JOINT STOCK COMPANY KAZKOMMERTSBANK

Consolidated Financial Statements
For the Year Ended 31 December 2008

and Independent Auditors' Report

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

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

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

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

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

Management is also responsible for:

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

The recent economic downturn and severe liquidity conditions continue to place extreme pressure on the financial markets in particular and the global economy, generally. Governments and central banks have introduced extensive measures both in Kazakhstan and globally in order to redress the capital and liquidity imbalance. Since the balance sheet date the Group has become an active participant in funding measures introduced by the Kazakhstan government, and its future funding and capital plans for 2009 include an element of continued reliance on these measures.

The Group's capital ratios will be further strengthened by a planned increase in shareholders' equity with the issue of shares which will be equivalent to 25% of the capital of the Group in April 2009 to JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna") (an entity controlled by the Kazakhstan Government). This also provides tangible evidence of the Kazakh Government's support for the Group reflecting its importance to the Kazakhstan economy and financial system, and gives management further cause to have a reasonable expectation of the Group continuing as a going concern for the foreseeable future.

The consolidated financial statements for the year ended 31 December 2008 were authorized for issue on 7 April 2009 by the Management Board of JSC Kazkommertsbank.

On behalf of the Management Board:

Zhussupova N.A.	**Shoinbekova G.K.**
Chairman of the Board	**Chief Accountant**
7 April 2009	7 April 2009
Almaty	Almaty

КАЗКОММЕРЦБАНК

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Kazkommertsbank:

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Andrew Weekes
Engagement Partner
Institute of Chartered Accountants in Australia
Certificate of Public Practice 78586,
Australia

Deloitte LLP

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

Nurlan Bekenov
Audit-performer
Auditor's qualification certificate #0000082
dated 13 June 1994
General Director
Deloitte LLP

7 April 2009
Almaty, Kazakhstan

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Interest income	5, 35	380,777	316,458
Interest expense	5, 35	(181,265)	(171,762)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		199,512	144,696
Provisions for impairment losses on interest bearing assets	6,35	(150,697)	(69,956)
NET INTEREST INCOME		48,815	74,740
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	7	(28,373)	20,642
Net gain/(loss) on foreign exchange and precious metals operations	8	5,617	(15,464)
Fee and commission income	9	21,745	23,558
Fee and commission expense	9	(4,324)	(2,713)
Net realized (loss)/gain on investments available-for-sale	10	(2,038)	119
Dividends received		176	145
Other income	11	9,352	6,919
NET NON-INTEREST INCOME		2,155	33,206
OPERATING INCOME		50,970	107,946
OPERATING EXPENSES	12, 35	(34,049)	(31,200)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES		16,921	76,746
Provision for impairment losses on other transactions	6	(2,718)	(1,238)
Recovery/(additional provision recognized) for guarantees and other off-balance sheet contingencies	6	856	(3,186)
Share in results of associates	22, 35	(3,585)	1,333
OPERATING PROFIT BEFORE INCOME TAX		11,474	73,655
Income tax benefit/(expense)	13	8,690	(15,904)
NET PROFIT		20,164	57,751
Attributable to:			
Ordinary shareholders of the parent		18,406	46,468
Preference shareholders of the parent		3,399	9,495
Minority interest		(1,641)	1,788
EARNINGS PER SHARE			
Basic and diluted (KZT)	14	32.01	80.85

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

7 April 2009
Almaty

Shoinbekova G.K.
Chief Accountant

7 April 2009
Almaty

The notes on pages 10-93 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	31 December 2008 (KZT million)	31 December 2007 (KZT million)
ASSETS:			
Cash and balances with national (central) banks	15	90,478	168,148
Precious metals	16	317	-
Financial assets at fair value through profit or loss	17	58,130	188,776
Loans and advances to banks	18	241,813	212,823
Loans to customers	19, 35	2,144,782	2,366,335
Investments available-for-sale	20	15,056	3,036
Investments held to maturity	21	776	375
Investments in associates	22, 35	1,775	3,222
Goodwill	23	2,405	2,405
Property, equipment and intangible assets	24	35,465	34,259
Other assets	25	23,808	17,853
TOTAL ASSETS		2,614,805	2,997,232
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks	26	296,391	723,431
Customer accounts	27, 35	979,453	895,083
Financial liabilities at fair value through profit or loss	17	54,339	7,730
Debt securities issued	28	678,285	739,688
Other borrowed funds	29	137,324	148,934
Provisions	6	10,276	10,638
Deferred income tax liabilities	13	10,205	30,496
Dividends payable		5	2
Other liabilities	30	16,941	13,845
		2,183,219	2,569,847
Subordinated debt	31	117,724	108,166
Total liabilities		2,300,943	2,678,013
EQUITY:			
Equity attributable to equity holders of the parent:			
Issued and outstanding share capital	32	6,990	6,998
Share premium reserve		152,684	152,855
Property and equipment revaluation reserve		6,918	6,020
Other reserves		146,992	140,794
Total equity attributable to equity holders of the parent		313,584	306,667
Minority interest		278	12,552
Total equity		313,862	319,219
TOTAL LIABILITIES AND EQUITY		2,614,805	2,997,232

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

7 April 2009
Almaty

Shoinbekova G.K.
Chief Accountant

7 April 2009
Almaty

The notes on pages 10-95 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

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

	Share capital	Treasury shares	Share premium reserve	Investments available-for-sale fair value reserve/ (deficit) [1]	Cumulative translation reserve[1]	Hedging reserve[1]	Property and equipment revaluation reserve	Retained earnings[1]	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2006	6,999	(4)	152,534	40	76	-	2,436	84,748	246,829	15,272	262,101
Unrealized loss on revaluation of available-for-sale investments	-	-	-	9	-	-	-	-	9	-	9
Revaluation of property and equipment	-	-	-	-	-	-	5,239	-	5,239	-	5,239
Deferred income tax recognized on revaluation of property and equipment	-	-	-	-	-	-	(1,536)	(36)	(1,572)	-	(1,572)
Exchange differences on translation of foreign operations	-	-	-	-	(18)	-	-	12	(6)	(4,508)	(4,514)
Net (loss)/income recognized directly in equity	-	-	-	9	(18)	-	3,703	(24)	3,670	(4,508)	(838)
Transfers:											
Depreciation of property and equipment revaluation reserve	-	-	-	-	-	-	(119)	119	-	-	-
Gain on sale of available-for-sale investments	-	-	-	(119)	-	-	-	-	(119)	-	(119)
Net profit	-	-	-	-	-	-	-	55,963	55,963	1,788	57,751
Total recognized income and expense	-	-	-	(119)	-	-	(119)	56,082	55,844	1,788	57,632
Share capital increase of:											
- ordinary shares	1	-	153	-	-	-	-	-	154	-	154
Sale of treasury shares	-	2	168	-	-	-	-	-	170	-	170
31 December 2007	7,000	(2)	152,855	(70)	58	-	6,020	140,806	306,667	12,552	319,219

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

	Share capital	Treasury shares	Share premium reserve	Investments available-for-sale fair value reserve/ (deficit)[1]	Cumulative translation reserve[1]	Hedging reserve[1]	Property and equipment revaluation reserve	Retained earnings[1]	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2007	7,000	(2)	152,855	(70)	58		6,020	140,806	306,667	12,552	319,219
Unrealized loss on revaluation of available-for-sale investments	-	-	-	(4,236)	-	-	-	-	(4,236)	(1)	(4,237)
Revaluation of property and equipment	-	-	-	-	-	-	(362)	-	(362)	-	(362)
Deferred income tax recognized on revaluation of property and equipment	-	-	-	-	-	-	1,353	(137)	1,216	-	1,216
Loss on cash flow hedges	-	-	-	-	-	(43,397)	-	-	(43,397)	-	(43,397)
Deferred income tax recognized on loss on investments available-for-sale and on cash flow hedges	-	-	-	423	-	2,680	-	-	3,103	-	3,103
Change in minority share as a result of purchase	-	-	-	-	-	-	-	-	-	(10,263)	(10,263)
Parent share from revaluation of associate reserves	-	-	-	3	-	-	-	-	3	-	3
Exchange differences on translation of foreign operations	-	-	-	-	(3,074)	-	-	-	(3,074)	(369)	(3,443)
Net income recognized directly in equity	-	-	-	(3,810)	(3,074)	(40,717)	991	(137)	(46,747)	(10,633)	(57,380)
Transfers:											
Depreciation of property and equipment revaluation reserve	-	-	-	-	-	-	(93)	93	-	-	-
Net loss on hedging reserve transferred to earnings	-	-	-	-	-	30,000	-	-	30,000	-	30,000
Loss on sale and impairment of investment available-for-sale	-	-	-	2,038	-	-	-	-	2,038	-	2,038
Net profit	-	-	-	-	-	-	-	21,805	21,805	(1,641)	20,164
Total recognized income and expense	-	-	-	2,038	-	30,000	(93)	21,898	53,843	(1,641)	52,202
Purchase of treasury shares	-	(14)	(406)	-	-	-	-	-	(420)	-	(420)
Sale of treasury shares	-	6	235	-	-	-	-	-	241	-	241
31 December 2008	7,000	(10)	152,684	(1,842)	(3,016)	(10,717)	6,918	162,567	313,584	278	313,862

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

On behalf of the Management Board of the Bank:

КАЗКОММЕРЦБАНК

Zhussupova N.A.
Chairman of the Board

7 April 2009
Almaty

Shoinbekova G.K.
Chief Accountant

7 April 2009
Almaty

The notes on pages 10-93 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating profit before income tax		11,474	73,655
Adjustments for:			
Provision for impairment losses on interest bearing assets	6	150,697	69,956
Provision for impairment losses on other transactions	6	2,718	1,238
(Recovery)/additional provision recognized for guarantees and other off-balance sheet contingencies	6	(856)	3,186
Amortization of discount on investments held to maturity		(3)	(9)
Amortization of discount on debt securities issued		329	278
Bargain purchase gain on acquisition of stake in subsidiaries	11	(3,137)	1,555
Gain from repurchase of own debt securities		(902)	-
Write-off of investment in associates		(37)	-
Depreciation and amortization	12,24	3,379	2,519
Change in interest accruals, net		(38,070)	(7,190)
Unrealized foreign exchange loss		2,198	13,409
Share of results of associates	22	3,585	(1,333)
Net loss/(gain) on sale of property, equipment and intangible assets		54	(26)
Net change in fair value of financial assets and liabilities at fair value though profit or loss		(1,262)	(31,905)
Cash inflow from operating activities before changes in operating assets and liabilities		130,167	125,333
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with National Bank of the Republic of Kazakhstan		75,090	29,414
Minimum reserve deposit with Central Bank of Russian Federation		2,252	(718)
Minimum reserve deposit with National Bank of the Kyrgyz Republic		42	(15)
Minimum reserve deposit with National Bank of the Tajikistan		(49)	-
Precious metals	16	(317)	807
Financial assets at fair value through profit or loss		121,549	173,811
Loans and advances to banks		11,937	88,295
Loans to customers		115,674	(701,115)
Other assets		(5,884)	(5,749)
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		(426,163)	(171,383)
Customer accounts		80,462	164,344
Other borrowed funds		(12,953)	79,756
Other liabilities		3,153	(5,380)
Cash inflow/(outflow) from operating activities before taxation		94,960	(222,600)
Income tax paid		(6,516)	(2,259)
Net cash inflow/(outflow) from operating activities		88,444	(224,859)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(5,928)	(16,261)
Proceeds on sale of property, equipment and intangible assets		134	1,362
Dividends received		176	-
Proceeds on sale of investments available-for-sale		5,074	6,295
Purchase of investments available-for-sale		(3,666)	(6,946)
Proceeds on maturity of investments held to maturity		39	842
Purchase of investments held to maturity		(422)	(848)
Purchase of investments in associates		(2,172)	(134)
Purchase of subsidiaries, net of cash of entities acquired		(2,940)	(1,525)
Net cash outflow from investing activities		(9,705)	(17,215)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		-	154
Purchase of treasury shares		(420)	-
Proceeds on sale of treasury shares		241	170
Proceeds from debt securities issued		111,164	321,632
Repayment of debt securities issued		(173,008)	(23,944)
Proceeds from subordinated debt		8,549	33,919
Repayment of subordinated debt		-	(4,878)
Dividends paid		(595)	(603)
Net cash (outflow)/inflow from financing activities		(54,069)	326,450
NET INCREASE IN CASH AND CASH EQUIVALENTS		24,670	84,376
CASH AND CASH EQUIVALENTS, beginning of period		144,346	59,403
Effect of changes in foreign exchange rate on cash and cash equivalents		(22)	567
CASH AND CASH EQUIVALENTS, end of period	15	168,994	144,346

Interest paid and received by the Group in cash during the year ended 31 December 2008 amounted to KZT 187,667 million (2007: KZT 143,935 million) and KZT 349,110 million (2007: KZT 282,461 million).

During 2008 in accordance with the amendments issued by IASB to IAS 39 the Group has reclassified financial assets at fair value through profit or loss to available-for-sale investment securities. Please see Note 20 for detailed disclosure.

On behalf of the Management Board of the Bank:

Zhussupova N.A.
Chairman of the Board

7 April 2009
Almaty

Shoinbekova G.K.
Chief Accountant

7 April 2009
Almaty

The notes on pages 10-93 form an integral part of these consolidated financial statements.

1. ORGANISATION

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

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

The Bank has 23 branches in the Republic of Kazakhstan, and a representative office in London.

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

Name	Country of operation	Proportion or ownership interest/voting rights 2008	2007	Type of operation
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
LLP Processing Company	Republic of Kazakhstan	100%	100%	Payment card processing and related services
Kazkommerts International B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
JSC OCOPAIM Grantum Asset Management	Republic of Kazakhstan	100%	100%	Investment management of pension assets
LLP Kazkommertsbank RFCA	Republic of Kazakhstan	100%	100%	Operations with financial instruments on Regional financial centre of Almaty
JSC Kazkommerts Life	Republic of Kazakhstan	100%	100%	Life insurance
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	Commercial bank
JSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	94.64%	93.58%	Commercial bank
JSC Grantum AF	Republic of Kazakhstan	80.01%	80.01%	Pension fund
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	100%	65%	Insurance
LLP Commercial bank Moskommertsbank	Russia	100%	52.11%	Commercial bank
LLP Investment Group East Kommerts	Russia	50%	50%	Securities market transactions

JSC Kazkommerts Securities is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1997. The company's primary business consists of trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of security issuances, allocation and underwriting of securities, and purchase and sale of securities in the capacity of the agent. The company has license № 0401200324 dated 27 November 2000 issued by the National Bank of the Republic of Kazakhstan. In connection with the renaming from OJSC to JSC company received license on broker and dealing operations № 0401201207 dated 17 May 2006 and license for investment portfolio management № 0403200439 dated 17 May 2006 issued by the FMSA.

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

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

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

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

JSC OCOPAIM Grantum Asset Management ("Grantum PAMC") is a joint stock company and has operated under the laws of the Republic of Kazakhstan since 1998. The company's primary business is investment management of pension funds. The company has license № 0411200249 dated 26 June 2006 on investment management of pension funds issued by the FMSA, license № 0403200454 dated 26 June 2006 on management of investment portfolio issued by the FMSA, license № 0402200299 dated 26 June 2006 on broker and dealer activity without right to custody activities issued by the FMSA.

LLP Kazkommertsbank RFCA is a limited liability partnership and has operated under the laws of the Republic of Kazakhstan since 11 January 2007. The company's primary business consists of trading with securities, including broker and dealing operations on Regional financial centre of Almaty. The company has license № 0401201454 dated 2 March 2007 on broker and dealing operations at the stock market with the right to maintain customer accounts as a nominal holder issued by the FMSA. On 28 January 2009, the Board of Directors of the Bank approved to voluntarily liquidate its subsidiary LLP Kazkommerts RFCA, as discussed in Note 34.

JSC Kazkommerts Life is a joint stock company and has operated under the laws of the Republic of Kazakhstan. The company's primary business consists of life insurance. The company has a license on life insurance (reinsurance) services № 42-2/1 dated 14 April 2008 issued by the FMSA.

On 29 May 2007, the Board of Directors of the Bank decided to establish a wholly-owned subsidiary bank, CJSC Kazkommertsbank Tajikistan. The Bank received an approval from the FMSA #93 on 6 September 2007 for the creation of a subsidiary bank in Tajikistan. On 22 November 2007 and 25 December 2007 the Bank transferred cash to fund the capital of CJSC Kazkommertsbank Tajikistan in the amount of KZT 604 million and KZT 602 million, respectively. On 24 January 2008, CJSC Kazkommertsbank Tajikistan received an operating license from the National Bank of Tajikistan for banking operations in both national currency and foreign currencies # 33/1.

JSC Kazkommertsbank Kyrgyzstan is a joint stock bank and has operated under the laws of the Kyrgyz Republic since 1991. The Bank's operations are regulated by the National Bank of the Kyrgyz Republic according to license № 010 dated 15 April 2005 for banking operations in national currency and license № 010/1 dated 15 April 2005 for banking operations in foreign currency. The Bank's primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, issuance of loans, operations with foreign exchange and derivative instruments, originating loans and guarantees.

JSC Grantum AF is a joint stock company and has operated since 1998 under the laws of the Republic of Kazakhstan. The company's primary business consists of the receipt of pension contributions of depositors and making pension payments to recipients under the laws of the Republic of Kazakhstan. The company operates based on a state license on the receipt of pension contributions and making pension payments № 0000019 dated 20 April 2006, issued by the FMSA.

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

LLP Commercial Bank Moskommertsbank is a limited liability partnership and operates under the laws of the Russian Federation since 2001. The bank's operations are regulated by the Central Bank of the Russian Federation in accordance with the license on the banking operations № 3365 dated 20 September 2002, license on the banking operations with private sector № 3365 dated 16 June 2005. License of the Federal securities commission on broker operations № 177-11190-100000 dated 18 April 2008, license on the depository activity № 177-11200-000100 dated 18 April 2008, license on dealer operations № 177-11192-010000 dated 18 April 2008, license on the trust operations № 177-11196-001000 dated 18 April 2008 and license of stock broker commodity futures and option transactions in the exchange trade № 1283 dated 4 December 2008.

