EURASIAN BANK JSC

Consolidated Financial Statements

for the year ended 31 December 2007

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Independent Auditors' Report

To the Board of Directors and Management Board of Eurasian Bank JSC

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Berdalina J. K.
Certified Auditor
Managing Partner

KPMG Audit LLC
Licence # 0000021 dated 6 December 2006 to conduct audits

Wilson Mitchell
Audit Partner

15 April 2008

	Note	2007 '000 KZT	2006 '000 KZT
Interest income	6	19,489,025	10,416,198
Interest expense	6	(10,481,491)	(4,756,593)
Net interest income		**9,007,534**	**5,659,605**
Fee and commission income	7	2,813,917	1,903,546
Fee and commission expense	7	(837,505)	(206,176)
Net fee and commission income		**1,976,412**	**1,697,370**
Net earned insurance premiums	8	7,360,183	-
Net foreign exchange gain	9	1,113,176	1,422,274
Net realised gain on available-for-sale assets	10	561,989	38,473
Other income	11	326,522	131,006
		20,345,816	**8,948,728**
Impairment losses	12	(2,523,022)	(261,660)
Insurance claims incurred, net	13	(3,341,477)	-
Personnel expenses	14	(4,265,868)	(2,301,373)
Administrative expenses	14	(3,989,458)	(1,818,443)
Provisions for off-balance sheet credit risk	37	64,330	(18,799)
Income before taxes		**6,290,321**	**4,548,453**
Income tax expense	15	(686,992)	(730,306)
Net income		**5,603,329**	**3,818,147**
Earnings per share (in KZT)	34	**66,959**	**60,668**

The consolidated financial statements as set out on pages 5 to 92 were approved by the management on 15 April 2008, and signed on its behalf by:

Chairman of the Board
Konopasevich A.V.

Chief Accountant
Bichurina A.A.

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The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2007 '000 KZT	2006 '000 KZT
ASSETS			
Cash	42	5,065,043	3,541,164
Due from the National Bank of the Republic of Kazakhstan	42	8,658,213	6,214,200
Placements with banks and other financial institutions	16	28,787,312	22,667,968
Amounts receivable under reverse repurchase agreements	17	9,866,697	-
Derivative financial instruments	18	2,350	-
Loans to customers	19	115,757,725	92,835,826
Reinsurers' share of insurance contract provisions	20	950,503	-
Available-for-sale assets			
- Held by the Group	21	18,597,831	13,622,543
- Pledged under sale and repurchase agreements	21	9,406,144	85,642
- Pledged under loans from other banks	21	-	9,892,698
Insurance and reinsurance receivables	22	1,328,012	-
Income tax prepaid		331,867	377,877
Deferred tax assets	23	166,002	70,033
Property and equipment	24	10,574,097	2,265,301
Intangible assets	25	509,019	277,935
Other assets	26	611,415	469,739
Total assets		**210,612,230**	**152,320,926**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and balances from banks and other financial institutions	27	38,329,428	40,298,105
Amounts payable under repurchase agreements	28	8,583,385	77,064
Derivative financial instruments	18	17,902	-
Current accounts and deposits from customers	29	89,207,141	80,320,093
Debt securities issued	30	1,501,617	1,500,120
Subordinated debt securities issued	31	15,597,213	10,656,016
Insurance and reinsurance payables	32	1,546,414	-
Insurance contract provisions	20	6,680,278	-
Other liabilities	33	5,592,451	539,048
Total liabilities		**167,055,829**	**133,390,446**
Equity			
Share capital	34	7,999,927	7,999,927
Share premium		25,632	25,632
Reserve for general banking risks		648,282	649,315
Revaluation reserve for available-for-sale assets		(669,944)	461,987
Retained earnings		35,552,504	9,793,619
Total equity		**43,556,401**	**18,930,480**
Total liabilities and equity		**210,612,230**	**152,320,926**
Commitments and contingencies	37-39		

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2007 '000 KZT	2006 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxes	6,290,321	4,548,453
Adjustments for:		
Depreciation and amortisation	510,402	235,339
Impairment losses	2,523,022	261,660
Provisions for off-balance sheet credit risk	(64,330)	18,799
Gain on sale of property and equipment	(97)	(12,965)
Vacation accrual	118,563	43,289
Net change in replacement value of derivatives	15,552	-
Change in accrued interest income	(2,688,438)	(861,660)
Change in accrued interest expense	947,397	358,993
Amortisation of discount on subordinated debt securities issued	147,785	35,994
Amortisation of premium on available-for-sale assets	187,991	714,125
Operating income before changes in net operating assets	**7,988,168**	**5,342,027**
(Increase)/decrease in operating assets		
Obligatory reserve	311,180	(6,705,348)
Placements with banks and other financial institutions	(7,728,091)	(1,432,032)
Amounts receivable under reverse repurchase agreements	(8,920,408)	-
Loans to customers	(22,702,443)	(27,784,835)
Insurance and reinsurance receivables	1,881,133	-
Other assets	1,134,113	(147,893)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	(2,964,476)	18,301,054
Amounts payable under repurchase agreements	8,496,221	(3,482,001)
Current accounts and deposits from customers	8,703,081	16,692,419
Insurance and reinsurance payables	(466,188)	-
Insurance contract provisions	119,164	-
Other liabilities	463,681	129,073
Net cash (used in)/from operating activities before income tax paid	**(13,684,865)**	**912,464**
Income tax paid	(650,103)	(809,000)
Cash flows (used in)/from operations	**(14,334,968)**	**103,464**

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The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2007 '000 KZT	2006 '000 KZT
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale assets	(30,593,222)	(15,267,857)
Proceeds from sale and redemption of available-for-sale assets	45,734,977	14,745,275
Acquisition of subsidiaries	(38,686)	-
Sales/(purchases) of precious metals	29,691	(46,737)
Purchases of property and equipment	(4,250,914)	(1,113,805)
Sales of property and equipment	11,915	72,527
Purchases of intangible assets	(306,509)	(237,643)
Cash flows from investing activities	**10,587,252**	**(1,848,240)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from debt securities issued	-	898,162
Receipts from subordinated debt securities issued	5,248,668	7,509,447
Shares issued	-	1,999,910
Cash flows from financing activities	**5,248,668**	**10,407,519**
Net increase in cash and cash equivalents	1,500,952	8,662,743
Cash and cash equivalents at the beginning of the year	21,602,407	12,939,664
Cash and cash equivalents at the end of the year (Note 42)	**23,103,359**	**21,602,407**

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The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Share capital '000 KZT	Share premium '000 KZT	Reserve for general banking risks '000 KZT	Revaluation reserve for available-for-sale assets '000 KZT	Retained earnings '000 KZT	Total equity '000 KZT
Balance at 1 January 2006	**6,000,017**	**25,632**	**650,346**	**325,122**	**5,974,441**	**12,975,558**
Net income for the year	-	-	-	-	3,818,147	3,818,147
Net unrealised gain on available-for-sale assets	-	-	-	175,338	-	175,338
Net realised gains on available-for-sale assets transferred to the income statement on disposal	-	-	-	(38,473)	-	(38,473)
Transfers	-	-	(1,031)	-	1,031	-
Total recognised income for the year						3,955,012
Shares issued	1,999,910	-	-	-	-	1,999,910
Balance at 31 December 2006	**7,999,927**	**25,632**	**649,315**	**461,987**	**9,793,619**	**18,930,480**
Net income for the year	-	-	-	-	5,603,329	5,603,329
Net unrealised losses on available-for-sale assets	-	-	-	(1,534,126)	-	(1,534,126)
Net realised gains on available-for-sale assets transferred to the income statement on disposal	-	-	-	(561,989)	-	(561,989)
Transfers	-	-	(1,033)	-	1,033	-
Total recognised income for the year						3,507,214
Acquisition of subsidiaries (Note 5)	-	-	-	964,184	20,154,523	21,118,707
Balance at 31 December 2007	**7,999,927**	**25,632**	**648,282**	**(669,944)**	**35,552,504**	**43,556,401**

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The consolidated statement of changes in equity is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Eurasian Bank JSC (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter, collectively, referred to as the "Group".

The Bank was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence number 237 granted on 28 December 2007. The Bank also possesses licences number 0401100623 and number 0407100189 for brokerage, dealing and custodian activities granted 8 October 2003. The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Agency (the "FMSA") and the National Bank of the Republic of Kazakhstan ("the NBRK").

During the year ended 31 December 2007 the Bank acquired four subsidiaries and established a special purpose entity. A brief description of acquired entities is given below. The details of acquisitions made during the year are described in Note 5.

- Insurance Company "Eurasia" JSC is a company incorporated in the Republic of Kazakhstan and licenced by the FMSA for the following insurance services: general liability, property, cargo, employer's liability. The subsidiary also provides re-insurance services.
- Pension Assets Investment Management Organisation "Bailyk Asset Management" JSC is a company incorporated in the Republic of Kazakhstan and licensed by the FMSA to invest contributed amounts of pension assets in government securities, securities of non-government organisations of the Republic of Kazakhstan, state securities of foreign countries, securities of foreign non-government organisations, bank deposits and securities of certain international financial organisations. Another principal activity of the subsidiary is to manage investment portfolios of individuals and corporate clients.
- Open Accumulation Pension Fund "Senim" JSC is a fund incorporated by the Administration of Justice of Almaty, Kazakhstan in accordance with the registration number 22310-1910-AO dated 5 September 2007. The fund is licenced by the FMSA with the licence number 0000016 dated 25 June 2004 and its primary purposes are to collect pension contributions from employees on behalf of the Defined Contribution Plan of the Open Accumulation Pension Fund "Senim" JSC, maintain participants' account records and distribute pensions. As at 31 December 2007 the fund managed net pension assets on behalf of 267,178 participants amounting to KZT 42,671,019 thousand.
- Eurasia Capital JSC is a company incorporated in the Republic of Kazakhstan and specialised in providing brokerage-dealing, underwriting, investment portfolio management and consulting services.
- On 8 February 2007 the Bank established a new subsidiary, Eurasian Capital B.V. This is a special purpose entity established to facilitate the Group's issues of debt securities. As at 31 December 2007, the Bank owned 100% of the share capital of Eurasian Capital B.V.

1 Background, continued

(a) Principal activities, continued

The Group operates in two main business segments: banking and insurance. The activities of the Group are regulated by the FMSA and the NBRK.

The Group has 18 regional banking branches, 40 cash settlement centers and 2 insurance branches from which it conducts business throughout Kazakhstan. The registered address of the Bank's head office is 56 Kunayeva, Almaty, Republic of Kazakhstan. The majority of the Group's assets and liabilities are located in Kazakhstan. The average number of people employed by the Group during the year was 1,887 (2006: 1,070).

(b) Shareholders

The Group is wholly-owned by Eurasian Financial Industrial Company JSC (the "Parent Company").

(c) Kazakhstan business environment

The Republic of Kazakhstan has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Republic of Kazakhstan involve risks, which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that available-for-sale assets and financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

The national currency of the Kazakhstan is the Kazakhstan Tenge ("KZT"). Management has determined the Bank's and the majority of the Bank's subsidiaries' functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Group. The KZT is also the Group's presentation currency for the purposes of these consolidated financial statements.

Except as indicated, financial information presented in KZT has been rounded to the nearest thousand.

(d) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Notes 19 "Loans to customers" and 20 "Insurance contract provisions".

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described at the end of this note.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Acquisitions of entities under common control

The assets and liabilities acquired as a result of the acquisition of the controlling interest of an entity that is under control of the beneficiaries of the Group are recognised at their carrying amounts, as recognised in the individual IFRS financial statements of the entity acquired. The difference between the consideration paid for the acquisition and the carrying value of net assets acquired is recognised directly in equity.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the exchange rate at the date of the transaction. Foreign exchange differences arising on the translation are recognised in the income statement.

