3. Summary of accounting policies (continued)

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the income statement.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, is it written off against the related allowance for asset impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the income statement.

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 derecognised where:

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	8
Furniture and fixtures	9
Computers and office equipment	4
Leasehold improvements	5
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licences. Intangible assets are stated at cost net of accumulated amortisation. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over the useful economic lives of 5 to 10 years.

Provisions

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

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital is recognised at the fair value of consideration received or paid. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Contingencies

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

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies - translation differences.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRK exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBRK exchange rates at 31 December 2007 and 2006 were KZT 120.30 and KZT 127.0 to 1 USD, respectively.

4. Significant accounting judgements and estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Taxation

The income tax represents the sum of current tax and deferred tax expense.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(Thousands of Kazakh tenge)

5. Cash and balances with NBRK

Cash and balances with the NBRK comprise:

	2007	*2006*
Cash on hand	**282,422**	266,203
Current accounts with the NBRK	**273,236**	119,260
Time deposits with the NBRK up to 90 days	**3,132,599**	2,621,303
Cash and balances with NBRK	**3,688,257**	**3,006,766**

Interest rates and maturities of time deposits are as follows:

	2007		*2006*	
	%	*Maturity*	*%*	*Maturity*
Time deposits with NBRK up to 90 days	**5.5%**	**2008**	4.5%	2007

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either deposits with the NBRK or in correspondent accounts or in physical cash and maintained based on average monthly balances of the aggregate of deposits with the NBRK and correspondent accounts and physical cash. The use of such funds is, therefore, subject to certain usage restrictions. As at 31 December 2007 the obligatory reserves are KZT 256,942 thousand (31 December 2006 – KZT 137,367 thousand).

6. Due from banks

Amounts due from banks comprise of current accounts with banks amounted KZT 726,246 as of 31 December 2007 and KZT 59,416 thousand as of 31 December 2006.

Interest rates on current accounts with other banks are as follows:

	2007			*2006*		
Current accounts:	*USD*	*EUR*	*JPY*	*USD*	*EUR*	*JPY*
The Parent	**1-Month LIBOR less 0.22%**	**1-Month LIBOR less 0.26%**	**1-Month LIBOR less 0.05%**	1-Month LIBOR less 0.3%	1-Month LIBOR less 0.45%	1-Month LIBOR less 0.3%
OECD based banks	**Federal Funds rate less 0.5%**	**–**	**–**	Federal Funds rate less 0.5%	–	–

7. Loans to customers

As at 31 December 2007, loans to customers comprise one small business loan to LLP "Piramida-A". No loans to customers were outstanding as of 31 December 2006.

8. Investment securities held-to-maturity

Investment securities held-to-maturity comprise:

	2007		*2006*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Notes of the NBRK	**1,228,589**	**1,250,000**	–	–
Treasury bills of the Ministry of Finance	**–**	**–**	562,437	552,450
	1,228,589	**1,250,000**	562,437	552,450

As at 31 December 2007 the Bank held only interest-free notes of the NBRK. The effective interest rate and maturity of notes of the NBRK are 6.16%-7.50% per annum and 2008, respectively. As at 31 December 2006, the nominal interest rate and maturity of treasury bills of the Ministry of Finance are 11.13% per annum and 2007, respectively.

(Thousands of Kazakh tenge)

9. Property and equipment

The movements in property and equipment during 2007 and 2006 are as follows:

	Buildings	*Leasehold improve-ments*	*Computer equipment*	*Vehicles*	*Other*	*Total*
Cost:						
31 December 2005	49,035	29,479	28,939	23,716	20,963	152,132
Additions	–	93	1,370	–	1,513	2,976
Disposals	–	–	(344)	–	–	(344)
31 December 2006	**49,035**	**29,572**	**29,965**	**23,716**	**22,476**	**154,764**
Additions	–	–	1,581	–	844	2,425
Disposals	–	–	(654)	–	(1,270)	(1,924)
31 December 2007	**49,035**	**29,572**	**30,892**	**23,716**	**22,050**	**155,265**
Accumulated depreciation:						
31 December 2005	(27,600)	(20,575)	(25,154)	(11,860)	(6,704)	(91,893)
Charge	(5,885)	(5,904)	(2,794)	(4,743)	(2,615)	(21,941)
Disposals	–	–	313	–	–	313
31 December 2006	**(33,485)**	**(26,479)**	**(27,635)**	**(16,603)**	**(9,319)**	**(113,521)**
Charge	(5,884)	(1,973)	(1,550)	(4,743)	(2,709)	(16,859)
Disposals	–	–	653	–	654	1,307
31 December 2007	**(39,369)**	**(28,452)**	**(28,532)**	**(21,346)**	**(11,374)**	**(129,073)**
Net book value:						
31 December 2007	**9,666**	**1,120**	**2,360**	**2,370**	**10,676**	**26,192**
31 December 2006	15,550	3,093	2,330	7,113	13,157	41,243

10. Intangible assets

The movements in intangible assets during 2007 and 2006 are as follows:

	Licences	*Software*	*Total*
Cost:			
31 December 2005	25,384	18,330	43,714
Additions	–	117	117
Disposals	–	(274)	(274)
31 December 2006	**25,384**	**18,173**	**43,557**
Additions	23	10,425	10,448
Disposals	–	–	–
31 December 2007	**25,407**	**28,598**	**54,005**
Accumulated amortisation:			
31 December 2005	(11,062)	(4,871)	(15,933)
Charge	(2,559)	(1,952)	(4,511)
Disposals	–	265	265
31 December 2006	**(13,621)**	**(6,558)**	**(20,179)**
Charge	(2,562)	(2,447)	(5,009)
Disposals	–	–	–
31 December 2007	**(16,183)**	**(9,005)**	**(25,188)**
Net book value:			
31 December 2007	9,224	19,593	28,817
31 December 2006	11,763	11,615	23,378

(Thousands of Kazakh tenge)

11. Taxation

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable.