The Bank provides a wide spectrum of banking products and services for individuals, corporate clients and financial institutions. The Bank's primary business consists of retail banking, crediting of small-scale and middle business and the corporate sector. At the date of acquisition the estimated fair value of the net assets of LLP Commercial Bank Moskommertsbank approximated their carrying value.

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

Acquisitions

On 22 April 2008, the Bank acquired 290,000 ordinary shares of JSC Life Insurance Company Kazkommerts-Life for KZT 290 million. The Bank's capital share did not change.

On 28 April 2008, the Bank acquired 53,486 ordinary shares (35%) of JSC Insurance Company Kazkommerts-Policy from the European Bank of Reconstruction and Development for KZT 1,630 million. The Bank's capital share in JSC Insurance Company Kazkommerts-Policy increased to 100% upon acquisition.

An independent appraisal of the fair value of the assets acquired was not needed due to the fact that the fair value of most purchased assets and liabilities being available and easily definable. The fair value of the net assets purchased and the Bank's interest in the definitive net fair value of net assets of JSC Insurance Company Kazkommerts-Policy over the consideration paid, are as follows:

	Book value as at 28 April 2008 (KZT million) (unaudited)	Fair value as at 28 April 2008 (KZT million) (unaudited)
Assets		
Cash and balances with national (central) banks	12	12
Financial assets at fair value through profit or loss	1,495	1,495
Loans and advances to banks	3,487	3,487
Investments available-for-sale	1,362	1,362
Loans under reverse repurchase agreements	1,084	1,084
Property, equipment and intangible assets	171	171
Other assets	2,387	2,387
	9,998	9,998
Liabilities		
Other liabilities	4,755	4,755
	4,755	4,755
Net assets	5,243	5,243
Minority interest		-
Net assets acquired, being 35%		1,835
Purchase consideration		(1,581)
Excess of the Bank's interest in fair value of net assets of JSC Insurance Company Kazkommerts-Policy over cash consideration paid		254
Net cash outflow on acquisition:		
JSC Insurance Company Kazkommerts-Policy purchase intergroup balances elimination		49
Purchase cash outflows:		
Total paid in cash		(1,630)
Cash acquired, being 35%		4
Total		(1,626)

The negative goodwill arose due to a change in the net assets between the date of the pricing and the date the transaction took place.This is due to the purchase consideration for JSC Insurance Company Kazkommerts-Policy being determined as at 31 December 2007, while the transaction was finalized on 28 April 2008. The resulting gain was recorded within other income.

The income and revenue of JSC Insurance Company Kazkommerts-Policy from the beginning of the period till the date of acquisition, were accounted for as being attributable to minority interest. Prior to the date of acquisition, the Group consolidated JSC Insurance Company Kazkommerts-Policy as it had a controlling interest in JSC Insurance Company Kazkommerts-Policy.

On 19 May 2008, the Bank acquired 480,071 ordinary shares of JSC Grantum AF within the parameters of a privileged acquisition program. The amount of the transaction of KZT 480 million comprised 80.01% of total shares placed. The Bank's share in the capital of JSC Grantum AF did not change.

On 27 May 2008, the Bank acquired the remaining share in LLP Commercial Bank Moscommertsbank ("MKB") capital – 47.89%. The transaction amount of KZT 5,484 million brought the Bank's share in the MKB capital to 100% upon acquisition.

An independent appraisal of the fair value of the acquired assets was not needed due to the fact that the present value of most purchased assets and liabilities was available and easily definable. The fair value of the net assets purchased and the Bank's interest in the definitive net fair value of net assets of MKB over the consideration paid are as follows:

	Book value as at 27 May 2008 (KZT million) (unaudited)	**Fair value as at 27 May 2008 (KZT million) (unaudited)**
Assets		
Cash and balances with national (central) banks	8,731	8,731
Financial assets at fair value through profit or loss	7,071	7,071
Loans and advances to banks	14,947	14,947
Loans to customers	185,354	185,354
Loans under reverse repurchase agreements	13,371	13,371
Property, equipment and intangible assets	2,533	2,533
Other assets	1,687	1,687
	233,694	233,694
Liabilities		
Loans and advances from banks	71,433	71,433
Customer accounts	34,371	34,371
Debt securities issued	86,192	86,192
Subordinated debt	16	16
Derivative financial instruments	1,082	1,082
Other liabilities	1,037	1,037
	194,131	194,131
Net assets	39,563	39,563
Minority interest		-
Net assets acquired, being 47.89%		18,946
Purchase consideration		(16,063)
Excess of the Bank's interest in fair value of net assets of LLP Commercial bank Moscommertsbank over cash consideration paid		2,883
Net cash outflow on acquisition:		
LLP Commercial bank Moscommertsbank purchase intergroup balances elimination		(10,579)
Purchase cash outflows:		
Total paid in cash		(5,484)
Cash acquired, being 47.89%		4,181
Total		(1,303)

The excess of the Bank's interest in the fair value of net assets was credited to "Other income" in the consolidated income statement on the date of acquisition.

Negative goodwill has been recognised on the acquisition of 47.89% of the issued ordinary share capital of MKB due to the investment in MKB being considered a financial rather than strategic investment by the previous shareholders. As such the Bank was solely responsible for the development of MKB, including the enhancement of internal business processes and building brand recognition. In addition, the previous shareholders did not intend to make any additional capital contributions in MKB in light of worsening market conditions. As a result, the Bank acquired the remaining 47.89% of issued ordinary share capital of MKB at a price exceeding the initial investment of the previous shareholders, however, below the current fair value.

On 8 August 2008, the Bank acquired 50,000 ordinary shares of JSC OCOPAIM Grantum Asset Management within the parameters of a privileged acquisition program. The amount of the transaction was KZT 500 million. The Bank's capital share did not change.

On 10 September 2008, the Bank has paid a premium on the existing shares held of Kazkommerts Capital II B.V. by contributing cash of KZT 132 million.

OJSC Kazkommertsbank Kyrgyzstan increased share capital by 20.5% (or KZT 71 million) through the placement of an additional 41,000 ordinary shares. On 24 October 2008, the Bank bought 38,368 shares of this new emission in accordance with its prevailing purchase right for KZT 163 million. The share of the Bank of 93.58% did not change.

On 24 December 2008, the Bank acquired 2,568 ordinary shares of OJSC Kazkommertsbank Kyrgyzstan for KZT 11 million. The share of the Bank increased from 93.58% up to 94.64%.

Shareholders

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

	31 December 2008		**31 December 2007**	
	Number of shares	**Direct ownership, %**	**Number of shares**	**Direct ownership, %**
JSC Central-Asian Investment Company *	184,679,013	32.14	184,679,013	32.13
European Bank of Reconstruction and Development	48,597,741	8.46	48,597,741	8.45
Subkhanberdin N.S. (direct)	72,570,672	12.63	72,570,672	12.62
The Central Depository **	268,353,630	46.70	268,227,096	46.66
Including the Bank of New York	262,597,976	45.70	256,589,812	44.63
*Including the JSC Alnair Capital Holding****	144,625,896	25.17	-	-
Other shareholders	413,814	0.07	775,299	0.14
Total	574,614,870	100	574,849,821	100

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

* JSC Central-Asian Investment Company ("CAIC") is one of the entities through which the Directors and Management Board members own shares of the Bank. As at 31 December 2008, CAIC held 184,679,013 shares of the Bank (2007: 184,679,013 shares). As at 31 December 2008, this issued share capital was owned by the following: Subkhanberdin N.S. 87.21% (2007: 87.21%), and Zhussupova N.A. 12.79% (2007: 12.79%). As at 31 December 2008, Subkhanberdin N.S. owns 40.66% (2007: 40.64%) of the ordinary share capital of the Bank through direct and indirect ownership as a result of his holdings in CAIC and LLP Zhalyn, Zhussupova N.A. owns 4.11% (2007: 4.11%) through indirect ownership.

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

*** JSC Alnair Capital Holding ("Alnair") is a company operating under the laws of the Republic of Kazakhstan and is owned by a private investment fund, established by Sheikh Takhnun bin Zaid Al Nahayan, a member of the Royal Family of the Emirate of Abu-Dhabi. On 18 July 2008, the Bank and Alnair received Instruction # 113 from the FMSA. In accordance with this Instruction, Alnair was granted the banking holding status permitting it to own more than 25% of the Bank's ordinary shares. Alnair owns the ordinary shares of the Bank through GDRs bought on the open market. The Bank of New York is the nominal shareholder.

On 9 December 2008, the Bank, JSC Central Asian Investment Company ("CAIC") and the Government of the Republic of Kazakhstan, represented by the Ministry of Finance of the Republic of Kazakhstan, the NBRK, the FMSA and Samruk-Kazyna signed a Memorandum of Understanding (the "Memorandum"). In accordance with the Memorandum, the parties agreed to use all possibilities to provide additional financial resources to the economy and also cooperate on the stability of the financial system, including maintenance of adequate liquidity and loan portfolio quality. According to the Memorandum, Samruk-Kazyna will provide not less than KZT 35,952 million (equivalent of USD 300 million at the exchange rate as at the balance sheet date) in total to the Bank. The shares will be placed in full compliance with the current legislation of the Republic of Kazakhstan, listing rules of Kazakhstan and London stock exchanges, pre-emptive rights of current holders of the Bank's shares and GDRs, and the terms and conditions of all international agreements to which the Bank is a party. In accordance with the Memorandum, Samruk-Kazyna's share will not exceed 25% of the total outstanding ordinary shares of the Bank, and the Bank's major shareholders (CAIC, Alnair, Mr. Subkhanberdin and the European Bank for Reconstruction and Development) will continue to maintain control of the Bank. Samruk-Kazyna will not participate in the day-to-day management of the Bank.

The Bank's major shareholders (CAIC, Alnair, Subkhanberdin N.S.) opted not to exercise their right to purchase their allocated entitlement of the planned additional share issue of the Bank. As a result, the Bank's major shareholders were granted an option to repurchase the additional shares issued from Samruk-Kazyna exercisable within a period of four years from the date of the ordinary share's issue.

These consolidated financial statements were authorized for issue by the Bank's Management Board on 7 April 2009.

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in millions of Kazakhstan tenge ("KZT"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of land and buildings at revalued amounts according to International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement and IAS 16 "Property, Plant and Equipment", respectively.

Kazkommertsbank and its subsidiaries (except for subsidiaries in Russia and Tajikistan) maintain their accounting records in accordance with IFRS. Subsidiaries in Russia and Tajikistan maintain their accounting records in accordance with local GAAP and their financial statements are prepared from the local statutory accounting records and adjusted to conform with IFRS.

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

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank for the year ended 31 December 2008. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

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

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

Business combinations

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

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

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group’s interest in the net fair value of the identifiable assets and liabilities.
For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary.

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

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

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

Investments in associates

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

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

Investments in associates are carried in the consolidated balance sheet at cost and adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of associates in excess of the Group's interest in those associates are not recognized. Additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

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

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

Details of the Group's investments in associates, including summarized financial information of the associates, as at and for the years ended 31 December 2008 and 2007 are presented below:

As at and for the year ended 31 December 2008:

Name of associated company	Ownership interest	Fair value of investments in associates	Total assets of associated company	Total liabilities of associated company	Revenue of associated company	Net loss
		(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
JSC APF Ular Umit	49.35%	1,775	18,263	14,061	5, 625	(3,880)
JSC OCOPAIM Zhetysu	50.00%	-	1,371	6,971	539	(8,481)

As at the 31 December 2008 investments in LLP First Credit Bureau was written off against provisions.

As at and for the year ended 31 December 2007:

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

As at 31 December 2008 and 2007, the Group has not consolidated JSC OCOPAIM Zhetysu as the Bank does not have the power to govern the financial and operating policies of the company so as to obtain benefits from its activities.

As discussed in Note 34, subsequent to the balance sheet date, the Bank sold its stake in JSC APF Ular Umit and JSC OCOPAIM Zhetysu.

Goodwill

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

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

Recognition and measurement of financial instruments

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

Financial assets and liabilities are initially recognized at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and balances with national (central) banks

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

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"). The minimum reserve deposit required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan, the National Bank of the Kyrgyz Republic and the National Bank of Tajikistan are not included in cash equivalents.

Precious metals

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

Loans and advances to banks

In the normal course of business, the Group maintains advances or loans for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest rate method, and are carried net of an allowance for impairment. Loans and advances to banks are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

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

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period.

The Group enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. These instruments include forwards on foreign currency, precious metals and securities.

Reclassification of financial assets

On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassification of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements as the Group has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and, due to rare market circumstances as in accordance with the amendments, the Group applied the revised IAS 39 retrospectively from 1 July 2008. Transfers must be made at fair value and this fair value becomes the instruments' new cost or amortized cost. Reclassifications made before 1 November 2008 were backdated to 1 July 2008; subsequent classifications were effective from the date the reclassification was made. The Group has reclassified certain debt and equity securities out of trading instruments category into the available-for-sale category. The balance sheet values of these assets, the effect of the reclassification on the income statement and the impairment losses relating to these assets are shown in Note 20.

Derivative financial instruments

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

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

Hedge accounting

From 1 January 2008, the Group implemented a hedge accounting policy to designate certain hedging instruments as cash flow hedges in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

At inception of the hedge relationship, the Group documents the relationship between hedging instruments and hedged items, along with its risk management objectives and the way in which effectiveness will be assessed at inception and during the period of the hedge. Furthermore, at inception of the hedge and on an ongoing basis, the Group documents whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. If the hedge is not highly effective in offsetting changes in cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Group can expect, and actual results indicate, that changes in the fair value or cash flows of the hedged items are effectively offset by changes in the fair value of the hedging instrument, and actual results are within a range of 80% to 125%.

With cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the "Net gain/(loss) on financial assets and liabilities at fair value through profit or loss" line of the consolidated income statement. Amounts deferred in equity are recycled in profit or loss in the same periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship or when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting. On the discontinuance of hedge accounting (except where a forecast transaction is no longer expected to occur), any cumulative unrealized gain or loss recognised in equity is recognised in profit or loss when the hedged cash flow occurs or, if the forecast transaction results in the recognition of a financial asset or financial liability, in the same periods during which the asset or liability affects profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in profit or loss immediately.

Securities repurchase and reverse repurchase agreements and lending transactions

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

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

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

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

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

As at 31 December 2008, the fair value of securities transferred as collateral under loans under repurchase agreements amounted to KZT 11,095 million (2007: KZT 82,147 million).

As at 31 December 2008, the fair value of securities received as collateral under reverse repurchase agreements amounted to KZT 23,413 million (2007: KZT 21,501 million).

Loans to customers

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

Loans to customers granted by the Group with fixed maturities are initially recognized at fair value plus direct costs and fees that are integral to the interest rate. Loans to customers are carried net of any allowance for impairment losses. They are subsequently measured at amortized cost using effective interest rate method.

Write off of loans and advances

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

Impairment losses

Assets carried at amortized cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

Available-for-sale financial assets

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognized in the consolidated income statement.
The Group accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Finance leases

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

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

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

Investments held to maturity

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

Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled through the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

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

Property, equipment and intangible assets

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

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

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

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

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

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

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

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

Market value of property is assessed using one of four methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.
- The value is determined based on available public information and internet data on sales and purchases of property and real estate.

Taxation

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

Financial guarantee contracts issued and letters of credit

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

Contingencies

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

Share capital and share premium reserve

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

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

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

Preference shares

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

Retirement and other benefit obligations

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

Recognition of income and expense

Recognition of interest income and expense

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

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

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed.
Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

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

Underwriting income and expenses

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

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

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

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

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

Reserve for insurance losses and loss adjustment expenses

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

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

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

Reinsurance

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

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

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

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

Rates of exchange

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

	31 December 2008	31 December 2007
KZT/1 US Dollar	120.79	120.30
KZT/1 Euro	170.24	177.17
KZT/1 Kyrgyz Som	3.06	3.43
KZT/1 Russian Rouble	4.11	4.92

Offset of financial assets and liabilities

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

Fiduciary activities

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the domicile of the Company within the Group. In addition, over 90% of the Group's operations are conducted within the CIS.

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans and receivables

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

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

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

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2008 is KZT 289,328 million (2007: KZT 140,363 million).

Valuation of financial instruments

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

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

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

The Group also considers both the credit risk of its counterparties, as well as its own creditworthiness when estimating the fair value of financial instruments, including derivatives. The Group attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments. The Group generally calculates the credit risk adjustment for derivatives on observable credit data.

Credit risk is measured using dynamic models that calculate the probability and potential future exposure given default. The main inputs used in these models are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads and the correlation between individual issuers' quoted credit derivatives.

The Group also considers its own creditworthiness when determining the fair value of an instrument, including OTC derivative instruments and financial liabilities held at fair value through profit or loss if the Group believes market participants would take that into account when transacting the respective instrument. The approach to measuring the impact of the Group's credit risk on an instrument is done in the same manner as for third party credit risk. The impact of the Group's credit risk is considered when calculating the fair value of an instrument, even when credit risk is not readily observable such as in OTC derivatives contracts. As at 31 December 2008 and 2007, the impact of credit valuation adjustments in the derivatives portfolio was not material to the Group.