3 Significant accounting policies, continued

(b) Foreign currency transactions, continued

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows at 31 December 2007 and 2006:

Currency	2007	2006
1 United States Dollar	120.30	127.00
1 Euro	177.17	167.12
1 Russian Rouble	4.92	4.82

(c) Cash and cash equivalents

The Group considers cash and nostro accounts with the NBRK, nostro accounts and placements with banks with an original maturity up to 3 months to be cash and cash equivalents. The minimum reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdraw ability.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value through the profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

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3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available- for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

(ii) Recognition

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement, continued

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

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3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the income statement.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) Offsetting

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

(e) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences from the first day of the month subsequent to the date of acquisition or, in respect of internally constructed assets, to the month an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25 to 50 years
Computer and banking equipment	3 to 8 years
Vehicles	7 years
Furniture	8 to 10 years
Capital repair costs on leased buildings	2 to 20 years

3 Significant accounting policies, continued

(f) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the first day of the month subsequent to the date the asset is available for use. The estimated useful life of intangible assets is 5 to 7 years.

(g) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan or receivable that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a Group of assets such as adverse changes in the payment status of borrowers in the Group, or economic conditions that correlate with defaults in the Group.

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortised cost, continued

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

(iii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies, continued

(h) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

(j) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Kazakh legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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3 Significant accounting policies, continued

(k) Taxation, continued

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan organisation fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Dividend income is recognised in the income statement on the date that the dividend is declared.

Gains and losses from derivative financial instruments are included in gains less losses from trading in foreign currency.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

(m) Fiduciary assets

The Group provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the Group. Commissions received from such business are shown within fee and commission income in the consolidated income statement.

3 Significant accounting policies, continued

(n) Insurance contracts

(i) Classification

Contracts under which the Group accepts significant insurance risk from another party (the «policyholder») by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the «insured event») adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk. Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

(ii) Insurance premiums

Premiums arising from general insurance business

General business premiums written comprise the premiums on contracts entered into during the period, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The portion of outward reinsurance premiums not recognised is treated as a prepayment.

Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method.

(iii) Claims

Claims arising from general insurance business

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial period together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims reported at the balance sheet date, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims considering the effect of both internal and external foreseeable events, such as changes in claims handling procedures, legislative changes. Incurred but nor yet reported claims are provided for using statutory assumptions as discussed in Note 20. Anticipated reinsurance recoveries, and estimates of salvage and subrogation recoveries, are recognised separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

3 Significant accounting policies, continued

(n) Insurance contracts, continued

(iii) Claims, continued

Claims arising from general insurance business, continued

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided. The methods used, and the estimates made, are reviewed regularly.

Provision for insurance liabilities

The provision represents the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the balance sheet date. Unpaid losses consist of estimates for reported but not settled losses and provisions for losses incurred but not reported.

(iv) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the incurred but not reported and reported but not settled claims provisions or settled claims associated with the reinsured policy.

Premiums on reinsurance assumed are recognised as revenue and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(v) Liabilities and related assets under liability adequacy test

Insurance contracts are tested for adequacy by comparing current estimates of all future contractual cash flows with the carrying value of the liability.

3 Significant accounting policies, continued

(o) 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. The Group's primary format for segment reporting is based on business segments. Since the Group's business is primarily concentrated in Kazakhstan its operations are considered as comprising a single geographical segment.

(p) Changes in accounting policies

As at 1 January 2007, the Group adopted the International Financial Reporting Standard IFRS 7 "Financial Instruments: Disclosures" and the amendment to International Financial Reporting Standard IAS 1 "Presentation of Financial Statements" – "Capital Disclosures". The application of the amendment resulted in increased disclosure in respect of Group's financial instruments and the nature and extent of risks arising from financial instruments and increased disclosure in respect of Group's objectives, policies and processes for managing capital.

3 Significant accounting policies, continued

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

IFRS 8 "Operating Segments", which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 "Operating Segments" will replace International Financial Reporting Standard IAS 14 "Segment Reporting".

International Financial Reporting Standard IAS 1 "Presentation of Financial Statements" (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.

4 Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

The Group comprises the following two main business segments:

- Banking — Includes deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement operations, operations with securities and foreign exchange.
- Insurance — Includes offering non-life insurance and reinsurance products.

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4 Segment reporting, continued

Segment information for the reportable business segments of the Group as at 31 December 2007 and for the year ended 31 December 2007 is set out below:

	2007				2006
'000 KZT	**Banking**	**Insurance**	**Unallocated**	**Total**	**Banking**
External revenue					
Interest income	18,022,035	1,614,111	56,791	19,489,025	10,416,198
Interest expenses	(10,644,570)	-	(40,833)	(10,481,491)	(4,756,593)
Net fee and commission income	1,787,169	(189,923)	379,166	1,976,412	1,697,370
Net earned insurance premiums	-	7,360,183	-	7,360,183	-
Net foreign exchange gain	1,123,432	(10,457)	201	1,113,176	1,422,274
Net realised gains on available-for-sale securities	341,651	228,328	(7,990)	561,989	38,473
Other operating income	204,266	99,845	22,411	326,522	131,006
Intersegment revenue	(214,970)	214,419	551	-	-
Total segment revenue	**10,619,013**	**9,316,506**	**410,297**	**20,345,816**	**8,948,728**
Segment result	**2,156,931**	**4,245,819**	**(112,429)**	**6,290,321**	**4,548,453**
Income tax expense	(505,041)	(25,198)	(156,753)	(686,992)	(730,306)
Net income for the period	**1,651,890**	**4,220,621**	**(269,182)**	**5,603,329**	**3,818,147**
Segment assets	181,917,686	26,858,565	-	208,776,251	152,320,926
Unallocated assets	-	-	1,835,979	1,835,979	-
Total assets				**210,612,230**	**152,320,926**
Segment liabilities	158,243,907	8,395,893	-	166,639,800	133,390,446
Unallocated liabilities	-	-	416,029	416,029	-
Total liabilities				**167,055,829**	**133,320,926**
Impairment losses	(2,501,593)	(21,429)	-	(2,523,022)	(261,660)
Acquisition of property and equipment	8,201,058	45,577	8,338	8,254,973	1,113,805
Depreciation charge	(380,887)	(40,152)	(11,936)	(432,975)	(204,604)

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5 Acquisition of subsidiaries

In January 2007, the Bank acquired 100% of the share capital of Open Accumulation Pension Fund "Senim" JSC from a related party for a total consideration of KZT 377,315 thousand. The difference of KZT 136,155 thousand between the consideration paid and the carrying value of the assets acquired was recorded directly in equity.

In March 2007, the Bank acquired 100% of the share capital of Insurance Company "Eurasia" JSC from a related party, Vostok-Impex LLC, for a consideration of KZT 200,000 thousand. The difference of KZT 20,307,016 thousand between the consideration paid and the carrying value of net assets acquired was recorded directly in equity.

In March 2007, the Bank acquired 100% of the share capital of Pension Assets Investment Management Organisation "Bailyk Asset Management" JSC from a related party, Best LLC, for a consideration of KZT 350,000 thousand. The difference of KZT 524,801 thousand between the consideration paid and the carrying value of net assets acquired was recorded directly in equity.

In May 2007, the Bank acquired 100% of the share capital of Eurasia Capital JSC from a related party, Dampier Enterprises S.A., for a consideration of KZT 100,000 thousand. The difference of KZT 150,734 thousand between the consideration paid and the carrying value of net assets acquired was recorded directly in equity.

The above acquisitions were made from parties under common control and accounted for on a book value basis. The net assets of the acquired subsidiaries were as follows at the dates of the acquisitions:

'000 KZT	Insurance Company "Eurasia" JSC	Pension Assets Investment Management Organisation "Bailyk Asset Management" JSC	Open Accumulation Pension Fund "Senim" JSC	Eurasia Capital JSC
Assets				
Cash and cash equivalents	613,043	190,446	180,256	4,884
Deposits in banks	737,276	75,583	84,792	-
Available-for-sale securities	21,309,586	692,776	291,312	27,929
Reinsurers' share of insurance contract provisions	3,083,975	-	-	-
Accounts receivable	3,209,688	50,166	23,931	4,835
Other assets	2,458,299	48,948	78,217	218,697
	31,411,867	**1,057,919**	**658,508**	**256,345**
Liabilities				
Insurance contract provisions	8,694,586	-	-	-
Other liabilities	2,210,265	183,118	145,038	5,611
	10,904,851	**183,118**	**145,038**	**5,611**
Carrying value of net assets	**20,507,016**	**874,801**	**513,470**	**250,734**
Consideration paid	200,000	350,000	377,315	100,000
Cash acquired	(613,043)	(190,446)	(180,256)	(4,884)
Net cash outflow/(inflow)	**(413,043)**	**159,554**	**197,059**	**95,116**

5 Acquisition of subsidiaries, continued

If the acquisitions had occurred on 1 January 2007, Group's revenue for the year would have been KZT 31,755,934 thousand and net income for the year would have been KZT 7,498,089 thousand.

6 Net interest income

	2007 '000 KZT	2006 '000 KZT
Interest income		
Loans to customers	16,018,405	8,406,521
Available-for-sale assets	1,964,329	1,238,398
Placements with banks and other financial institutions	1,280,577	705,489
Amounts receivable under reverse repurchase agreements	138,839	24,227
Due from the NBRK	86,875	41,563
Total interest income	**19,489,025**	**10,416,198**
Interest expense		
Current accounts and deposits from customers	(5,179,380)	(2,742,008)
Deposits and balances from banks and other financial institutions	(3,943,788)	(1,370,844)
Subordinated debt securities issued	(1,216,330)	(452,243)
Debt securities issued	(102,283)	(97,251)
Amounts payable under repurchase agreements	(39,710)	(94,247)
Total interest expense	**(10,481,491)**	**(4,756,593)**
Net interest income	**9,007,534**	**5,659,605**

7 Net fee and commission income

	2007 '000 KZT	2006 '000 KZT
Fee and commission income		
Foreign exchange conversion charge	618,046	751,206
Cash operations	467,399	520,159
Commission on pension asset management	622,965	-
Remittance	461,981	315,281
Asset management	188,416	-
Guarantees and letters of credit issued	163,484	163,343
Cash delivery	70,403	64,127
Card accounts maintenance	50,613	22,431
Insurance and reinsurance commissions	45,278	-
Custodian service	38,391	36,791
Other	86,941	30,208
Total fee and commission income	**2,813,917**	**1,903,546**
Fee and commission expense		
Loss incurred from trading with securities of pension fund assets under management	(374,773)	-
Insurance and reinsurance commissions	(224,143)	-
Asset management	(92,209)	-
Cash operations	(68,084)	(129,407)
Remittance	(35,131)	(37,484)
Custodian service	(15,560)	(4,511)
Documentary settlements	(1,576)	(29,789)
Other	(26,029)	(4,985)
Total fee and commission expense	**(837,505)**	**(206,176)**
Net fee and commission income	**1,976,412**	**1,697,370**

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8 Net earned insurance premiums

2007 '000 KZT	Voluntary - Medical	Voluntary - Cargo	Voluntary - Property	Voluntary - Financial losses	Voluntary - Other	Mandatory - Damage to third parties	Mandatory - Employer's liability	Mandatory - Other	Total
Gross insurance premiums written	262,796	1,521,634	1,581,536	1,165,632	1,440,958	396,372	1,819,299	30,661	**8,218,888**
Written premiums ceded to reinsurers	-	(1,282)	(815,214)	(701,900)	(559,049)	-	-	-	**(2,077,445)**
Net written insurance premiums	**262,796**	**1,520,352**	**766,322**	**463,732**	**881,909**	**396,372**	**1,819,299**	**30,661**	**6,141,443**
Change in the gross provision for unearned premiums	31,109	131,918	2,328,779	90,424	539,832	(38,982)	(388,553)	7,934	**2,702,461**
Reinsurers' share of change in the gross provision for unearned premiums	-	-	(1,737,982)	367,345	(104,665)	-	(8,419)	-	**(1,483,721)**
Earned insurance premiums	**31,109**	**131,918**	**590,797**	**457,769**	**435,167**	**(38,982)**	**(396,972)**	**7,934**	**1,218,740**
Net earned insurance premiums	**293,905**	**1,652,270**	**1,357,119**	**921,501**	**1,317,076**	**357,390**	**1,422,327**	**38,595**	**7,360,183**

9 Net foreign exchange gain

	2007 '000 KZT	2006 '000 KZT
Gain on spot transactions and derivatives	1,188,191	1,468,170
Loss from revaluation of financial assets and liabilities	(75,015)	(45,896)
	1,113,176	**1,422,274**

