducted within the CIS.

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans and receivables

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

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

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

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2007 is KZT 140,363 million (2006: KZT 73,936 million).

Valuation of Financial Instruments

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

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

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

The Group uses quoted market prices from independent information sources, for all its financial assets and liabilities recorded at fair value, with the exception of derivative financial instruments, which are valued using a valuation model based on market data.

The carrying amount of derivatives at fair value is as follows as at 31 December 2007 and 2006:

	31 December 2007	31 December 2006
Derivative assets	42,858	7,087
Derivative liabilities	(7,730)	(3,554)

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

IFRS 7 – During 2007, the Group adopted IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7"). The standard replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure provisions in IAS 32 "Financial Instruments: Disclosure and Presentation". IFRS 7 requires disclosure of the significance of financial instruments for an entity's financial position and performance and of qualitative and quantitative information about exposure to risks arising from financial instruments. Adoption of IFRS 7 did not affect the classification and measurement of the Group's financial instruments in the consolidated financial statements. The required disclosures are included in these financial statements.

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

Standards and interpretations issued and not yet adopted

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

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

The IASB issued a revised IAS 23 "Borrowing Costs" in March 2007. Entities are required to capitalize borrowing costs attributable to the development or construction of intangible assets or property, plant or equipment. The standard is effective for accounting periods beginning on or after 1 January 2009 and is not expected to have a material effect on the Group.

Amendment to IAS 1 “Presentation of Financial Statements” – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity’s financial statements. The Group does not expect the adoption of the amendment to IAS 1 to have an impact on the financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions” - On 30 November 2006 IFRIC issued IFRIC 11 which requires that treasury share transactions are treated as equity- settled, and share-based payments involving equity instruments of the parent should be treated as cash-settled. The Group does not expect the adoption of IFRIC 11 to have a material impact on the Group’s income statement or financial position. IFRIC 11 is effective for periods beginning on or after 1 March 2007.

IFRS 3 “Business Combinations” – The IASB published IFRS 3 and related revisions to IAS 27 “Consolidated and Separate Financial Statements” following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after 1 July 2009 but may be adopted together for accounting periods beginning on or after 1 January 2007.

Restatements

The Group has restated its financial statements for an error in the calculation of change in net interest accruals in the operating activities section of the consolidated cash flow statement. See the details of the restatement in note 40.

4. NET INTEREST INCOME

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on impaired assets	137,299	50,099
- interest income on unimpaired assets	170,594	90,017
Interest income on assets at fair value through profit or loss	8,380	7,099
Interest income on investments available-for-sale	185	35
Total interest income	316,458	147,250
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	297,608	132,830
Interest on loans and advances to banks	9,312	6,994
Interest on investments held to maturity	31	49
Amortization of discount on loans	942	243
Total interest income on financial assets recorded at amortized cost	307,893	140,116
Interest income on assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	8,380	7,099
Total interest income on assets at fair value through profit or loss	8,380	7,099
Interest income on investments available for sale	185	35
Total interest income	316,458	147,250
Interest expense comprises:		
Interest on liabilities recorded at amortized cost	169,528	83,115
Interest expense on liabilities at fair value through profit or loss	-	-
Total interest expense	169,528	83,115
Interest expense on liabilities recorded at amortized cost comprise:		
Interest on debt securities issued	64,111	40,263
Interest on customer accounts	51,542	18,157
Interest on loans and advances from banks	43,789	19,609
Preference share dividends	604	636
Interest expense on securitization program	7,947	3,744
Other interest expense	1,535	706
Total interest expense on financial liabilities recorded at amortized cost	169,528	83,115
Net interest income before provision for impairment losses on interest bearing assets	146,930	64,135

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Loans and advances to banks (KZT million)	Loans to customers (KZT million)	Total (KZT million)
31 December 2005	1,245	42,162	43,407
(Recovery of provision)/additional provision recognized	(390)	33,277	32,887
Write-off of assets	-	(909)	(909)
Recoveries of assets previously written off	-	121	121
Exchange rate difference	2	(715)	(713)
31 December 2006	<u>857</u>	<u>73,936</u>	<u>74,793</u>
Additional provision due to acquisition of LLP IC East Capital	-	46	46
Additional provision recognized	459	69,451	69,910
Write-off of assets	-	(724)	(724)
Recoveries of assets previously written off	-	81	81
Exchange rate difference	(40)	(2,427)	(2,467)
31 December 2007	<u>1,276</u>	<u>140,363</u>	<u>141,639</u>

Total provisions for impairment losses on insurance provision and guarantees and other off-balance sheet contingencies comprise:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Insurance provisions	3,422	2,703
Provisions on guarantees and other off-balance sheet contingencies	<u>7,216</u>	<u>4,055</u>
	<u>10,638</u>	<u>6,758</u>

The movements in insurance provisions and allowances for impairment losses on other transactions were as follows:

	Insurance provisions (KZT million)	Other assets (KZT million)	Total (KZT million)
31 December 2005	2,345	131	2,476
Additional provision recognized	358	25	383
Write-off of assets	-	(39)	(39)
Recoveries of assets previously written off	-	4	4
Exchange difference	-	(4)	(4)
31 December 2006	<u>2,703</u>	<u>117</u>	<u>2,820</u>
Additional provision recognized	889	349	1,238
Write-off of assets	(170)	(187)	(357)
Recoveries of assets previously written off	-	44	44
31 December 2007	<u>3,422</u>	<u>323</u>	<u>3,745</u>

Insurance provisions comprised:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Property	978	997
Vehicles	785	664
Civil liability for owners of vehicles	241	215
Life insurance	207	-
Civil liability for damage	91	63
Other	<u>1,120</u>	<u>764</u>
Total insurance provisions	<u><u>3,422</u></u>	<u><u>2,703</u></u>

Other insurance provisions include provisions for insurance of civil liability of passengers, private lawyers, auditors and audit organizations, ecological, medical, air and marine transport and others.

The movements in provision for guarantees and other off-balance sheet contingencies were as follows:

	Guarantees and other off-balance sheet contingencies (KZT million)
31 December 2005	2,589
Additional provision recognized	1,548
Exchange difference	<u>(82)</u>
31 December 2006	<u><u>4,055</u></u>
Additional provision recognized	3,186
Exchange difference	<u>(25)</u>
31 December 2007	<u><u>7,216</u></u>

6. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Net gain on financial assets and liabilities held-for-trading	<u>21,627</u>	<u>4,744</u>
Total net gain on financial assets and liabilities at fair value through profit or loss	<u><u>21,627</u></u>	<u><u>4,744</u></u>
Net gain on operations with financial assets and liabilities held-for-trading comprise:		
Realized loss on trading operations	(61)	(280)
Unrealized gain on fair value adjustment	965	1,500
Net gain on operations with derivative financial instruments	<u>20,723</u>	<u>3,524</u>
Total net gain on financial assets and liabilities at fair value through profit or loss	<u><u>21,627</u></u>	<u><u>4,744</u></u>

7. NET (LOSS)/GAIN ON FOREIGN EXCHANGE AND PRECIOUS METALS OPERATIONS

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Dealing, net	508	4,236
Translation differences, net	(19,113)	968
	<u>(18,605)</u>	<u>5,204</u>

8. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Fee and commission income:		
Cash operations	6,681	4,896
Documentary operations	5,069	3,393
Foreign exchange and securities operations	3,892	2,492
Plastic cards operations	3,036	1,890
Settlements	2,986	2,018
Encashment operations	248	170
Other	1,646	2,678
Total fee and commission income	<u>23,558</u>	<u>17,537</u>
Fee and commission expense:		
Plastic cards services	1,107	692
Insurance activity	787	474
Foreign exchange and securities operations	337	131
Correspondent bank services	164	107
NBRK computation center services	97	81
Documentary operations	29	48
Other	192	139
Total fee and commission expense	<u>2,713</u>	<u>1,672</u>

9. OTHER INCOME

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Insurance income	4,134	2,451
Negative goodwill	1,555	-
Fines and penalties received	288	89
Income from sale of property, equipment and intangible assets	48	28
Other	894	474
	<u>6,919</u>	<u>3,042</u>

10. OPERATING EXPENSES

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Staff costs	15,980	9,154
Depreciation and amortization	2,519	1,833
Lease	2,400	1,134
Payments to the Individuals' Deposit Insurance Fund	1,742	402
Advertising costs	1,519	1,038
Property and equipment maintenance	1,392	945
Value added tax	1,208	640
Communications	707	476
Business trip expenses	524	323
Taxes, other than income tax	424	176
Bank cards services	383	207
Consulting and audit services	382	136
Security services	326	204
Vehicle maintenance	325	210
Training and information services	240	177
Stationery and blanks	184	92
Charity and sponsorship expenses	102	98
Mail and courier expenses	90	56
Business development expenses	62	49
Legal services	30	20
Cash collection expenses	26	15
Subscription expenses	19	10
Penalties and fines	11	1,028
Other materials	77	62
Other expenses	528	568
	<u>31,200</u>	<u>19,053</u>

11. INCOME TAX

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax effect of temporary differences as at 31 December 2007 and 2006:

	31 December 2007 (KZT millions)	31 December 2006 (KZT million)
Deferred income tax assets:		
Bonuses accrued	706	325
Unamortized commission for loans issued	-	191
Provision for unearned premium, net of reinsurance	-	123
Unrealized revaluation of securities	-	863
Unrealized revaluation of investments in associates	1,462	10
Other assets	136	34
	<u>2,304</u>	<u>1,546</u>
Deferred income tax liabilities:		
Allowance for losses on loans and advances to banks and customers	20,147	13,662
Unrealized gain on trading securities and derivatives	7,714	1,772
Property and equipment, accrued depreciation	2,795	1,583
Investments in associates	946	201
Provision on guarantees and letters of credit	1,198	1,167
Other liabilities	-	11
	<u>32,800</u>	<u>18,396</u>
Net deferred income tax liabilities	<u>30,496</u>	<u>16,850</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2007 and 2006 are explained as follows:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Profit before income tax	<u>73,655</u>	<u>40,361</u>
Tax at the statutory tax rate (30%)	22,097	12,108
Tax effect of permanent differences:		
Tax exempt interest income on mortgage loans and financial leasing	(3,406)	(1,954)
Tax exempt interest income and other related income on state and quoted securities listed with "A" and "B" ratings	(1,184)	(705)
Other tax exempt income	(340)	213
Provisions on loans to related parties and financial leasing	155	477
Non deductible interest expense	308	974
Dividends on preferred shares	181	191
Other non deductible expenditures	498	1,016
Tax effect on income of subsidiaries taxed at different rates	(681)	(553)
Income tax expense net of permanent differences	<u>17,628</u>	<u>11,767</u>
Decrease of deferred tax expense	(727)	(621)
(Decrease)/increase of income tax expense on declarations for prior periods	(997)	1,454
Income tax expense	<u>15,904</u>	<u>12,600</u>
Current income tax expense	3,795	4,447
Deferred income tax expense	12,109	8,153
Income tax expense	<u>15,904</u>	<u>12,600</u>

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Deferred income tax liabilities		
1 January	16,851	8,290
Decrease in property and equipment revaluation reserve	1,536	407
Deferred income tax expense	<u>12,109</u>	<u>8,153</u>
Net deferred income tax liabilities	<u><u>30,496</u></u>	<u><u>16,850</u></u>

12. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

As described in note 31, dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December 2007 (KZT million)	Year ended 31 December 2006 (KZT million)
Basic and diluted earnings per share		
Net profit for the year attributable to equity holders of the parent	55,963	25,985
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	<u>(9,495)</u>	<u>(5,359)</u>
Net profit for the year attributable to ordinary shareholders	46,468	20,626
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>574,828,600</u>	<u>428,947,990</u>
Earnings per share – basic and diluted (tenge)	<u><u>80.85</u></u>	<u><u>48.08</u></u>

13. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Cash on hand	41,082	31,100
Balances with the national (central) banks	<u>127,066</u>	<u>177,905</u>
	<u><u>168,148</u></u>	<u><u>209,005</u></u>

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Cash and balances with national (central) banks	168,148	209,005
Loans and advances to banks in Organisation for Economic Co-operations and Development (“OECD”) countries (Note 39)	139,042	41,923
Less minimum reserve deposit with the NBRK	(160,217)	(189,631)
Less minimum reserve deposit with the CBR	(2,430)	(1,712)
Less minimum reserve deposit with the NBKR	<u>(197)</u>	<u>(182)</u>
	<u>144,346</u>	<u>59,403</u>

The balances with the Central Bank of Russian Federation (“CBR”) as at 31 December 2007 include KZT 5,246 million (2006: KZT 4,660 million), of which KZT 2,430 million (2006: KZT 1,712 million) represents the obligatory minimum reserve deposits required by the CBR. The Group is required to maintain the reserve balance at the CBR at all times.