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

The table below summarizes the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2008 and 2007, respectively:

Balance sheet category		**Quoted prices in active markets**	**Internal models based on market prices**	**31 December 2008 Total**
Assets:				
Trading assets	Debt securities	32,537	-	32,537
	Equity investments	1,276	-	1,276
Derivative financial instruments	Foreign exchange contracts	-	24,317	24,317
Available-for-sale financial assets	Debt securities	11,755	-	11,755
	Equity securities	-	3,301	3,301
Liabilities:				
Derivative financial instruments	Foreign currency contracts	-	54,339	54,339

Balance sheet category		**Quoted prices in active markets**	**Internal models based on market prices**	**31 December 2007 Total**
Assets:				
Trading assets	Debt securities	130,271	-	130,271
	Equity investments	15,647	-	15,647
Derivative financial instruments	Foreign exchange contracts	-	42,835	42,835
	Securities contracts	-	23	23
Available-for-sale financial assets	Debt securities	3,034	-	3,034
	Equity securities	-	2	2
Liabilities:				
Derivative financial instruments	Foreign exchange contracts	-	7,684	7,684
	Securities contracts	-	46	46

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgment; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. A difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

The carrying amount of goodwill as at 31 December 2008 is KZT 2,405 million (2007: KZT 2,405 million).

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2008.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permit certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available-for-sale category to the loans and receivables category in rare circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 1 July 2008. The Group adopted amended standards as at 1 July 2008, the effects of these reclassifications are disclosed in Note 20.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions was issued in November 2007. Entities which buy their own shares, or whose shareholders buy shares in the reporting entity, in order to provide incentives to employees shall account for those incentives on an equity-settled basis. This principle applies also to the accounting by subsidiaries. The interpretation is effective for annual accounting periods beginning on or after 1 March 2008. The Group adopted these interpretations as of 1 March 2008. The adoption of the interpretations did not have a material impact on the Group's financial statements.

Standards and interpretations issued and not yet adopted

The Group has not applied the following IFRS and Interpretations of the IFRIC that have been issued but are not yet effective:

- IFRS 8 "Operating Segments" - On 30 November 2006, the IASB issued IFRS 8 which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after 1 January 2009. The Group is evaluating the impact of IFRS 8 on the consolidated financial statements.
- Amendment to IAS 1 "Presentation of Financial Statements" – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. The Group does not expect the adoption of the amendment to IAS 1 to have an impact on the financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.
- IFRS 3 "Business Combinations" – The IASB published IFRS 3 and related revisions to IAS 27 "Consolidated and Separate Financial Statements" following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after 1 July 2009 but may be adopted together for accounting periods beginning on or after 1 January 2007. The Group is currently evaluating its impacts on the consolidated financial statements.
- The IASB published revisions to IAS 32 'Financial Instruments: Presentation' and consequential revisions to other standards in February 2008 to improve the accounting for and disclosure of puttable financial instruments. The revisions are effective for accounting periods beginning on or after 1 January 2009 but together they may be adopted earlier. They are not expected to have a material affect on the Group.
- In May 2008, the IASB issued amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements' that change the investor's accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. It does not affect the consolidated financial statements but may prospectively affect the Group's accounting and presentation of receipts of dividends from such entities.
- The IFRIC issued interpretation IFRIC 15 'Agreements for the Construction of Real Estate' in July 2008. This interpretation clarifies the accounting for construction profits. It is applicable for accounting periods beginning on or after 1 January 2009 and is not expected to have a material effect on the Group.
- The IFRIC issued interpretation IFRIC 17 'Distributions of Non-Cash Assets to Owners' and the IASB made consequential amendments to IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' in December 2008. The interpretation requires distributions to be presented at fair value with any surplus or deficit to be recognised in income. The amendment to IFRS 5 extends the definition of disposal groups and discontinued operations to disposals by way of distribution. The interpretation is effective for accounting periods beginning on or after 1 July 2009, to be adopted at the same time as IFRS 3 (revised 2008), and is not expected to have a material effect on the Group.
- The IFRIC issued interpretation IFRIC 18 'Transfers of Assets from Customers' in January 2009. The interpretation addresses the accounting by suppliers that receive assets from customers, requiring measurement at fair value. The interpretation is effective for assets from customers received on or after 1 July 2009 and is not expected to have a material effect on the Group.

- IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives” On 5 of March 2009, the IASB issued an amendment to IAS 39 effective for annual periods ending on or after 30 June 2009. These amendments clarify that on reclassification of a financial asset out of the “at fair value through profit or loss” category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The Group will apply this amendment for the annual period beginning on 1 January 2009 and does not expect that it will have a significant impact on the Group consolidated financial statements.
- IFRS 7 “Financial instruments: Disclosures” On 5 of March 2009 the IASB issued amendments to IFRS 7 named “Improving Disclosures about Financial Instruments”. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. The Group will apply this amendment for the annual period beginning on 1 January 2009. The Group is currently evaluating its impacts on the consolidated financial statements.

4. RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended. The current year presentation provides a clearer view of the consolidated financial position of the Group.

These reclassifications include reclassifying of net gain on financial assets and liabilities at fair value through profit or loss, net loss on foreign exchange operations and precious metals operations and net realized gain on investments available-for-sale. These reclassifications are not material in nature and have no impact on the consolidated financial results of the Group.

	31 December 2007 As previously reported (KZT million)	**31 December 2007 As reclassified (KZT million)**	**Effect on financial statement’s line as per current report (KZT million)**
Interest expense	(169,528)	(171,762)	(2,234)
Net gain on financial assets and liabilities at fair value through profit or loss	21,627	20,642	(985)
Net loss on foreign exchange and precious metals operations	(18,605)	(15,464)	3,141
Net realized gain on investments available-for-sale	41	119	78

5. NET INTEREST INCOME

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on financial assets collectively assessed for impairment	194,926	127,478
- interest income on unimpaired assets	161,841	174,270
- interest income on impaired assets	18,122	6,145
Interest income on assets at fair value through profit or loss	5,345	8,380
Interest income on investments available-for-sale	543	185
Total interest income	380,777	316,458
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	363,182	297,608
Interest on loans and advances to banks	10,554	9,312
Interest on investments held to maturity	121	31
Amortization of discount on loans	1,032	942
Total interest income on financial assets recorded at amortized cost	374,889	307,893
Interest income on assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	5,345	8,380
Total interest income on assets at fair value through profit or loss	5,345	8,380
Interest income on investments available-for-sale	543	185
Total interest income	380,777	316,458
Interest expense comprises:		
Interest on liabilities recorded at amortized cost	181,265	171,762
Total interest expense	181,265	171,762
Interest expense on liabilities recorded at amortized cost comprise:		
Interest on customer accounts	72,288	51,542
Interest on debt securities issued	67,386	60,903
Interest on loans and advances from banks	27,989	46,023
Interest expense on securitization program	6,250	7,947
Interest expense on subordinated debt	4,865	3,208
Preference share dividends	598	604
Other interest expense	1,889	1,535
Total interest expense on financial liabilities recorded at amortized cost	181,265	171,762
Net interest income before provision for impairment losses on interest bearing assets	199,512	144,696

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Loans and advances to banks (KZT million) (Note 18)	**Loans to customers (KZT million) (Note 19)**	**Total (KZT million)**
31 December 2006	857	73,936	74,793
Additional provision due to acquisition of LLP IC East Capital	-	46	46
Additional provision recognized	459	69,451	69,910
Write-off of assets	-	(724)	(724)
Recoveries of assets previously written off	-	81	81
Exchange rate difference	(40)	(2,427)	(2,467)
31 December 2007	1,276	140,363	141,639
(Recovery of provision)/additional provision recognized	(977)	151,674	150,697
Write-off of assets	-	(1,172)	(1,172)
Exchange rate difference	-	(1,537)	(1,537)
31 December 2008	299	289,328	289,627

The Group creates allowance for impairment losses in order to cover possible credit losses, including losses where the asset is not specifically identified or the size of the loss has not been fully determined. At least monthly, the provision for impairment losses on interest bearing assets is reviewed by the Chairman of the Board, the Head of Risk Management Department, the Chief Financial Officer, and the Chief Accountant. At least quarterly, the provision for impairment losses and overall credit quality is reviewed by the Board of Directors. The amount of provision is reviewed relative to the credit portfolio and current economic conditions. The size of provision is determined by asset-specific and portfolio-based approaches. As at 31 December 2008, management deemed the provision for impairment losses to be appropriate and sufficient to absorb losses that are inherent in the portfolio.

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

	31 December 2008 (KZT million)	**31 December 2007 (KZT million)**
Insurance provisions	4,005	3,422
Provisions on guarantees and other off-balance sheet contingencies	6,271	7,216
	10,276	10,638

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

	Insurance provisions (KZT million)	Other assets (KZT million) (Note 25)	Total (KZT million)
31 December 2006	2,703	117	2,820
Additional provision recognized	889	349	1,238
Write-off of assets	(170)	(187)	(357)
Recoveries of assets previously written off	-	44	44
31 December 2007	3,422	323	3,745
Additional provision recognized	583	2,135	2,718
Write-off of assets	-	(249)	(249)
Exchange difference	-	94	94
31 December 2008	4,005	2,303	6,308

Insurance provisions comprised:

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Property	934	978
Civil liability for damage	853	91
Life insurance	613	207
Civil liability for owners of vehicles	510	241
Vehicles	468	785
Accidents	195	487
Freight	95	462
Other	337	171
Total insurance provisions	4,005	3,422

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

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

	Guarantees and other off-balance sheet contingencies (KZT million) (Note 33)
31 December 2006	4,055
Additional provision recognized	3,186
Exchange difference	(25)
31 December 2007	7,216
Recovery of provision	(856)
Exchange difference	(89)
31 December 2008	6,271

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

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Net (loss)/gain on financial assets and liabilities held-for-trading	(28,373)	20,642
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(28,373)	20,642
Net (loss)/gain on operations with financial assets and liabilities held-for-trading comprise:		
Realized loss on trading operations	(72)	(61)
Unrealized (loss)/gain on fair value adjustment of financial assets held for trading (securities)	(4,451)	965
Hedge ineffectiveness	(186)	-
Net (loss)/gain on operations with derivative financial instruments	(23,664)	19,738
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(28,373)	20,642

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

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

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Dealing, net	7,476	7,468
Translation differences, net	(1,859)	(22,932)
	5,617	(15,464)

9. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Fee and commission income:		
Cash operations	4,985	6,681
Documentary operations	4,723	5,069
Plastic cards operations	3,668	3,036
Settlements	3,006	2,986
Foreign exchange and securities operations	2,346	3,892
Investment fees on administered pension funds	2,067	863
Encashment operations	284	248
Other	666	783
Total fee and commission income	21,745	23,558
Fee and commission expense:		
Plastic cards services	1,300	1,107
Investment expenses on administered pension funds	1,231	-
Insurance activity	917	787
Foreign exchange and securities operations	257	337
Correspondent bank services	160	164
NBRK computation center services	92	97
Documentary operations	84	29
Other	283	192
Total fee and commission expense	4,324	2,713

10. NET REALIZED (LOSS)/GAIN ON INVESTMENTS AVAILABLE-FOR-SALE

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Loss from impairment of investments available-for-sale	(2,120)	-
Realized income from investments available-for-sale	82	119
	(2,038)	119

11. OTHER INCOME

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Insurance income	4,349	4,134
Bargain purchase gain on acquisition of stake in subsidiaries (Note 1)	3,137	1,555
Income from repurchase of own debt securities	902	-
Fines and penalties received	57	288
Income from sale of property, equipment and intangible assets	72	48
Other	835	894
	9,352	6,919

12. OPERATING EXPENSES

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Staff costs	16,475	15,980
Operating leases	3,604	2,400
Depreciation and amortization	3,379	2,519
Property and equipment maintenance	2,215	1,392
Advertising costs	1,694	1,519
Payments to the Individuals' Deposit Insurance Fund	1,627	1,742
Taxes, other than income tax	1,157	1,632
Communications	749	707
Bank cards services	521	383
Security services	440	326
Business trip expenses	401	524
Consulting and audit services	394	382
Vehicle maintenance	338	325
Training and information services	215	240
Stationery	166	184
Charity and sponsorship expenses	123	102
Mail and courier expenses	106	90
Other expenses	445	753
	34,049	31,200

13. INCOME TAX

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

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

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

Tax effect of temporary differences as at 31 December 2008 and 2007:

	31 December 2008 (KZT millions)	31 December 2007 (KZT million)
Deferred income tax assets:		
Unrealised loss on trading securities and derivatives	6,082	1,462
Unrealised loss on revaluation of financial instruments treated as cash flow hedges	2,680	-
Realized loss on securities	1,030	-
Bonuses accrued	649	706
Unamortized loans granted fees	132	-
Other assets	240	136
Total deferred income tax assets	10,813	2,304
Deferred income tax liabilities:		
Allowance for losses on loans and advances to banks and customers	19,144	20,147
Property, equipment and intangible assets and accumulated depreciation	1,498	2,795
Provision on guarantees and letters of credit	264	1,198
Investments in associates	108	946
Unrealised gain on trading securities and derivatives	4	7,714
Total deferred income tax liabilities	21,018	32,800
Net deferred income tax liabilities	10,205	30,496

Relationships between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Profit before income tax	11,474	73,655
Tax at the statutory tax rate (30%)	3,442	22,097
Tax effect of permanent differences:		
- tax exempt income	(1,687)	(5,611)
- non-deductible expense	3,714	415
Decrease of deferred tax expenses due to tax rate changes	(14,267)	-
Adjustments to prior year provisions for income tax	108	(997)
Income tax (benefit)/expense	(8,690)	15,904
Current income tax expense	7,282	3,795
Deferred income tax (benefit)/expense	(15,972)	12,109
Income tax (benefit)/expense	(8,690)	15,904

The tax rate used for the 2008 and 2007 reconciliations above is the corporate tax rate of 30% payable in the Republic of Kazakhstan on taxable profits under tax law. In December 2008, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 30% to 20% effective from 1 January 2009, to 17.5% effective from 1 January 2010 and to 15% effective from 1 January 2011.

	2008 (KZT million)	2007 (KZT million)
Deferred income tax liabilities		
1 January	30,496	16,851
Reduction of deferred tax liability due to tax rate changes	(14,267)	-
(Decrease of deferred tax liability)/Increase in deferred tax liability	(1,705)	12,109
Change in hedging reserve	(2,680)	-
Reduction of deferred tax expenses through the equity due to tax rate changes	(1,216)	-
Change in available-for-sale reserve	(423)	-
Decrease in property and equipment revaluation reserve	-	1,536
31 December	10,205	30,496

14. EARNINGS PER SHARE

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

As described in note 32, dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December 2008 (KZT million)	Year ended 31 December 2007 (KZT million)
Basic and diluted earnings per share		
Net profit for the year attributable to equity holders of the parent	21,805	55,963
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	(3,399)	(9,495)
Net profit for the year attributable to ordinary shareholders	18,406	46,468
Weighted average number of ordinary shares for basic and diluted earnings per share	574,861,869	574,828,600
Earnings per share – basic and diluted (tenge)	32.01	80.85

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Cash on hand	35,879	41,082
Balances with national (central) banks	54,599	127,066
	90,478	168,148

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

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Cash and balances with national (central) banks	90,478	168,148
Loans and advances to banks in Organization for Economic Co-operations and Development ("OECD") countries with original maturities less than 3 months	164,025	139,042
Less minimum reserve deposit with the National Bank of the Republic of Kazakhstan ("NBRK")	(85,127)	(160,217)
Less minimum reserve deposit with the Central Bank of Russian Federation ("CBR")	(178)	(2,430)
Less minimum reserve deposit with the National Bank of the Kyrgyz Republic ("NBKR")	(155)	(197)
Less minimum reserve deposit with the National Bank of Tajikistan	(49)	-
	168,994	144,346

The balances with the CBR as at 31 December 2008 include KZT 2,559 million (2007: KZT 5,246 million), of which KZT 178 million (2007: KZT 2,430 million) represents the obligatory minimum reserve deposits required by the CBR. The Group is required to maintain the reserve balance at the CBR at all times.

The balances with the NBRK as at 31 December 2008 include KZT 51,329 (2007: 121,476 million) and cash on hand of KZT 33,798 million (2007: KZT 38,741 million), totaling KZT 85,127 million (2007: KZT 160,217 million), which represent the minimum reserve deposits required by the NBRK.

The balances with the NBKR as at 31 December 2008 include KZT 415 million (2007: KZT 344 million), of which KZT 155 million (2007: KZT 197 million) represents the minimum reserve deposits required by the NBKR at all times.

The balances with the National Bank of Tajikistan at 31 December 2008 include KZT 296 million (31 December 2007: nil), of which KZT 49 million (31 December 2007: nil) represents the minimum reserve deposits required by the National Bank of Tajikistan.

16. PRECIOUS METALS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Precious metals	317	-
	317	-

17. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Debt securities	32,537	130,271
Derivative financial instruments	24,317	42,858
Equity investments	1,276	15,647
Total financial assets at assets at fair value through profit or loss	58,130	188,776

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

	31 December 2008		31 December 2007	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of Kazakhstani companies	8.00-19.20	12,356	4.90-12.40	22,684
Short-term NBRK notes	-	5,609	-	1,845
Bonds of Russian companies	7.28-13.80	3,078	7.28-13.80	4,030
Bonds of international financial organizations	6.50-15.715	2,920	1.56-20.09	87,336
Bonds of Kazakhstani banks	6.00-12.00	2,390	6.00-12.00	4,151
Eurobonds of Kazakhstani banks	7.875-8.125	2,089	7.75-8.13	2,900
Bonds of Russian banks	7.34-9.90	1,828	7.34-8.25	703
State treasury bonds of the Ministry of Finance of Republic of Kazakhstan	4.50-8.75	1,765	3.78-6.68	926
Bonds of local executive bodies of the Russian Federation	7.26-8.70	378	7.75-9.20	607
Bonds of federal loan of the Ministry of Finance of the Russian Federation	9.00	124	9.00-10.00	343
Bonds of Russian investment funds	-	-	-	4,273
Eurobonds of OECD countries	-	-	4.75	253
Bonds of Atyrau local executive bodies	-	-	8.50	220
		32,537		130,271

	Ownership share %	31 December 2008 (KZT million)	Ownership share %	31 December 2007 (KZT million)
Equity investments:				
GDRs of Kazakhstani banks	0.64	610	0.01	80
GDRs of Russian banks	0.103	214	0.07	652
Shares of Kazakhstani companies	0.001-0.293	162	0.007-0.282	701
Shares of Russian companies	0.0001-2.00	108	0.00001-19.559	7,565
Shares of Kazakhstani banks	0.025	75	0.0007-0.043	363
Shares of foreign companies	0.0003-5.93	45	-	-
GDRs of Russian companies	0.0001-0.01	30	-	-
Shares of Russian banks	0.00001	12	0.00001	19
ADRs of Russian companies	0.003	12	-	-
GDRs of Kazakhstani companies	0.0006	8	0.247	3,771
ADRs of Kazakhstani companies	-	-	0.654	2,496
		1,276		15,647

As at 31 December 2008, financial assets at fair value through profit or loss included accrued interest income on debt securities of KZT 592 million (2007: KZT 1,506 million).