10 Net realised gain on available-for-sale assets

	2007 '000 KZT	2006 '000 KZT
Shares of local banks	490,482	22,790
Treasury notes of foreign governments	86,926	12,072
Bonds of local banks	18,831	-
Notes of the NBRK	16,192	192
Local municipal bonds	115	58
Government securities of the Republic of Kazakhstan	(50,657)	3,870
Other	100	(509)
	561,989	**38,473**

11 Other income

	2007 '000 KZT	2006 '000 KZT
Penalties and fines	128,510	88,959
Rent income	69,298	-
Precious metals trading gain/(loss)	22,875	(2,037)
Repayment of financial aid by employees	13,042	-
Gain on sale of property and equipment	97	12,965
Other income	92,700	31,119
	326,522	**131,006**

12 Impairment losses

	2007 '000 KZT	2006 '000 KZT
Loans to customers (Note 19)	2,452,532	278,498
Placements with banks and other financial institutions (Note 16)	15,096	(1,876)
Available-for-sale assets	-	(6,637)
Insurance and reinsurance receivables	543	-
Other assets (Note 26)	54,851	(8,325)
	2,523,022	**261,660**

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13 Insurance claims incurred, net

2007 '000 KZT	Voluntary - Medical	Voluntary - Cargo	Voluntary - Property	Voluntary - Financial losses	Voluntary - Other	Mandatory - Damage to third parties	Mandatory - Employer's liability	Mandatory - Other	Total
Current period claims and loss adjustment expenses	307,518	616,373	887,145	-	225,382	-	326,044	8,533	**2,370,995**
Change in provisions for incurred but not reported claims	20,969	(30,429)	335,005	40,379	174,678	22,285	(2,912)	1,345	**561,320**
Change in provisions for reported but not settled claims	10	46,029	(833,512)	6,572	157,247	5,150	739,652	5,683	**126,831**
Total claims incurred, gross	**328,497**	**631,973**	**388,638**	**46,951**	**557,307**	**27,435**	**1,062,784**	**15,561**	**3,059,146**
Current year claims, reinsurer's share	-	-	(336,162)	-	(29,650)	-	(1,609)	-	**(367,421)**
Change in reinsurer's shares in provisions for incurred but not reported claims	-	-	35,339	(34,246)	(5,708)	-	1,528	25	**(3,062)**
Change in reinsurer's shares in provisions for reported but not settled claims	-	-	607,465	-	34,171	-	11,178	-	**652,814**
Total claims incurred, reinsurance share	-	-	**306,642**	**(34,246)**	**(1,187)**	-	**11,097**	**25**	**282,331**
Insurance claims incurred, net	**328,497**	**631,973**	**695,280**	**12,705**	**556,120**	**27,435**	**1,073,881**	**15,586**	**3,341,477**

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14 Personnel and administrative expenses

	2007 '000 KZT	2006 '000 KZT
Employee compensation	3,505,497	2,001,026
Social security costs	408,755	209,950
Other employee costs	351,616	90,397
Total personnel expense	**4,265,868**	**2,301,373**

	2007 '000 KZT	2006 '000 KZT
Taxes other than on income	974,212	204,583
Advertising and marketing	622,787	437,580
Depreciation and amortisation	510,402	235,339
Occupancy	498,090	290,004
Professional services	414,645	44,038
Communications and information services	178,386	108,394
Travel expenses	155,595	94,084
Security	111,522	61,102
Repair and maintenance	126,980	91,852
Stationary and office supplies	61,169	41,907
Transportation	36,219	17,065
Trainings	37,062	18,974
Insurance	9,068	3,994
Fines and penalties	3,313	1,920
Other	250,008	167,607
Total administrative expense	**3,989,458**	**1,818,443**

15 Income tax expense

	2007 '000 KZT	2006 '000 KZT
Current tax expense		
Current year	647,031	441,206
Under provided in prior years	57,403	-
	704,434	**441,206**
Deferred tax expense		
Origination and reversal of temporary differences	(17,442)	289,100
Total income tax expense in the consolidated income statement	**686,992**	**730,306**

The Group's applicable tax rate for current and deferred tax is 30% (2006: 30%).

15 Income tax expense, continued

Reconciliation of effective tax rate:

	2007 '000 KZT	%	2006 '000 KZT	%
Income before tax	6,290,321	100	4,548,453	100
Income tax at the applicable tax rate	1,887,096	30	1,364,536	30
Tax-exempt securities and loans income	(910,157)	(15)	(677,993)	(15)
Tax-exempt insurance activity	(1,210,193)	(19)	-	-
Under provided in prior years	57,403	1	-	-
Tax effect of non-deductible items	862,843	14	43,763	1
	686,992	**11**	**730,306**	**16**

16 Placements with banks and other financial institutions

	2007 '000 KZT	2006 '000 KZT
Not impaired or past due		
Nostro accounts		
OECD banks	17,127,653	19,782,149
Largest 10 Kazakh banks	527,488	42,824
Other foreign banks	45,926	65,807
Total nostro accounts	**17,701,067**	**19,890,780**
Loans and deposits		
Largest 15 Kazakh banks	10,794,309	1,502,359
Other foreign banks	2,150	1,274,829
Total loans and deposits not impaired	**10,796,459**	**2,777,188**
Overdue or impaired		
Loans to other foreign banks	304,882	-
Impairment allowance	(15,096)	-
Net impaired loans to other foreign banks	**289,786**	-
	28,787,312	**22,667,968**

16 Placements with banks and other financial institutions, continued

(a) Concentration of placements with banks and other financial institutions

As at 31 December 2007 and 2006 the Group had 1 and 2 banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2007 and 2006 were KZT 15,601,845 thousand and KZT 18,492,415 thousand, respectively.

(b) Analysis of movements in the impairment allowance

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	-	1,876
Net charge/(recovery) for the year (Note 12)	15,096	(1,876)
Balance at the end of the year	**15,096**	-

17 Amounts receivable under reverse repurchase agreements

	2007 '000 KZT	2006 '000 KZT
Amounts receivable from banks and other financial institutions		
Concluded in the sector of auto-repo through KASE	9,727,026	-
Amounts receivable from customers	139,671	-
	9,866,697	-

Collateral

As of 31 December 2007, amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	2007 '000 KZT	2006 '000 KZT
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,167,740	-
Notes of the NBRK	7,363,866	-
Bonds of Kazakh banks	1,152,105	-
Corporate bonds	74,001	-
Corporate shares	37,061	-
	10,794,773	

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18 Derivative financial instruments

The fair values of derivative instruments held as at 31 December 2007 (2006: nil) are set out in the following table:

'000 KZT	Contract/ notional amount	Fair value Assets	Fair value Liabilities
Foreign exchange derivative contracts			
Currency spot transactions	423,456	-	(327)
Currency forwards	1,712,725	2,350	(17,575)
Total recognised derivative assets/(liabilities)		**2,350**	**(17,902)**

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions or exchange traded. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (positive fair value) or unfavourable (negative fair value) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

Currency forwards are over-the-counter contracts which establish terms and conditions of a deal which is settled at a future date.

Maturity, fair value and weighted average exchange rate breakdowns for currency forward contracts as at 31 December 2007 are set out in the following table.

'000 KZT	Contract/ notional amount	Weighted average contracted exchange rates	Fair value Assets	Fair value Liabilities
Currency forwards				
Buy KZT sell USD				
Less than three months	844,450	120.64	2,350	-
Buy USD sell EUR				
Less than three months	868,275	1.44	-	(17,575)
	1,712,725		**2,350**	**(17,575)**

19 Loans to customers

	2007 '000 KZT	2006 '000 KZT
Commercial loans		
Loans to large corporate clients	53,649,255	50,379,610
Loans to small and medium size companies ("SME")	8,342,022	9,901,961
Total commercial loans	**61,991,277**	**60,281,571**
Loans to individuals		
Mortgage	28,103,930	18,176,160
Individual entrepreneurship	12,578,515	3,602,606
Consumer	10,922,411	9,388,433
Automobile	3,468,889	1,267,477
Other	2,385,115	1,881,941
Total loans to individuals	**57,458,860**	**34,316,617**
Gross loans to customers	**119,450,137**	**94,598,188**
Impairment allowance	(3,692,412)	(1,762,362)
Net loans to customers	**115,757,725**	**92,835,826**

Movements in the loan impairment allowance for the years ended 31 December 2007 and 2006 are as follows:

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	1,762,362	1,593,577
Net charge for the year (Note 10)	2,452,532	278,498
Write-offs	(522,482)	(109,713)
Balance at the end of the year	**3,692,412**	**1,762,362**

As at 31 December 2007, interest accrued on impaired loans amount to KZT 544,218 thousand (31 December 2006: KZT 314,962 thousand).

19 Loans to customers, continued

(a) Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2007:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to large corporate clients				
Loans for which no impairment has been identified	46,803,885	(288,468)	46,515,417	0.62
Impaired loans:				
- not past due	3,808,237	(270,752)	3,537,485	7.11
- overdue less than 90 days	2,892,773	(607,748)	2,285,025	21.01
- overdue more than 90 days and less than 1 year	144,360	(144,360)	-	100.00
Total impaired loans	6,845,370	(1,022,860)	5,822,510	14.94
Total loans to large corporate clients	**53,649,255**	**(1,311,328)**	**52,337,927**	**2.44**
Loans to small and medium size companies				
Loans for which no impairment has been identified	7,328,887	(69,150)	7,259,737	0.94
Impaired loans:				
- not past due	227,896	(9,823)	218,073	4.31
- overdue less than 90 days	389,880	(24,425)	365,455	6.26
- overdue more than 90 days and less than 1 year	387,041	(105,030)	282,011	27.14
- overdue more than 1 year	8,318	(8,318)	-	100.00
Total impaired loans	1,013,135	(147,596)	865,539	14.57
Total loans to small and medium size companies	**8,342,022**	**(216,746)**	**8,125,276**	**2.60**
Total commercial loans	**61,991,277**	**(1,528,074)**	**60,463,203**	**2.46**

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19 Loans to customers, continued

(a) Credit quality of commercial loan portfolio, continued

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2006:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to large corporate clients				
Loans for which no impairment has been identified	46,818,950	-	46,818,950	-
Impaired loans:				
- not past due	2,813,585	(244,354)	2,569,231	8.68
- overdue less than 90 days	747,075	(747,075)	–	100.00
Total impaired loans	3,560,660	(991,429)	2,569,231	27.84
Total loans to large corporate clients	**50,379,610**	**(991,429)**	**49,388,181**	**1.97**
Loans to small and medium size companies				
Total loans for which no impairment has been identified	9,468,428	-	9,468,428	-
Impaired loans:				
- not past due	298,537	(23,737)	274,800	7.95
- overdue less than 90 days	104,403	(25,952)	78,451	24.86
- overdue more than 90 days and less than 1 year	15,313	(15,313)	-	100.00
- overdue more than 1 year	15,280	(15,280)	-	100.00
Total impaired loans	433,533	(80,282)	353,251	18.52
Total loans to small and medium size companies	**9,901,961**	**(80,282)**	**9,821,679**	**0.81**
Total commercial loans	**60,281,571**	**(1,071,711)**	**59,209,860**	**1.78**

19 Loans to customers, continued

(a) Credit quality of commercial loan portfolio, continued

In determining the impairment allowance for commercial loans as at 31 December 2007 the management have assumed an average historic annual loss rates of 0.62% and 0.94% for large corporate clients and SME entities, respectively.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on commercial loans as of 31 December 2007 would be KZT 604,632 thousand lower/higher.

During the year ended 31 December 2007 the Group renegotiated commercial loans that would otherwise be past due or impaired of KZT 6,661,575 thousand (31 December 2006: KZT 3,579,474 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

(i) Analysis of collateral

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 31 December 2007 and 2006:

	2007 '000 KZT	% of loan portfolio	2006 '000 KZT	% of loan portfolio
Real estate	34,681,223	57	28,877,630	49
Real estate under construction	10,021,101	17	3,321,206	6
Goods in transit	3,246,809	5	2,429,891	4
Equipment	2,937,260	5	3,535,229	6
Motor vehicles	2,863,318	5	3,654,998	6
Guarantees of legal entities and individuals	2,534,084	4	11,677,959	20
Bank deposits	1,431,964	2	3,025,560	5
Intellectual property rights	623,648	1	-	-
Traded securities	116,468	1	1,010,000	2
Other collateral	1,395,143	2	271,296	-
No collateral	612,185	1	1,406,091	2
Total	**60,463,203**	**100**	**59,209,860**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

As at 31 December 2007 impaired or overdue loans with a gross value of KZT 754,152 thousand (2006: KZT 287,502 thousand) are secured by collateral with a fair value of KZT 60,150 thousand (2006: KZT 94,698 thousand). For the remaining impaired loans of KZT 7,104,353 thousand (2006: KZT 3,706,691 thousand) it is impracticable to determine fair value of collateral or there is no collateral.