The balances with the National Bank of the Republic of Kazakhstan (“NBRK”) as at 31 December 2007 include KZT 121,476 million (2006: 172,564 million) and cash on hand of KZT 38,741 million (2006: KZT 17,067 million), totaling KZT 160,217 million (2006: KZT 189,631 million), which represent the minimum reserve deposits required by the NBRK.

The balances with the National Bank of the Kyrgyz Republic of (“NBKR”) as at 31 December 2007 include KZT 344 million (2006: KZT 681 million), of which KZT 197 million (2006: KZT 182 million) represents the minimum reserve deposits required by the NBKR at all times.

14. PRECIOUS METALS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Precious metals	<u>-</u>	<u>807</u>
	<u>-</u>	<u>807</u>

The precious metals balance held by the Group relates solely to gold bullion. As at 3 January 2007, the Bank disposed of all its holdings of precious metals.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Debt securities	130,271	309,405
Equity investments	15,647	6,126
Derivative financial instruments	<u>42,858</u>	<u>7,087</u>
	<u>188,776</u>	<u>322,618</u>

The financial assets at fair value through profit or loss relate entirely to financial assets held for trading.

	31 December 2007		31 December 2006	
	Nominal interest rate % %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of international financial organizations	1.56-20.09%	87,336	1.10-17.5%	217,362
Bonds of Kazakhstani companies	4.90-12.40%	22,684	8.00-11.30%	18,230
Bonds of Russian investment funds	-	4,273	-	-
Bonds of Kazakhstani banks	6.00-12.00%	4,151	6.80-10.90%	14,126
Bonds of Russian companies	7.28-13.80%	4,030	7.95-13.80%	4,808
Eurobonds of Kazakhstani banks	7.75-8.13%	2,900	7.88-9.00%	5,584
Short-term NBRK notes	4.50%	1,845	5.04%	34,895
State treasury bonds of the Ministry of Finance of Republic of Kazakhstan	3.78-6.68%	926	3.78-6.68%	998
Bonds of Russian banks	7.34-8.25%	703	7.20-8.25%	513
Bonds of local executive bodies of the Russian Federation	7.75-9.20%	607	7.20-10.90%	1,496
Bonds of federal loan of the Ministry of Finance of the Russian Federation	9.00-10.00%	343	6.30-10.00%	1,392
Eurobonds of OECD countries	4.75%	253	3.60%	8,233
Bonds of Atyrau local executive bodies	8.50%	220	8.50%	240
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	11.13%	1,052
Bonds of Development Bank of Kazakhstan	-	-	6.50-7.125%	476
		130,271		309,405
	Ownership share %	31 December 2007 (KZT million)	Ownership share %	31 December 2006 (KZT million)
Equity investments:				
Shares of Russian companies	0.00001%-19.559%	7,565	0.0001%-0.12%	74
GDR of Kazakhstani companies	0.247%	3,771	0.10%	1,148
ADR of Kazakhstani companies	0.654%	2,496	0.57%	2,342
Shares of Kazakhstani companies	0.007%-0.282%	701	0.016%-0.391%	2,498
GDR of Russian banks	0.07%	652	-	-
Shares of Kazakhstani banks	0.0007%-0.043%	363	0.003%-0.013%	64
GDR of Kazakhstani banks	0.01%	80	-	-
Shares of Russian banks	0.00001%	19	-	-
		15,647		6,126

As at 31 December 2007, financial assets at fair value through profit or loss included accrued interest income on debt securities of KZT 1,506 million (2006: KZT 1,816 million).

As at 31 December 2007, financial assets at fair value through profit or loss included short term-notes NBRK notes, bonds of federal loan of the Ministry of Finance of the Russian Federation, bonds of Kazakhstani and Russian companies pledged under repurchase agreements with other banks and customers with fair value of KZT 82,147 million (2006: KZT 262,008 million). As at 31 December 2007 all of the repurchase agreements are to be settled by February 2008 (2006: January 2007).

	Nominal value	31 December 2007		Nominal value	31 December 2006	
		Net fair value (KZT million)			Net fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments						
<i>Foreign exchange contracts</i>						
Foreign exchange swap	381,001	25,724	(2,145)	88,919	4,072	(865)
Forward contracts	64,652	2,105	(381)	72,480	728	(129)
Interest rate swap	82,740	14,987	(5,133)	68,840	2,284	(2,544)
Spot	74,996	19	(25)	11,977	3	(11)
<i>Securities purchase/sale contracts</i>						
Securities swap	592	23	(46)	-	-	-
Forward contracts		-	-	610	-	(4)
<i>Gold purchase/sale contracts</i>						
Spot on gold		-	-	807	-	(1)
		<u>42,858</u>	<u>(7,730)</u>		<u>7,087</u>	<u>(3,554)</u>

16. LOANS AND ADVANCES TO BANKS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Recorded as loans and receivables:		
Loans and advances to banks	173,759	122,266
Correspondent accounts with other banks	39,661	30,277
Loans under reverse repurchase agreements	679	45,505
	<u>214,099</u>	<u>198,048</u>
Less allowance for impairment losses	<u>(1,276)</u>	<u>(857)</u>
	<u>212,823</u>	<u>197,191</u>

Movements in allowances for impairment losses on loans and advances to banks for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

As at 31 December 2007, loans and advances to banks included accrued interest of KZT 1,327 million (2006: KZT 860 million).

As at 31 December 2007 and 2006, the Group had no loans and advances to the banks, which individually exceeded 10% of the Group's equity. As at 31 December 2007, maximum exposure on individual bank amounted to KZT 32,091 million (2006: KZT 25,505 million).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2007 and 2006 comprised:

	31 December 2007 (KZT million)		31 December 2006 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Shares of Russian companies	756	668	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	12	11	4,763	4,339
Bonds of Kazakhstani companies	-	-	6,127	5,042
Notes of the NBRK	-	-	26,318	25,010
Bonds of Kazakhstani banks	-	-	8,667	7,100
Shares of Kazakhstani companies	-	-	4,940	3,254
Shares of Kazakhstani banks	-	-	817	760
	<u>768</u>	<u>679</u>	<u>51,632</u>	<u>45,505</u>

As at 31 December 2007, a guarantee deposit in the amount of KZT 2,406 million (2006: KZT 2,540 million) placed in JP Morgan Chase Bank London was included in loans and advances to banks as collateral for letters of credit.

17. LOANS TO CUSTOMERS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Recorded as loans and receivables:		
Originated loans	2,480,059	1,713,183
Net investments in finance lease	6,090	4,573
Loans under reverse repurchase agreements	<u>20,549</u>	<u>35,020</u>
	2,506,698	1,752,776
Less allowance for impairment losses	<u>(140,363)</u>	<u>(73,936)</u>
	<u>2,366,335</u>	<u>1,678,840</u>

As at 31 December 2007, accrued interest income included in loans to customers amounted to KZT 66,827 million (2006: KZT 33,106 million).

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

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

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Analysis by type of collateral:		
Loans collateralized by real estate	1,039,685	429,701
Loans collateralized by guarantees of enterprises	176,004	219,410
Loans collateralized by shares of the banks and other companies	226,603	199,680
Loans collateralized by mixed types of collateral	209,980	168,269
Loans collateralized by equipment	209,168	127,966
Loans with collateral under the registration process (property, land, shares, guarantees, etc.)	152,707	160,300
Loans collateralized by accounts receivable	86,872	106,318
Loans collateralized by cash or Kazakhstani Government guarantees	80,232	51,414
Loans collateralized by inventories	41,014	69,070
Loans collateralized by guarantees of financial institutions	8,031	46,104
Loans collateralized by securities	3,675	6,183
Unsecured loans	132,364	94,425
	<u>2,366,335</u>	<u>1,678,840</u>

Mixed collateral consists of multiple types of collateral including real estate, guarantees and inventories. Loans are classified as being collateralized by mixed collateral where it is impractical to split this collateral into the categories disclosed above.

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Analysis by sector:		
Individuals	452,330	261,708
Trade	442,181	310,842
Housing construction	246,546	183,380
Commercial real estate construction	228,165	201,298
Real estate	165,825	103,101
Hotel business	133,635	47,260
Investments and finance	122,744	87,724
Transport and communication	106,576	43,342
Energy	66,179	46,302
Food industry	62,661	53,069
Agriculture	52,906	38,931
Machinery construction	43,935	23,134
Industrial and other construction	40,115	68,904
Production of construction materials	31,468	34,145
Mining and metallurgy	11,577	23,708
Culture and art	4,945	568
Medicine	4,239	2,467
Other	150,308	148,957
	<u>2,366,335</u>	<u>1,678,840</u>

Loans to individuals comprise the following products:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Mortgage loans	247,478	148,346
Consumer loans	133,108	74,987
Car loans	19,422	15,672
Other	52,322	22,703
	<u>452,330</u>	<u>261,708</u>

As at 31 December 2007 and 2006, the Group granted loans to the borrowers, shown below, respectively, which individually exceeded 10% of the Group's equity. Although loans to borrowers disclosed in 2006 may continue to be outstanding in 2007, only those borrowers which exceed 10% of equity are disclosed below.

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
LLP Ken-Sary	69,714	-
Alibi Holding	48,327	34,823
Visor Solution Holding	43,122	-
Jeilan Limited Holding	-	35,641
KUAT Holding	-	34,524
Mayberry Financial Services S.A.	-	33,194
Ordabasy Corporation	-	33,580
	<u>161,163</u>	<u>171,762</u>

As at 31 December 2007 a significant part of loans ((78.42%) (2006: 70.34%) of the total portfolio) is granted to companies operating on the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2007, comprised:

	31 December 2007 (KZT million)		31 December 2006 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Shares of Kazakhstani companies	15,998	15,081	6,686	5,803
Bonds of Kazakhstani companies	2,534	2,871	3,000	3,112
Bonds of Kazakhstani banks	669	805	1,362	1,914
Shares of Russian banks	499	480	958	875
Shares of Kazakhstani banks	419	676	521	585
Shares of Kazakhstani companies	614	636	30,640	21,574
Bonds of Russian companies	-	-	1,318	1,157
Total securities purchased under reverse repurchase agreements	<u>20,733</u>	<u>20,549</u>	<u>44,485</u>	<u>35,020</u>

The components of net investment in finance lease as at 31 December 2007 and 2006 are as follows:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Minimum lease payments	8,037	5,606
Less: unearned finance income	(1,947)	(1,033)
Net investment in finance lease	<u>6,090</u>	<u>4,573</u>
Current portion	1,681	2,004
Long-term portion	4,409	2,569
Net investment in finance lease	<u>6,090</u>	<u>4,573</u>

The value of future minimum lease payments received from the customer under finance lease as of 31 December 2007 and 2006 comprised:

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Not later than one year	2,264	2,368
From one year to five years	5,185	3,176
More than 5 years	588	62
Total value of future minimum lease payments	<u>8,037</u>	<u>5,606</u>

18. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2007		31 December 2006	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	3.75-11.08%	1,400	3.75-6.68%	442
Bonds of Small Business Development Fund	9.00%	332	9.00%	334
Bonds of Kazexportastyk Holding	11.00%	306	9.90-10.20%	304
Bonds of Kazakhstan Mortgage Company	7.90-12.20%	245	6.90-8.89%	271
Bonds of TuranAlem Bank	12.00%	187	10.50%	198
Bonds of Astana-Finance	11.90%	117	11.20%	121
Bonds of Karazhanbasmunai	11.20%	117	10.50%	124
Bonds of KazTransCom	8.00%	111	8.00%	124
Bonds of Kazakhaltyn	9.80%	114	10.50%	120
Bonds of ATF Bank	8.50%	96	8.50-9.00%	106
Bonds of CenterCredit Bank	9.00-9.50%	7	9.00%	7
Short-term notes of NBRK	3.03%	2	1.95%	355
Bonds of Khimfarm	-	-	10.00%	120
		<u>3,034</u>		<u>2,626</u>
	Ownership share %	31 December 2007 (KZT million)	Ownership share %	31 December 2006 (KZT million)
Equity securities:				
Kazakhstan Stock Exchange	1.33%	2	1.33%	2
		<u>2</u>		<u>2</u>
Total investments available-for-sale		<u>3,036</u>		<u>2,628</u>

As at 31 December 2007 interest income on debt securities amounting to KZT 168 million (2006: KZT 39 million), was accrued and included in investments available-for-sale.