As at 31 December 2008, financial assets at fair value through profit or loss included bonds of federal loan of the Ministry of Finance of the Republic of Kazakhstan, bonds of Kazakhstani companies pledged under repurchase agreements with other banks and customers with fair value of KZT 9,860 million (2007: KZT 82,147 million). As at 31 December 2008, all of the repurchase agreements are to be settled by January 2009 (2007: February 2008).

	31 December 2008			31 December 2007		
	Nominal value	Net fair value (KZT million)		Nominal value	Net fair value (KZT million)	
Derivative financial instruments:		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts:						
Foreign exchange swap	305,917	21,265	(34,648)	381,001	25,724	(2,145)
Forward contracts	112,221	1,941	(4,135)	64,652	2,105	(381)
Interest rate swap	124,591	946	(15,548)	82,740	14,987	(5,133)
Option	23,227	163	-	-	-	-
Spot	18,563	2	(8)	74,996	19	(25)
Securities purchase/sale contracts:						
Securities swap	-	-	-	592	23	(46)
		24,317	(54,339)		42,858	(7,730)

Included in the above are derivatives held for hedging purposes as follows:

	31 December 2008			31 December 2007		
	Nominal value	Net fair value (KZT million)		Nominal value	Net fair value (KZT million)	
Cash flow hedging:		Assets	Liabilities		Assets	Liabilities
Foreign exchange swap	191,476	11,952	(32,216)	-	-	-
Interest rate swap	14,132	43	(1,618)	-	-	-
		11,995	(33,834)		-	-

The Group's cash flow hedges relate to exposure to variability in the anticipated future cash flows on its financial liabilities.

To hedge the cash flows on financial liabilities with floating interest rates, the Group uses interest rate swap contracts to exchange the floating rates for fixed rates. As such, the Group converts its floating rate debt repayments to fixed rate debt repayments and minimizes the effect of change in interest rates on its future cash flows.

To hedge the foreign exchange risk on financial liabilities the Group uses cross-currency swap contracts to convert, partially or in-full, its repayments on foreign currency denominated liabilities to the functional currency of the subsidiary which issued these liabilities.

For the year ended 31 December 2008, hedge ineffectiveness recognized in net loss on financial assets and liabilities at fair value through profit or loss comprised cash flow hedging ineffectiveness of KZT 186 million (2007: nil).

As at 31 December 2008, the aggregate amount of unrealized losses under foreign exchange swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 11,034 million (31 December 2007: Nil). The cash flows under these contracts will occur quarterly, for periods up to February 2017. These contracts are designated as hedge instruments to hedge the exchange rate risk arising from the future cash flows of the funds raised by the Group from international financial organizations in currencies other than tenge.

As at 31 December 2008, the aggregate amount of unrealized losses under interest rate swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 2,363 million (31 December 2007: nil). The cash flows under these contracts will occur biannually, for periods up to January 2018. These contracts are designated as hedge instruments to hedge the interest rate risk arising from the future cash flows of the funds raised by the Group from international financial organizations in currencies other than tenge.

As at 31 December 2008, the fair value of the hedging instruments is KZT (21,839) million.

18. LOANS AND ADVANCES TO BANKS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Recorded as loans and receivables:		
Loans and advances to banks	222,785	173,759
Correspondent accounts with other banks	19,262	39,661
Loans under reverse repurchase agreements	65	679
	242,112	214,099
Less allowance for impairment losses	(299)	(1,276)
	241,813	212,823

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

As at 31 December 2008, loans and advances to banks included accrued interest of KZT 1,123 million (2007: KZT 1,327 million).

As at 31 December 2008 and 2007, the Group had no loans and advances to banks, which individually exceeded 10% of the Group's equity. As at 31 December 2008, the maximum exposure to any individual bank amounted to KZT 39,651 million (2007: KZT 32,091 million).

As at 31 December 2008 the maximum credit risk exposure on loans and advances to banks amounted to KZT 241,813 million (2007: KZT 212,823 million).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2008 and 2007 comprised:

	31 December 2008 (KZT million)		31 December 2007 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of the Ministry of Finance of the Republic of Kazakhstan	39	65	12	11
Shares of Russian companies	-	-	756	668
	39	65	768	679

As at 31 December 2008, a guarantee deposit in the amount of KZT 2,416 million (2007: KZT 2,406 million) placed in JP Morgan Chase Bank London was included in loans and advances to banks as collateral for letters of credit.

19. LOANS TO CUSTOMERS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Recorded as loans and receivables:		
Originated loans	2,392,218	2,480,059
Loans under reverse repurchase agreements	34,417	20,549
Net investments in finance lease	7,475	6,090
	2,434,110	2,506,698
Less allowance for impairment losses	(289,328)	(140,363)
	2,144,782	2,366,335

As at 31 December 2008, accrued interest income included in loans to customers amounted to KZT 98,183 million (2007: KZT 66,827 million).

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

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

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Analysis by type of collateral:		
Loans collateralized by real estate	914,265	1,039,685
Loans collateralized by shares of the banks and other companies	249,811	209,729
Loans collateralized by equipment	266,345	209,168
Loans collateralized by guarantees of enterprises	175,352	176,004
Loans collateralized by mixed types of collateral	122,956	209,980
Loans collateralized by accounts receivable	83,884	86,872
Loans with collateral under the registration process (property, land, shares, guarantees, etc.)	77,973	152,707
Loans collateralized by inventories	67,717	41,014
Loans collateralized by cash or Kazakhstani Government guarantees	58,231	80,232
Loans collateralized by securities	34,417	20,549
Loans collateralized by guarantees of financial institutions	2,701	8,031
Unsecured loans	91,130	132,364
	2,144,782	2,366,335

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

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Analysis by sector:		
Individuals	351,088	452,330
Trade	333,171	442,181
Housing construction	301,665	246,546
Commercial real estate construction	192,869	228,165
Real estate	140,901	165,825
Hotel business	135,015	133,635
Investments and finance	131,866	122,744
Transport and communication	97,576	106,576
Energy	73,792	66,179
Food industry	56,730	62,661
Agriculture	45,440	52,906
Machinery construction	39,972	43,935
Industrial and other construction	30,447	40,115
Production of construction materials	16,073	31,468
Mining and metallurgy	13,118	11,577
Medicine	5,877	4,239
Culture and art	2,437	4,945
Other	176,745	150,308
	2,144,782	2,366,335

During the years ended 31 December 2008 and 2007, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2008 and 2007, such assets in amount of KZT 1,620 million (2007: KZT 1,151 million) are included in other assets line of the consolidated balance sheet. These assets are represented mostly by real estate mostly, which will be realized through auctions.

Loans to individuals comprise the following products:

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Mortgage loans	197,663	247,478
Consumer loans	100,830	133,108
Business loans	25,390	42,817
Car loans	13,584	19,422
Other	13,621	9,505
	351,088	452,330

As at 31 December 2008 and 2007, the Group granted loans to the borrowers, shown below, respectively, which individually exceeded 10% of the Group's equity. Although loans to borrowers disclosed in 2007 may continue to be outstanding in 2008, only those borrowers which exceed 10% of equity are disclosed below.

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
LLP GAS Corporation	64,835	-
Visor Investment Solutions JSC	58,455	43,122
Holding "Vek ZhSK"	50,660	-
JSC NGSK Kazstroiservice	47,343	-
Group LLP CP Retail Almaty	46,593	-
JSC Holding Build Investment	44,097	-
LLP Ken-Sary	-	69,714
Alibi Holding	-	48,327
	311,983	161,163

As at 31 December 2008, significant part of loans 80.43% (2007: 78.42%) of the total portfolio is granted to companies operating on the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

As at 31 December 2008, maximum credit risk exposure on loans to customers amounted to KZT 2,144,782 million (2007: KZT 2,366,335 million).

As at 31 December 2008, maximum credit risk exposure on loan commitments and overdrafts extended by the Group to its customers amounted to KZT 9,312 million (2007: 10,382 million).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2008 and 2007, comprised:

	31 December 2008 (KZT million)		31 December 2007 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Shares of Kazakhstani companies	11,189	19,803	614	636
Shares of Russian companies	4,165	3,800	15,998	15,081
Bonds of Russian companies	3,543	2,983	-	-
Bonds of Kazakhstani companies	1,711	1,981	2,534	2,871
ADR of Kazakhstani companies	1,642	4,338	-	-
Shares of Russian banks	519	446	499	480
Bonds of Kazakhstani banks	290	383	669	805
Bonds of the Ministry of Finance of the Republic of Kazakhstan	176	185	-	-
Shares of Kazakhstani banks	139	498	419	676
Total securities purchased under reverse repurchase agreements	23,374	34,417	20,733	20,549

The components of net investment in finance lease as at 31 December 2008 and 2007 are as follows:

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Minimum lease payments	9,739	8,037
Less: unearned finance income	(2,264)	(1,947)
Net investment in finance lease	7,475	6,090
Current portion	2,310	1,681
Long-term portion	5,165	4,409
Net investment in finance lease	7,475	6,090

The value of future minimum lease payments received from the customer under finance lease as of 31 December 2008 and 2007 comprised:

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Not later than one year	3,393	2,264
From one year to five years	1,015	5,185
More than 5 years	5,331	588
Total value of future minimum lease payments	9,739	8,037

20. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Debt securities	11,755	3,034
Equity securities	3,301	2
	15,056	3,036

	Nominal interest rate %	31 December 2008 (KZT million)	Nominal interest rate %	31 December 2007 (KZT million)
Debt securities:				
Bonds of Kazakhstani companies	6.50-19.20	7,258	7.90-12.20	1,342
State treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	3.35-17.94	2,882	3.75-11.08	1,400
Bonds of Kazakhstani banks	8.50-12.00	1,615	8.50-12.00	290
Short-term notes of the NBRK	-	-	3.03	2
		11,755		3,034

	Ownership share %	31 December 2008 (KZT million)	Ownership share %	31 December 2007 (KZT million)
Equity securities:				
GDR of Kazakhstani companies	0.263	1,687	-	-
ADR of Kazakhstani companies	0.646	930	-	-
Shares of Kazakhstani companies	0.029-0.078	311	-	-
Shares of Kazakhstani banks	0.020-0.042	142	-	-
GDR of Russian banks	0.07	136	-	-
GDR of Kazakhstani banks	0.057-0.08	93	-	-
Shares of Kazakhstan stock exchange	1.33	2	1.33	2
		3,301		2

As at 31 December 2008, interest income on debt securities amounting to KZT 904 million (2007: KZT 168 million), was accrued and included in investments available-for-sale.

As at 31 December 2008, investments available-for-sale included bonds of Kazakhstani banks, pledged under repurchase agreements with other banks with fair value of KZT 1,235 million (2007: nil). All of the repurchase agreements are to be settled by January 2009 (2007: none).

In October 2008, the International Accounting Standards Board issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") to permit the reclassification of financial assets out of the held-for-trading and available-for-sale categories, subject to certain restrictions. In accordance with these amendments, during 2008, the Group reclassified certain debt and equity securities with total fair value as at 31 December 2008 of KZT 10,886 million from the held-for-trading category of financial assets at fair value through profit or loss into investments available-for-sale. Total fair value of debt and equity securities reclassified amounted to KZT 14,896 million as at the reclassification date.

The reclassifications were made for those securities which have had a significant decline in volume of transactions in the financial markets as a result of current financial crisis. In the current situation the Group has revised its investment strategy and has the intention and ability to hold those securities for the foreseeable future. Those debt and equity securities which were reclassified are presented in the tables below. Reclassifications implemented before 1 November 2008 have been backdated to 1 July 2008, 1 August 2008, 1 September 2008 and 1 November 2008, as permitted by the revision to IAS 39.

	On reclassification			**31 December 2008**		**After reclassification**	
	Effective interest rate %	**Fair value**	**Estimated cash flows expected to be recovered**	**Nominal value**	**Fair value**	**Movement in investments available-for-sale reserve/(deficit)**	
Debt securities:		**(KZT million)**		**(KZT million)**		**(KZT million)**	
						Gains	**Losses**
Bonds of Kazakhstani companies	17.6453	6,419	6,456	5,514	6,182	1,578	(1,815)
Bonds of Kazakhstani banks	5.5054	1,556	1,846	1,504	1,405	90	(241)
Total debt securities:		7,975	8,302	7,018	7,587	1,668	(2,056)

	On reclassification		**31 December 2008**		**After reclassification**	
Equity securities:	**Ownership share %**	**Fair value**	**Nominal value**	**Fair value**	**Movement in investments available-for-sale reserve/(deficit)**	
		(KZT million)	**(KZT million)**		**(KZT million)**	
					Gains	**Losses**
GDR of Kazakhstani companies	0.26	3,232	2,474	1,687	682	(2,227)
ADR of Kazakhstani companies	0.65	2,201	741	930	193	(1,464)
Shares of Kazakhstani companies	0.03-0.08	621	790	311	14	(324)
GDR of Kazakhstani banks	0.06-0.08	484	519	93	136	(527)
Shares of Kazakhstani banks	0.0001-0.04	286	369	142	100	(244)
GDR of Russian banks	0.07	97	675	136	39	-
Total equity securities:		6,921	5,568	3,299	1,164	(4,786)

Unrealized loss from fair value revaluation for the period from reclassification date to 31 December 2008 recognized in the consolidated statement of changes in equity as a result of the reclassification of the debt and equity securities amounted to KZT 1,890 million which is included in the line "Unrealized loss on revaluation of available-for-sale investments". This represents the amount that would have been recognized in operating profit had reclassification not occurred.

Unrealized loss from fair value revaluation on the debt and equity securities reclassified recognized in the consolidated income statement for the period from 1 January 2008 to the reclassification date amounted to KZT 1,650 million. Unrealized gain from fair value revaluation on the debt and equity securities reclassified recognized in the consolidated income statement for the period from 1 January 2007 to the corresponding reclassification date of 2007 amounted to KZT 981 million.

From the date of reclassification to 31 December 2008, the total amount of interest income on debt securities reclassified comprised KZT 899 million and for the year ended 31 December 2008 comprised KZT 1,808 million.

As a result of substantial external debts of several Kazakhstan banks and the general global economic climate, the possibility of refinancing is low at present. Further there is little potential for price appreciation in shares of the banks, as a result of the continuing uncertainty in the financial markets. Therefore as at 31 December 2008, the Group has recognized an impairment on shares of Kazakhstani banks and JSC Kazakhtelecom amounting to KZT 2,120 million. This amount is recognized in the line "Net realized (loss)/gain on investment available-for-sale" of the consolidated income statement.

21. INVESTMENTS HELD TO MATURITY

	31 December 2008		31 December 2007	
	Nominal interest rate %	**Amount (KZT million)**	**Nominal interest rate %**	**Amount (KZT million)**
Debt securities:				
Bonds of the Ministry of Finance of the Kazakhstan Republic	6.75	229	-	-
Notes of the National Bank of Kyrgyz Republic	15.20-16.40	174	-	-
Bonds of BankCenterCredit	8.50-10.00	117	8.50-10.00	117
Bonds of Halyk Bank	6.00-7.75	109	7.30-7.75	109
Bonds of ATF Bank	8.50-11.00	92	8.50-9.80	91
Bonds of JSC "Batis Tranzit"	19.20	52	-	-
Bonds of the Ministry of Finance of the Kyrgyz Republic	19.16-19.21	2	5.24-7.07	58
Bonds of JSC "KazexportAstik"	11.00	1	-	-
		776		375

As at 31 December 2007 interest income on debt securities amounting to KZT 19 million (2007: KZT 5 million) was accrued and included in investments held to maturity.

22. INVESTMENTS IN ASSOCIATES

The following enterprises were recorded in the consolidated financial statements using the equity method:

	31 December 2008 (KZT million)		31 December 2007 (KZT million)	
	Ownership interest %	**Carrying value**	**Ownership interest %**	**Carrying value**
JSC APF Ular Umit	49.35	1,775	49.35	1,752
JSC OCOPAIM Zhetysu	50.00	-	50.00	1,433
LLP First Credit Bureau	-	-	18.40	37
		1,775		3,222

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

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
1 January	3,222	1,755
Purchase cost	2,172	134
Share of results of associates	(3,585)	1,333
Revaluation through equity	3	-
Write-off investments in the LLP First Credit Bureau	(37)	-
31 December	1,775	3,222

On 3 October 2008 and 24 November 2008, the Board of Directors of JSC "Pension Fund "Ular Umit" (the "Fund") decided to issue additional 20,000 and 20,000 of ordinary shares, respectively for the amount of KZT 110 thousand per share. During November 2008, the Bank paid KZT 2,172 million for 19,740 additional ordinary shares of the Fund in accordance with its prevailing purchase right. As a result, the share of the Bank did not change and comprised 49.35% of ownership interest.