During the year ended 31 December 2007 the Group did not obtain any assets by taking control of collateral accepted as security for commercial loans (31 December 2006: nil).

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19 Loans to customers, continued

(a) Credit quality of commercial loan portfolio, continued

(ii) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2007 are as follows:

'000 KZT	Loans to large corporate clients	Loans to small and medium size companies	Total
Loan impairment allowance as at 1 January	991,429	80,282	1,071,711
Loans written off during the year as uncollectible	(443,855)	(40,855)	(484,710)
Loan impairment losses during the year	763,754	177,319	941,073
Loan impairment allowance as at 31 December	**1,311,328**	**216,746**	**1,528,074**

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2006 are as follows:

'000 KZT	Loans to large corporate clients	Loans to small and medium size companies	Total
Loan impairment allowance as at 1 January	1,288,538	138,678	1,427,216
Loans written off during the year as uncollectible	(65,380)	(12,850)	(78,230)
Loan impairment recovery during the year	(231,729)	(45,546)	(277,275)
Loan impairment allowance as at 31 December	**991,429**	**80,282**	**1,071,711**

19 Loans to customers, continued

(b) Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	'000 KZT	'000 KZT	'000 KZT	%
Retail loans collectively assessed for impairment				
Mortgage loans				
- Not past due	26,891,179	(356,465)	26,534,714	1.33
- Overdue less than 30 days	545,175	(108,167)	437,008	19.84
- Overdue 30-59 days	300,054	(138,503)	161,551	46.16
- Overdue 60-89 days	109,421	(68,557)	40,864	62.65
- Overdue 90-119 days	69,574	(47,313)	22,261	68.00
- Overdue 120-149 days	144,988	(137,007)	7,981	94.50
- Overdue 150 - 180 days	43,539	(40,767)	2,772	93.63
Total mortgage loans	**28,103,930**	**(896,779)**	**27,207,151**	**3.19**
Individual entrepreneurship loans				
- Not past due	11,615,620	(221,872)	11,393,748	1.91
- Overdue less than 30 days	592,768	(60,080)	532,688	10.14
- Overdue 30-59 days	185,140	(93,750)	91,390	50.64
- Overdue 60-89 days	31,473	(19,895)	11,578	63.21
- Overdue 90-119 days	80,958	(69,505)	11,453	85.85
- Overdue 120-149 days	72,556	(72,556)	-	100.00
Total individual entrepreneurship loans	**12,578,515**	**(537,658)**	**12,040,857**	**4.27**
Consumer loans				
- Not past due	10,049,370	(167,373)	9,881,997	1.67
- Overdue less than 30 days	544,664	(135,461)	409,203	24.87
- Overdue 30-59 days	152,697	(91,207)	61,490	59.73
- Overdue 60-89 days	80,216	(59,087)	21,129	73.66
- Overdue 90-119 days	44,281	(41,491)	2,790	93.70
- Overdue 120-149 days	34,595	(34,595)	-	100.00
- Overdue 150 - 180 days	16,588	(16,588)	-	100.00
Total consumer loans	**10,922,411**	**(545,802)**	**10,376,609**	**5.00**
Automobile loans				
- Not past due	3,239,760	(10,679)	3,229,081	0.33
- Overdue less than 30 days	157,974	(9,562)	148,412	6.05
- Overdue 30-59 days	37,430	(5,845)	31,585	15.62
- Overdue 60-89 days	13,139	(4,005)	9,134	30.48
- Overdue 90-119 days	8,099	(2,469)	5,630	30.49
- Overdue 120-149 days	9,014	(3,967)	5,047	44.01
- Overdue 150 - 180 days	3,473	(1,528)	1,945	44.00
Total automobile loans	**3,468,889**	**(38,055)**	**3,430,834**	**1.10**

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19 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Other loans to individuals				
- Not past due	2,225,447	(59,411)	2,166,036	2.67
- Overdue less than 30 days	53,111	(45)	53,066	0.08
- Overdue 30-59 days	4,529	(100)	4,429	2.21
- Overdue 60-89 days	1,504	(144)	1,360	9.57
- Overdue 90-119 days	73,028	(58,944)	14,084	80.71
- Overdue 120-149 days	27,370	(27,274)	96	99.65
- Overdue 150-180 days	126	(126)	-	100.00
Total other loans to individuals	**2,385,115**	**(146,044)**	**2,239,071**	**6.12**
Total loans to individuals	**57,458,860**	**(2,164,338)**	**55,294,522**	**3.77**

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2006:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Retail loans collectively assessed for impairment				
Mortgage loans				
- Not past due	17,923,524	(209,354)	17,714,170	1.17
- Overdue less than 30 days	210,616	(146,940)	63,676	69.77
- Overdue 30-59 days	10,972	(10,972)	-	100.00
- Overdue 60-89 days	15,866	(15,866)	-	100.00
- Overdue 90-119 days	12,699	(12,699)	-	100.00
- Overdue 120-149 days	2,483	(2,483)	-	100.00
Total mortgage loans	**18,176,160**	**(398,314)**	**17,777,846**	**2.19**
Individual entrepreneurship loans				
- Not past due	3,602,606	(21,191)	3,581,415	0.59
Total individual entrepreneurship loans	**3,602,606**	**(21,191)**	**3,581,415**	**0.59**

19 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Consumer loans				
- Not past due	9,221,305	(28,154)	9,193,151	0.31
- Overdue less than 30 days	137,604	(54,632)	82,972	39.70
- Overdue 30-59 days	12,225	(7,863)	4,362	64.32
- Overdue 60-89 days	11,660	(7,099)	4,561	60.88
- Overdue 90-119 days	1,183	(1,183)	-	100.00
- Overdue 120-149 days	3,829	(3,829)	-	100.00
- Overdue 150 - 180 days	627	(627)	-	100.00
Total consumer loans	**9,388,433**	**(103,387)**	**9,285,046**	**1.10**
Automobile loans				
- Not past due	1,195,456	(3,965)	1,191,491	0.33
- Overdue less than 30 days	35,544	(9,977)	25,567	28.07
- Overdue 30-59 days	13,446	(13,446)	-	100.00
- Overdue 60-89 days	10,934	(10,934)	-	100.00
- Overdue 90-119 days	3,407	(3,407)	-	100.00
- Overdue 120-149 days	3,624	(3,624)	-	100.00
- Overdue 150 - 180 days	5,066	(5,066)	-	100.00
Total automobile loans	**1,267,477**	**(50,419)**	**1,217,058**	**3.98**
Other loans to individuals				
- Not past due	1,870,056	(116,523)	1,753,533	6.23
- Overdue less than 30 days	8,745	(817)	7,928	9.34
- Overdue 30-59 days	823	-	823	-
- Overdue 60-89 days	890	-	890	-
- Overdue 90-119 days	1,427	-	1,427	-
Total other loans to individuals	**1,881,941**	**(117,340)**	**1,764,601**	**6.24**
Total loans to individuals	**34,316,617**	**(690,651)**	**33,625,966**	**2.01**

19 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used at 31 December 2007 in determining the impairment losses for loans to individuals include:

- Management assumed that the Group will not collect mortgage loans, individual entrepreneurship loans, consumer loans, automobile loans, credit cards and other loans to individuals overdue more than 180 days.
- Management assumed that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment on loans to individuals as of 31 December 2007 would be KZT 1,658,836 thousand lower/higher.

(i) Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Individual entrepreneurship loans are secured by real estate and movable property. Automobile loans are secured by underlying car. Other loans are not secured.

19 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

(ii) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2007 are as follows:

'000 KZT	Mortgage loans	Individual entrepre-neurship loans	Consumer loans	Automobile loans	Other loans to individuals	Total
Loan impairment allowance as at 1 January	398,314	21,191	103,387	50,419	117,340	690,651
Loans (written off)/ recovered during the year as uncollectible	(7,931)	-	(52,369)	(58,535)	81,063	(37,773)
Loan impairment losses/(recoveries) during the year	506,396	516,467	494,784	46,171	(52,359)	1,511,460
Loan impairment allowance as at 31 December	**896,779**	**537,658**	**545,802**	**38,055**	**146,044**	**2,164,338**

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2006 are as follows:

'000 KZT	Mortgage loans	Individual entrepre-neurship loans	Consumer loans	Automobile loans	Other loans to individuals	Total
Loan impairment allowance as at 1 January	124,189	-	58	-	42,114	166,361
Loans (written off)/ recovered during the year as uncollectible	(42,506)	-	6,974	3,439	610	(31,483)
Loan impairment losses during the year	316,631	21,191	96,355	46,980	74,616	555,773
Loan impairment allowance as at 31 December	**398,314**	**21,191**	**103,387**	**50,419**	**117,340**	**690,651**

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19 Loans to customers, continued

(c) Industry and geographical analysis of the loan portfolio

Loans to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2007 '000 KZT	2006 '000 KZT
Loans to large corporate clients and SME		
Construction	16,319,270	11,563,633
Wholesale trade	12,205,166	12,379,305
Mining/metallurgy	9,072,750	4,859,572
Real estate	7,613,343	5,975,708
Food production	4,038,990	4,314,728
Transport	2,945,877	4,290,057
Entertainment	2,795,190	6,452,979
Services	1,738,144	2,070,469
Retail trade	1,343,996	1,581,142
Agriculture, forestry and timber	1,179,348	1,961,281
Manufacturing	819,641	840,498
Machinery production	624,027	722,907
Publishing	269,677	24,686
Energy production and supply	249,313	531,845
Financial intermediary	183,909	2,073,116
Medical and social care	77,956	134,811
Hotels and restaurants	77,732	264,473
Other	436,948	240,361
Total loans to large corporate clients and SME	**61,991,277**	**60,281,571**
Loans to individuals		
Mortgage loans	28,103,930	18,176,160
Individual entrepreneurship loans	12,578,515	3,602,606
Consumer loans	10,922,411	9,388,433
Automobile loans	3,468,889	1,267,477
Other loans to individuals	2,385,115	1,881,941
Total loans to individuals	**57,458,860**	**34,316,617**
Total loans to customers, gross	**119,450,137**	**94,598,188**
Impairment allowance	(3,692,412)	(1,762,362)
Total loans to customers, net	**115,757,725**	**92,835,826**

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19 Loans to customers, continued

(d) Significant credit exposures

As at 31 December 2007 and 2006 the Group did not have borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans to customers.

(e) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 45, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to short-term nature of the loans issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

20 Insurance contract provisions

	31 December 2007		
'000 KZT	**Gross**	**Reinsurance**	**Net**
Unearned premiums	3,028,935	(838,786)	2,190,149
Incurred but not reported provision	697,472	(57,727)	639,745
Reported but not settled claims provision	2,953,871	(53,990)	2,899,881
Total insurance contract provisions	**6,680,278**	**(950,503)**	**5,729,775**
Current	6,194,584	(706,640)	5,487,944
Non-current	485,694	(243,863)	241,831
	6,680,278	**(950,503)**	**5,729,775**

(a) Analysis of movements in insurance contract provisions

	2007 **'000 KZT**
Balance at 16 March	5,610,612
Claims paid	(2,244,164)
Gross premiums written	8,218,888
Gross premiums earned	(10,921,349)
Current period claims reported	2,723,645
New provisions established in the year	561,320
Change in loss adjustment expense provision	3,805
Change in previous years' provisions	(356,455)
Change in reinsurers' share	2,133,473
Balance at 31 December	**5,729,775**

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20 Insurance contract provisions, continued

(b) Analysis of movements in provisions for unearned premiums

	2007 '000 KZT
Balance at 16 March, date of acquisition	3,408,889
Gross premiums written (Note 8)	8,218,888
Gross premiums earned (Note 8)	(10,921,349)
Change in reinsurers' share (Note 8)	1,483,721
Balance at 31 December	**2,190,149**

(c) Analysis of movements in provisions for incurred but not reported claims

	2007 '000 KZT
Balance at 16 March, date of acquisition	81,487
New provisions established in the period (Note 13)	561,320
Change in reinsurers' share	(3,062)
Balance at 31 December	**639,745**

(d) Analysis of movements in provisions for reported but not settled claims

	2007 '000 KZT
Balance at 16 March, date of acquisition	2,120,236
Provided for current period claims	2,723,645
Provided for prior period claims	40,358
Change in loss adjustment expense provision	3,805
Adjustments of prior years' claims	(396,813)
Change in reinsurers' share	652,814
Current period claims paid	(762,477)
Prior years' claims paid	(1,481,687)
Balance at 31 December	**2,899,881**

(e) Assumptions and sensitivities for general business

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information.