19. INVESTMENTS HELD TO MATURITY

	31 December 2007		31 December 2006	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of CenterCredit Bank	8.50-10.00%	117	8.50-9.00%	117
Bonds of Halyk Bank	7.30-7.75%	109	7.75%	109
Bonds of ATF Bank	8.50-9.80%	91	8.50%	92
Bonds of the Ministry of Finance of the Kyrgyz Republic	5.24-7.07%	58	6.95%	39
		<u>375</u>		<u>357</u>

As at 31 December 2007 interest income on debt securities amounting to KZT 5 million (2006: KZT 6 million), was accrued and included in investments available-for-sale.

20. INVESTMENTS IN ASSOCIATES

The movements of investments in associates are accounted for in the consolidated financial statements using the equity method and comprise:

	2007 (KZT million)	2006 (KZT million)
1 January	1,755	425
Purchase cost	134	200
Share of results of associates	<u>1,333</u>	<u>1,130</u>
31 December	<u>3,222</u>	<u>1,755</u>

21. GOODWILL

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows.

Companies that generate cash flows	31 December 2007 (KZT million)	31 December 2006 (KZT million)
JSC Grantum APF	1,281	1,281
JSC OCOPAİM Grantum Asset Management	<u>1,124</u>	<u>1,124</u>
	<u>2,405</u>	<u>2,405</u>

As at 31 December 2007 and 2006 there was no evidence that the goodwill that arose on the acquisition of JSC Grantum APF and JSC OCOPAİM Grantum Asset Management has been impaired.

Based on the results of internal estimation, the value of the shares of JSC Gratnum APF and JSC OCOPAIM Grantum Asset Management increased from the acquisition dates and management believe there is no impairment to goodwill. Goodwill was determined by applying a discounted future cash flow analysis. Discount rates of 16.45% (31 December 2007) and 14% (31 December 2006) were applied for future cash flows based on the budgeted amounts. The management of the Group used the following assumptions for future cash flows:

- Economic development of the Republic of Kazakhstan;
- Stable legislation in relation to obligatory pension payments and as a result the continued growth of the pension system;
- Stable customer base (high salary customers);
- Favourable population indicators (expanding younger population); and
- Possibility to sell several by-products.

22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate (KZT million)	Furniture and equipment (KZT million)	Intangible assets (KZT million)	Construction in progress (KZT million)	Other equipment (KZT million)	Total (KZT million)
At primary/revalued cost						
31 December 2005	3,983	7,827	1,184	38	712	13,744
Additions	1,564	3,220	345	2,081	505	7,715
Revaluation increase	1,315	-	-	-	-	1,315
Disposals	(44)	(271)	(1)	-	(144)	(460)
Net foreign currency exchange differences	-	(15)	1	-	28	14
31 December 2006	6,818	10,761	1,529	2,119	1,101	22,328
Additions	2,162	5,492	1,630	6,116	861	16,261
Revaluation increase	5,245	-	-	-	-	5,245
Disposals	(233)	(658)	(11)	-	(460)	(1,362)
Net foreign currency exchange differences	6	121	1	-	105	233
31 December 2007	13,998	15,716	3,149	8,235	1,607	42,705
Accumulated depreciation						
31 December 2005	59	4,026	706	-	291	5,082
Charge for the year	70	1,432	224	-	107	1,833
Written off upon revaluation	-	1	-	-	-	1
Written off upon disposal	(33)	(145)	(1)	-	(103)	(282)
Net foreign currency exchange differences	1	4	1	-	7	13
31 December 2006	97	5,318	930	-	302	6,647
Charge for the year	131	1,784	324	-	280	2,519
Written off upon disposal	(94)	(476)	(10)	-	(181)	(761)
Net foreign currency exchange differences	-	29	1	-	11	41
31 December 2007	134	6,655	1,245	-	412	8,446
Net book value						
31 December 2007	13,864	9,061	1,904	8,235	1,195	34,259
31 December 2006	6,721	5,443	599	2,119	799	15,681

As at 31 December 2007 property, equipment and intangible assets of the Group included completely depreciated and amortized assets on initial cost amounting to KZT 3,497 million (2006: KZT 2,008 million), of which KZT 3,384 million pertain to the Bank (2006: KZT 1,947 million).

Buildings and other real estate are revalued on a regular cyclical basis, the last valuation was conducted on 30 June 2007 (2006: 16 June 2006). The valuation was conducted by a local independent appraisal company. The methods of valuation used include: the cost approach, the benchmark (comparative) approach, the profit method and comparison of the property to observable prices in an active market. These prices are obtained through publications and current market data, and are adjusted based on the experience of the valuer.

The carrying value of the buildings as at 31 December 2007 amounted to KZT 13,319 million (2006: KZT 6,356 million). If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value would be KZT 2,993 million (2006: KZT 1,614 million).

Intangible assets include software, patents and licenses.

23. OTHER ASSETS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Prepayments and other debtors	9,970	4,968
Prepaid expenses	3,992	3,232
Tax settlements, other than income tax	2,632	86
Insurance agreement accounts receivable	1,196	1,220
Income tax receivable	386	1,180
	<u>18,176</u>	<u>10,686</u>
Less allowance for impairment losses	<u>(323)</u>	<u>(117)</u>
	<u><u>17,853</u></u>	<u><u>10,569</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Derivative financial instruments	<u>7,730</u>	<u>3,554</u>
	<u><u>7,730</u></u>	<u><u>3,554</u></u>

Derivative financial instruments are disclosed in Note 15. Derivative financial instruments are used by the Group for trading purposes and to provide economic hedges against exposures to fluctuations in foreign currency exchange rates and interest rates. Although the above-mentioned hedges may be effective from an economic standpoint, they do not receive hedge accounting treatment and as such, changes in the market value of these instruments are recorded in the consolidated income statement

25. LOANS AND ADVANCES FROM BANKS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Recorded at amortized cost:		
Correspondent accounts of other banks	72,028	46,273
Correspondent accounts of organizations that serve certain types of banking operations	5	-
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks with maturity of February 2008 and interest rate of 5.51%	54,838	107,377
Syndicated loan from a group of banks with maturity of December 2007 and interest rate of 5.813%	-	88,481
Syndicated loan from a group of banks with maturity of September 2008 and interest rate of 5.815%	72,834	-
Syndicated loan from a group of banks with maturity of December 2008 and interest rate of 6.26%	33,147	61,044
Syndicated loan from a group of banks with maturity of December 2008 and interest rate of 5.43%	13,235	-
Syndicated loan from a group of banks with maturity of December 2009 and interest rate of 6.14%	36,255	37,809
Loan with maturity of September 2008	4,143	4,933
Loan with maturity of December 2014	40,138	2,371
Loans with other banks and financial establishments	284,267	276,779
Deposits with banks	34,780	8,382
Loans under repurchase agreements	77,761	250,852
	<u>723,431</u>	<u>884,301</u>

As at 31 December 2007 loans and advances from banks included accrued interest expenses of KZT 5,272 million (2006: KZT 3,391 million).

As at 31 December 2007 loans with other banks and financial institutions for KZT 247,667 million (87.00% of total loans with other banks and financial establishments) (31 December 2006: KZT 262,938 million or 95.00% of total loans with other banks and financial establishments) consisted of 45 (2006: 34) banks and financial institutions of such countries as Russia, Great Britain, the Netherlands, Czech Republic, the USA, Switzerland, Kuwait, Austria, Luxemburg, Korea, Kazakhstan, Kyrgyzstan, Germany, Canada, Belgium, Spain and Singapore. Maturities of these loans range from 3 days to 101 months (2006: 1 month to 67 months). Interest rates on loans with other banks and financial establishments varied from 2.33% to 10.16% (2006: from 0.5% to 10.412%).

As at 31 December 2007 included in loans and advances to banks are loans under repurchase agreements of KZT 77,761 million (2006: KZT 250,852 million) with maturities in February 2008 (2006: January 2007).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007 (KZT million)		31 December 2006 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of international financial establishments	75,749	72,501	208,837	204,549
Bonds of Russian companies	2,064	1,489	-	-
Bonds of Kazakhstani companies	1,750	1,501	13,151	10,952
Notes of the National Bank of the Republic of Kazakhstan	843	802	24,944	24,942
Bonds of the Ministry of Finance of the Republic of Kazakhstan	776	702	-	-
Bonds of local executive bodies of the Russian Federation	504	547	-	-
Bonds of Russian banks	249	219	-	-
Eurobonds of countries, members of OECD	-	-	7,946	8,408
Bonds of Kazakhstani banks	-	-	2,485	2,001
	<u>81,935</u>	<u>77,761</u>	<u>257,363</u>	<u>250,852</u>

During 2007 the Group simultaneously placed with and received short-term funds from banks in different currencies for total amount of KZT 301,892 million (2006: KZT 448,375 million).

26. CUSTOMER ACCOUNTS

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Recorded at amortized cost:		
Loans and time deposits	718,761	425,822
Demand deposits	176,121	257,600
Loans under repurchase agreements	201	4,384
	<u>895,083</u>	<u>687,806</u>

As at 31 December 2007 customer accounts included accrued interest expense of KZT 16,516 million (2006: KZT 7,466 million).

As at 31 December 2007 customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 2,750 million (2006: KZT 2,542 million).

As at 31 December 2007 the customer accounts of KZT 335,853 million or 37.52% (2006: KZT 250,184 million or 36.37%), were due to 10 customers, which represents significant concentration.