23. GOODWILL

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

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

Companies that generate cash flows:	31 December 2008 (KZT million)	31 December 2007 (KZT million)
JSC Grantum AF	1,281	1,281
JSC OCOPAIM Grantum Asset Management	1,124	1,124
	2,405	2,405

As at 31 December 2008 and 2007, there was no evidence that the goodwill that arose on the acquisition of JSC Grantum AF (Grantum AF) and JSC OCOPAIM Grantum Asset Management (Grantum AM) has been impaired.

As at 31 December 2008, due to the change of market conditions the Group has conducted a reassessment of goodwill attributable to Grantum AF and Grantum AM. For the estimations of cash flows, the Group used the following assumptions:

- The economy is cyclical;
- Equity market volatility;
- Conservative investment strategy;
- Stable customer base (high salary customers);
- Favorable population indicators (expanding younger population); and
- Cross-selling opportunities.

The Bank used forecasted cash flows for revenues and expenses of Grantum AF and Grantum AM for the next 4 years based on the budgets; the revenues and expenses were segregated by sources of inflows/outflows (e.g. interest income/expense, general and administrative expenses). Estimation was made using the method of discounting cash flows. Calculations used discounted rates of 19.35% (2007: 16.45%). Based on the results of internal estimation of goodwill the value of shares exceeds the acquisition cost. Consequently, management believes that there is no impairment of goodwill.

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate (KZT million)	Furniture and equipment (KZT million)	Intangible assets (KZT million)	Construction in progress (KZT million)	Other equipment (KZT million)	Total (KZT million)
At primary/revalued cost:						
31 December 2006	6,818	10,761	1,529	2,119	1,101	22,328
Additions	2,162	5,492	1,630	6,116	861	16,261
Revaluation increase	5,245	-	-	-	-	5,245
Disposals	(233)	(658)	(11)	-	(460)	(1,362)
Net foreign currency exchange differences	6	121	1	-	105	233
31 December 2007	13,998	15,716	3,149	8,235	1,607	42,705
Additions	765	1,953	392	1,960	858	5,928
Transfers		(354)	-	-	354	-
Revaluation decrease	(778)	-	-	-	-	(778)
Disposals	(51)	(879)	(15)	-	(239)	(1,184)
Net foreign currency exchange differences	(85)	(285)	(58)	-	(140)	(568)
31 December 2008	13,849	16,151	3,468	10,195	2,440	46,103
Accumulated depreciation:						
31 December 2006	97	5,318	930	-	302	6,647
Charge for the year	131	1,784	324	-	280	2,519
Disposals	(94)	(476)	(10)	-	(181)	(761)
Net foreign currency exchange differences	-	29	1	-	11	41
31 December 2007	134	6,655	1,245	-	412	8,446
Charge for the year	182	2,323	418	-	456	3,379
Transfers	-	(225)	-	-	225	-
Disposals	(37)	(735)	(12)	-	(212)	(996)
Net foreign currency exchange differences	(6)	(135)	(20)	-	(30)	(191)
31 December 2008	273	7,883	1,631	-	851	10,638
Net book value:						
31 December 2008	13,576	8,268	1,837	10,195	1,589	35,465
31 December 2007	13,864	9,061	1,904	8,235	1,195	34,259

As at 31 December 2008, property, equipment and intangible assets of the Group included fully depreciated and amortized assets on initial cost amounting to KZT 3,176 million (2007: KZT 3,497 million), of which KZT 3,009 million pertain to the Bank (2007: KZT 3,384 million).

Buildings and other real estate are revalued on a regular cyclical basis, with the last valuation being conducted on 7 May 2008 (2007: 30 June 2007). The valuation was conducted by a local independent appraisal company and for determining of the final value on these dates, the Group used observable prices in an active market for the properties. These prices are obtained through publications and current market data, and are adjusted based on characteristics of the valued property.

The carrying value of the buildings as at 31 December 2008 amounted to KZT 13,135 million (2007: KZT 13,319 million). If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value as at 31 December 2008 would be KZT 3,278 million (2007: KZT 2,993 million).

Intangible assets include software, patents and licenses.

25. OTHER ASSETS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Prepayments and other debtors	14,424	8,819
Insurance agreement accounts receivable	4,733	1,196
Prepaid expenses	2,819	3,992
Tax settlements, other than income tax	2,278	2,632
Non-current assets held-for-sale	1,620	1,151
Income tax receivable	237	386
	26,111	18,176
Less allowance for impairment losses	(2,303)	(323)
	23,808	17,853

During the years ended 31 December 2008 and 2007, the Group received non-financial assets by taking possession of collateral it held as security. The amount of loss from sale of non-current assets amounted to KZT 12 million (2007: nil). The non-current assets are included in the retail banking segment in Note 36.

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

26. LOANS AND ADVANCES FROM BANKS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Recorded at amortized cost:		
Correspondent accounts of other banks	14,267	72,028
Correspondent accounts of organizations that serve certain types of banking operations	386	5
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks with maturity of September 2008 and interest rate of 5.815%	-	72,834
Syndicated loan from a group of banks with maturity of December 2008 and interest rate of %3.718%	-	33,147
Syndicated loan from a group of banks with maturity of December 2008 and interest rate of 3.4%	-	13,235
Syndicated loan from a group of banks with maturity of December 2009 and interest rate of 4.66%	36,451	36,255
Syndicated loan from a group of banks with maturity of February 2008 and interest rate of 5.51%	-	54,838
Loan with maturity of January 2009	300	4,143
Loan with maturity of December 2014	32,952	40,138
Loans with other banks and financial establishments	193,764	284,267
Deposits with banks	8,745	34,780
Loans under repurchase agreements	9,526	77,761
	296,391	723,431

As at 31 December 2008, accrued interest expense included in loans and advances from banks amounted to KZT 2,238 million (2007: KZT 5,272 million).

As at 31 December 2008, loans with other banks and financial institutions for KZT 173,203 million (89% of total loans with other banks and financial establishments) (2007: KZT 247,667 million or 87% of total loans with other banks and financial establishments) consisted of 23 (2007: 45) banks and financial institutions of such countries as Great Britain, the Netherlands, Switzerland, Austria, Russia, Luxemburg, Korea, Kazakhstan, Germany, Belgium, Hong Kong, China. Maturities of these loans range from 5 days to 97 months (2007: 3 days to 101 months). Interest rates on loans with other banks and financial establishments varied from 0.05% to 15% (2007: from 2.33% to 10.16%).

As at 31 December 2008 included in loans and advances to banks are loans under repurchase agreements of KZT 9,526 million (2007: KZT 77,761 million) with maturities in January 2009 (2007: February 2008).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2008 and 2007 are presented as follows:

	31 December 2008 (KZT million)		31 December 2007 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of Kazakhstani companies	4,359	3,611	1,750	1,501
Notes of the National Bank of the Republic of Kazakhstan	4,209	4,000	843	802
Bonds of Kazakhstani banks	1,235	1,000	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	553	500	776	702
Bonds of Russian banks	467	415	249	219
Bonds of international financial establishments	-	-	75,749	72,501
Bonds of Russian companies	-	-	2,064	1,489
Bonds of local executive bodies of the Russian Federation	-	-	504	547
	10,823	9,526	81,935	77,761

During 2008 the Group simultaneously placed with and received short-term funds from banks in different currencies for a total amount of KZT 96,962 million (2007: KZT 301,892 million).

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In accordance with the terms of certain of those loans, the Group is also required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares. Furthermore, certain of the Group's outstanding financing agreements include covenants restricting the capability of the Group to create the right of pledge on its assets. The Group's failure to observe obligations on these covenants can lead to cross reduction in the maturity and a chain of defaults on the terms of other financial agreements of the Group.

As at 31 December 2008 and 2007, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

27. CUSTOMER ACCOUNTS

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Recorded at amortized cost:		
Time deposits	822,257	718,761
Demand deposits	156,600	176,121
Metallic accounts in precious metals	300	-
Loans under repurchase agreements	296	201
	979,453	895,083

As at 31 December 2008, customer accounts included accrued interest expense of KZT 14,610 million (2007: KZT 16,516 million).

As at 31 December 2008, customer accounts were pledged as a guarantee for issued letters of credit and other transactions relating to contingent liabilities of KZT 4,736 million (2007: KZT 2,750 million).

As at 31 December 2008, the customer accounts of KZT 565,565 million or 57.74% (2007: KZT 335,853 million or 37.52%), were due to 10 customers, which represents significant concentration.

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Analysis by sector:		
Chemical and petrochemical industry	393,550	168,778
Individuals	263,771	309,679
Investments and finance	105,169	146,763
Trade	46,667	39,867
Distribution of electricity, gas and water	45,386	16,683
Individual services	30,249	30,752
Transport and communication	27,644	56,345
Construction	24,711	36,592
Agriculture	13,895	25,766
Education	10,800	27,261
Mining and metallurgy	6,090	8,402
Health care	2,856	6,830
Light industry	1,168	1,077
Hotel business	1,145	694
Machinery construction	939	904
Culture and art	770	612
Real estate	606	1,704
Food industry	570	2,444
Public organizations and unions	519	592
Metallic accounts in precious metals	300	-
Energy	1	1
Other	2,647	13,337
	979,453	895,083

As at 31 December 2008, the customer accounts included loans under repurchase agreements amounting to KZT 296 million (2007: KZT 201 million).

The fair value of collateral and carrying value of loans under repurchase agreements as at 31 December 2008 and 2007 are presented as follows:

	31 December 2008 (KZT million)		31 December 2007 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of the Ministry of Finance of the Republic of Kazakhstan	176	185	-	-
Shares of Kazakhstani banks	35	27	-	-
Shares of Russian companies	29	29	-	-
Shares of Russian banks	25	25	-	-
Bonds of Kazakhstani companies	7	30	212	201
Total securities sold under repurchase agreements	272	296	212	201

28. DEBT SECURITIES ISSUED

	Currency	Maturity date	Annual coupon rate %	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Recorded at amortized cost:					
Eurobonds of Kazkommerts International B.V.:					
Issued in May 2007 with zero coupon	USD	May 2008	-	-	30,075
Issued in July 2007 at the price of 100%	JPY	July 2009	2.56	33,500	26,775
Tranche A issued in November 2004 at the price of 98.967%	USD	November 2009	7.00	36,797	40,949
Issued in March, 2006 at the price of 99.993%	EUR	March 2011	5.125	49,965	53,151
Issued in May 2008 at the price of 100%	USD	May 2011	12.00	27,782	-
Issued in February 2007 at the price of 99.962%	GBP	February 2012	7.625	61,124	84,049
Issued in April 2003 at the price of 97.548%	USD	April 2013	8.50	40,471	41,420
Issued in April 2004 at the price of 99.15%	USD	April 2014	7.875	46,397	47,337
Issued in November 2005 at the price of 98.32%	USD	November 2015	8.00	60,395	60,150
Issued in November 2006 at the price of 98.282%	USD	November 2016	7.50	60,395	60,150
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.875	127,680	132,877
Other Eurobonds of Kazkommerts International B.V.	SGD and USD	February 2009 – April 2013	4.25-12.85	59,743	59,450
				604,249	636,383
Including /(less):					
Discount on debt securities issued				(3,951)	(6,289)
Accrued interest on debt securities issued				18,239	19,897
Total issued Eurobonds of Kazkommerts International B.V.				618,537	649,991
Issued promissory notes of LLP Moscommertsbank at the price of 88.00-100.00%		January 2008 – June 2013	2.787-12.80	50,342	78,370
Accrued interest expense on issued promissory notes of LLP Moscommertsbank				1,326	1,198
Issued bonds of Moscow Stars B.V. at the price of 99.00%		December 2021	2.945-6.445	8,066	10,099
Accrued interest on bonds of Moscow Stars B.V.				14	30
				678,285	739,688

As at 31 December 2008 accrued interest expense included in debt securities issued amounted to KZT 19,579 million (2007: KZT 21,125 million).

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

On 18 July 2007, Eurobonds were issued by Moscow Stars B.V. with a maturity of December 2021, the first coupon payment was due on 16 August 2008 and subsequent coupon is to be paid on the 15th of each month. Moscow Stars BV is the special purpose vehicle created for securitization of mortgage loans, and it is consolidated into the financial statement of MKB in accordance with SIC 12 "Consolidation – Special Purpose Entities".

The Group is obligated to comply with financial covenants in relation to the debt securities disclosed above. These covenants include stipulated capital ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants in the years ending 31 December 2008 and 2007.

29. OTHER BORROWED FUNDS

	Currency	Maturity	Interest rate %	31 December 2008 (KZT million)	Interest rate %	31 December 2007 (KZT million)
Kazkommerts DPR Company	USD	March 2017	2.54 – 4.00	111,436	6.06 – 7.52	113,581
Moore's Creek	KZT	February 2009	7.56	6,588	7.56	6,588
DEG-Deutsche Investitions MBH	USD	January 2014	4.10 – 6.37	5,471	6.24 – 8.64	6,207
Societe Generale Financial Corp	USD	September 2017	3.67 – 5.85	4,704	5.30 – 7.66	5,593
Funding by the Small Business Development Fund	KZT	July 2015	7.50	2,716	11.10	12,264
Cargill Financial Services Int, USA	USD	March 2009	8.33	1,939	-	-
NLB InterFinanz AG	USD	August 2010	5.67	1,849	8.19	1,858
Private Export Funding Corporation	USD	April 2017	1.95 – 4.79	1,572	5.03 – 5.65	1,660
Funding of agricultural equipment purchasing by Export Development Canada	USD	March 2011	4.15	432	5.41	603
Deere Credit	USD	May 2013	2.77 – 3.69	311	5.20 – 5.28	251
Intesa Soditic Trade Finance LTD	USD	August 2009	4.82	246	7.28	249
Funding by the Ministry of Finance of the Republic of Kazakhstan and by the Ministry of Kyrgyz Republic	KZT	September 2011	0.50	58	0.50	78
Funding by the Ministry of Finance of Kyrgyz Republic	USD	July 2015	1.50	2	1.50	2
				137,324		148,934

As at 31 December 2008, accrued interest expense included in other borrowed funds amounted to KZT 564 million (2007: KZT 620 million).

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

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

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

DPR Notes issued by Kazkommerts DPR Company (SPV) are not guaranteed by the Bank. The Group is not liable for any downgrades in the credit rating of the insurers and there are no requirements for the SPV to early repay the notes issued in case of the downgrades of the insurers. However, the SPV is affected by downgrades in the credit rating assigned to the notes. On 24 February 2009, subsequent to the balance sheet date, international rating agencies downgraded the rating assigned to these notes. The impact of the downgrade results in significant increase in the required amount (the amount required to be captured and collected in the collection account before excess flows of diversified payment rights can pass on to KKB) for each series as further described in Note 34 to these consolidated financial statements. This increase in required amount will influence the liquidity of the Group, this influence depends on the future flows of the clients' payments which Bank can not control and predict.

The Group is obligated to comply with financial covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2008 and 2007.

30. OTHER LIABILITIES

	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Taxes payable	8,648	7,276
Accounts payable on re-insurers	3,464	682
Payable to employees	2,714	2,851
Advances received	128	62
Other	1,987	2,974
	16,941	13,845

31. SUBORDINATED DEBT

	Currency	Maturity date (year)	Interest rate %	31 December 2008 (KZT million)	31 December 2007 (KZT million)
Subordinated debt of Kazkommerts Finance II B.V.	USD	2017	9.54	30,175	30,035
Subordinated bonds	KZT	2015 - 2018	7.5-11.00	29,291	20,411
Subordinated debt of Kazkommerts Finance II B.V.	USD	2016	9.64	24,975	24,864
Subordinated debt of Citigroup GMD AG & Co	USD	2014	8.19	12,310	12,260
Perpetual debt of Kazkommerts Finance II B.V.	USD	-	9.25	12,125	12,060
Debt component of preference shares	KZT	-	-	5,490	5,221
Indexed subordinated bonds	KZT	2009	8.00	3,358	3,315
				117,724	108,166

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

As at 31 December 2008, accrued interest expenses included in subordinated debt amounted to KZT 1,928 million (2007: KZT 1,793 million).

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2008 and 2007.

32. SHARE CAPITAL

As at 31 December 2008 and 2007, authorized share capital consisted of 575,000,000 ordinary shares with par value of KZT 10 each and 125,000,000 preference shares with par value of KZT 10 each.

As at 31 December 2008, the Group's share capital comprised the following:

	Authorized share capital (KZT million)	Authorized but not issued share capital (KZT million)	Repurchased share capital (KZT million)	Issued share capital (KZT million)
Ordinary shares	7,750	(2,000)	(4)	5,746
Preferred shares	1,250	-	(6)	1,244
	9,000	(2,000)	(10)	6,990

During 2007, 200,000,000 ordinary shares with a nominal value of KZT 10 and total amount of KZT 2,000 million were authorized for issue by the shareholders. As at 31 December 2008, these shares remain unpaid.

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

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

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

During 2008, dividends declared on preference shares amounted to KZT 598 million (2007: KZT 604 million). In 2008 and 2007 dividends on ordinary shares of the Bank have not been declared.

The table below provides a reconciliation of the number of shares outstanding as of 31 December 2008 and 2007:

	Preference shares number of shares	Ordinary shares number of shares
31 December 2006	124,755,170	574,760,698
Issue of shares	-	49,272
Sale of treasury shares	166,557	39,851
31 December 2007	124,921,727	574,849,821
Repurchase of own shares	(565,284)	(234,951)
31 December 2008	124,356,443	574,614,870

As at 31 December 2008, the number of ordinary shares held as treasury shares is 385,130 (2007: 150,179).

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

The Group's profit distributable among shareholders is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the regulations of the Republic of Kazakhstan that provide for the creation of a reserve for these purposes of not less than 2% from classified assets recorded in its statutory accounts. Retained earnings include these non-distributable reserves which are kept as a reserve fund.

33. COMMITMENTS AND CONTINGENCIES

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

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

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

As at 31 December 2008, provision for losses on guarantees and contingent liabilities amounted to KZT 6,271 million (2007: KZT 7,216 million).