20 Insurance contract provisions, continued

(e) Assumptions and sensitivities for general business, continued

Process used to determine the assumptions, continued

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The incurred but not reported claims provisions are estimated using the Chain Ladder statistical method. This method extrapolates the development of paid and incurred claims for each accident period based upon observed development of earlier periods.

To the extent that this method uses historical claims development information it assumes that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends;
- changes in mix of business;
- random fluctuations, including the impact of large losses.

Management performs regular reviews of its statistical databases and actual expense data to ensure that provisions are established with appropriate prudence.

Incurred but not reported claims provisions are initially estimated at the gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries.

21 Available-for-sale assets

	2007 '000 KZT	2006 '000 KZT
Held by the Group		
Debt and other fixed-income instruments		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	5,773,143	4,654,727
Bonds of local financial institutions, other than banks	2,102,547	781,866
Bonds of local banks	5,835,033	1,506,311
Notes of the NBRK	408,427	-
Treasury notes of the US governments	149,721	-
Local municipal bonds	119,865	869,782
Mortgage bonds of local financial institutions, other than banks	24,565	-
Eurobonds of local banks	7,965	287,058
Corporate bonds	3,586,982	245,695
Euronotes of the Government of the Republic of Kazakhstan	-	3,400,574
Equity investments		
Corporate shares	33,314	10,000
Shares of local banks	556,269	1,866,530
	18,597,831	**13,622,543**
Pledged under sale and repurchase agreements		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	5,856,536	85,642
Treasury notes of the US governments	1,720,913	-
Notes of the NBRK	947,689	-
Eurobonds of local banks	881,006	-
	9,406,144	**85,642**
Pledged under loans from other banks		
Euronotes of the Government of the Republic of Kazakhstan	-	8,497,637
Eurobonds of local banks	-	1,395,061
	-	**9,892,698**
	28,003,975	**23,600,883**

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21 Available-for-sale assets, continued

As at 31 December 2006 debt instruments with a total fair value of KZT 9,892,698 thousand were pledged to secure a loan, which is included in the amount of deposits and balances from banks. The loan was repaid in installments in January - May 2007.

Included in available-for-sale assets are non-quoted equity securities - the ordinary shares of Processing Centre JSC are carried at cost with a carrying value of KZT 10,000 thousand (2006: KZT 10,000 thousand), fair value of which cannot be reliably determined.

22 Insurance and reinsurance receivables

	2007 '000 KZT	2006 '000 KZT
Premiums receivable	767,069	-
Reinsurance premiums receivable	355,420	-
Reinsurance claims receivable	205,523	-
	1,328,012	-

23 Deferred tax assets

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2007 and 2006. These deferred tax assets have been recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
'000 KZT	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Loans to customers	561,534	232,986	-	-	561,534	232,986
Property and equipment	-	-	(482,282)	(221,414)	(482,282)	(221,414)
Intangible assets	421	-		-	421	-
Other assets	44,361	19,299	-	-	44,361	19,299
Vacation accruals	64,380	38,546	-	-	64,380	38,546
Taxes payable	456	616	-	-	456	616
Other liabilities	-	-	(22,868)	-	(22,868)	-
Total net deferred tax assets	671,152	291,447	(505,150)	(221,414)	166,002	70,033

23 Deferred tax assets, continued

The rate of tax applicable for deferred taxes was 30% (2006: 30%).

The above deductible temporary differences do not expire under current tax legislation. The net deferred tax asset as at 31 December 2007 and 31 December 2006 has been reflected in these consolidated financial statements.

Movement in temporary differences during the year ended 31 December 2007

'000 KZT	Balance 1 January 2007	Acquisition of subsidiary	Recognised in income	Balance 31 December 2007
Loans to customers	232,986	-	328,548	561,534
Property and equipment	(221,414)	(989)	(259,879)	(482,282)
Intangible assets	-	293	128	421
Available-for-sale assets	-	(655)	655	-
Other assets	19,299	390	24,672	44,361
Commission payable from pension asset management	-	78,835	(78,835)	-
Vacation accruals	38,546	2,416	23,418	64,380
Taxes payable	616	102	(262)	456
Other liabilities	-	(1,865)	(21,003)	(22,868)
	70,033	**78,527**	**17,442**	**166,002**

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24 Property and equipment

'000 KZT	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress	Leasehold improvements	Total
Cost							
At 1 January 2007	729,932	924,166	259,142	136,336	454,509	170,064	2,674,149
Acquisition of subsidiaries	354,680	128,357	56,480	90,939	-	-	630,456
Additions	6,915,152	233,348	77,695	49,085	891,474	88,219	8,254,973
Disposals	-	(24,990)	(3,325)	(2,682)	-	(58,950)	(89,947)
Transfers	414,504	481,039	-	728	(896,271)	-	-
At 31 December 2007	**8,414,268**	**1,741,920**	**389,992**	**274,406**	**449,712**	**199,333**	**11,469,631**
Depreciation							
At 1 January 2007	34,325	239,434	72,317	43,645	-	19,127	408,848
Acquisition of subsidiaries	20,675	70,360	15,178	25,627	-	-	131,840
Depreciation charge	46,183	238,193	46,757	25,290	-	76,552	432,975
Disposals	-	(20,603)	(1,870)	(1,722)	-	(53,934)	(78,129)
At 31 December 2007	**101,183**	**527,384**	**132,382**	**92,840**	**-**	**41,745**	**895,534**
Carrying value							
At 31 December 2007	**8,313,085**	**1,214,536**	**257,610**	**181,566**	**449,712**	**157,588**	**10,574,097**
At 31 December 2006	695,607	684,732	186,825	92,691	454,509	150,937	2,265,301

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24 Property and equipment, continued

'000 KZT	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Const-ruction in progress	Leasehold improve-ments	Total
Cost							
At 1 January 2006	535,253	553,635	178,329	89,882	138,325	134,026	1,629,450
Additions	120,160	266,259	86,960	46,629	497,416	96,381	1,113,805
Disposals	-	(2,441)	(6,147)	(175)	-	(60,343)	(69,106)
Transfers	74,519	106,713	-	-	(181,232)	-	-
At 31 December 2006	**729,932**	**924,166**	**259,142**	**136,336**	**454,509**	**170,064**	**2,674,149**
Depreciation							
At 1 January 2006	20,080	102,107	45,832	37,548	-	9,871	215,438
Depreciation charge	14,245	138,443	29,373	6,097	-	16,446	204,604
Disposals	-	(1,116)	(2,888)	-	-	(7,190)	(11,194)
At 31 December 2006	**34,325**	**239,434**	**72,317**	**43,645**	**-**	**19,127**	**408,848**
Carrying value							
At 31 December 2006	**695,607**	**684,732**	**186,825**	**92,691**	**454,509**	**150,937**	**2,265,301**
At 31 December 2005	515,173	451,528	132,497	52,334	138,325	124,155	1,414,012

25 Intangible assets

KZT'000	Computer software	Other	Total
Cost			
At 1 January 2007	271,799	70,580	342,379
Acquisition of subsidiaries	6,300	-	6,300
Additions	276,103	30,406	306,509
At 31 December 2007	**554,202**	**100,986**	**655,188**
Amortisation			
At 1 January 2007	57,053	7,391	64,444
Acquisition of subsidiaries	4,298	-	4,298
Amortisation charge	59,910	17,517	77,427
At 31 December 2007	**121,261**	**24,908**	**146,169**
Carrying value			
At 31 December 2007	**432,941**	**76,078**	**509,019**
At 1 January 2007	214,746	63,189	277,935

KZT'000	Computer software	Other	Total
Cost			
At 1 January 2006	100,151	6,235	106,386
Additions	171,648	65,995	237,643
Disposals	-	(1,650)	(1,650)
At 31 December 2006	**271,799**	**70,580**	**342,379**
Amortisation			
At 1 January 2006	32,578	1,131	33,709
Amortisation charge	24,475	6,260	30,735
At 31 December 2006	**57,053**	**7,391**	**64,444**
Carrying value			
At 31 December 2006	**214,746**	**63,189**	**277,935**
At 1 January 2006	67,573	5,104	72,677

26 Other assets

	2007 '000 KZT	2006 '000 KZT
Prepayments	142,098	35,272
Commission receivable from pension assets	118,044	-
Accrued bank service commissions	102,229	71,125
Taxes prepaid, other than income tax	42,828	31,286
Due from American Express for travel cheques accepted	39,470	-
Advances on capital expenditures	30,939	36,069
Documentary settlements	23,531	170,251
Materials and supplies	22,268	33,246
Precious metals	17,046	46,737
Other	131,031	48,928
	669,484	**472,914**
Impairment allowance	(58,069)	(3,175)
	611,415	**469,739**

Analysis of movements in the impairment allowance

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	**3,175**	**36,500**
Acquisition of subsidiaries	293	-
Net charge/(recovery) for the year (Note 12)	54,851	(8,325)
Write-offs	(250)	(25,000)
Balance at the end of the year	**58,069**	**3,175**

As at 31 December 2007, included in other assets are overdue receivables of KZT 36,606 thousand (31 December 2006: KZT 1,112 thousand), of which KZT 10,354 thousand (31 December 2006: KZT 802 thousand) are overdue for more than 90 days but less than one year and KZT 114 thousand (31 December 2006: nil) are overdue for more than one year.

27 Deposits and balances from banks and other financial institutions

	2007 '000 KZT	2006 '000 KZT
Loans from financial institutions, other than banks	14,115,848	5,153,848
Syndicated bank loans	14,000,320	20,246,097
Term deposits	8,014,862	3,698,581
Loans from banks	2,160,056	10,105,880
Vostro accounts	38,342	1,093,699
	38,329,428	**40,298,105**

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27 Deposits and balances from banks and other financial institutions, continued

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2007 and 2006 the Group had 4 and 3 banks and financial institutions, respectively, whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as of 31 December 2007 and 2006 were KZT 29,243,315 thousand and KZT 33,507,628 thousand, respectively.

28 Amounts payable under repurchase agreements

	2007 '000 KZT	2006 '000 KZT
Amounts due to banks and other financial institutions	8,583,385	77,064

Securities pledged

As of 31 December 2007 and 2006, the Group had pledged certain securities as collateral under repurchase agreements (refer to Note 21).

29 Current accounts and deposits from customers

	2007 '000 KZT	2006 '000 KZT
Current accounts and demand deposits		
- Retail	4,248,729	3,182,281
- Corporate	18,086,153	17,549,570
Term deposits		
- Retail	15,202,517	8,488,572
- Corporate	51,669,742	51,099,670
	89,207,141	**80,320,093**

(a) Blocked accounts

As at 31 December 2007, the Group maintained customer deposit balances of KZT 4,290,438 thousand (31 December 2006: KZT 7,880,735 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

(b) Concentrations of current accounts and customer deposits

As of 31 December 2007 and 2006, the Group had 1 and 2 customers, respectively, whose balances exceeded 10% of total customer accounts. These balances as of 31 December 2007 and 2006 were KZT 10,716,250 thousand and KZT 25,996,308 thousand, respectively.

30 Debt securities issued

	2007 '000 KZT	2006 '000 KZT
Par value	1,496,600	1,500,000
Discount	(4,441)	(9,359)
Accrued interest	9,458	9,479
	1,501,617	**1,500,120**

As at 31 December 2007, debt securities issued comprise KZT denominated bonds issued by the Group bearing fixed coupon rate of 6.5% per annum and maturing in November 2008.