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Analysis by sector:		
Individuals	309,679	196,072
Chemical and petrochemical industry	168,778	167,466
Investments and finance	146,763	52,076
Transport and communication	56,345	30,209
Trade	39,867	52,364
Construction	36,592	75,750
Individual services	30,752	36,608
Education	27,261	2,170
Agriculture	25,766	20,232
Distribution of electricity, gas and water	16,683	3,352
Mining and metallurgy	8,402	7,724
Health care	6,830	965
Food industry	2,444	1,568
Real estate	1,704	11,266
Light industry	1,077	3,592
Machinery construction	904	689
Hotel business	694	4,972
Culture and art	612	1,031
Public organizations and unions	592	680
Energy	1	1
Other	13,337	19,019
	<u>895,083</u>	<u>687,806</u>

As at 31 December 2007 customer accounts included loans under repurchase agreements amounting to KZT 201 million (2006: KZT 4,384 million).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007 (KZT million)		31 December 2006 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of Kazakh companies	212	201	-	-
Bonds of Russian companies	-	-	2,477	2,304
Shares of Russian companies	-	-	1,551	1,515
Bonds of local executive bodies of the Russian Federation	-	-	617	565
	<u>212</u>	<u>201</u>	<u>4,645</u>	<u>4,384</u>
Total securities sold under repurchase agreements	<u>212</u>	<u>201</u>	<u>4,645</u>	<u>4,384</u>

27. DEBT SECURITIES ISSUED

	Currency	Maturity date	Annual coupon rate %	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Recorded at amortized cost:					
Eurobonds of Kazkommerts International B.V.:					
Issued in May 2007 with zero coupon	USD	May 2008	-	30,075	-
Issued in July 2007 at the price of 100%	JPY	July 2009	2.212%	26,775	-
Tranche A issued in November 2004 at the price of 98.967%	USD	November 2009	7.000%	40,949	42,786
Issued in March, 2006 at the price of 99.993%	EUR	March 2011	5.125%	53,151	48,465
Issued in February 2007 at the price of 99.962%	GBP	February 2012	7.625%	84,049	-
Issued in April 2003 at the price of 97.548%	USD	April 2013	8.500%	41,420	43,729
Issued in April 2004 at the price of 99.15%	USD	April 2014	7.875%	47,337	50,165
Issued in November 2005 at the price of 98.32%	USD	November 2015	8.000%	60,150	63,246
Issued in November 2006 at the price of 98.282%	USD	November 2016	7.500%	60,150	63,500
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.875%	132,877	-
Tranche A, issued in May 2002 and placed at the price of 99.043%	USD	May 2007	10.125%	-	17,594
Tranche B, issued in November 2002 and placed at the price of 107.00%	USD	May 2007 February	10.125%	-	6,350
Other Eurobonds of Kazkommerts International B.V.	SGD and USD	2009 – April 2013	4.250%- 12.850%	59,450	46,388
				<u>636,383</u>	<u>382,223</u>
Including /(less):					
Discount on debt securities issued				(6,289)	(5,023)
Accrued interest on debt securities issued				<u>19,897</u>	<u>6,385</u>
Total issued Eurobonds of Kazkommerts International B.V.				649,991	383,585
Issued bonds of the Bank				-	3,036
Accrued expenses on issued bonds of the Bank				-	97
Issued promissory notes of LLP Moscommertsbank at the price of 88.00-100.00%		January 2008 – June 2013	3.000%- 12.110%	78,370	36,982
Accrued interest expense on issued promissory notes of LLP Moscommertsbank				1,198	462
Issued bonds of Moscow Stars B.V. at the price of 99.00%		December 2034	6.870%- 10.370%	10,099	-
Accrued interest on bonds of Moscow Stars B.V.				<u>30</u>	<u>-</u>
				<u><u>739,688</u></u>	<u><u>424,162</u></u>

As at 31 December 2007 accrued interest expense is included in debt securities issued amounting to KZT 21,125 million (2006: KZT 6,944 million).

Eurobonds were issued by Kazkommerts International B.V., a subsidiary of the Bank, and were guaranteed by the Bank. For Eurobonds with a maturity of April 2013, the coupon is paid on 16 April and 16 October, for Eurobonds with a maturity of April 2014, the coupon is paid on 7 April and 7 October, for Eurobonds with a maturity of November 2009, the coupon is paid on 3 May and 3 November, for Eurobonds with a maturity of November 2015, the coupon is paid on 3 May and 3 November, for Eurobonds with a maturity of March 2011, the coupon is paid on 23 March, for Eurobonds with a maturity of November 2016, the coupon is paid on 29 May and 29 November, for Eurobonds with a maturity of February 2017, the coupon is paid on 13 February, for Eurobonds with a maturity of February 2012, the coupon is paid on 13 February, for Eurobonds with a maturity of May 2008, the coupon is paid on 16 May, for Eurobonds with a maturity of July 2009, the coupon is paid on 8 January, 8 April, 8 July and 8 October and for Eurobonds with a maturity of December 2012, the coupon is paid on 18 June and 18 December.

On 18 July 2007, Eurobonds were issued by Moscow Stars B.V. with a maturity of December 2034, the first interest payment was due on 16 August 2007 and subsequent interest is to be paid on the 15th of each month. Moscow Stars BV is the special purpose vehicle created for securitization of mortgage loans, and it is consolidated into the financial statement of MKB in accordance with SIC 12 “Consolidation – Special Purpose Entities”.

The Group is obligated to comply with financial covenants in relation to the debt securities disclosed above. These covenants include stipulated capital ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants in the years ending 31 December 2007 and 2006.

28. OTHER BORROWED FUNDS

	Currency	Maturity	Interest rate %	31 December 2007 (KZT million)	Interest rate %	31 December 2006 (KZT million)
Kazkommerts DPR Company Funding by the Small Business Development Fund	USD	March 2017	6.06 – 7.52%	113,581	6.59 – 7.95%	56,792
Moore's Creek	KZT	February 2009	7.56%	6,588	-	-
DEG-Deutsche Investitions MBH	USD	January 2014	6.24 – 8.64%	6,207	7.88 – 8.86%	6,559
Societe Generale Financial Corp	USD	September 2017	5.30 – 7.66%	5,593	-	-
NLB InterFinanz AG	USD	August 2010	8.19%	1,858	-	-
Private Export Funding Corporation Funding of agricultural equipment purchasing by Export Development Canada	USD	March 2011	5.03 – 5.65%	1,660	5.65 – 5.97%	1,160
Deere Credit	USD	May 2012	5.41%	603	5.64 – 6.04%	990
Intesa Soditic Trade Finance LTD	USD	August 2009	5.20 – 5.28%	251	5.75 – 5.8%	480
Funding by the Ministry of Finance of the Republic of Kazakhstan and by the Ministry of Kyrgyz Republic	USD	August 2009	7.28%	249	6.86%	2,545
Funding by the Ministry of Finance of the Kyrgyz Republic	KZT	September 2011	0.50%	78	0.50 – 5.81%	156
Funding by the Ministry of Finance of the Republic of Kazakhstan and by the Ministry of Kyrgyz Republic	USD	July 2015	1.50%	2	1.50%	2
Funding of agricultural equipment purchasing by Atlantik Forfaiting AG	EUR	-	-	-	5.00%	104
	USD	-	-	-	9.53%	26
				<u>148,934</u>		<u>68,814</u>

As at 31 December 2007 accrued interest expense of KZT 620 million (2006: KZT 255 million) is included in other borrowed funds.

On 8 December 2005, the Bank launched the inaugural future flow securitization of diversified payment rights for USD 300 million with floating interest rate and three year grace period on repayment of principal debt in the framework of the future payment inflow securitization program and circulation period of 7 years. The transaction is a true-sale securitization of the Bank's dollar-denominated present and future diversified payment rights (SWIFT USD MT100 series) to Kazkommerts DPR Company (special purpose vehicle created in the Cayman Islands). Kazkommerts DPR Company is operated by Maples Finance Limited, which is incorporated in the Cayman Islands. Allocation was made in three series 2005A in the amount of USD 200 million, 2005B and 2005C in the amount of USD 50 million each. Two latter tranches were allocated by private offering, and Series 2005A was insured by the specialized financial company AMBAC, the rate of which amounted to 3-month LIBOR plus 0.29%.

On 7 June, 2006 the Bank, in the framework of the future payment inflow securitization program, allocated additional series of bonds 2006A and 2006B, insured by the specialized financial companies AMBAC and FGIC. The sum of the given bonds amounted to USD 100 million each, with a maturity of 7 years, a three year grace period of the principal debt and an interest rate of 3-month LIBOR plus 0.25 %.

On 12 April 2007, the Bank, in the framework of the future a payment inflow securitization program, allocated three additional series of bonds: 2007A in the amount of USD 150 million, 2007B in the amount of USD 250 million and 2007C in the amount of USD 100 million. The bonds were issued with a maturity of 10 years, a three year grace period of the principal debt and floating interest rates. The insurers of the bonds issue are specialized financial companies FGIC (2007A series), MBIA (2007B series) and ADB (2007C series). The interest rate on each series is 3-month LIBOR plus the following spreads: 2007A plus 0.20%, 2007B plus 0.20% and 2007C plus 0.16%. The bonds are issued through Kazkommerts DPR Company.

The Group is not liable for any downgrades in the credit rating of the insurers and there are no requirements for the Group to early repay the notes issued in case of further downgrades of the insurers or the notes itself.

29. OTHER LIABILITIES

	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Taxes payable, other than income tax	7,276	2,992
Payable to employees	2,851	1,576
Accounts payable on re-insurers	682	616
Advances received	62	144
Other	2,974	3,259
	<u>13,845</u>	<u>8,587</u>

30. SUBORDINATED DEBT

	Currency	Maturity date (year)	Interest rate %	31 December 2007 (KZT million)	31 December 2006 (KZT million)
Indexed subordinated bonds	KZT	2009	7.00%	3,315	3,479
Subordinated debt of Citigroup GMD AG & Co	USD	2014	8.19%	12,260	12,943
Subordinated debt of Kazkommerts Finance II B.V.	USD	2016	9.64%	24,864	26,239
Subordinated bonds	KZT	2017	7.50%	20,411	12,639
Subordinated debt of Kazkommerts Finance II B.V.	USD	2017	9.54%	30,035	-
Debt component of preference shares	KZT	-	-	5,221	5,758
Perpetual debt of Kazkommerts Finance II B.V.	USD	-	9.25%	12,060	12,715
International subordinated bonds	USD			-	2,537
Subordinated bonds	USD	2007	5.50%	-	42
Subordinated bonds of MKB	USD	2016	10.00%	-	2,570
				<u>108,166</u>	<u>78,922</u>

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

As at 31 December 2007 accrued interest expenses included in subordinated debt amounted to KZT 1,793 million (2006: KZT 1,677 million).

31. SHARE CAPITAL

As at 31 December 2007 the Group's share capital comprised the following:

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	7,750	(2,000)	(1)	5,749
Preferred shares	<u>1,250</u>	<u>-</u>	<u>(1)</u>	<u>1,249</u>
	<u>9,000</u>	<u>(2,000)</u>	<u>(2)</u>	<u>6,998</u>

During 2007, 200,000,000 ordinary shares with a nominal value of KZT 10 and total amount of KZT 2,000 million were authorized for issue by the shareholders. As at 31 December 2007, these shares remain unpaid.

As at 31 December 2006 the Group's share capital comprised the following:

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	5,750	(1)	(1)	5,748
Preferred shares	<u>1,250</u>	<u>-</u>	<u>(3)</u>	<u>1,247</u>
	<u>7,000</u>	<u>(1)</u>	<u>(4)</u>	<u>6,995</u>

The preference shares have a nominal value of KZT 10 and carry no voting rights, unless preference dividends are not paid, but rank ahead of the ordinary shares in the event of liquidation of the Bank. The annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. According to Kazakhstan legislation on Joint Stock Companies, additional dividend payments on the preference shares cannot be less than the dividends paid on common shares. These shares are not redeemable.

During 2007, dividends declared on preference shares amounted to KZT 604 million (2006: KZT 636 million). In 2007 and 2006 dividends on ordinary shares of the Bank have not been declared.

In 2006, the Group increased the nominal value of its share capital by KZT 2,000 million, through the following:

- a) on 21 July 2006, the Bank completed the placement of 96,500,000 ordinary shares of the Bank at the price of KZT 200 per share on the local market;
- b) in November 2006, the shareholders of the Bank (JSC Central-Asian Investment Company, Subkhanberdin N.S. and EBRD) conducted the placement of 45,714,706 global depository receipts (“GDR”), each representing two shares at the price of USD 18.50 per one GDR;
- c) in December 2006, the Bank issued shares to existing shareholders of the Bank in the amount of 103,500,000 ordinary shares at the price of USD 9.25 per share denominated in a tenge equivalent amount through an initial public offering on the local market.