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

As at 31 December 2008, the credit risk on contingent liabilities and credit commitments was covered by collateral of KZT 68,327 million (2007: KZT 87,740 million). The collateral includes real estate, deposits and various other financial and non-financial assets.

As at 31 December 2008 and 2007, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2008		31 December 2007	
	Nominal amount (KZT million)	Risk weighted amount (KZT million)	Nominal amount (KZT million)	Risk weighted amount (KZT million)
Contingent liabilities and credit commitments:				
Guarantees issued and similar commitments	109,550	109,550	94,582	94,582
Letters of credit and other transaction related to contingent obligations	37,570	6,760	90,510	15,253
Commitments on loans and unused credit lines	9,312	9,312	10,382	10,382
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	72	72	114	114
	156,504	125,694	195,588	120,331

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 December 2008, the amount of liabilities on such unused credit lines equals KZT 502,123 million (2007: KZT 774,926 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case: the borrower violates the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

Capital commitments

As at 31 December 2008, capital commitments amounted to KZT 1,960 million (2007: 2,789 million).

Operating lease commitments

There were no material operating lease commitments outstanding as at 31 December 2008 and 2007.

Fiduciary activities

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

The Group also provides depositary services to its customers. As at 31 December 2008 and 2007 the Group had customer securities in its nominal holder accounts totaling:

- on broker and dealer operations 17,699,975,814 deals totaling KZT 93,102 million (2007: 5,203,455,006 deals totaling KZT 94,829 million).
- on custodial operations 7,881,879,257 deals totaling KZT 1,969,480 million (2007: 720,874,948 deals totaling KZT 20,929 million).

Legal proceedings

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

NBRK issued an instruction obliging banks to disclose effective rates on loans to customers. From the entry into force of this instruction the Group included a relevant clause on indication of an effective interest rate in loan agreements with customers.

Taxation

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

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

Operating environment

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

Specific volatility in global and Kazakhstani financial markets

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

Recoverability of financial assets

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

As at 31 December 2008, the Group has financial assets amounting to KZT 2,557,860 million (2007: KZT 2,943,911 million). The recoverability of these financial assets depends to a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

34. SUBSEQUENT EVENTS

On 30 January 2009, the Bank received KZT 120 billion from the Samruk-Kazyna. The amount includes a KZT 36 billion six month deposit which is expected to be used for the acquisition of a 25% stake in the Bank's equity by Samruk-Kazyna during this period. The remaining amount of KZT 84 billion is deposited for 36 months and will be used in line with the anti-crisis program of the Government to finance and re-finance the corporate clients of the Bank. The terms of the deposits enable the Bank to decrease current interest rates for its borrowers. The Bank has been selected by the Government of Kazakhstan as a partner in implementing measures to support the economy during the global financial crisis. Earlier, on 15 January 2009, Samruk-Kazyna signed agreements with the Bank and its major shareholders on cooperation in the framework of the government stabilization program.

On 28 January 2009, the Board of Directors of the Bank approved to voluntary liquidate its subsidiary LLP Kazkommerts RFCA ("Kazkommerts RFCA") and return a license for brokerage and dealership activities issued in favor of Kazkommerts RFCA by authorized governmental bodies. Kazkommerts RFCA was established in February 2007 to act as a member of the Regional Financial Center of Almaty ("RFCA"). According to the respective legislation, a membership at RFCA was subject to registration of a special purpose company with the Agency on regulation of RFCA's activity. Operations of Kazkommerts RFCA were limited in dealing with financial instruments at the RFCA special trading floor. Due to the changes adopted subsequently, the requirement to deal via a special purpose company when trading at the RFCA was abandoned and JSC Kazkommerts Securities ("KKS"), another subsidiary of the Bank that provides services in securities markets and has all required licenses, obtained an access to the RFCA special trading floor. In the scope of overall strategy of the Group, the Bank considers that it is unreasonable to have two subsidiaries operating in the same segment of the securities market. All customer accounts of Kazkommerts RFCA have already been transferred to KKS and as of the date when the decision on voluntary liquidation was made, Kazkommerts RFCA had no outstanding liabilities. The procedure on voluntary liquidation will take place in accordance with the requirements of current legislation.

During 2008 and 2007, the National Bank of the Republic of Kazakhstan supported an exchange rate of national currency to US Dollar in the range between 117 KZT to 1 US Dollar to 123 KZT to 1 US Dollar. From 4 February 2009, the National Bank of the Republic of Kazakhstan reduced the support level of the exchange rate to a corridor of KZT 145.5 and 155.5 to 1 US Dollar in the short to medium term. The effect of the subsequent change in the exchange rates is disclosed in Note 40.

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

On 14 February 2009, Samruk-Kazyna, JSC Damu business development fund and the Bank concluded a General Agreement (the "General Agreement") on the placement of funds in the Bank for further lending and refinancing of small and medium business within the anti-crisis program. On 25 February 2009, the Bank received KZT 16 billion from Samruk-Kazyna inder this program. Those deposits were placed with maturities up to 2016. In addition on 25 February 2009, under the General agreement, the Bank received KZT 24 billion from Samruk-Kazyna within the mortgage loan refinancing program. The funds were placed in the form of a deposit until 2029. The interest rates for the mortgage loans being refinanced will be reduced as compared to the original mortgage agreement terms.

In February 2009, Standard and Poor's, Fitch Ratings and Moody's Investor Services downgraded the rating of the Bank to BB-, BB- and Ba3, respectively. According to statements released by the rating agencies, this downgrade reflects the increasingly negative impact of the global economic crisis on the Kazakh economy and its banking sector.

Further, on 24 February 2009, Moody's Investor Services downgraded the rating assigned to Notes issued by Kazkommerts DPR Company, an orphan special purpose vehicle for the sale of its diversified payment rights ("KKB DPR Programme"). The downgrade was the result of a nearly 30 per cent. decline in cash flows (calculated on the basis of the previous 12 month quarterly average) flowing into the KKB DPR Programme. This significant drop has been caused by, amongst others, adverse economic conditions in developed countries that import significant amounts of Kazakh products (effectively decreasing the aggregate level of demand for Kazakhstani exports), falls in commodity prices and the changing global economic circumstances. Given the current state of the global economy, it is unclear whether the drop in the volume of DPRs will continue or whether the volume of DPRs will increase.

Under the terms of each series of Notes, if Moody's has assigned a rating of "Ba3" or lower to the domestic currency deposit rating of KKB, the Required Amount (the amount required to be captured and collected in the collection account before excess flows of diversified payment rights can pass on to KKB) for each series must be increased significantly. This increase in required amount will influence the liquidity of the Group. This influence depends on the future flows of the clients' payments which the Bank cannot control and predict. DPR Notes issued by Kazkommerts DPR Company (SPV) are not guaranteed by the Bank. The Group is not liable for any downgrades in the credit rating of the insurers and there are no requirements for the SPV to early repay the notes issued in case of the downgrade of the insurers. However, the SPV is affected by downgrades in the credit rating assigned to the notes.

On 2 March 2009, the Extraordinary General Meeting of Shareholders of JSC Kazkommertsbank approved an increase in the number of authorized shares of the Bank as follows: increase in the number of authorized ordinary shares of the Bank (775 million shares) by 325 million shares; an increase in the number of authorized preferred shares of the Bank (125 million shares) by 50 million shares; approval of the new number of authorized shares of the Bank at 1,275 million shares, including 1,100 million ordinary shares and 175 million preferred shares. The prospectus on amendment and additions to the mentioned and approved share issuances have been registered by the Agency of the Republic of Kazakhstan on the regulation and supervision of financial markets and financial organizations on 10 March 2009 (certificate # A0040). The decision regarding the timing and price of the placement of shares, as well as the number of shares to be placed has been set by the Board of Directors in accordance with legislation of the Republic of Kazakhstan.

On 3 March 2009, the National Bank of the Republic of Kazakhstan decreased the norms of minimum reserve requirements ("MRR") for second-tier banks. For internal liabilities MRR reduced from 2% to 1.5% and for other liabilities from 3% to 2.5%.

On 10 March 2009, JSC Kazkommertsbank sold its stake in the JSC Ular Umit Fund (the "Fund") and Zhetysu Pension Asset Management (the "Company"). As a non-controlling shareholder of the Fund and the Company, the Bank was unable to influence decisions made by the Fund and the Company. Based on the results for 2008, the Fund reported a KZT 4,800 million net loss and the net loss of the Company was KZT 2,680 million. In a situation where the Bank was unable to be responsible for the investment policy of the Fund and the Company, a decision was made to sell Bank's 49.35% stake in the Fund and 50% stake in the Company to the controlling shareholders. Going forward, the Bank intends to focus on development and improvement of the efficiency of its subsidiaries Grantum AF and Grantum AM, both of which are fully controlled by the Bank. The gain on sale of the companies amounted to KZT 4,372 million.

On 25 March 2009, JSC Kazkommertsbank purchased 900 thousand shares of the new issue of JSC Kazkommerts Securities, within the additional issue on the right of preferential purchase, at the price of placement of KZT 1,000 per share. As a result, the share capital of JSC Kazkommerts Securities increased by KZT 900 million and amounted to KZT 1,475 million. The share of Kazkommertsbank did not change and amounted to 100%. The Bank also purchased 292 thousand shares of the new issue of JSC Life insurance company Kazkommerts-Life at the placement price of KZT 1,000 per share. As a result, the share capital of the insurer increased by KZT 292 million and amounted to KZT 1,382 million. The share of the Bank did not change and amounted to 100%. The investments of the Bank into equity of subsidiaries were made in a planned procedure with the purpose of increasing their financial stability and compliance with the rules of calculation of prudential norms of equity adequacy.

On 3 April 2009, the Bank repurchased securitization notes issued by Kazkommerts DPR Company (special purpose vehicle created in the Cayman Islands) following the completion of the tender which was held from 23 March 2009 till 31 March 2009 in the amount of KZT 19,180 million (equivalent of USD 127 million of the notional amount at the exchange rate of USD/KZT 150.98 tenge as at acquisition date). The purchase price of the notes was USD 920 for the principal amount of USD 1,000. The resulting discount was 8% of the principal amount.

35. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;

(b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Group is a venturer;

(d) Members of key management personnel of the Group or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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

	31 December 2008 (KZT million)		31 December 2007 (KZT million)	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers	1,525	2,434,110	895	2,506,698
- entities with joint control or significant influence over the entity	3		117	
- key management personnel of the entity or its parent	1,522		778	
Allowance for impairment losses	106	(289,328)	33	(140,363)
- entities with joint control or significant influence over the entity	-		17	
- key management personnel of the entity or its parent	106		16	
Investments in associates	1,775	1,775	3,222	3,222
- to associates	1,775		3,222	
Customer accounts	4,661	979,453	5,495	895,083
- parent company	1,124			
- entities with joint control or significant influence over the entity	53		1,087	
- associates	29		22	
- key management personnel of the entity or its parent	3,443		4,385	
- other related parties	12		1	
Commitments on loans and unused credit lines	304	9,312	482	10,382
- key management personnel of the entity or its parent	304		482	
Guarantees issued and similar commitments	19	109,550	18	94,582
- key management personnel of the entity or its parent	19		18	

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

	Year ended 31 December 2008 (KZT million)		Year ended 31 December 2007 (KZT million)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	155	380,777	67	316,458
Interest expense	(464)	(181,265)	(438)	(171,762)
Operating expenses	(1,221)	(34,049)	(621)	(31,200)
Short-term employee benefits	(1,221)	(16,475)	(621)	(15,980)
Provision on impairment losses on interest bearing assets	(47)	(150,697)	(365)	(69,956)
Share of results of associates	(3,585)	(3,585)	1,333	1,333

Key management personnel compensation for the years ended 31 December 2008 and 2007 is represented by short-term employee benefits.

As at 31 December 2008 and 2007, the Group does not pledge any assets in connection with guarantees issued to management.

36. SEGMENT REPORTING

Business segments

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

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

Retail Banking offers a range of personal banking, savings and mortgage products and services. Corporate Banking offers business banking services principally to small and mid sized companies and commercial loans to larger Corporate & Commercial customers. Investment Banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities, Group Capital and shared services.

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

Segment information about these businesses is presented below.

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2008 (KZT million)
External interest income	62,031	299,421	18,445	880	-	-	380,777
Internal interest income	34,666	50,144	148,840	-	62,909	(296,559)	-
External interest expenses	(29,066)	(43,308)	(108,891)	-	-	-	(181,265)
Internal interest expenses	(34,804)	(149,849)	(49,749)	-	(62,157)	296,559	-
Net interest income before provision for impairment losses on interest bearing assets	32,827	156,408	8,645	880	752	-	199,512
Provisions for impairment losses on interest bearing assets	(20,962)	(128,966)	(769)	-	-	-	(150,697)
NET INTEREST INCOME	11,865	27,442	7,876	880	752	-	48,815
Net loss on financial assets and liabilities at fair value though profit or loss	-	-	(28,188)	(185)	-	-	(28,373)
Net gain on foreign exchange and precious metals operations	528	16	5,067	34	(28)	-	5,617
Fee and commission income	7,141	11,155	3,449	-	-	-	21,745
Fee and commission expense	(1,124)	(723)	(1,340)	(1,001)	(136)	-	(4,324)
Net realized loss on investments available-for-sale	-	-	(1,820)	(218)	-	-	(2,038)
Dividends received	-	-	158	18	-	-	176
Other income	11	416	4,352	4,543	30	-	9,352
NET NON-INTEREST INCOME	6,556	10,864	(18,322)	3,191	(134)	-	2,155
OPERATING INCOME	18,421	38,306	(10,446)	4,071	618	-	50,970
OPERATING EXPENSES	(16,054)	(12,686)	(3,481)	(1,766)	(62)	-	(34,049)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	2,367	25,620	(13,927)	2,305	556	-	16,921
Provision for impairment losses on other transactions	-	(424)	(1,621)	(673)	-	-	(2,718)
Recovery of provision for guarantees and other off-balance sheet contingencies	-	856	-	-	-	-	856
Share of results of associates	-	-	(3,585)	-	-	-	(3,585)
OPERATING PROFIT BEFORE INCOME TAX	2,367	26,052	(19,133)	1,632	556	-	11,474
Income tax benefit	-	-	-	-	8,690	-	8,690
NET PROFIT	2,367	26,052	(19,133)	1,632	9,246	-	20,164
Segment assets	351,088	1,793,694	465,756	14,716	797,448	(807,897)	2,614,805
Segment liabilities	263,771	715,682	1,327,403	7,624	755,246	(778,988)	2,290,738

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2007 (KZT million)
External interest income	55,333	240,792	19,564	582	187	-	316,458
Internal interest income	30,263	36,407	145,703	-	-	(212,373)	-
External interest expenses	(25,114)	(30,477)	(116,724)	-	553	-	(171,762)
Internal interest expenses	(36,922)	(135,632)	(39,819)	-	-	212,373	-
Net interest income before provision for impairment losses on interest bearing assets	23,560	111,090	8,724	582	740	-	144,696
Provisions for impairment losses on interest bearing assets	(9,905)	(59,918)	(133)	-	-	-	(69,956)
NET INTEREST INCOME	13,655	51,172	8,591	582	740	-	74,740
Net gain on financial assets and liabilities at fair value though profit or loss	-	-	20,709	(67)	-	-	20,642
Net loss on foreign exchange and precious metals operations	2,240	747	(18,555)	33	71	-	(15,464)
Fee and commission income	8,567	12,229	2,899	(104)	(33)	-	23,558
Fee and commission expense	(1,009)	(513)	(388)	(791)	(12)	-	(2,713)
Net realized gain on investments available-for-sale	-	-	119	-	-	-	119
Dividends received	-	-	143	2	-	-	145
Other income	209	1,843	707	4,145	15	-	6,919
NET NON-INTEREST INCOME	10,007	14,306	5,634	3,218	41	-	33,206
OPERATING INCOME	23,662	65,478	14,225	3,800	781	-	107,946
OPERATING EXPENSES	(15,986)	(10,763)	(2,681)	(1,194)	(576)	-	(31,200)
PROFIT BEFORE OTHER OPERATING PROVISIONS AND RESULTS OF ASSOCIATES	7,676	54,715	11,544	2,606	205	-	76,746
Provision for impairment losses on other transactions	-	(126)	(103)	(1,009)	-	-	(1,238)
Provision for guarantees and other off-balance sheet contingencies	-	(3,186)	-	-	-	-	(3,186)
Share of results of associates	-	-	1,333	-	-	-	1,333
OPERATING PROFIT BEFORE INCOME TAX	7,676	51,403	12,774	1,597	205	-	73,655
Income tax expense	-	-	-	-	(15,904)	-	(15,904)
NET PROFIT	7,676	51,403	12,774	1,597	(15,699)	-	57,751
Segment assets	452,330	1,914,005	625,716	9,717	999,782	(1,004,318)	2,997,232
Segment liabilities	309,679	585,404	1,758,867	4,120	961,153	(971,706)	2,647,517

Geographical segments

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

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	Other non-OECD Countries (KZT million)	31 December 2008 Total (KZT million)
Interest income	352,601	26,794	1,182	200	380,777
Interest expense	(165,814)	(14,944)	(507)	-	(181,265)
Provision on impairment losses on interest bearing assets	(144,935)	(5,762)	-	-	(150,697)
Net loss on financial assets and liabilities at fair value through profit or loss	(25,677)	(2,696)	-	-	(28,373)
Net gain/(loss) on foreign exchange and precious metals operations	33,947	(179)	(28,151)	-	5,617
Fee and commission income	20,227	1,510	-	8	21,745
Fee and commission expense	(3,775)	(413)	(136)	-	(4,324)
Net realized (loss)/gain on investments available-for-sale	(2,549)	511	-	-	(2,038)
Dividends received	176	-	-	-	176
Other income	8,374	83	895	-	9,352
OPERATING INCOME/(LOSS)	72,575	4,904	(26,717)	208	50,970

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	Other non-OECD Countries (KZT million)	31 December 2007 Total (KZT million)
Interest income	290,137	26,134	187	-	316,458
Interest expense	(90,152)	(14,682)	(66,928)	-	(171,762)
Provision on impairment losses on interest bearing assets	(65,904)	(4,052)	-	-	(69,956)
Net gain on financial assets and liabilities at fair value through profit or loss	19,358	1,284	-	-	20,642
Net (loss)/gain on foreign exchange and precious metals operations	(15,721)	256	1	-	(15,464)
Fee and commission income	21,740	1,818	-	-	23,558
Fee and commission expense	(2,341)	(327)	(45)	-	(2,713)
Net realized gain on investments available-for-sale	119	-	-	-	119
Dividends received	119	26	-	-	145
Other income	5,956	963	-	-	6,919
OPERATING INCOME/(LOSS)	163,311	11,420	(66,785)	-	107,946

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Loans and advances to and from banks and other borrowed funds – for assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

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

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

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

	31 December 2008		31 December 2007	
	Carrying amount (KZT million)	Fair value (KZT million)	Carrying amount (KZT million)	Fair value (KZT million)
Loans and advances to banks	241,813	241,650	212,823	212,912
Loans to customers	2,144,782	2,109,144	2,366,335	2,188,893
Loans and advances from banks	296,391	260,911	723,431	727,605
Debt securities issued	678,285	432,778	739,688	615,520
Other borrowed funds	137,324	86,402	148,934	148,934
Subordinated debt	117,724	109,331	108,166	106,688

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated balance sheet. The carrying amounts of cash and balances with national (central) banks, investments held to maturity and customer accounts approximates fair value due to the short-term nature of such financial instruments.