31 Subordinated debt securities issued

	2007 '000 KZT	2006 '000 KZT
Par value	16,954,358	11,004,120
Discount	(1,760,803)	(509,293)
Accrued interest	403,658	161,189
	15,597,213	**10,656,016**

As at 31 December 2007, subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities shall be made after repayment in full of all other liabilities of the Group. In September 2007 the Group conducted the fourth issue of subordinated bonds with an aggregate nominal amount of KZT 6,010,200 thousand. As at 31 December 2007 the subordinated bonds of the second, third and fourth issues bear interest fixed at 7.0%, 9.5% and 9.0% per annum and mature in December 2011, April 2013 and September 2014, respectively.

32 Insurance and reinsurance payables

	2007 '000 KZT	2006 '000 KZT
Advances received	1,203,130	-
Reinsurance premiums	312,797	-
Insurance brokers' fees	27,896	-
Claims due	2,591	-
	1,546,414	-

Advances received represent amount received from prospective policyholders for which risks had not yet been assumed at the balance sheet date.

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33 Other liabilities

	2007 '000 KZT	2006 '000 KZT
Payable to Aktiva Plus LLC for premises acquired (Note 41)	4,004,059	-
Payable to American Express Bank for travel cheques	428,171	66,616
Commission payable from investment loss on pension assets	376,021	-
Taxes payable, other than income taxes	254,087	150,335
Vacation accruals	231,025	128,487
Deferred income	46,740	21,261
Amounts payable to employees	92,308	17,273
Provision for guarantees and letters of credit issued (Note 37)	-	64,330
Other	160,040	90,746
	5,592,451	**539,048**

34 Share capital

(a) Issued capital and share premium

The issued and outstanding share capital comprises 83,683 fully paid ordinary shares, (2006: 83,683). The authorised share capital comprises 109,998 ordinary shares (2006: 109,998). The shares have a par value of KZT 95,598.

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Kazakhstan. In accordance with the legislation of the Republic of Kazakhstan, as of the balance sheet date, reserves available for distribution of amounted to KZT 11,640,204 thousand (2006: KZT 9,793,619 thousand).

(c) Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to the common shareholder by the weighted average number of ordinary shares outstanding during the year. The Group does not have any share options, or convertible debt or equity instruments.

	2007	2006
Net income attributable to common shares, in thousand of KZT	5,603,329	3,818,147
Weighted average number of shares	83,683	62,935
Basic earnings per share, in KZT	**66,959**	**60,668**

35 Risk management

Management of risk is fundamental to the financial services business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Bank and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Management Committee (ALCO), chaired by the Chairman of Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

35 Risk management, continued

(b) Market risk, continued

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

(i) Currency risk

An analysis of sensitivity of the Group's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in USD and Euro to Kazakhstan Tenge exchange rates is as follows:

	2007		2006	
	Net income	**Equity**	**Net income**	**Equity**
5% appreciation of USD against KZT	73,048	73,048	(145,862)	(145,862)
5% depreciation of USD against KZT	(73,048)	(73,048)	145,862	145,862
5% appreciation of EUR against KZT	(2,193)	(2,193)	8,088	8,088
5% depreciation of EUR against KZT	2,193	2,193	(8,088)	(8,088)

(ii) Interest rate risk

An analysis of sensitivity of the Group's projected net income for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2007 and 2006 is as follows:

	31 December 2007		31 December 2006	
	Net interest margin	**Equity**	**Net interest margin**	**Equity**
100 bp parallel increase	543,447	543,447	302,506	302,506
100 bp parallel decrease	(543,447)	(543,447)	(302,506)	(302,506)

35 Risk management, continued

(b) Market risk, continued

(ii) Interest rate risk, continued

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2007		31 December 2006	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	-	(843,779)	-	(264,870)
100 bp parallel decrease	-	898,648	-	284,021

(iii) Equity price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group's equity to changes in securities prices based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in all securities prices is as follows:

	31 December 2007	31 December 2006
5% increase in securities prices	20,635	65,679
5% decrease in securities prices	(20,635)	(65,679)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Management Board.

The Bank established a number of credit committees, which are responsible for oversight of the Bank's credit risk.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- Credit Committee with further approval of the Board of Directors reviews and approves all loan/credit applications exceeding USD 10,000 thousand or equivalent amount in KZT;
- Credit Committee reviews and approves all loan/credit applications between USD 5,000 and USD 10,000 thousand or equivalent amount in KZT;

35 Risk management, continued

(c) Credit risk, continued

- Credit Commission of the Head Office reviews and approves applications for the amount between USD 1,000 and USD 5,000 thousand or equivalent amount in KZT;

- Credit Commission of the Branch network reviews and approves applications up to USD 1,000 thousand or equivalent amount in KZT;

- Credit Commissions of the branches review and approve applications within the limits set for each branch.

All Committees can approve the loan conditions different from those stated in the Bank's internal policy guidelines within certain limits. They can also submit the petition to the above committees up to the Board of Directors for resolution.

The Bank limits concentrations of exposure for a borrower or/and a group of related borrowers as well as by industry/sector, by region.

The Bank's credit policy establishes:

- Procedures for review and approval of loan/credit applications;

- Methodology for the credit assessment of borrowers (corporate, SME and retail);

- Methodology for the credit assessment of counterparties, issuers and insurance companies;

- Methodology for the evaluation of collateral;

- Credit documentation requirements;

- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit application, accepted by a service manager, is passed on to the Department of Corporate Relations. The department is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the evaluation report are then independently reviewed by the Legal Department, who checks for the legal validity of the documents provided and expresses an opinion. The Appraisal Department is responsible for checking the value and quality of the pledged property. A valuation assessment report is prepared. The Security Department checks the reputation of the potential borrower and whether the customer has non-performing loans in other banks. The conclusion is documented in a security report. The Risk Department, including Credit Risk Analysis and Monitoring division, checks for appropriate execution of the Bank's credit policy requirements. The Credit Committee of the Bank makes a decision based on the conclusions of the Department of Corporate Relations and the Risk Department.

35 Risk management, continued

(c) Credit risk, continued

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Legal Department, the Shelf Product Division (for express loans, automobile loans and credit cards) and by the Retail Lending divisions through the use of scoring models and the application data verification procedures developed together with the Risk Department. For the loans below USD 30 thousand, no opinion of the Appraisal Department is required. For all loans above USD 50 thousand, the Security Department approval is required.

The Group manages credit risk related to insurance assets by setting minimum rating requirements to its investment account components. The minimum rating for domestic exposures is an "A" listing category assigned by the Kazakhstan Stock Exchange and a foreign counterparty should have at least "A-"grade by S&P or Fitch or "A3" by Moody's.

Apart from individual customer analysis, the credit portfolio of homogeneous loans is assessed by the Risk Department with regard to credit concentration, trends of the loan balances and market risks.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off balance exposures as presented in the Note 37 "Commitments". The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to Note 19 "Loans to customers".

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

35 Risk management, continued

(d) Liquidity risk, continued

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department of the Bank receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the FMSA. The Bank was in compliance with these ratios during the year ended 31 December 2007.

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognised loan commitments vary significantly from this analysis.

35 Risk management, continued

(d) Liquidity risk, continued

The position of the Group as at 31 December 2007 was as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 Month	From 3 to 1 year	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	38,235	6,234,504	27,234,088	2,297,895	5,445,339	41,250,061	38,329,428
Amounts payable under repurchase agreements	8,590,661	-	-	-	-	8,590,661	8,583,385
Current accounts and deposits from customers	28,222,288	1,005,014	4,813,556	69,696,425	2,476,627	106,213,910	89,207,141
Debt securities issued	-	-	1,594,079	-	-	1,594,079	1,501,617
Subordinated debt securities issued	-	270,459	1,430,459	9,593,672	15,504,326	26,798,916	15,597,213
Insurance and reinsurance premiums payables	-	-	1,546,414	-	-	1,546,414	1,546,414
Insurance contract provisions	-	-	6,680,278	-	-	6,680,278	6,680,278
Other liabilities	353,030	483,301	4,466,748	-	374,773	5,677,852	5,592,451
Derivative liabilities							
- Inflow	(1,296,453)	-	-	-	-	(1,296,453)	(1,291,731)
- Outflow	1,293,443	-	-	-	-	1,293,443	1,309,633
Total	**37,201,204**	**7,993,278**	**47,765,622**	**81,587,992**	**23,801,065**	**198,349,161**	**167,055,829**
Credit related commitments	19,257,828	-	-	-	-	19,257,828	-

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35 Risk management, continued

(d) Liquidity risk, continued

The position of the Group as at 31 December 2006 was as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 month	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	4,706,991	8,501,078	17,453,222	12,248,250	-	42,909,541	40,298,105
Amounts payable under repurchase agreements	77,148	-	-	-	-	77,148	77,064
Current accounts and deposits from customers	27,839,825	3,004,327	29,953,546	41,970,130	2,073,168	104,840,996	80,320,093
Debt securities issued	-	-	97,500	1,597,500	-	1,695,000	1,500,120
Subordinated debt securities issued	-	-	880,361	6,881,566	9,144,707	16,906,634	10,656,016
Other liabilities	539,048	-	-	-	-	539,048	539,048
	33,163,012	**11,505,405**	**48,384,629**	**62,697,446**	**11,217,875**	**166,968,367**	**133,390,446**
Credit related commitments	33,135,971	-	-	-	-	33,135,971	-

For further information on the Group's exposure to liquidity risk at year end refer to Note 45.

(e) Insurance risk

(i) Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, health, cargo or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Group also has exposure to market risk through its insurance and investment activities. The Group manages its insurance risk through underwriting limits, approval procedures for transactions, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

35 Risk management, continued

(e) Insurance risk, continued

(i) Risk management objectives and policies for mitigating insurance risk, continued

Underwriting strategy

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The underwriting strategy is set out in the business plan that sets out the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Group is prepared to expose itself. This strategy is developed through the detailed underwriting authorities that determine detailed underwriting rules for each type of product. The authorities are subject to approval from the FMSA. The authorities contain basic insurance concepts and procedures, inherent risk descriptions, terms and conditions, rights and obligations, documentation requirements, template agreement/policy examples, actuary's rationale of applicable tariff range (minimum and maximum) and factors that would affect the applicable tariff. The tariff calculations are based on probability and variation computations using Kazakhstan statistics for the last 3-5 years and updated to reflect market conditions (approximately once a year). Each corporate client policy requires separate approval of the underwriters. The Group is required to carry out a special actuarial report and needs to obtain Board of Directors of the insurance company approval for all risks exceeding 25% of total assets.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Revision Committee of the insurance company.

Reinsurance strategy

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys facultative reinsurance to reduce the net exposure to the Group to 10% of the total of equity and insurance contract reserves for every individual contract or in other specified circumstances.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Group does not utilise any stop-loss reinsurance agreements to control its exposure to losses resulting from one occurrence.

(ii) Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Group's main products and the ways in which it manages the associated risks.

35 Risk management, continued

(e) Insurance risk, continued

(ii) Terms and conditions of insurance contracts and nature of risks covered, continued

General insurance contracts - General liability

- Product features:

The Group writes general liability insurance in Kazakhstan. Under these contracts corporate entities are reimbursed for any monetary compensation awards paid for bodily injury suffered by employees (both casualty and occupational disease) and environmental damage resulting from accident. General liability is generally considered a long tail line, as it takes a relatively long period of time to finalise and settle claims for a given accident year. General liability is a mandatory insurance class.

- Management of risks:

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. The Group will also be exposed to the risk of dishonest actions by policyholders. Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. The risk on any policy will vary according to many factors such as location, safety measures in place, nature of the businesses insured, age of property etc. For commercial businesses, proposals will comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. Insurance risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

General insurance contracts – Property

- Product features:

The Group writes property insurance in Kazakhstan. Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own material property and business interruption arising from this damage. The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (such as a fire or burglary) and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay (an exception to this is subsidence claims). Property business is therefore classified as 'short-tailed', contrasted with the 'long-tailed' classes where the ultimate claim cost takes longer to determine.