The table below provides a reconciliation of the number of shares outstanding as of 31 December 2007 and 2006:

	Preference shares Number of shares	Ordinary shares Number of shares
31 December 2005	124,671,145	374,991,445
Issue of shares	-	200,000,000
Sale of treasury shares and repurchase of own shares	<u>84,025</u>	<u>(230,747)</u>
31 December 2006	124,755,170	574,760,698
Issue of shares	-	49,272
Sale of treasury shares	<u>166,557</u>	<u>39,851</u>
31 December 2007	<u><u>124,921,727</u></u>	<u><u>574,849,821</u></u>

During 2007, the Bank made additional contributions to the share capital of subsidiary companies. The Bank contributed KZT 50 million to the share capital of JSC Kazkommerts RFCA, which amounted to 100% of the issued ordinary share capital of the Company. In addition, the Bank contributed KZT 1,206 million to the share capital of CJSC Kazkommertsbank Tajikistan, which amounted to 100% of the ordinary share capital.

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

The Group’s distributable profit among shareholders reserves is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the regulations of the Republic of Kazakhstan that provide for the creation of a reserve for these purposes of not less than 5% from non-classified assets recorded in its statutory accounts.

32. COMMITMENTS AND CONTINGENCIES

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

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

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2007 provision for losses on contingent liabilities amounted to KZT 7,216 million (2006: KZT 4,055 million).

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2006 the credit risk on contingent liabilities and credit commitments was covered by collateral of KZT 87,740 million (2006: KZT 79,221 million). The collateral includes real estate, deposits and various other financial assets.

As at 31 December 2007 and 2006, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2007		31 December 2006	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	94,582	94,582	91,683	91,683
Letters of credit and other transaction related to contingent obligations	90,510	15,253	92,413	17,982
Commitments on loans and unused credit lines	10,382	10,382	10,921	10,921
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	114	114	131	131
	<u>195,588</u>	<u>120,331</u>	<u>195,148</u>	<u>120,717</u>

Capital commitments

As at 31 December 2007, capital commitments amounted to KZT 2,789 million (2006: 5,866 million).

Operating lease commitments

There were no material rental commitments outstanding as at 31 December 2007 and 2006.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited rights on decision making with clients for the management of assets in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. The management believes that the potential financial risk on securities held on behalf of the customers is not inherent to the Group.

The Group also provides depository services to its customers. As at 31 December 2007 and 2006 the Group had customer securities in its nominal holder accounts totaling:

- on broker and dealer operations 5,203,455,006 deals totaling KZT 94,829 million (2006: 41,579,742 deals totaling KZT 4,713 million).
- on custodial operations 720,874,948 deals totaling KZT 20,929 million (2006: 726,520,661 deals totaling KZT 15,765 million).

Legal proceedings

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

Currently there are claims against the commercial banks from individuals in relation to hiding of additional commissions, obtained by loan agreements. In connection to this the NBRK issued instructions, which prescribe the requirement to disclose effective interest rates on loans to individuals. The management of the Bank believes that these claims do not have legal perspectives and from the moment of the instructions became effective the related points with effective interest rate were included to the loan agreements with customers.

Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment

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

33. SUBSEQUENT EVENTS

On 25 January 2008, LLP Investment Company East Capital officially changed its name to LLP Investment Group East Kommerts.

On 19 February 2008, at the Meeting of the Board of Directors the decision to make an additional contribution to the share capital of JSC Kazkommerts Life through issue of 290,000 ordinary shares for total amount of KZT 290 million was made.

On 19 February 2008, at the Meeting of the Board of Directors the decision to make an additional contribution to the share capital of JSC OCOPAIM Grantum Asset Management through issue of 50,000 ordinary shares for total amount of KZT 500 million was made.

34. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24 “Related party disclosures”.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2007 (KZT million)		31 December 2006 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	895	2,506,698	2,052	1,752,776
- entities with joint control or significant influence over the entity	117		114	
- key management personnel of the entity or its parent	778		1,938	
- other related parties	-		-	
Allowance for impairment losses	33	140,363	50	73,936
- entities with joint control or significant influence over the entity	17		15	
- key management personnel of the entity or its parent	16		35	
- other related parties	-		-	
Investments in associates	3,222	3,222	1,718	1,755
- to associates	3,222		1,718	
Customer accounts	5,495	895,083	8,326	687,806
- entities with joint control or significant influence over the entity	1,087		92	
- associates	22		1,050	
- key management personnel of the entity or its parent	4,385		7,062	
- other related parties	1		122	
Provision for guarantees and other off-balance sheet contingencies	-	7,216	356	4,055
- key management personnel of the entity or its parent	-		1	
- other related parties	-		355	
Commitments on loans and unused credit lines	482	10,382	651	10,921
- entities with joint control or significant influence over the entity	-		215	
- key management personnel of the entity or its parent	482		431	
- other related parties	-		5	
Guarantees issued and similar commitments	18	94,582	7,142	91,683
- key management personnel of the entity or its parent	18		30	
- other related parties	-		7,112	

Included in the consolidated income statement for the year ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007 (KZT million)		Year ended 31 December 2006 (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	67	316,458	130	147,250
Interest expense	(438)	(169,528)	(258)	(83,115)
Operating expenses	(621)	(31,200)	(500)	(19,053)
<i>Short-term employee benefits</i>	621	15,980	500	9,154
Provision on impairment losses on interest bearing assets, other transactions and guarantees and off balance sheet contingencies	(365)	(74,380)	(354)	(34,818)
Share of results of associates	1,333	1,333	1,130	1,130

Key management personnel compensation for the year ended 31 December 2007 and 31 December 2006 is represented by short-term employee benefits.

35. SEGMENT REPORTING

Business segments

The Group is organized on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, documentary credits, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice.
- Other – representing insurance operations and other activities.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2007 (KZT million)
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
External interest income	55,333	240,792	19,564	582	187	-	316,458
Internal interest income	30,263	36,407	145,703	-	-	(212,373)	-
External interest expenses	(25,115)	(28,243)	(116,724)	-	554	-	(169,528)
Internal interest expenses	(36,922)	(135,632)	(39,819)	-	-	212,373	-
Net interest income before provision for impairment losses on interest bearing assets	23,559	113,324	8,724	582	741	-	146,930
Provisions for impairment losses on interest bearing assets	(9,904)	(59,918)	(134)	-	-	-	(69,956)
NET INTEREST INCOME	13,655	53,406	8,590	582	741	-	76,974
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	21,627	-	-	-	21,627
Net loss on foreign exchange and precious metals operations	2,240	747	(21,592)	--	--	-	(18,605)
Fee and commission income	8,567	12,229	2,899	(104)	(33)	-	23,558
Fee and commission expense	(1,009)	(513)	(388)	(791)	(12)	-	(2,713)
Net realized gain on investments available-for-sale	-	-	41	-	-	-	41
Dividends received	-	-	143	2	-	-	145
Other income	209	1,843	707	4,145	15	-	6,919
NET NON-INTEREST INCOME	10,007	14,306	3,437	3,252	(30)	-	30,972
OPERATING INCOME	23,662	67,712	12,027	3,834	711	-	107,946
OPERATING EXPENSES	(15,986)	(10,763)	(2,681)	(1,194)	(576)	-	(31,200)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	7,676	56,949	9,346	2,640	135	-	76,746
Provision for insurance and impairment losses on other transactions	-	-	-	(1,009)	(229)	-	(1,238)
Provision for guarantees and other off-balance sheet contingencies	-	(3,084)	(102)	-	-	-	(3,186)
Share of results of associates	-	-	1,333	-	-	-	1,333
OPERATING PROFIT BEFORE INCOME TAX	7,676	53,865	10,577	1,631	(94)	-	73,655
Income tax expense	-	-	-	-	(15,904)	-	(15,904)
NET PROFIT	7,676	53,865	10,577	1,631	(15,998)	-	57,751
Segment assets	452,330	1,914,005	625,716	9,717	999,782	(1,004,318)	2,997,232
Segment liabilities	309,679	585,404	1,758,867	4,120	961,153	(971,706)	2,647,517

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	As at and for the year ended 31 December 2006
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
External interest income	19,119	112,603	14,594	309	625	-	147,250
Internal interest income	10,879	14,777	61,125	13	40,026	(126,820)	-
External interest expenses	(8,038)	(10,033)	(64,442)	13	(615)	-	(83,115)
Internal interest expenses	(10,236)	(60,338)	(16,203)	(13)	(39,393)	126,183	-
Net interest income before provision for impairment losses on interest bearing assets	11,724	57,009	(4,926)	322	643	(637)	64,135
Provisions for impairment losses on interest bearing assets	(4,224)	(28,282)	(388)	7	-	-	(32,887)
NET INTEREST INCOME	7,500	28,727	(5,314)	329	643	(637)	31,248
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	4,739	5	-	-	4,744
Net gain on foreign exchange and precious metals operations	636	390	4,178	2	(2)	-	5,204
Fee and commission income	5,263	10,062	2,921	-	-	(709)	17,537
Fee and commission expense	(562)	(482)	(689)	(566)	(81)	708	(1,672)
Net gain on investments available-for-sale	-	-	29	-	-	-	29
Dividends received	-	-	83	-	-	-	83
Other income	16	467	9	2,596	25	(71)	3,042
NET NON-INTEREST INCOME	5,353	10,437	11,270	2,037	(58)	(72)	28,967
OPERATING INCOME	12,853	39,164	5,956	2,366	585	(709)	60,215
OPERATING EXPENSES	(6,782)	(9,893)	(1,159)	(852)	(1,076)	709	(19,053)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	6,071	29,271	4,797	1,514	(491)	-	41,162
Provision for insurance and impairment losses on other transactions	-	-	(52)	(331)	-	-	(383)
Provision for guarantees and other off-balance sheet contingencies	-	(2,022)	474	-	-	-	(1,548)
Share of results of associates	-	-	1,130	-	-	-	1,130
OPERATING PROFIT BEFORE INCOME TAX	6,071	27,249	6,349	1,183	(491)	-	40,361
Income tax expense	-	-	-	-	(12,600)	-	(12,600)
NET PROFIT	6,071	27,249	6,349	1,183	(13,091)	-	27,761
Segment assets	261,708	1,417,132	765,227	8,244	764,773	(775,228)	2,441,856
Segment liabilities	196,072	491,734	1,485,791	3,351	745,026	(759,069)	2,162,905

Geographical segments

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

	Kazakhstan	CIS	OECD Countries	Non-OECD Countries	31 December 2007 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Interest income	290,137	26,134	187	-	316,458
Interest expense	(87,918)	(14,682)	(66,928)	-	(169,528)
Provision on impairment losses on interest bearing assets	(65,904)	(4,052)	-	-	(69,956)
Net gain on financial assets and liabilities at fair value through profit or loss	20,343	1,284	-	-	21,627
Net loss on foreign exchange and precious metals operations	(18,862)	256	1	-	(18,605)
Fee and commission income	21,740	1,818	-	-	23,558
Fee and commission expense	(2,341)	(327)	(45)	-	(2,713)
Net realized gain on investments available-for-sale	41	-	-	-	41
Dividends received	119	26	-	-	145
Other income	5,956	963	-	-	6,919
OPERATING INCOME	163,311	11,420	(66,785)	-	107,946

	Kazakhstan	CIS	OECD Countries	Non-OECD Countries	31 December 2006 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Interest income	137,070	9,555	625	-	147,250
Interest expense	(37,973)	(5,134)	(40,008)	-	(83,115)
Provision on impairment losses on interest bearing assets	(31,284)	(1,603)	-	-	(32,887)
Net gain on financial assets and liabilities at fair value through profit or loss	4,831	(87)	-	-	4,744
Net gain on foreign exchange and precious metals operations	4,746	461	(3)	-	5,204
Fee and commission income	15,738	1,799	-	-	17,537
Fee and commission expense	(1,553)	(38)	(81)	-	(1,672)
Net realized gain on investments available-for-sale	29	-	-	-	29
Dividends received	83	-	-	-	83
Other income	2,776	266	-	-	3,042
OPERATING INCOME	94,463	5,219	(39,467)	-	60,215

External operating income has been allocated based on domicile of the company within the Group.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Loans and advances to and from banks – for assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances the carrying value approximates the fair value.

Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt of Kazkommerts Finance 2 B.V.

The fair value of financial assets and liabilities where the fair value does not approximate the carrying amount in the consolidated balance sheet of the Group are presented below:

	31 December 2007		31 December 2006	
	Carrying value (KZT million)	Fair value (KZT million)	Carrying value (KZT million)	Fair value (KZT million)
Loans and advances to banks	212,823	212,912	197,191	203,318
Loans and advances from banks	723,431	727,605	884,301	890,812
Debt securities issued	739,688	615,520	424,162	434,851
Subordinated debt	108,166	106,688	78,922	79,928

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated balance sheet. The carrying amounts of cash and balances with national (central) banks, investments held to maturity and customer accounts approximates fair value due to the short-term nature of such financial instruments. It was not practicable to the Group to estimate the fair value of its loans to customers and other borrowed funds.

37. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

Capital adequacy requirements are set by the FMSA and controlled using the principles, methods and factors identified by the Basle Committee on Banking Supervision.

	31 December 2007 (KZT million)	31 December 2006 (KZT million)	Change (KZT million)	31 December 2006 (KZT million)	31 December 2005 (KZT million)	Change (KZT million)
Composition of regulatory capital ^a :						
Tier 1 capital:						
Share capital (ordinary shares)	5,749	5,748	1	5,748	3,750	1,998
Share premium reserve	152,855	152,534	321	152,534	15,902	136,632
Retained earnings	84,843	58,763	26,080	58,763	40,481	18,282
Current income	55,963	25,985	29,978	25,985	18,392	7,593
Minority interest	12,552	15,272	(2,720)	15,272	6,976	8,296
Goodwill	(2,405)	(2,405)	-	(2,405)	(2,405)	-
Innovation instruments	11,900	12,546	(646)	12,546	13,286	(740)
Total qualifying tier 1 capital	<u>321,457</u>	<u>268,443</u>	<u>53,014</u>	<u>268,443</u>	<u>96,382</u>	<u>172,061</u>
Property and equipment revaluation reserve	5,981	2,458	3,523	2,458	1,519	939
Share capital (preferred shares)	1,249	1,247	2	1,247	1,247	-
Subordinated debt ^b	<u>86,617</u>	<u>52,997</u>	<u>33,620</u>	<u>52,997</u>	<u>28,495</u>	<u>24,502</u>
Total qualifying tier 2 capital	<u>93,847</u>	<u>56,702</u>	<u>37,145</u>	<u>56,702</u>	<u>31,261</u>	<u>25,441</u>
Total capital	<u>415,304</u>	<u>325,145</u>	<u>90,159</u>	<u>325,145</u>	<u>127,643</u>	<u>197,502</u>
Ratio of tier 1 capital adequacy	11.72%	12.37%	(0.65)%	12.37%	10.36%	2.01%
Capital adequacy ratio	15.15%	14.98%	(0.17)%	14.98%	13.73%	1.26%

^a According to the principles applied by Basle Committee

^b As at 31 December 2007 and 2006 the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, which is limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

During year 2007 and 2006 the Group complied with all set capital requirements.

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

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 31, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board of the Bank reviews its capital structure on quarterly basis. Based on the recommendations of the Management Board by making decisions on the Board of Directors or shareholders meeting, the Group balances its overall capital structure through new share issues, issues of new debt or the redemption of existing debt, and the payment of dividends.

The Group's overall capital risk management policy remains unchanged from 2006.

39. RISK MANAGEMENT POLICIES

Management of risks is fundamental to the Group's business. The risk management functions include:

- Risks identification: The risks, which the Group is exposed to in its daily activities, are identified by the risk management system.
- Measuring risks: The Group measures the risks using various methodologies, which include risk based profitability analysis, calculation of possible loss amounts, and utilization of specialized models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.
- Risk monitoring: Group's policies and procedures determine the processes on mitigating and decreasing the risks and set the limits on various types of operations. Such limits are reviewed on a periodic basis specified by internal documents of the Group.
- Risk reporting: Risk reporting is performed on a line of business and on a consolidated basis. This information is periodically presented to the management.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk;

Credit risk

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

Risk management and monitoring is performed within set limits by the Credit Committees and Board of the Group. Risk management coordination is performed by the risk management specialist or Risk Management Department. Daily risk management is performed by the Head of the Credit Departments or Credit Divisions of branches and subsidiaries.

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of risk management, collateral valuation, legal and security departments. For the purpose of credit risk analysis, certain of the Group divisions use rating models which are based on assumptions and methodologies utilized by the international rating agencies.

While considering loan application of individuals and small businesses, the Group uses a standardized decision making approach on granting the loans. The approach includes the application of standard terms and criteria, which are set by the relevant credit committees. The standardized approach to evaluate the creditworthiness of the borrower includes the use of scoring models for some types of products. The scoring models result in a more efficient application process, decreased operating expenses as well as decreased operational risks, due to the removal of significant amounts of subjectivity.

The Group determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product, by industry sector and by region are approved by the Credit Committee. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee.

Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Group applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

Operational risk

The Group is exposed to operational risk which is the risk of losses that can be a result of any system inefficiencies or breaks of internal processes, systems, presence of human error or effect of any external negative factor. At present times the Group uses following tools to manage the operational risk, which comply with the best world banking practices.

- Risk self assessment (“RSA”);
- New processes, products and system assessments (“ORAP”);
- Operational losses database (“CLD”);
- Key operational risk controls (“KORC”); and
- Key risk indicators (“KRI”).

The operational risk management tools allow the Group to identify those banking activities that are most vulnerable to operational risks, to evaluate and monitor losses of the Group arising from operational risk and to set relevant controls. They are also used to develop preventive and detective tools as well as measures for decreasing the level of risk.

Maximum exposure

The Group’s maximum exposure to credit risk varies significantly and is dependent on both individual risks of certain financial assets and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and commitments. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 32.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged¹	31 December 2007 Net exposure after offset and collateral
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Financial assets at fair value through profit or loss	188,776	-	188,776	-	188,776
Loans and advances to banks	212,823	(15,038)	197,785	(799)	196,986
Loans to customers	2,366,335	(40,867)	2,325,468	(1,604,068)	721,400
Investments available-for-sale	3,036	-	3,036	-	3,036
Investments held to maturity	375	-	375	-	375

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged¹	31 December 2006 Net exposure after offset and collateral
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Financial assets at fair value through profit or loss	322,618	-	322,618	-	322,618
Loans and advances to banks	197,191	(49,055)	148,136	(45,869)	102,267
Loans to customers	1,678,840	(9,081)	1,669,759	(1,108,429)	561,330
Investments available-for-sale	2,628	-	2,628	-	2,628
Investments held to maturity	357	-	357	-	357

¹ A description of the collateral presented on loans to customers is included in Note 17.

As at 31 December 2007 loans and advances to banks also include loans under reverse repurchase agreements in amount of KZT 679 million (2006: KZT 45,505 million).

As at 31 December 2007 loans to customers include loans under reverse repurchase agreements in amount of KZT 20,549 million (2006: KZT 35,020 million).

As at 31 December 2007 financial assets at fair value through profit or loss also include securities collateralized under repurchase agreements with total fair value of KZT 82,147 million (2006: KZT 262,008 million).

In instances where one party to a financial instrument fails to fully or partially discharge a credit obligation, the Group has the right to ensure fulfillment of these obligations through the:

- joint sale of the pledged assets;
- transfer of ownership rights on pledged assets in accordance with the established law;
- disposal of pledged assets through extrajudicial procedures through a tendering process; and
- exercising of the charge on pledged assets through judicial procedures;

Where there is a joint sale of the pledged assets, the Group normally uses a tripartite agreement with the borrower and acquirer of the pledged assets. Under this agreement the acquirer of the pledged assets has an obligation to repay the full amount of the outstanding debt; the borrower has an obligation to transfer the right of ownership of the assets to the acquirer, and the Group releases the obligation from the borrower and removes the pledge over the assets.

Per certain collateral agreements, the Group has the right to dispose of assets pledged through extra judicial procedures. These procedures include the sale of assets through a tendering process. The sale of property takes approximately 3 months. The sale of assets pledged under mortgage loan agreements is performed through tenders organized by a person empowered to act on the behalf of the Group.

The Group exercises the charge on pledged assets through judicial procedures if it is impossible or inefficient to use alternative methods or where the seizure of assets pledged is required in order to protect the rights on the Group.

Financial assets are graded according to the current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as a speculative grade.

The following table details the credit ratings of financial assets held by the Group:

	AAA	AA	A	BBB	<BBB	Not Rated	31 December 2007 Total (KZT million)
Financial assets at fair value through profit or loss	11,321	44,627	72,488	13,878	14,995	31,467	188,776
Loans and advances to banks	-	106,297	17,577	2,755	38,344	47,850	212,823
Loans to customers	-	-	-	242	6,438	2,359,655	2,366,335
Investments available-for-sale	-	-	-	1,537	289	1,210	3,036
Investments held to maturity	-	-	-	-	317	58	375
	AAA	AA	A	BBB	<BBB	Not Rated	31 December 2006 Total (KZT million)
Financial assets at fair value through profit or loss	96,649	126,862	8,374	42,645	29,977	18,111	322,618
Loans and advances to banks	-	23,210	835	878	88,011	84,257	197,191
Loans to customers	-	-	-	325	3,713	1,674,802	1,678,840
Investments available-for-sale	-	-	-	945	311	1,372	2,628
Investments held to maturity	-	-	-	14	304	39	357

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Main credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business.

Rating model

The Group has developed an internal rating model, based on the principles and methods used by international rating agencies for the assessment of credit risk of corporate borrowers. The rating of corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

Scoring models

The Group uses scoring models as a statistical tool to assess the future creditworthiness of new and existing borrowers of the Group. Scoring models are applied for assessment of the credit risk of individuals and small business enterprises.

The scoring models interpret socio-demographic and financial indicators, behavioural variables, the credit history of borrowers and historic data from external sources, such as Credit Bureau reports. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardize and automate the process of decision making and decrease the operating expenses and operational risks of the Group. The scoring model is also used in the internal management decision making process as it permits the forecasting of profits and losses of the credit departments. The scoring model is assessed on a continual basis for its effectiveness and validity.

The Group applies internal rating and scoring methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated balance sheet. As such, more detailed information is not being presented.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired in KZT million:

	Financial assets past due but not impaired					31 December 2007	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than 1 year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss	188,776	-	-	-	-	-	188,776
Loans and advances to banks	188,806	-	-	-	-	24,017	212,823
Loans to customers	940,145	5,064	-	-	-	1,421,126	2,366,335
Investments available-for-sale	3,036	-	-	-	-	-	3,036
Investments held to maturity	375	-	-	-	-	-	375

	Financial assets past due but not impaired					31 December 2006	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss	322,618	-	-	-	-	-	322,618
Loans and advances to banks	182,422	-	-	-	-	14,769	197,191
Loans to customers	956,110	2,624	-	-	-	720,106	1,678,840
Investments available-for-sale	2,628	-	-	-	-	-	2,628
Investments held to maturity	357	-	-	-	-	-	357

In the table above, loans to customers are classified as impaired when provided for under the Group's internal policies. Provision rate on these loans ranges from 2% to 100%. As at 31 December 2007, of the KZT 1,421,126 million (2006: KZT 720,106 million) of impaired loans to customers, KZT 1,265,283 million (2006: KZT 615,012 million) are classified as satisfactory and for which the provision rate is 5%.

Geographical concentration

The relevant Credit Committees exercise control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. The Group sets country limits for all countries with ratings below A- according to the Standard and Poor's classification.