As at 31 December 2008, the Group estimated fair value of loans and advances to banks, loans and advances from banks and other borrowed funds taking into account credit risk (CDS) of its own and counterparty which in other means the Group implemented the impact of possible non-performance risk in its fair value calculations.

38. REGULATORY MATTERS

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

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

	31 December 2008 (KZT million)	31 December 2007 (KZT million)	Change (KZT million)	31 December 2007 (KZT million)	31 December 2006 (KZT million)	Change (KZT million)
Composition of regulatory capital[a]:						
Tier 1 capital:						
Share capital (ordinary shares)	5,746	5,749	(3)	5,749	5,748	1
Share premium reserve	152,684	152,855	(171)	152,855	152,534	321
Retained earnings	140,762	84,843	55,919	84,843	58,763	26,080
Current income	21,805	55,963	(34,158)	55,963	25,985	29,978
Minority interest	278	12,552	(12,274)	12,552	15,272	(2,720)
Goodwill	(2,405)	(2,405)	-	(2,405)	(2,405)	-
Innovative instrument [c]	11,965	11,900	65	11,900	12,546	(646)
Total qualifying tier 1 capital	330,835	321,457	9,378	321,457	268,443	53,014
Property and equipment revaluation reserve [d]	5,905	5,981	(76)	5,981	2,458	3,523
Share capital (preferred shares)	1,244	1,249	(5)	1,249	1,247	2
Subordinated debt [b]	95,005	86,617	8,388	86,617	52,997	33,620
Total qualifying tier 2 capital	102,154	93,847	8,307	93,847	56,702	37,145
Total capital	432,989	415,304	17,685	415,304	325,145	90,159
Ratio of tier 1 capital adequacy	13.53%	11.72%	1.81%	11.72%	12.37%	(0.65)%
Capital adequacy ratio	17.70%	15.15%	2.55%	15.15%	14.98%	(0.17)%

[a] According to the principles applied by Basle Committee

[b] As at 31 December 2008 and 2007, the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, which is not exceed to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

[c] Innovative instruments represents perpetual debts.

[d] The line "Property and equipment revaluation reserve" includes 55% of revaluation of investment available-for-sale securities (in accordance with the Basle standards).

During the years ended 31 December 2008 and 2007, the Group complied with all set capital requirements.

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

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

39. CAPITAL RISK MANAGEMENT

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

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

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

The Group's overall capital risk management policy remains unchanged in comparison with 2007.

40. RISK MANAGEMENT POLICIES

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

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

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

- Credit risk
- Interest rate risk
- Liquidity risk
- Market risk
- Currency risk

Credit risk

The Group is exposed to credit risk which is the risk that counterparty to a financial instrument will fail to fulfill its obligation to the Group. This covers actual payment defaults as well as losses in value resulting from a decrease in credit quality of the counterparty.

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

To measure credit risk, the Group employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate term loan), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed workout groups).

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

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

Structure of credit committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are aimed at accurate assessment of credit risk and its proper and timely monitoring. The policy frameworks (separate for retail lending and corporate lending) establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for management of distressed loans.

The Group has been centralizing decision making in the Head Office over the past several years. In particular, authorities of branches and regional directorates on approval of small entrepreneurship and retail loans have been transferred to Decision Making Centers (“DMCs”) in the Head office. Furthermore, most of branch and regional directorate authorities on corporate loan approvals have also been transferred to the Head Office.

The Group currently has the following credit committees:

- *Head office committees.*
  - *Head Office Credit Committee.* This committee is authorized to approve corporate loans of up to equivalent of USD 5 million. The committee also approves retail and small entrepreneurship loans which exceed the thresholds and authorities set for DMCs.
  - *Commercial Directorate.* There are eight members of the committee, including the Chair person of the Group, who presides, and seven Managing Directors. The committee is authorized to approve loans exceeding equivalent of USD 5 million.

    - *Board of Directors.* All loans exceeding 25% of the Group's total assets as well as all transactions with related parties have to be approved by the Board of Directors.
- *Regional Directorate Committees.* The Group has six regional directorates, covering the central, southern, western, eastern and northern regions of Kazakhstan as well as the Almaty region. The regional directorates have limited authorities to grant loans.
- *Branch Committees.* Each of the Group's branches has a credit committee. The branches have limited authorities to grant loans.

Corporate loans

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of risk management, collateral valuation, legal and security departments.

- Risk Management Department. The analytic group within the Head Office, which is divided into sub-groups according to industry, provides advice on commercial loans based on their assessment of the borrower's business and/or the project, to which the loan relates. Their assessment takes into account a number of industry and borrower specific factors, future cash flows of the potential borrower and anticipated risk-adjusted returns for the Group. For the purpose of the analysis, risk managers utilize the rating model described below. Furthermore, the Department of Risk Management is involved in the Group's loan portfolio monitoring and in the development of procedures and guidelines with respect to the Group's lending.
- Collateral Valuation and Debt Restructuring Department. The Group requires collateral for almost all of its loans. According to Kazakh legislation, collateral valuation should be performed by independent collateral valuation companies ("NOKs"). Collateral Valuation and Debt Restructuring Department reviews appraisal reports issued by NOKs and carries out certification and monitoring of NOKs. Debt Restructuring Division of the department works with certain categories of problem loans subject to restructuring and collection.
- Legal Department. The Group obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and collateral agreement.
- Security Department. The Security Department provides information on assets, credit history and reputation of potential borrowers. A central credit bureau has recently been established in Kazakhstan and this should improve the quality of information on the credit history of potential borrowers.

Retail and small entrepreneurship loans

Loans to retail and small entrepreneurship loans are subject to a standardized approval procedure. The Group has established two new divisions in the Risk Management Department, the Decision Making Centers ("DMCs"). One DMC processes retail loan applications, while the second unit makes decisions on small entrepreneurship loans. In order to approve or decline an application, the DMCs analyze payment ability and creditworthiness of a potential borrower on the basis of standard terms, criteria and procedures set forth by the Group.

The DMC on retail is authorized to approve applications from customers with one obligor exposure of up to equivalent of USD 200,000. The DMC on small entrepreneurship has authorities to approve applications from customers with one obligor exposure of up to equivalent of USD 500,000. Applications with larger exposures are referred to one of the relevant credit committees in the Head Office. The DMCs conduct analysis of the applications exceeding their authority limits, and the relevant credit committee takes their conclusions into account in decision making.

Allowance for credit losses

The Group establishes an allowance for impairment losses on loans and off-balance liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, a loan officer takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower.

Maximum exposure

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

The following table presents the maximum exposure to credit risk of financial assets and commitments. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 33.

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged[1] (KZT million)	31 December 2008 Net exposure after offset and collateral (KZT million)
Financial assets at fair value through profit or loss	58,130	-	58,130	-	58,130
Loans and advances to banks	241,813	-	241,813	(5,783)	236,030
Loans to customers	2,144,782	(19,390)	2,125,392	(1,471,267)	654,125
Investments available-for-sale	15,056	-	15,056	-	15,056
Investments held to maturity	776	-	776	-	776

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

[1] A description of the collateral presented on loans to customers is included in Note 19.

As at 31 December 2008, loans and advances to banks also include loans under reverse repurchase agreements in amount of KZT 65 million (2007: KZT 679 million).

As at 31 December 2008, loans to customers include loans under reverse repurchase agreements in amount of KZT 34,417 million (2007: KZT 20,549 million).

As at 31 December 2008, financial assets at fair value through profit or loss and investments available–for-sale also include securities collateralized under repurchase agreements with total fair value of KZT 9,860 million and KZT 1,235 million, respectively (2007 KZT 82,147 million and nil, respectively).

CREDIT RATINGS

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

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

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2008 Total (KZT million)
Financial assets at fair value through profit or loss	1,788	11,278	1,807	9,596	11,652	22,009	58,130
Loans and advances to banks	-	57,754	106,466	747	25,595	51,251	241,813
Loans to customers	-	-	-	-	4,873	2,139,909	2,144,782
Investments available-for-sale	-	-	-	3,289	4,942	6,825	15,056
Investments held to maturity	-	-	-	230	317	229	776

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2007 Total (KZT million)
Financial assets at fair value through profit or loss	11,321	44,627	72,488	13,878	14,995	31,467	188,776
Loans and advances to banks	-	106,297	17,577	2,755	38,344	47,850	212,823
Loans to customers	-	-	-	242	6,438	2,359,655	2,366,335
Investments available-for-sale	-	-	-	1,537	289	1,210	3,036
Investments held to maturity	-	-	-	-	317	58	375

Since not all counterparties of the Group have credit ratings from international rating agencies, the Group has developed its own methodologies allowing it to assign internal credit ratings, which are comparable with ratings of international rating agencies. Such methodologies include a rating model for corporate borrowers and scoring models for retail banking clients and SME. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated balance sheet. As such, more detailed information is not being presented.

IMPAIRMENT OF FINANCIAL ASSETS

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

		Financial assets past due but not impaired				31 December 2008		
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than 1 year	Financial assets that have been impaired individually	Financial assets collectively assessed for impairment	Total
Financial assets at fair value through profit or loss	58,130	-	-	-	-	-	-	58,130
Loans and advances to banks	236,368	-	-	-	-	-	5,445	241,813
Loans to customers	488,807	4,409	-	-	-	124,706	1,526,860	2,144,782
Investments available-for-sale	13,772	-	-	-	-	1,284	-	15,056
Investments held to maturity	776	-	-	-	-	-	-	776

		Financial assets past due but not impaired				31 December 2007		
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than 1 year	Financial assets that have been impaired	Financial assets collectively assessed for impairment	Total
Financial assets at fair value through profit or loss	188,776	-	-	-	-	-	-	188,776
Loans and advances to banks	188,806	-	-	-	-	-	24,017	212,823
Loans to customers	943,997	4,542	-	-	-	33,542	1,384,254	2,366,335
Investments available-for-sale	3,036	-	-	-	-	-	-	3,036
Investments held to maturity	375	-	-	-	-	-	-	375

The Group classifies corporate loans as non-performing and accordingly impaired if there is a default of payment of the principal or accrued interest for 30 days or more. The impairment of the loan is identified within credit monitoring, which includes monitoring of payments of the customer and preparation of regular monitoring reports on the customer and his loans every 6 or 12 months, depending on the solvency of the customer. In addition, on a regular basis the credit managers monitor the loan quality, financial position and business of the client, and observance of the terms of the agreements. For the purpose of making provisions the evaluation of a possible impairment of corporate loans is conducted on a case-by-case basis.

The consumer loans are classified as non-performing or impaired if there is a default of payments on the principal or accrued interest for 60 days or more. For the purpose of making provisions the evaluation of consumer loans is made on the portfolio level.

According to the Group's credit portfolio management policy, if at least one loan of a customer is recognized as impaired based on the above criteria, the total debt on such a customer is considered impaired, i.e. other standard loans of such a customer are also recognized as impaired.

The Group also separately discloses financial assets collectively assessed for impairment. Such assets are not individually impaired, because there is not enough objective evidence to recognize them as impaired. At the same time, the Group assesses these assets for credit risk and impairment on collective basis taking into account general macroeconomic environment as well as industry specific developments.

Geographical concentration

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

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

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

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Other non-OECD countries (KZT million)	31 December 2008 Total (KZT million)
ASSETS:					
Cash and balances with national (central) banks	73,457	5,324	11,697	-	90,478
Precious metals	-	-	317	-	317
Financial assets at fair value through profit or loss	24,815	5,848	27,096	371	58,130
Loans and advances to banks	5,769	32,767	203,277	-	241,813
Loans to customers	1,725,020	243,648	28,626	147,488	2,144,782
Investments available-for-sale	14,920	136	-	-	15,056
Investments held to maturity	600	176	-	-	776
Investments in associates	1,775	-	-	-	1,775
Goodwill	2,405	-	-	-	2,405
Property, equipment and intangible assets	33,571	1,894	-	-	35,465
Other assets	13,668	6,900	3,060	180	23,808
TOTAL ASSETS	1,896,000	296,693	274,073	148,039	2,614,805
LIABILITIES:					
Loans and advances from banks	84,197	15,063	189,981	7,150	296,391
Customer accounts	938,376	19,589	16,591	4,897	979,453
Financial liabilities at fair value through profit or loss	149	-	53,868	322	54,339
Debt securities issued	365	51,555	626,251	114	678,285
Other borrowed funds	3,420	2	133,902	-	137,324
Provisions	10,276	-	-	-	10,276
Deferred income tax liability	10,196	9	-	-	10,205
Dividends payable	-	5	-	-	5
Other liabilities	16,132	718	88	3	16,941
Subordinated debt	38,318	-	79,406	-	117,724
TOTAL LIABILITIES	1,101,429	86,941	1,100,087	12,486	2,300,943
NET POSITION	794,571	209,752	(826,014)	135,553	

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Other non-OECD countries (KZT million)	31 December 2007 Total (KZT million)
ASSETS:					
Cash and balances with national (central) banks	144,174	7,868	16,106	-	168,148
Financial assets at fair value through profit or loss	66,429	11,261	110,923	163	188,776
Loans and advances to banks	28,401	45,380	139,042	-	212,823
Loans to customers	1,855,687	303,936	46,011	160,701	2,366,335
Investments available-for-sale	3,036	-	-	-	3,036
Investments held to maturity	317	58	-	-	375
Investments in associates	3,222	-	-	-	3,222
Goodwill	2,405	-	-	-	2,405
Property, equipment and intangible assets	31,974	2,285	-	-	34,259
Other assets	10,211	3,239	4,312	91	17,853
TOTAL ASSETS	2,145,856	374,027	316,394	160,955	2,997,232
LIABILITIES:					
Loans and advances from banks	118,412	46,844	551,534	6,641	723,431
Customer accounts	770,799	32,548	82,248	9,488	895,083
Financial liabilities at fair value through profit or loss	3,078	37	4,445	170	7,730
Debt securities issued	-	70,142	667,372	2,174	739,688
Other borrowed funds	12,928	2	136,004	-	148,934
Provisions	10,550	88	-	-	10,638
Deferred income tax liability	30,486	10	-	-	30,496
Dividends payable	-	2	-	-	2
Other liabilities	9,309	1,679	2,851	6	13,845
Subordinated debt	29,125	-	79,041	-	108,166
TOTAL LIABILITIES	984,687	151,352	1,523,495	18,479	2,678,013
NET POSITION	1,161,169	222,675	(1,207,101)	142,476	

Tangible assets (cash on hand, precious metals, premises and equipment) and other capital expenditure and thus depreciation are concentrated within the Republic of Kazakhstan for both the year ending 31 December 2008 and 2007.

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

Asset and Liability Management Committee

The Group's Asset and Liability Management Committee (the "ALMC") seeks to control liquidity, currency, interest rate and market risks. Short meetings of the ALMC take place on a weekly basis, while extended meetings are organized monthly. During the meetings the ALMC undertakes analysis of the Group's exposures on the basis of information about maturities, interest margins, cash flows, liquidity and the Group's net foreign currency positions. The Group's treasury operations and investment strategies are also planned at the ALMC meetings. The Chairman of the Group presides at the ALMC. There are eight permanent members of the ALMC: the chairman of the Group, five Managing Directors, heads of the Risk Management and the Treasury Departments.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the Group's future cash flows and value of the Group's financial instruments.

ALMC manages the interest rate risk by monitoring and analyzing re-pricing gap (please see in the liquidity section below) and sensitivity reports, as well as interest rate margin reports. This helps the Group mitigate interest rate risks and maintain a positive interest margin. The Group's Financial Control Department monitors the Group's financial performance, regularly assessing the Group's sensitivity to changes in interest rates and its effect on profitability.

The majority of the Group's loans are fixed rate agreements. At the same time, the agreements contain clauses enabling the Group to change interest rates, thus allowing it to significantly mitigate the risk.

Besides this, the Group entered into a number of interest rate swaps in order to hedge the interest rate risk. The Group monitors its interest rate margin and does not consider itself exposed to significant interest rate risk.