- Management of risks:

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk (including the variable incidence of natural disasters). The Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. The risk on any policy will vary according to many factors such as location, safety measures in place, age of property etc. For domestic property insurance it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this will not be the case. Many commercial property proposals will comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

35 Risk management, continued

(e) Insurance risk, continued

(ii) Terms and conditions of insurance contracts and nature of risks covered, continued

General insurance contracts – Property, continued

- Management of risks, continued:

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a property portfolio. Insurance risk is managed primarily through sensible pricing, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

General insurance contracts – Cargo

- Product features:

The Group writes cargo insurance. Cargo insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage of cargo during transportation to the buyers. The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group. The event giving rise to a claim could be characterised as "low effect – high frequency" and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Cargo business is therefore classified as 'short-tailed'.

- Management of risks:

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. The Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different routes it insures. The risk on any policy will vary according to many factors such as route and destination, safety measures of carrier, nature of cargo etc. Many commercial cargo proposals will comprise a unique combination of route and destination, type of cargo, and safety measures accepted by carriers. Calculating a premium commensurate with the risk for these policies will be subjective.

Cargo classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a cargo portfolio. Insurance risk is managed primarily through sensible pricing, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. Within the insurance process, it is unlikely that concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Cargo supplies are generally made by limited batches and various supplies are not connected.

35 Risk management, continued

(e) Insurance risk, continued

(iii) Concentrations of insurance risks

The Group does not set out the total aggregate exposure that it is prepared to accept in certain lines of business to a range of events such as natural catastrophes and terrorism losses. The current aggregate position is monitored at the time of underwriting a risk.

Exposure to various business lines

The key concentrations identified are:

	Total sum insured '000 KZT	Reinsured sum '000 KZT	Insurance retention (after reinsurance) '000 KZT
Class of business			
General liability	1,445,343,038	1,352,009,698	93,333,340
Property	198,331,901	121,736,618	76,595,283
Employer's liability	180,647,369	-	180,647,369
Cargo	152,235,727	776,633	151,459,094
Financial losses	6,295,392	2,614,150	3,681,242
Others	57,429,128	31,072,103	26,357,025
Total	**2,040,282,555**	**1,508,209,202**	**532,073,353**

Exposure relating to catastrophe events

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as earthquake damage, resulting from an earthquake in Almaty. The Group does not possess catastrophe modeling techniques and software facilitating modeling of Probable Maximum Loss (PML). However, the Group made an estimate of its losses that it believes will not exceed 20% of total aggregate exposure.

Exposure to litigation/legislative risks

The Group has no situations where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Exposure to stop loss non-linearities

The Group's policies for mitigating risk exposure do not include the use of stop loss and excess-of-loss features against insurance risks.

35 Risk management, continued

(e) Insurance risk, continued

Reinsurance risk

The Group cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Group's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer the Group considers their relative security. The security of the reinsurer is assessed from public rating information and from internal investigations. The Group performs reviews of investment portfolio compliance with the investment memorandum on a periodic basis.

(v) Claims development

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of the consolidated financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding as of the end of 2007 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

35 Risk management, continued

(e) Insurance risk, continued

(v) Claims development, continued

Analysis of claims development (gross)

Estimate of cumulative claims	**Accident year**					
'000 KZT	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Total						
At end of accident year	106,433	306,034	1,671,268	4,498,838	2,970,396	2,970,396
- one year later	107,524	311,468	1,730,585	4,616,114		4,616,114
- two years later	107,524	312,738	1,730,585			2,150,847
Estimate of cumulative claims	107,524	312,738	1,730,585	4,616,114	2,970,396	9,737,357
Adjustments of prior periods	(103,864)	(70,329)	(290,700)	(1,334,849)		(1,799,742)
Cumulative payments to date	(3,660)	(242,409)	(1,390,035)	(2,523,481)	(910,245)	(5,069,830)
Gross outstanding claims liabilities: total	-	-	**49,850**	**757,784**	**2,060,151**	**2,867,785**
Property						
At end of accident year	73,000	470	552,720	1,789,224	473,541	473,541
- one year later	73,000	947	563,720	1,800,296		1,800,296
- two years later	73,000	947	563,720			637,667
Estimate of cumulative claims	73,000	947	563,720	1,800,296	473,541	2,911,504
Adjustments of prior periods	(73,000)	(770)	74,707	(757,777)		(756,840)
Cumulative payments to date	-	(177)	(638,427)	(936,986)	(18,769)	(1,594,359)
Gross outstanding claims liabilities: property	-	-	-	**105,533**	**454,772**	**560,305**
Cargo						
At end of accident year		262,627	701,675	732,445	787,263	787,263
- one year later		262,827	716,579	764,275		764,275
- two years later		264,097	716,579			980,676
Estimate of cumulative claims		264,097	716,579	764,275	787,263	2,532,214
Adjustments of prior periods		(56,743)	(156,216)	(9,138)	-	(222,097)
Cumulative payments to date		(207,354)	(560,363)	(658,898)	(466,785)	(1,893,400)
Gross outstanding claims liabilities: cargo		-	-	**96,239**	**320,478**	**416,717**

35 Risk management, continued

(e) Insurance risk, continued

(v) Claims development, continued

Analysis of claims development (gross), continued

'000 KZT	Accident year 2005	2006	2007	Total
Estimate of cumulative claims				
Employers' liability				
At end of accident year	203,114	1,517,501	964,990	964,990
- one year later	230,114	1,579,357		1,579,357
- two years later	235,122			235,122
Estimate of cumulative claims	235,122	1,579,357	964,990	2,779,469
Adjustments of prior periods	(136,726)	(594,090)		(730,816)
Cumulative payments to date	(62,896)	(497,633)	(114,446)	(674,975)
Gross outstanding claims liabilities: employers' liability	**35,500**	**487,634**	**850,544**	**1,373,678**

	Accident year 2003	2004	2005	2006	2007	Total
Other						
At end of accident year	33,433	42,937	213,759	459,668	744,602	744,602
- one year later	34,524	47,694	220,172	472,186		472,186
- two years later	34,524	47,694	215,164			297,382
Estimate of cumulative claims	34,524	47,694	215,164	472,186	744,602	1,514,170
Adjustments of prior periods	(30,864)	(12,816)	(72,465)	26,156		(89,989)
Cumulative payments to date	(3,660)	(34,878)	(128,349)	(429,964)	(310,245)	(907,096)
Gross outstanding claims liabilities: other	**-**	**-**	**14,350**	**68,378**	**434,357**	**517,085**

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36 Capital management

The FMSA sets and monitors capital requirements for the Bank and its subsidiaries.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSA banks have to maintain a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2007, this minimum level of tier 1 capital to total assets is 5% and the minimum level of total capital to risk weighted assets, contingent liabilities, adjusted for operational and market risk is 10%. The Bank was in compliance with the statutory capital ratios during the years ended 31 December 2007 and 31 December 2006.

Insurance Company "Eurasia" JSC (the "Insurance company") is subject to regulatory requirements of the Republic of Kazakhstan regarding minimal share capital and solvency requirements defined by regulations of the National Bank of Kazakhstan. The Insurance company is required to maintain solvency margin ratio at not less than 1. As at 31 December 2007, the Insurance company was in compliance with the statutory solvency margin ratio.

The FMSA sets and monitors prudential capital requirements for the Open Accumulation Pension Fund "Senim" JSC (the "Pension fund") according to the Instruction No 222 dated 27 October 2006 on normative amounts of prudential norms and the methodology of their calculation for accumulation pension funds. The Pension fund defines as capital those items defined by statutory regulation as capital for accumulation pension funds. Under the current capital requirements set by the FMSA, accumulation pension funds have to maintain a ratio of capital to risk weighted financial instruments in the fund's investment portfolio above the prescribed minimum level. As at 31 December 2007, this minimum level is 1%. The Pension fund was in compliance with the statutory capital ratio during the year ended and as at 31 December 2007.

Pension Assets Investment Management Organisation "Bailyk Asset Management" JSC (the "Asset management company") defines as capital those items defined by statutory regulation as capital for pension asset investment management institutions. Under the current capital requirements set by the FMSA, pension asset investment management organisations have to maintain a ratio of capital to risk weighted financial instruments in the investment portfolios of the pension funds under pension asset investment management above the prescribed minimum level. As at 31 December 2007, this minimum level is 1%. The Asset management company was in compliance with the statutory capital ratio during the year ended and as at 31 December 2007.

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37 Commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2007 '000 KZT	2006 '000 KZT
Contracted amount		
Loan and credit line commitments	13,261,594	26,828,136
Letters of credit	3,582,116	3,737,674
Guarantees	2,414,118	2,634,491
	19,257,828	**33,200,301**
Provision for guarantees and letters of credit issued	-	(64,330)
	19,257,828	**33,135,971**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Movements in provision for losses on credit related commitments are as follows:

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	64,330	45,531
Net (recovery)/charge for the year	(64,330)	18,799
Balance at the end of the year	-	**64,330**

This provision is recorded within other liabilities. Refer to Note 33.

38 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2007 '000 KZT	2006 '000 KZT
Less than one year	227,910	258,694
Between one and five years	304,631	-
	532,541	**258,694**

The Group leases a number of premises and equipment under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year KZT 498,090 thousand was recognised as an expense in the consolidated income statement in respect of operating leases (2006: KZT 290,004 thousand).

39 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

In 2007 the Group entered into several transactions to sell securities in the portfolio of one pension fund under investment management which resulted in a significant loss for that pension fund. The pension fund may have a right to claim compensation for the loss from the Group. If the pension fund claims compensation for the loss, this could result in a liability payable to the pension fund amounting KZT 361,612 thousand. No claim has yet been filed. The Group has filed claims to recover the loss from various third parties.

In the ordinary course of business, except for this potential claim, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group.

39 Contingencies, continued

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

40 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the balance sheet.

41 Related party transactions

(a) Parent Company

The parent of the Bank is Eurasian Financial Industrial Company JSC. No publicly available financial statements are produced by the Bank's parent company.

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41 Related party transactions, continued

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer to Note 14):

	2007 '000 KZT	2006 '000 KZT
Members of the Board of Directors	160,473	112,852
Members of the Management Board	359,731	208,653
	520,204	**321,505**

The outstanding balances and average interest rates as of 31 December 2007 with members of the Board of Directors and the Management Board are as follows:

	2007 '000 KZT	Average Interest Rate	2006 '000 KZT	Average Interest Rate
Consolidated balance sheet				
Assets				
Loans to customers	506,655	12.30%	1,778,229	4.19%
Liabilities				
Current accounts and deposits from customers	3,654,660	9.50%	1,811,261	9.37%

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2007 '000 KZT	2006 '000 KZT
Consolidated income statement		
Interest income	59,467	46,837
Interest expense	(241,270)	(286,081)

41 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2007 and related income statement amounts of transactions for the year ended 31 December 2007 with other related parties are disclosed in the table below.

	Parent company		Fellow subsidiaries		Other		Total
	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT
Consolidated Balance Sheet							
Assets							
Loans to customers	-	-	3,642,177	12.60%	687,367	11.80%	**4,329,544**
Less: impairment allowance	-	-	(218,835)	-	-	-	**(218,835)**
Available-for-sale assets	-	-	1,490,355	9.50%	-	-	**1,490,355**
Insurance and reinsurance receivables	-	-	409,000	-	-	-	**409,000**
Other assets	4	-	1,322	-	61	-	**1,387**
Liabilities							
Current accounts and deposits from customers	1,142,282	3.20%	31,062,382	7.20%	2,424,854	9.90%	**34,629,518**
Insurance contract provisions	451	-	3,289,835	-	-	-	**3,290,286**
Other liabilities	1,289	-	5,089,265	-	807	-	**5,091,361**
Off balance sheet items							
Loan and credit line commitments	-	-	1,461,577	-	2,635	-	**1,464,212**
Guarantees and letters of credit issued	-	-	2,032,764	-	-	-	**2,032,764**

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41 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent company		Fellow subsidiaries		Other		Total
	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT
Consolidated Income Statement							
Interest income	-		484,924		92,188		**577,112**
Interest expense	(32,175)		(1,714,548)		(219,456)		**(1,966,179)**
Fee and commission income	14,723		1,011,291		-		**1,026,014**
Net earned insurance premiums	705		5,965,969		-		**5,966,674**
Gain on spot transactions	1,073		514,866		-		**515,939**
Other income	-		-		-		**-**
Impairment losses	-		(129,085)		-		**(129,085)**
Net insurance claims incurred	-		(159,301)		-		**(159,301)**
Administrative expenses	(292,417)		(54,639)		(199,969)		**(547,025)**

During the year, ended 31 December 2007, the Group acquired property and equipment from a fellow subsidiary in the amount of KZT 6,106,801 thousand (2006: nil).