The income tax expense comprises:

	2007	*2006*
Current tax charge	82,297	68,700
Deferred income tax benefit	(1,153)	(1,926)
Income tax expense	81,144	66,774

The reconciliation between the income tax expense in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the periods ended 31 December is as follows:

	2007	*2006*
Profit before income tax expense	337,360	268,907
Statutory tax rate	30%	30%
Theoretical income tax expense at the statutory rate	101.208	80,672
Non deductible expenses:		
Depreciation	1,628	1,782
Representation expenses	978	960
Non-banking expenses	881	780
Communication services	394	1,182
Other	114	613
Tax exempt income:		
Government securities	(24,059)	(18,887)
Change in valuation allowance	–	(328)
Income tax expense	81,144	66,774

Deferred tax assets and liabilities comprise the following:

	2007	*2006*
Deferred tax assets:		
Property and equipment and intangible assets	3,079	1,926
Total deferred tax assets	3,079	1,926

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional government authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

12. Amounts due to banks

A non-interest bearing current account in a non OECD bank is included in amounts due to banks as at 31 December 2007 and 2006.

13. Amounts due to customers

The amounts due to customers include the following:

	2007	*2006*
Current accounts	3,110,763	1,705,680
Time deposits	490,536	89,952
Guarantee deposit	49,737	69,500
Amounts due to customers	3,651,036	1,865,132

(Thousands of Kazakh tenge)

13. Amounts due to customers (continued)

Amounts due to customers include accounts with the following types of customers:

	2007	*2006*
Current accounts:		
Governmental entities	1,621,860	865,923
Commercial entities	1,162,746	470,281
Individuals	326,157	369,476
	3,110,763	1,705,680
Time deposits:		
Governmental entities	451,525	–
Individuals	39,011	89,952
	490,536	89,952
Held as security against guarantees	49,737	69,500
Amounts due to customers	3,651,036	1,865,132

As at 31 December 2007 and 2006, the Bank's ten largest customers accounted for 84% and 75%, of the total amounts due to customers.

An analysis of customer accounts by economic sector follows:

	2007	*%*	*2006*	*%*
Government entities	2,073,385	57%	864,154	46%
Oil and gas	488,876	13%	336,643	18%
Trade	441,082	12%	7,915	0%
Individuals	365,168	10%	459,428	25%
Construction	141,984	4%	84,699	5%
Transportation and communication	54,829	2%	14,619	1%
Held as security against guarantees	49,737	1%	69,500	4%
Other	35,975	1%	28,174	1%
	3,651,036	100%	1,865,132	100%

14. Equity

As at 31 December 2007 and 2006, the Bank had 2,259 authorised, issued and fully paid common shares. Each common share is entitled to one vote and is not entitled to any dividends. All shares are tenge denominated and have a nominal value of KZT 627,440 each. The total amount of issued share capital is KZT 1,417,387 thousand.

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2007 and 2006 comprise:

	2007	*2006*
Cash and balances with NBRK (Note 5)	3,688,257	3,006,766
Amounts due from banks (Note 6)	726,246	59,416
	4,414,503	3,066,182
Less: Obligatory reserves	(256,942)	(137,367)
Cash and cash equivalents	4,157,561	2,928,815

16. Commitments and contingencies

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	2007	*2006*
Credit related commitments		
Guarantees	49,629	69,500
Less cash collateral	(49,629)	(69,500)
Commitments and contingencies	–	–

(Thousands of Kazakh tenge)

17. Net fee and commission income

Net fee and commission income comprises:

	2007	*2006*
Transfer operations	183,608	156,043
Cash operations	17,344	12,705
Other	4,253	8,111
Fee and commission income	205,205	176,859
Transfer operations	(1,183)	(1,303)
Other	(976)	(969)
Fee and commission expense	(2,159)	(2,272)
Net fee and commission income	203,046	174,587

18. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2007	*2006*
Salaries and bonuses	67,466	56,664
Social tax	7,563	6,239
Salaries and benefits	75,029	62,903
Rent	17,082	17,082
Information technology services	11,111	9,206
Security	8,659	8,524
Administrative expenses	8,554	8,267
Professional services	7,000	2,874
Communication expense	6,927	8,491
Cash collection expenses	6,074	5,826
Representation expenses	3,261	3,202
Business trip expenses	2,281	2,321
Transportation	1,274	1,413
Deposit insurance	800	2,401
Other	207	817
Other operating expenses	73,230	70,424

19. Allowances for impairment

The movements in allowances for other assets are as follows:

	Other assets
31 December 2005	82
Reversal	(50)
31 December 2006	32
Reversal	(32)
31 December 2007	–

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

20. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

(Thousands of Kazakh tenge)

20. Risk management (continued)

Introduction (continued)

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Management and Law Compliance Department

The Risk Management and Law Compliance Department (here and after the "Department") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

The Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products.

Assets and Liabilities Management Committee

Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.