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

	31 December 2008			31 December 2007		
	% in KZT	% in USD	% in other currencies	% in KZT	% in USD	% in other currencies
ASSETS:						
Financial assets at fair value through profit or loss	8.62	6.31	8.96	9.39	4.99	5.07
Loans and advances to banks	11.01	2.83	2.21	6.54	6.73	3.98
Loans to customers	15.94	15.19	15.22	14.16	13.69	14.27
Investments available-for-sale and held to maturity	13.45	0.87	15.54	9.04	-	6.30
LIABILITIES:						
Loans and advances from banks	7.81	5.73	9.73	6.93	6.61	3.73
Customer accounts	7.29	6.89	8.04	7.83	7.77	4.22
Debt securities issued	-	8.26	6.76	-	7.98	6.66
Other borrowed funds	7.49	3.00	-	9.84	6.29	-
Subordinated debt	7.69	8.45	-	7.50	8.67	-

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

Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group’s sensitivity to changes in market interest rates and their influence on the Group’s profitability. If necessary, the Risk Management Department suggests decreasing the relevant risk levels to the management of the Group.

As at the reporting date the Group uses two interest rate variation ranges as reasonable in relation to the sensitivity of its financial instruments: 10 basis points (“bp”) for those in USD and 100 bps for those in other currencies, as opposed to the previous year when the Group applied 100 bps to yield curves in all currencies. The approach in the USD yield curve was changed because the sensitivity range of 100 bps is not feasible in the current environment of low interest rates with the short end of the USD curve being around 20 bps as at 31 December 2008. Furthermore, bearing in mind the current US economic crisis and related low business activity levels, the probability of a significant rise in the Federal Reserve System rates is remote.

The following table presents the sensitivity of the Group’s consolidated income statement to the above changes in interest rates, in which all other parameters apart from interest rates are assumed to be constant.

Impact on consolidated profit before tax:

	31 December 2008 (KZT million)				31 December 2007 (KZT million)	
	US dollar		Other currencies		All currencies	
	+10 bp	-10 bp	+100 bp	-100 bp	+100 bp	-100 bp
Assets:						
Financial assets at fair value through profit or loss						
Bonds	(3)	3	(571)	596	(1,338)	1,423
Derivative financial instruments	332	(335)	-	-	947	(958)
Instruments with floating rates:						
Loans and advances to banks	24	(24)	-	-	18	(18)
Loans to customers	-	-	52	(52)	566	(566)
Investments held-to-maturity						
Instruments with floating rates	-	-	3	(3)	3	(3)
Liabilities:						
Instruments with floating rates:	(266)	266	(94)	94	(3,030)	3,030
Loans and advances from banks	(50)	50	(335)	335	(5,621)	5,621
Net effect on profit before tax	37	(40)	(945)	970	(8,455)	8,529

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

Possible losses from a change in the interest rate within the range, provided all other parameters remain fixed, amount to less than 1 % of the Group's consolidated capital, which is considered as permissible and does not require a further change in the Group's strategy and policy. The reduction in sensitivity compared to the previous year is due to the fact that in 2008 the volume of interbank loans with floating interest rates and securities portfolios fell significantly. In addition, due to considerable increase of yield to maturity (as a result of greatly widened credit spreads) for most financial instruments in the Group's portfolio its sensitivity to changes in interest rates significantly weakened. Hedging using interest rate swaps has also helped reduce the volatility of the Group's profit as a consequence of interest rate movements.

The sensitivity of capital to feasible variations in interest rates at 31 December 2008 and 2007 has been provided in the following table:

	31 December 2008 (KZT million)				31 December 2007 (KZT million)	
	US dollar		Other currencies		All currencies	
	10 bp	-10 bp	100 bp	-100 bp	100 bp	-100 bp
Assets						
Investments available-for-sale						
Bonds	-	-	(73)	77	(73)	76
Derivative financial instruments	117	(118)	-	-	-	-
Net effect on profit before tax	37	(40)	(945)	970	(8,455)	8,529
Change in equity	154	(158)	(1,018)	1,047	(8,528)	8,605

The possible changes in capital due to applied shifts in interest rates are less than 1% of the Group's equity, which is considered acceptable by the Group. Since hedging began, the effective part of the revaluation of swap transactions has had an effect on capital provisions as at 31 December 2008 due to a movement in interest rates. The sensitivity analysis does not take into account the tax effect on equity.

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

Liquidity risk

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

ALMC controls these types of risks by means of maturity analysis and determines the Group's strategy for the next financial period. Current liquidity is managed by Treasury Department through the deals in the money markets, with placement of available funds in liquid securities in line with ALMC instructions.

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

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

The following table is used by the management to monitor the liquidity and interest risks. The table is based on the time period to maturity or contractual re-pricing of the assets and liabilities.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 month to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2008 Total (KZT million)
ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	1,127	6,647	26,489	13,592	8,407	-	56,262
Loans and advances to banks	181,044	14,210	39,658	1,051	4,727	-	240,690
Loans to customers	69,388	94,480	484,754	861,803	536,174	-	2,046,599
Debt securities included in investments available-for-sale	106	-	822	4,292	5,631	-	10,851
Investments held to maturity	174	6	2	105	470	-	757
Total interest bearing assets	251,839	115,343	551,725	880,843	555,409	-	2,355,159
Cash and balances with national (central) banks	90,478	-	-	-	-	-	90,478
Precious metals	317	-	-	-	-	-	317
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	1,276	1,276
Equity securities in the investments available-for-sale	-	-	-	-	-	3,301	3,301
Investments in associates	-	-	-	-	-	1,775	1,775
Goodwill						2,405	2,405
Property, equipment and intangible assets	-	-	-	-	-	35,465	35,465
Accrued interest income on interest-bearing assets	30,866	23,345	43,105	3,504	1	-	100,821
Other assets	14,826	2,424	5,571	987	-	-	23,808
TOTAL ASSETS	388,326	141,112	600,401	885,334	555,410	44,222	2,614,805

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 month to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2008 Total (KZT million)
LIABILITIES:							
Loans and advances from banks	75,572	21,388	92,777	93,727	10,689	-	294,153
Customer accounts	383,076	32,790	316,450	229,805	2,722	-	964,843
Debt securities issued	487	8,405	90,220	260,093	299,501	-	658,706
Other borrowed funds	2	7,416	8,876	81,475	38,991	-	136,760
Subordinated debt	-	-	3,337	-	95,005	17,454	115,796
Total interest bearing liabilities	459,137	69,999	511,660	665,100	446,908	17,454	2,170,258
Financial liabilities at fair value through profit or loss	426	229	720	37,524	15,440	-	54,339
Provisions	1,710	1,090	1,794	1,677	-	4,005	10,276
Deferred income tax liability	-	-	4	10,201	-	-	10,205
Dividends payable	-	5	-	-	-	-	5
Accrued interest expense on interest-bearing liabilities	3,476	15,973	16,312	3,158	-	-	38,919
Other liabilities	13,032	1,973	1,927	9	-	-	16,941
TOTAL LIABILITIES	477,781	89,269	532,417	717,669	462,348	21,459	2,300,943
Liquidity gap	(89,455)	51,843	67,984	167,665	93,062		
Interest sensitivity gap	(207,298)	45,344	40,065	215,743	108,501		
Cumulative interest sensitivity gap	(207,298)	(161,954)	(121,889)	93,854	202,355		
Cumulative interest sensitivity gap as a percentage of total assets	(7.9%)	(6.2%)	(4.7%)	3.6%	7.7%		
Contingent liabilities and credit commitments	4,927	30,806	52,999	57,844	490	54	

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 month to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2007 Total (KZT million)
ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	10,459	129,347	31,817	-	-	-	171,623
Loans and advances to banks	158,420	26,415	6,918	18,572	1,171	-	211,496
Loans to customers	121,342	160,508	449,367	858,742	709,549	-	2,299,508
Debt securities included in investments available-for-sale	-	3	179	1,535	1,147	-	2,864
Investments held to maturity	-	24	34	104	208	-	370
Total interest bearing assets	290,221	316,297	488,315	878,953	712,075	-	2,685,861
Cash and balances with national (central) banks	168,148	-	-	-	-	-	168,148
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	15,647	15,647
Equity securities in investments available-for-sale	-	-	-	-	-	2	2
Investments in associates	-	-	-	-	-	3,222	3,222
Goodwill	-	-	-	-	-	2,405	2,405
Property, equipment and intangible assets	-	-	-	-	-	34,259	34,259
Accrued interest income on interest-bearing assets	34,227	19,371	10,687	5,219	331	-	69,835
Other assets	3,012	8,143	5,125	1,573	-	-	17,853
TOTAL ASSETS	495,608	343,811	504,127	885,745	712,406	55,535	2,997,232

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 month to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2007 Total (KZT million)
LIABILITIES:							
Loans and advances from banks	141,216	160,676	230,012	166,715	19,540	-	718,159
Customer accounts	320,227	127,509	203,474	225,057	2,300	-	878,567
Debt securities issued	1,964	11,060	35,288	280,996	389,255	-	718,563
Other borrowed funds	-	585	-	43,231	104,498	-	148,314
Subordinated debt	-	-	-	3,293	103,080	-	106,373
Total interest bearing financial liabilities	463,407	299,830	468,774	719,292	618,673	-	2,569,976
Financial liabilities at fair value through profit or loss	331	7,399	-	-	-	-	7,730
Provisions	950	3,022	1,770	1,471	3	3,422	10,638
Deferred income tax liabilities	2,339	1,362	8,651	10,251	7,893	-	30,496
Preferred shares dividends	-	2	-	-	-	-	2
Accrued interest expense on interest-bearing liabilities	7,111	20,614	14,321	1,445	1,835	-	45,326
Other liabilities	10,415	1,601	1,717	112	-	-	13,845
TOTAL LIABILITIES	484,553	333,830	495,233	732,571	628,404	3,422	2,678,013
Liquidity gap	11,055	9,981	8,894	153,174	84,002		
Interest sensitivity gap	(173,186)	16,467	19,541	159,661	93,402		
Cumulative interest sensitivity gap	(173,186)	(156,719)	(137,178)	22,483	115,885		
Cumulative interest sensitivity gap as a percentage of total assets	(5.78%)	(5.23%)	(4.58%)	0.75%	3.87%		
Contingent liabilities and credit commitments	208	66,057	69,709	45,883	-	6,515	

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

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

	Up to 1 month (KZT million)	**1 month to 3 months** (KZT million)	**3 month to 1 year** (KZT million)	**1 year to 5 years** (KZT million)	**Over 5 years** (KZT million)	**Maturity undefined** (KZT million)	**31 December 2008 Total** (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks	75,572	21,388	92,777	93,727	10,689	-	294,153
Customer accounts	383,076	32,790	316,450	229,805	2,722	-	964,843
Debt securities issued	487	8,405	90,220	260,093	299,501	-	658,706
Other borrowed funds	2	7,416	8,876	81,475	38,991	-	136,760
Subordinated debt	-	-	3,337	-	95,005	17,454	115,796
Total interest bearing financial liabilities	459,137	69,999	511,660	665,100	446,908	17,454	2,170,258
Financial liabilities at fair value through profit or loss	426	229	720	37,524	15,440	-	54,339
Accrued interest expense on interest-bearing liabilities	56,233	76,215	190,354	489,600	195,914	333	1,008,649
Other financial liabilities	12,265	3,990	33,835	25,251	219,610	9,538	304,489
TOTAL FINANCIAL LIABILITIES	528,061	150,433	736,569	1,217,475	877,872	27,325	3,537,735

	Up to 1 month (KZT million)	**1 month to 3 months** (KZT million)	**3 month to 1 year** (KZT million)	**1 year to 5 years** (KZT million)	**Over 5 years** (KZT million)	**Maturity undefined** (KZT million)	**31 December 2007 Total** (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks	141,216	160,676	230,012	166,715	19,540	-	718,159
Customer accounts	320,227	127,509	203,474	225,057	2,300	-	878,567
Debt securities issued	1,964	11,060	35,288	280,996	389,255	-	718,563
Other borrowed funds	-	585	-	43,231	104,498	-	148,314
Subordinated debt	-	-	-	3,293	103,080	-	106,373
Total interest bearing financial liabilities	463,407	299,830	468,774	719,292	618,673	-	2,569,976
Financial liabilities at fair value through profit or loss	331	7,399	-	-	-	-	7,730
Accrued interest expense on interest-bearing liabilities	31,548	79,781	162,263	451,145	283,070	322	1,008,129
Other financial liabilities	513	4,080	44,408	29,382	240,849	-	319,232
TOTAL FINANCIAL LIABILITIES	495,799	391,090	675,445	1,199,819	1,142,592	322	3,905,067

Market risk

The Group defines market risk as currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios.

Treasury Department currently monitors market risk on a daily basis. At the same time, the Group is in the process of transferring functions on management of market risks from treasury to Market Risk Management Division of Risk Management Department. The division measures the risk and generates treasury position reports, which are presented to the ALMC. Market Risk Management division calculates VaR to measure the market risk on equity, fixed income and currency positions and breaks it down to individual risk factors (FX risk, interest rate risk, equity risk etc.). This allows the Group to analyze exposure to each risk factor and make further decisions to mitigate a particular exposure.

Currency risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which give the Group an opportunity to minimise losses from significant currency fluctuations. Similar to liquidity risk management, the Treasury Department manages open currency positions of the Group using data generated by the Prudentials Monitoring and Credit Reporting Division on a daily basis.

The FMSA sets strict restrictions on open currency positions. This also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

As at 31 December 2008 the Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	**USD**	**EUR**	**RUR**	**Other CCY**	**31 December 2008 Total**
	(KZT million)	**(KZT million)**	**(KZT million)**	**(KZT million)**	**(KZT million)**	**(KZT million)**
ASSETS:						
Cash and balances with national (central) banks	40,444	9,627	2,723	3,599	34,085	90,478
Precious metals	-	-	-	-	317	317
Financial assets at fair value through profit or loss	35,299	3,302	9,546	5,510	4,473	58,130
Loans and advances to banks	4,499	164,905	62,302	4,779	5,328	241,813
Loans to customers	725,185	1,340,347	12,024	66,171	1,055	2,144,782
Investments available-for-sale	12,209	2,847	-	-	-	15,056
Investments held to maturity	600	-	-	-	176	776
Investments in associates	1,775	-	-	-	-	1,775
Goodwill	2,405	-	-	-	-	2,405
Property, equipment and intangible assets	33,572	-	-	1,736	157	35,465
Other assets	12,034	2,526	1,368	7,376	504	23,808
TOTAL ASSETS	868,022	1,523,554	87,963	89,171	46,095	2,614,805
LIABILITIES:						
Loans and advances from banks	16,512	244,090	11,211	23,847	731	296,391
Customer accounts	443,862	481,640	39,467	12,505	1,979	979,453
Financial liabilities at fair value through profit or loss	52,306	2,033	-	-	-	54,339
Debt securities issued	-	359,271	188,535	22,727	107,752	678,285
Other borrowed funds	9,362	127,962	-	-	-	137,324
Provisions	5,379	4,322	351	221	3	10,276
Deferred income tax liabilities	10,196	-	-	-	9	10,205
Dividends payable	-	-	-	-	5	5
Other liabilities	13,630	2,402	8	829	72	16,941
Subordinated debt	38,139	79,585	-	-	-	117,724
TOTAL LIABILITIES	589,386	1,301,305	239,572	60,129	110,551	2,300,943
OPEN BALANCE SHEET POSITION	278,636	222,249	(151,609)	29,042	(64,456)	

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts as at 31 December 2008:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other CCY (KZT million)	31 December 2008 Total (KZT million)
Accounts payable on spot and derivative contracts	(120,432)	(294,254)	(16,143)	-	(5,872)	(436,701)
Accounts receivable on spot and derivative contracts	50,780	135,391	168,951	1,644	75,401	432,167
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(69,652)	(158,863)	152,808	1,644	69,529	

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

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

Derivative financial instruments and spot contracts

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

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

Currency risk sensitivity analysis

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

The analysis is based on the calculation of the impact of possible fluctuations in US dollar, Euro and Russian Ruble currency rates on the consolidated income statements and consolidated equity. This is due to the fact that as at 31 December 2008 these were the main currencies in which the Group had open positions. A 10% fluctuation is determined as a "reasonably possible change in the risk variable" by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated income statement and consolidated equity of such fluctuations. The Group hedges cash flow on its foreign currency liabilities using cross-currency swaps. According to international standards, the effective part of the revaluation of cross-currency swaps recorded in cash flow hedging is recorded in capital reserves. Thus, the Group's capital is sensitive to changes in foreign currency exchange rates that impact the value of hedging instruments.

	31 December 2008 (KZT million)						31 December 2007 (KZT million)					
	KZT/USD		KZT/EURO		KZT/RUB		KZT/USD		KZT/EURO		KZT/RUB	
	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Impact on profit or loss	8,583	(8,525)	445	(445)	3,069	(3,069)	4,190	(4,190)	160	(160)	2,606	(2,606)
Impact on equity	(3,356)	3,442	3,489	(3,489)	-	-	-	-	-	-	-	-

The table shows the possible effect on the Group's consolidated profit and equity if one of the above foreign currencies strengthens or weakens by 10% at the current date to all other currencies represented in the Group's consolidated balance sheet. In the event of the strengthening or devaluation of the tenge, open positions on all foreign currencies could have an impact on profit, while value of the cross-currency swaps is not sensitive to movements in the tenge exchange rate. Thus, a 25% tenge devaluation at the reporting date the positive effect on the consolidated income statement of the Group would be KZT 24,004 million and at a 35% tenge devaluation it would amount to KZT 33,655 million. The breakdown of these tenge devaluation effects are given in the following table:

	31 December 2008 (KZT million)									
	KZT/USD		KZT/EUR		KZT/RUB		KZT/Other		Total	
	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%	-25%	-35%
Impact on profit or loss	14,764	20,720	300	420	7,672	10,741	1,268	1,776	24,004	35,655

Limitations of sensitivity analysis

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

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

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

Price risks

The Group is exposed to price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. As at 31 December 2008 and 2007 equity investments do not form a significant part of the Group's investment portfolio.