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41 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as of 31 December 2006 and related income statement amounts of transactions for the year ended 31 December 2006 with other related parties are disclosed in the table below.

	Parent company		Fellow subsidiaries		Other		Total
	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT	Average Interest Rate	'000 KZT
Balance Sheet							
Assets							
Loans to customers	-	-	5,006,735	10.60%	534,349	10.00%	**5,541,084**
Less: impairment allowance	-	-	(81,834)	-	-	-	**(81,834)**
Liabilities							
Current accounts and deposits from customers	1,104,655	3.00%	33,775,327	4.90%	180,122	9.50%	**35,060,104**
Debt securities issued	-	-	3,421	6.89%	-	-	**3,421**
Subordinated debt securities issued	-	-	2,090,008	10.05%	-	-	**2,090,008**
Off balance sheet items							
Loan and credit line commitments	-	-	865,753	-	33,497	-	**899,250**
Guarantees and letters of credit issued	342,265	-	224,596	-	-	-	**566,861**
Income Statement							
Interest income	-		559,043		39,194		**598,237**
Interest expense	(19,356)		(1,086,870)		(31,276)		**(1,137,502)**
Fee and commission income	2,172		929,307		-		**931,479**
Gain on spot transactions	1,617		831,203		-		**832,820**
Administrative expenses	(196,163)		(4,441)		(153,139)		**(353,743)**

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42 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows is composed of the following items:

	2007 '000 KZT	2006 '000 KZT
Cash	5,065,043	3,541,164
Due from the NBRK – nostro account	8,658,213	6,214,200
Placements with banks and other financial institutions with original maturities of less than 3 months	17,657,014	20,435,134
Obligatory reserve	(8,276,911)	(8,588,091)
	23,103,359	**21,602,407**

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

43 Fair value of financial instruments

The estimated fair value of the Group's financial assets and liabilities, as required to be disclosed by IFRS 7 *Financial Instruments: Disclosure*, is as follows:

The estimated fair value of cash, nostro accounts with the NBRK, nostro accounts with other banks and other floating rate placements is their carrying value.

The estimated fair values of quoted available-for-sale assets, derivative financial instruments, debt securities issued, subordinated debt securities issued are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date. As disclosed in Note 21 the fair value of unquoted equity securities available for sale with a carrying value of KZT 10,000 thousand could not be determined.

The estimated fair values of all financial instruments approximate their carrying values, except as follows:

43 Fair value of financial instruments, continued

'000 KZT	2007 Fair Value	2007 Carrying Value	2006 Fair Value	2006 Carrying Value
ASSETS				
Placements with banks and other financial institutions	29,546,992	28,787,312	22,667,968	22,667,968
Loans to customers	114,128,114	115,757,725	93,993,080	92,835,826
LIABILITIES				
Deposits and balances from banks and other financial institutions	39,624,256	38,329,428	41,173,448	40,298,105
Current accounts and deposits from customers	90,791,145	89,207,141	80,320,093	80,320,093
Debt securities issued	1,481,613	1,501,617	1,427,453	1,500,120
Subordinated debt securities issued	15,414,652	15,597,213	10,319,545	10,656,016

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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44 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2007 and 2006 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2007 Value '000 KZT	**2007 Average Effective Interest Rate**	**2006 Value '000 KZT**	**2006 Average Effective Interest Rate**
Interest Bearing Assets				
Placements with banks and other financial institutions				
Nostro accounts	-	-	15,655	1.61%
- KZT	16,998,107	4.25%	18,853,686	5.60%
- USD	468,001	2.85%	1,021,439	4.04%
- other currencies				
Loans and deposits				
- KZT	8,446,270	10.42%	-	-
- USD	2,584,388	10.59%	2,330,472	8.62%
- other currencies	55,586	9.08%	446,716	3.63%
Amount receivable under reverse repurchase agreements				
- KZT	9,866,697	6.82%	-	-
Loans to customers				
- KZT	74,238,165	16.79%	56,837,690	13.53%
- USD	39,666,337	15.12%	34,734,079	12.03%
- other currencies	1,853,223	17.15%	1,264,057	9.79%
Available-for-sale assets				
- KZT	24,365,012	8.05%	8,144,024	4.87%
- USD	2,759,605	4.98%	13,580,329	5.53%

44 Average effective interest rates, continued

	2007 Value '000 KZT	2007 Average Effective Interest Rate	2006 Value '000 KZT	2006 Average Effective Interest Rate
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
Loans from financial institutions, other than banks				
- KZT	3,061,539	11.35%	-	-
- USD	11,054,309	9.19%	5,153,848	9.94%
Syndicated bank loans				
- USD	14,000,320	7.33%	20,246,097	6.75%
Term deposits				
- KZT	8,014,862	9.58%	2,423,889	7.92%
- USD	-	-	1,274,692	7.00%
Loans from banks				
- KZT	-	-	5,504,889	8.00%
- USD	1,687,264	7.63%	3,548,548	6.23%
- other currencies	472,792	6.57%	1,052,443	4.55%
Vostro accounts				
- KZT	1,743	-	22,802	-
- USD	34,711	-	1,040,784	3.00%
- other currencies	1,888	-	30,113	-
Amount payable under repurchase agreements				
- KZT	6,187,406	4.98%	77,064	5.00%
- USD	2,395,979	6.50%	-	-
Demand deposits and term deposits from customers				
Retail customers:				
- KZT	10,233,407	9.06%	4,693,992	6.63%
- USD	8,406,937	7.32%	5,168,587	5.17%
- other currencies	675,100	7.56%	161,723	2.33%
Corporate customers:				
- KZT	31,956,919	9.64%	16,621,484	7.68%
- USD	16,667,968	8.78%	34,081,594	6.89%
- other currencies	183,307	2.24%	1,215,273	2.54%
Debt securities issued				
- KZT	1,501,617	6.89%	1,500,120	6.52%
Subordinated debt securities issued				
- KZT	15,597,213	10.05%	10,656,016	7.91%

45 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2007.

Assets	Less than 1 month '000 KZT	1 to 3 months '000 KZT	3 months to 1 year '000 KZT	1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Overdue '000 KZT	Total '000 KZT
Cash	5,065,043	-	-	-	-	-	-	5,065,043
Due from the NBRK	381,302	-	-	-	-	8,276,911	-	8,658,213
Placements with banks and other financial institutions	17,945,468	222,828	8,333,316	2,285,700	-	-	-	28,787,312
Amounts receivable under reverse repurchase agreements	9,739,114	127,583	-	-	-	-	-	9,866,697
Derivative financial instruments	2,350	-	-	-	-	-	-	2,350
Loans to customers	5,529,337	10,043,286	38,936,484	43,775,317	16,675,162	-	798,139	115,757,725
Reinsurers' share of insurance contract provisions	-	-	950,503	-	-	-	-	950,503
Available-for-sale assets	544,343	1,904,654	5,120,992	10,897,710	9,502,349	33,927	-	28,003,975
Insurance and reinsurance receivables	-	-	1,328,012	-	-	-	-	1,328,012
Income tax prepaid	-	-	331,867	-	-	-	-	331,867
Deferred tax assets	-	-	2,094	163,908	-	-	-	166,002
Property and equipment	-	-	-	-	-	10,574,097	-	10,574,097
Intangible assets	-	-	-	-	-	509,019	-	509,019
Other assets	335,545	85,668	150,821	-	-	39,381	-	611,415
Total assets	**39,542,502**	**12,384,019**	**55,154,089**	**57,122,635**	**26,177,511**	**19,433,335**	**798,139**	**210,612,230**

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45 Maturity analysis, continued

	Less than 1 month '000 KZT	1 to 3 months '000 KZT	3 months to 1 year '000 KZT	1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Overdue '000 KZT	Total '000 KZT
Liabilities								
Deposits and balances from banks and other financial institutions	38,342	6,182,098	26,894,704	5,214,284	-	-	-	38,329,428
Amounts payable under repurchase agreements	8,583,385	-	-	-	-	-	-	8,583,385
Derivative financial instruments	17,902	-	-	-	-	-	-	17,902
Current accounts and deposits from customers	27,690,757	902	296,771	59,706,092	1,512,619	-	-	89,207,141
Debt securities issued	-	-	1,501,617	-	-	-	-	1,501,617
Subordinated debt securities issued	-	174,296	235,972	2,969,675	12,217,270	-	-	15,597,213
Insurance and reinsurance payables	-	-	1,546,414	-	-	-	-	1,546,414
Insurance contract provisions	-	-	6,680,278	-	-	-	-	6,680,278
Other liabilities	353,030	483,301	4,381,347	-	-	374,773	-	5,592,451
Total liabilities	**36,683,416**	**6,840,597**	**41,537,103**	**67,890,051**	**13,729,889**	**374,773**	**-**	**167,055,829**
Net position as at 31 December 2007	**2,859,086**	**5,543,422**	**13,616,986**	**(10,767,416)**	**12,447,622**	**19,058,562**	**798,139**	**43,556,401**
Net position as at 31 December 2006	(5,455,483)	(7,897,347)	(4,079,149)	1,114,204	21,427,395	13,157,872	662,988	18,930,480

Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

46 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2007:

	KZT '000 KZT	USD '000 KZT	Other currencies '000 KZT	Total '000 KZT
Assets				
Cash	1,685,399	2,460,681	918,963	5,065,043
Due from the National Bank of the Republic of Kazakhstan	8,658,213	-	-	8,658,213
Placements with banks and other financial institutions	8,876,392	19,384,746	526,174	28,787,312
Amounts receivable under reverse repurchase agreements	9,866,697	-	-	9,866,697
Derivative financial instruments	2,350	-	-	2,350
Loans to customers	74,238,165	39,666,337	1,853,223	115,757,725
Reinsurers' share of insurance contract provisions	950,503	-	-	950,503
Available-for-sale assets	25,244,370	2,759,605	-	28,003,975
Insurance and reinsurance receivables	991,437	336,575	-	1,328,012
Income tax prepaid	331,867	-	-	331,867
Deferred tax assets	166,002	-	-	178,423
Property and equipment	10,574,097	-	-	10,574,097
Intangible assets	509,019	-	-	509,019
Other assets	536,849	73,720	846	598,994
Total assets	**142,631,360**	**64,681,664**	**3,299,206**	**210,612,230**
Liabilities				
Deposits and balances from banks and other financial institutions	11,078,037	26,776,945	474,446	38,329,428
Amounts payable under repurchase agreements	6,187,406	2,395,979	-	8,583,385
Derivative financial instruments	17,902	-	-	17,902
Current accounts and deposits from customers	54,500,513	33,017,917	1,688,711	89,207,141
Debt securities issued	1,501,617	-	-	1,501,617
Subordinated debt securities issued	15,597,213	-	-	15,597,213
Insurance and reinsurance payables	1,246,802	299,612	-	1,546,414
Insurance contract provisions	6,680,278	-	-	6,680,278
Other liabilities	5,141,515	130,298	320,638	5,592,451
Total liabilities	**101,951,283**	**62,620,751**	**2,483,795**	**167,055,829**
Net on balance sheet position as of 31 December 2007	**40,680,077**	**2,060,913**	**815,411**	**43,556,401**
Net off balance sheet position as of 31 December 2007	**844,450**	**26,175**	**(885,850)**	**(15,225)**
Net on and off balance sheet positions as of 31 December 2007	**41,524,527**	**2,087,088**	**(70,439)**	**43,541,176**
Net on balance sheet positions as of 31 December 2006	22,866,869	(4,167,478)	231,089	18,930,480

47 Events subsequent to the balance sheet date

In February and March 2008 the Group compensated a client, a related party, for losses of KZT 358,710 thousand incurred as a result of the client's investments in Valut-Transit Bank which was placed in bankruptcy in 2007 and which investments were part of the investment portfolio of that client managed by the Group.

Subsequent to 31 December 2007 three pension fund clients and one corporate client whose assets were being managed by the Group terminated the asset management contracts with the Group.