The Management of the Group considers the main segment to be the Republic of Kazakhstan.

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

	Kazakhstan	CIS	OECD countries	Non-OECD countries	31 December 2007 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS:					
Cash and balances with national (central) banks	144,174	7,868	16,106	-	168,148
Financial assets at fair value through profit or loss	66,429	11,261	110,923	163	188,776
Loans and advances to banks	28,401	45,380	139,042	-	212,823
Loans to customers	1,855,687	303,936	46,011	160,701	2,366,335
Investments available-for-sale	3,036	-	-	-	3,036
Investments held to maturity	317	58	-	-	375
Investments in associates	3,222	-	-	-	3,222
Goodwill	2,405	-	-	-	2,405
Property, equipment and intangible assets	31,974	2,285	-	-	34,259
Other assets	10,211	3,239	4,312	91	17,853
TOTAL ASSETS	2,145,856	374,027	316,394	160,955	2,997,232
LIABILITIES:					
Loans and advances from banks	118,412	46,844	551,534	6,641	723,431
Customer accounts	770,799	32,548	82,248	9,488	895,083
Derivative financial instruments	3,078	37	4,445	170	7,730
Debt securities issued	-	70,142	667,372	2,174	739,688
Other borrowed funds	12,928	2	136,004	-	148,934
Provisions	10,550	88	-	-	10,638
Deferred income tax liability	30,486	10	-	-	30,496
Dividends payable	-	2	-	-	2
Other liabilities	9,309	1,679	2,851	6	13,845
Subordinated debt	29,125	-	79,041	-	108,166
TOTAL LIABILITIES	984,687	151,352	1,523,495	18,479	2,678,013
NET POSITION	1,161,169	222,675	(1,207,101)	142,476	
	Kazakhstan	CIS	OECD countries	Non-OECD countries	31 December 2006 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS:					
Cash and balances with national (central) banks	189,711	6,814	12,480	-	209,005
Precious metals	-	-	807	-	807
Financial assets at fair value through profit or loss	84,385	8,295	229,938	-	322,618
Loans and advances to banks	63,574	91,693	41,924	-	197,191
Loans to customers	1,180,864	228,282	64,396	205,298	1,678,840
Investments available-for-sale	2,628	-	-	-	2,628
Investments held to maturity	318	39	-	-	357
Investments in associates	1,755	-	-	-	1,755
Goodwill	2,405	-	-	-	2,405
Property, equipment and intangible assets	14,706	975	-	-	15,681
Other assets	7,443	1,355	1,742	29	10,569
TOTAL ASSETS	1,547,789	337,453	351,287	205,327	2,441,856
LIABILITIES:					
Loans and advances from banks	63,345	70,923	722,778	27,255	884,301
Customer accounts	642,492	22,603	20,321	2,390	687,806
Derivative financial instruments	983	4	2,565	2	3,554
Debt securities issued	3,322	37,216	383,396	228	424,162
Other borrowed funds	260	2	68,552	-	68,814
Provisions	6,393	149	1	215	6,758
Deferred income tax liability	16,749	101	-	-	16,850
Dividends payable	1	-	-	-	1
Other liabilities	6,766	595	1,174	52	8,587
Subordinated debt	21,909	2,570	54,443	-	78,922
TOTAL LIABILITIES	762,220	134,163	1,253,230	30,142	2,179,755
NET POSITION	785,569	203,290	(901,943)	175,185	

Tangible assets (cash on hand, precious metals, premises and equipment) and other capital expenditure and thus depreciation are concentrated within the Republic of Kazakhstan for both the year ending 31 December 2007 and 2006.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments of the Group associated with financial instruments as they actually fall due as a result of decrease possibilities of the Group to raise appropriate funds.

The ALMC controls these types of risks by means of maturity analysis prepared by the Department of Financial Control, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department through the deals in the money markets, placement of available funds in liquid securities within limits set by the ALMC.

With the purpose of managing the liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets and liabilities management process.

The Group maintains the compliance of liquidity requirements, such as current and short-term liquidity ratios and foreign exchange liquidity limits, set by the regulatory bodies. In the management's opinion limits described above are strict, and that measure guarantees maintaining appropriate liquidity level.

The following table shows how management monitors the liquidity and interest risks. The table is based on the time period to maturity or contractual repricing of the financial instruments and it does not reconcile to the consolidated balance sheet as a result of deferred tax liabilities being excluded.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS:							
Financial assets at fair value through profit or loss	10,459	129,347	31,817	-	-	-	171,623
Loans and advances to banks	158,420	26,415	6,918	18,572	1,171	-	211,496
Loans to customers	121,342	160,508	449,367	858,742	709,549	-	2,299,508
Investments available-for-sale	-	3	179	1,535	1,147	-	2,864
Investments held to maturity	-	24	34	104	208	-	370
Total interest bearing assets	290,221	316,297	488,315	878,953	712,075	-	2,685,861
Cash and balances with national (central) banks	168,148	-	-	-	-	-	168,148
Equity instruments	-	-	-	-	-	15,649	15,649
Investments in associates	-	-	-	-	-	3,222	3,222
Goodwill	-	-	-	-	-	2,405	2,405
Property, equipment and intangible assets	-	-	-	-	-	34,259	34,259
Accrued interest income on interest-bearing assets	34,227	19,371	10,687	5,219	331	-	69,835
Other assets	3,012	8,143	5,125	1,573	-	-	17,853
TOTAL ASSETS	495,608	343,811	504,127	885,745	712,406	55,535	2,997,232
	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
LIABILITIES:							
Loans and advances from banks	141,216	160,676	230,012	166,715	19,540	-	718,159
Customer accounts	320,227	127,509	203,474	225,057	2,300	-	878,567
Debt securities issued	1,964	11,060	35,288	280,996	389,255	-	718,563
Other borrowed funds	-	585	-	43,231	104,498	-	148,314
Subordinated debt	-	-	-	3,293	103,080	-	106,373
Total interest bearing liabilities	463,407	299,830	468,774	719,292	618,673	-	2,569,976
Derivative financial instruments	331	7,399	-	-	-	-	7,730
Provisions	950	3,022	1,770	1,471	3	3,422	10,638
Deferred income tax liability	2,339	1,362	8,651	10,251	7,893	-	30,496
Dividends payable	-	2	-	-	-	-	2
Accrued interest expense on interest-bearing liabilities	7,111	20,614	14,321	1,445	1,835	-	45,326
Other liabilities	10,415	1,601	1,717	112	-	-	13,845
TOTAL LIABILITIES	484,553	333,830	495,233	732,571	628,404	3,422	2,678,013
Liquidity gap	11,055	9,981	8,894	153,174	84,002		
Interest sensitivity gap	(173,186)	16,467	19,541	159,661	93,402		
Cumulative interest sensitivity gap	(173,186)	(156,719)	(137,178)	22,483	115,885		
Cumulative interest sensitivity gap as a percentage of total assets	(5.78%)	(5.23%)	(4.58%)	0.75%	3.87%		
Contingent liabilities and credit commitments	208	66,057	69,709	45,883	-	6,515	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS:							
Financial assets at fair value through profit or loss	32,171	217,265	64,627	613	-	-	314,676
Loans and advances to banks	152,190	21,099	21,722	27	1,293	-	196,331
Loans to customers	108,530	136,764	317,916	619,350	463,174	-	1,645,734
Investments available-for-sale	473	-	557	1,207	350	-	2,587
Investments held to maturity	-	-	39	22	290	-	351
Total interest bearing assets	293,364	375,128	404,861	621,219	465,107	-	2,159,679
Cash and balances with national (central) banks	209,005	-	-	-	-	-	209,005
Precious metals	807	-	-	-	-	-	807
Equity investments	-	-	-	-	-	6,128	6,128
Investments in associates	-	-	-	-	-	1,755	1,755
Goodwill	-	-	-	-	-	2,405	2,405
Property, equipment and intangible assets	-	-	-	-	-	15,681	15,681
Accrued interest income on interest-bearing assets	29,322	5,013	1,427	59	6	-	35,827
Other assets	4,142	2,319	3,993	115	-	-	10,569
Total assets	536,640	382,460	410,281	621,393	465,113	25,969	2,441,856
	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006*
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
LIABILITIES:							
Loans and advances from banks	336,544	111,831	51,564	379,901	1,070	-	880,910
Customer accounts	355,322	116,990	105,051	78,489	24,488	-	680,340
Debt securities issued	4,288	661	33,589	142,960	235,720	-	417,218
Other borrowed funds	-	-	262	6,804	61,493	-	68,559
Subordinated debt	-	-	41	5,988	71,216	-	77,245
Total interest bearing financial liabilities	696,154	229,482	190,507	614,142	393,987	-	2,124,272
Derivative financial instruments	73	2,554	927	-	-	-	3,554
Provisions	712	378	1,306	1,640	18	2,704	6,758
Deferred income tax liabilities	11,003	5,831	16	-	-	-	16,850
Preferred shares dividends	1	-	-	-	-	-	1
Accrued interest expense on interest-bearing liabilities	5,962	5,738	7,266	735	32	-	19,733
Other liabilities	2,518	3,395	2,654	20	-	-	8,587
Total liabilities	716,423	247,378	202,676	616,537	394,037	2,704	2,179,755
Liquidity gap	(179,783)	135,082	207,605	4,856	71,076		
Interest sensitivity gap	(402,790)	145,646	214,354	7,077	71,120		
Cumulative interest sensitivity gap	(402,790)	(257,144)	(42,790)	(35,713)	35,407		
Cumulative interest sensitivity gap as a percentage of total assets	(16.50)%	(10.53)%	(1.75)%	(1.46)%	1.45%		
Contingent liabilities and credit commitments	-	41,922	76,833	67,571	587	4,180	

The tables include the maturity dates for financial assets and financial liabilities, as they fall due. Based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over. The Group is aware of the importance of maintaining the stability of these deposits. In order to achieve this it is essential that the Group ensures depositor confidence in the Group's liquidity, by continuing to position itself as the depositor of choice in local markets and a leading financial institution in both the Republic of Kazakhstan and abroad. The Group does not use undiscounted contractual maturity information when managing its operations.

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed.

In year 2007 the Group started to use the market risk sensitivity analysis. Methodology presents separate analysis for each type of market risks which the Group is exposed to and reflects the effect of change on equity and income statement in a risk variable, which was reasonable as at reporting date.

The Group uses VaR ("Value-at-Risk") model to assess the price risk but it has opted to disclose only the sensitivity analysis.

Interest rate risk

Interest rate risk is the risk of the losses as the result of changes in the future cash flow of a financial instrument fluctuation because of changes in market interest rates.

The Group is exposed to changes in interest rates through its placement of funds with both fixed and floating interest rates. The Group attempts to mitigate this risk through having corresponding assets and liabilities with fixed and floating interest rates.

The ALMC manages interest rate and market risks by matching the Group's interest rate position, so as to ensure the Group maintains a positive interest margin. Although a significant portion of the Group's assets are placed with a fixed interest rate, the credit agreements entered into by the Group contain provisions which permit the Group to change interest rates in the credit agreements. The Department of Financial Control monitors the results of the financial activity of the Group and continually assesses the vulnerability of the Group to changes in interest rates.

The following table presents an analysis of interest rate risk. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2007			31 December 2006		
	% in KZT	% in USD	% in other currencies	% in KZT	% in USD	% in other currencies
ASSETS:						
Financial assets at fair value through profit or loss	9.39	4.99	5.07	6.54	4.95	11.00
Loans and advances to banks	6.54	6.73	3.98	1.97	8.26	2.51
Loans to customers	14.16	13.69	14.27	13.56	12.20	12.89
Investments available-for-sale and held to maturity	9.04	-	6.30	8.13	9.21	7.05
LIABILITIES:						
Loans and advances from banks	6.93	6.61	3.73	3.01	6.44	4.65
Customer accounts	7.83	7.77	4.22	5.44	4.20	4.41
Debt securities issued	-	7.98	6.66	7.00	8.13	5.55
Other borrowed funds	9.84	6.29	-	1.95	6.9	5.00
Subordinated debt	7.50	8.67	-	7.50	8.32	-

The Group uses derivative financial instruments to mitigate the results of changes in interest rates and control the interest rate margin by types of products. Management monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of change in interest rates and related cash flow interest rate risk.

Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group's sensitivity to changes in market interest rates and its influence on the Group's profitability, and if necessary, the Risk Management Department suggests decreasing the relevant risk levels. The management of the Group considers the suggestions and amends the further activity of the Group. At the moment the Group uses a range of 100 basis points, which has been determined as a "reasonably possible change in the risk variable" by management in relation to the sensitivity of its financial instruments.

The following table presents the sensitivity of the consolidated income statement, all other parameters assumed to be constant.

Impact on consolidated profit before tax:

	31 December 2007 (KZT million)		31 December 2006 (KZT million)	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Assets:				
Financial assets at fair value through profit or loss				
Bonds	(1,338)	1,423	(2,685)	2,870
Derivative financial instruments	947	(958)	-	-
Instruments with floating rates:				
Loans and advances to banks	18	(18)	-	-
Loans to customers	566	(566)	427	(427)
Investments held-to-maturity				
Instruments with floating rates	3	(3)	3	(3)
Liabilities:				
Instruments with floating rates:				
Loans and advances from banks	(3,030)	3,030	(1,596)	1,596
Debt securities issued	(5,621)	5,621	(4,218)	4,218
Subordinated debt	-	-	(127)	127
Net effect on profit before tax	(8,455)	8,529	(8,196)	8,381

Sensitivity of the consolidated income statement represents fluctuations due to changes in interest rates on interest income for the period of one year, estimated on the basis of interest-bearing instruments of the trading portfolio, and assets and liabilities with floating interest rates.

Possible losses from a change in interest rates by 100 basis points, with other criteria assumed to be constant, comprise 3% from consolidated equity of the Group, which complies with acceptable Group's level of risk, and does not lead to the further changes in the strategy and policy of the Group.

The sensitivity of equity to possible changes in interest rates as at 31 December 2007 and 2006 has been calculated. If there were to be a change in interest rates of 100 basis points, this would result in a movement of 3% of total equity of the Group, which complies with acceptable levels of risk established by the Group. This sensitivity does not consider the tax effect in the overall impact to equity.

	31 December 2007		31 December 2006	
	100 bp (KZT million)	-100 bp (KZT million)	100 bp (KZT million)	-100 bp (KZT million)
Assets				
Investments available-for-sale				
Bonds	(73)	76	(60)	63
Net effect on profit before tax	(8,455)	8,529	(8,196)	8,381
Change in equity	(8,528)	8,605	(8,256)	8,444

The management of the Group periodically monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of the fluctuations in interest rates and correspondent risk of changes in cash flows.

Currency risk

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

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

As at 31 December 2007 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	USD	EUR	RUR	Other CCY	31 December 2007 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS:						
Cash and balances with national (central) banks	57,840	46,588	3,465	6,171	54,084	168,148
Financial assets at fair value through profit or loss	59,371	97,047	8,445	17,896	6,017	188,776
Loans and advances to banks	12,968	125,370	56,086	11,527	6,872	212,823
Loans to customers	891,041	1,369,863	24,955	79,548	928	2,366,335
Investments available-for-sale	3,036	-	-	-	-	3,036
Investments held to maturity	317	-	-	-	58	375
Investments in associates	3,222	-	-	-	-	3,222
Goodwill	2,405	-	-	-	-	2,405
Property, equipment and intangible assets	31,974	-	-	2,146	139	34,259
Other assets	9,568	3,791	1,555	2,318	621	17,853
TOTAL ASSETS	1,071,742	1,642,659	94,506	119,606	68,719	2,997,232
LIABILITIES:						
Loans and advances from banks	31,993	576,394	22,682	14,721	77,641	723,431
Customer accounts	542,353	290,241	33,372	27,808	1,309	895,083
Financial liabilities at fair value through profit or loss	2,831	4,861	-	25	13	7,730
Debt securities issued	-	363,358	194,526	57,120	124,684	739,688
Other borrowed funds	18,929	130,005	-	-	-	148,934
Provisions	7,235	2,528	804	60	11	10,638
Deferred income tax liabilities	30,486	-	-	-	10	30,496
Dividends payable	-	-	-	-	2	2
Other liabilities	8,934	1,389	1,149	1,670	703	13,845
Subordinated debt	28,929	79,237	-	-	-	108,166
Total liabilities	671,690	1,448,013	252,533	101,404	204,373	2,678,013
OPEN BALANCE SHEET POSITION	400,052	194,646	(158,027)	18,202	(135,654)	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2007:

	KZT	USD	EUR	RUR	Other CCY	31 December 2007 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Accounts payable on spot and derivative contracts	(200,473)	(312,485)	(1,240)	(6,992)	(605)	(521,795)
Accounts receivable on spot and derivative contracts	70,626	159,739	160,870	14,846	140,394	546,475
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(129,847)	(152,746)	159,630	7,854	139,789	

As at 31 December 2006 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	USD	EUR	RUR	Other CCY	31 December 2006 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS :						
Cash and balances with national (central) banks	189,718	10,548	2,707	5,198	834	209,005
Precious metals	-	-	-	-	807	807
Financial assets at fair value through profit or loss	76,500	228,059	9,621	8,290	148	322,618
Loans and advances to banks	76,647	90,338	15,061	14,154	991	197,191
Loans to customers	525,052	1,117,469	13,683	22,014	622	1,678,840
Investments available-for-sale	2,625	3	-	-	-	2,628
Investments held to maturity	318	-	-	-	39	357
Investments in associates	1,755	-	-	-	-	1,755
Goodwill	2,405	-	-	-	-	2,405
Property, equipment and intangible assets	14,706	-	-	847	128	15,681
Other assets	6,518	2,540	399	1,074	38	10,569
TOTAL ASSETS	896,244	1,448,957	41,471	51,577	3,607	2,441,856
LIABILITIES :						
Loans and advances from banks	171,762	669,690	24,801	17,574	474	884,301
Customer accounts	387,384	262,057	20,855	16,487	1,023	687,806
Derivative financial instruments	1,310	2,239	-	5	-	3,554
Debt securities issued	3,133	354,654	50,149	7,823	8,403	424,162
Other borrowed funds	156	68,554	104	-	-	68,814
Provisions	3,691	1,954	1,108	1	4	6,758
Deffered income tax liabilities	16,749	-	-	85	16	16,850
Dividends on preferred shares	1	-	-	-	-	1
Other liabilities	6,677	1,396	48	423	43	8,587
Subordinated debt	21,770	57,152	-	-	-	78,922
Total liabilities	612,633	1,417,696	97,065	42,398	9,963	2,179,755
OPEN BALANCE SHEET POSITION	283,611	31,261	(55,594)	9,179	(6,356)	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2006:

	KZT	USD	EUR	RUR	Other CCY	31 December 2006 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Accounts payable on spot and derivative contracts	(66,282)	(102,482)	(3,482)	(1,263)	-	(173,509)
Accounts receivable on spot and derivative contracts	41,725	61,288	61,333	3,046	9,920	177,312
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(24,557)	(41,194)	57,851	1,783	9,920	

Currency risk sensitivity analysis

The Group estimates the possible effect of a 10% fluctuation in foreign currency rates on the consolidated income statement and consolidated equity based on the sensitivity analysis of the internally prepared open currency position report, which includes derivative financial instruments.

The analysis is based on the calculation of the impact of possible fluctuations in US dollar, Euro and Russian Rouble currency rates on the consolidated income statements and consolidated equity. This is due to the fact that as at 31 December 2007 these were the main currencies in which the Group had open positions. A 10% fluctuation is determined as a “reasonably possible change in the risk variable” by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated income statement and consolidated equity of such fluctuations.

A change of 10% represents the level of probable fluctuations in foreign exchange rates that are used within the Group for reporting purposes to key management. The sensitivity analysis includes open foreign currency positions as at the reporting dates, for which a 10% movement in foreign currency exchange rates as compared to the existing year end rates are used.

	31 December 2007 (KZT million)						31 December 2007 (KZT million)					
	KZT/USD		KZT/EURO		KZT/RUB		KZT/USD		KZT/EURO		KZT/RUB	
	10%	-10%	10%	-10%	10%	-10%	10%	-10%	10%	-10%	10%	-10%
Impact on profit or loss	4,190	(4,190)	160	(160)	2,606	(2,606)	(994)	994	(226)	226	1,096	(1,096)
Impact on equity	-	-	-	-	-	-	-	-	-	-	-	-

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger impacts should not be extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group’s assets and liabilities are actively managed. Additionally, the financial position of the Group may vary depending on any actual market movements, since the Group’s financial risk management strategy aims to manage the exposure to market fluctuations. In instances where there are significant or unexpected changes in market conditions, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impacts of a change in the risk factors may be different from those shown above.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group’s view of possible near-term market changes that cannot be predicted with a fair degree of certainty; and the assumption that all interest rates move in an identical fashion.

Price risks

The Group is exposed to price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. Equity investments do not form a significant part of the Group’s investment portfolio.

40. RESTATEMENT OF CASH FLOWS

As discussed in note 3, subsequent to the issue on 28 February 2008 of the consolidated financial statements for the year ended 31 December 2007, the Group noted an error in the calculation of the change in net interest accruals in the cash flow statement. As such, the Group is restating the financial statements to correct this error for the year ended 31 December 2007 dated 25 March 2008.

The table below shows the effects of the restatement for the year ended 31 December 2007:

	Year ended 31 December 2007 Previously reported (KZT million)	Year ended 31 December 2007 Restated (KZT million)
Changes in operating assets and liabilities		
Change in interest accruals, net	<u>(58,305)</u>	<u>(7,190)</u>
Cash flow from operating activities before changes in operating assets and liabilities	74,218	125,333
(Increase)/decrease in operating assets:		
Loans to customers	(701,158)	(701,115)
Increase/(decrease) in operating liabilities:		
Loans and advances from banks	(167,423)	(171,383)
Customer accounts	182,218	164,344
Other borrowed funds	<u>80,486</u>	<u>79,756</u>
Cash outflow from operating activities before taxation	<u>(251,194)</u>	<u>(222,600)</u>
Net cash outflow from operating activities	<u>(253,453)</u>	<u>(224,859)</u>
Proceeds from debt securities issued	349,993	321,632
Proceeds from subordinated debt	<u>34,152</u>	<u>33,919</u>
Net cash inflow from financing activities	<u>355,044</u>	<u>326,450</u>

The table below shows the effects of the restatement for the year ended 31 December 2006:

	Year ended 31 December 2006 Previously reported (KZT million)	Year ended 31 December 2006 Restated (KZT million)
Changes in operating assets and liabilities		
Change in interest accruals, net	25,966	(10,215)
Net change in fair value of financial assets and liabilities at fair value through profit or loss	<u>10,015</u>	<u>1,024</u>
Cash flow from operating activities before changes in operating assets and liabilities	114,988	69,816
(Increase)/decrease in operating assets:		
Financial assets at fair value through profit or loss	(183,617)	(174,314)
Loans and advances to banks	(84,218)	(82,872)
Loans to customers	(928,684)	(892,293)
Increase/(decrease) in operating liabilities:		
Loans and advances from banks	<u>401,197</u>	<u>399,210</u>
Cash outflow from operating activities before taxation	<u>(404,981)</u>	<u>(405,046)</u>
Net cash outflow from operating activities	<u>(408,781)</u>	<u>(408,846)</u>
Purchase of investments available for sale	<u>(6,910)</u>	<u>(6,845)</u>
Net cash outflow from investing activities	<u>(9,638)</u>	<u>(9,573)</u>