JSC SB Bank of China in Kazakhstan
Financial statements
for the year ended 31 December 2008

CONTENTS

FINANCIAL STATEMENTS

(in thousands of Kazakhstani Tenge)	Note	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	7	30,124,790	4,981,816
Due from other banks	8	-	8,173
Loans and advances to customers	9	1,044,391	489,175
Investment securities held-to-maturity	10	3,292,698	1,596,957
Current income tax prepayments		580	13,926
Deferred income tax asset	22	853	8,198
Intangible assets	11	9,605	11,814
Property and equipment	11	552,621	138,242
Other financial assets	12	49,886	-
Other assets	13	8,119	2,007
Total assets		**35,083,543**	**7,250,308**
Liabilities			
Due to other banks	14	198,192	35,996
Customer accounts	15	30,178,181	3,808,278
Other borrowed funds	16	618,234	-
Other financial liabilities	17	9,651	6,467
Total liabilities		**31,004,258**	**3,850,741**
Equity			
Share capital	18	1,065,050	1,065,050
Retained earnings		3,014,235	2,334,517
Total equity		**4,079,285**	**3,399,567**
Total liabilities and equity		**35,083,543**	**7,250,308**

Approved for issue and signed on behalf of the Board on 21 March 2009.

Van Tzozyuan
Chairman of the Board

Hao Xueping
Chief Accountant

(in thousands of Kazakhstani Tenge)	**Note**	**2008**	**2007**
Interest income	19	582,710	357,568
Interest expenses	19	(137,246)	(33,158)
Net interest income		**445,464**	**324,410**
Reversal of loan impairment provision	9, 25	-	5,864
Net interest income after loan impairment provision		**445,464**	**330,274**
Fee and commission income	20	666,198	274,362
Fee and commission expenses	20	(30,774)	(25,485)
Foreign exchange translation gains less losses		1,958	13,444
Foreign exchange transaction gains less losses		192,809	185,400
Other operating income		916	969
Administrative and other operating expenses	21	(354,306)	(301,167)
Profit before tax		**922,265**	**477,797**
Income tax expense	22	(242,547)	(103,079)
Profit for the year		**679,718**	**374,718**

		Attributable to equity holders of the Bank		
(in thousands of Kazakhstani Tenge)	**Note**	**Share capital**	**Retained earnings**	**Total Equity**
Balance at 1 January 2007		**1,065,050**	**1,959,799**	**3,024,849**
Profit for the year		-	374,718	374,718
Total recognised income for 2007		-	374,718	374,718
Balance at 31 December 2007	**18**	**1,065,050**	**2,334,517**	**3,399,567**
Profit for the year		-	679,718	679,718
Total recognised income for 2008		-	679,718	679,718
Balance at 31 December 2008	**18**	**1,065,050**	**3,014,235**	**4,079,285**

(in thousands of Kazakhstani Tenge)	Note	2008	2007
Cash flows from operating activities			
Interest received		563,245	359,775
Interest paid		(117,306)	(37,383)
Fee and commissions received		616,312	274,362
Fee and commissions paid		(30,774)	(25,485)
Net income from foreign exchange transactions		192,809	185,400
Other operating income received		916	969
Staff costs		(125,537)	(114,005)
Administrative and other operating expenses paid		(212,961)	(151,540)
Income tax paid		(243,980)	(132,122)
Cash flows from operating activities before changes in operating assets and liabilities		**642,724**	**359,971**
Changes in operating assets and liabilities			
Net decrease in due from other banks	8	8,173	1,267,978
Net (increase)/decrease in loans and advances to customers	9	(555,216)	18,701
Net (increase)/decrease in other assets	13	(6,112)	122
Net increase in due to other banks	14	162,196	6,543
Net increase/(decrease) in customer accounts	15	26,369,903	(1,524,500)
Net increase/(decrease) in other financial liabilities	17	3,184	(4,863)
Net cash flows from operating activities		**26,624,852**	**123,952**
Cash flows from investing activities			
Acquisition of investment securities held to maturity	10	(7,150,964)	(16,617,135)
Proceeds from redemption of investment securities held to maturity	10	5,621,788	17,029,064
Acquisition of property and equipment	11	(426,919)	(8,083)
Acquisition of intangible assets	11	(1,059)	(6,727)
Net cash flows (used in)/from investing activities		**(1,957,154)**	**397,119**
Net cash flows from financing activities			
Proceeds from other borrowed funds	16	603,950	-
Net cash flows from financing activities		**603,950**	**-**
Effect of exchange rate changes on cash and cash equivalents		**(128,674)**	**(144,757)**
Net increase in cash and cash equivalents		**25,142,974**	**376,314**
Cash and cash equivalents at the beginning of the year		4,981,816	4,605,502
Cash and cash equivalents at the end of the year	7	**30,124,790**	**4,981,816**

1 Introduction

These financial statements of the JSC SB “Bank of China in Kazakhstan” (the “Bank”) have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008.

The Bank was incorporated and is domiciled in the Republic of Kazakhstan. The Bank is a joint stock company limited by shares and was set up in accordance with the requirements of the laws of the Republic of Kazakhstan. The only shareholder of the Bank is Bank of China Limited (the “Shareholder” or the “Parent Bank”), located in Beijing, People’s Republic of China. On 24 December 2008 the “Bank of China Limited” has obtained the status of banking holding JSC SB “Bank of China in Kazakhstan” from the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations (the “AFN”). The change in status resulted from new regulations effective from 23 October 2008, which require banks with majority of capital owned by foreign banks to have status of banking holding. The ultimate parent of the Bank is Government of the People’s Republic of China.

Principal activity. The Bank was incorporated on 19 April 1993 as the “Bank of China in Almaty”. On 19 December 1997, the Bank was re-registered as Closed Joint Stock Company Subsidiary Bank “Bank of China in Kazakhstan”. On 4 May 2005, the Bank re-registered to Joint Stock Company Affiliate Bank “Bank of China in Kazakhstan”.

The Bank’s activity is regulated by the AFN and by the National Bank of the Republic of Kazakhstan (the “NBRK”).

The Bank has a banking license No 181, obtained on 31 January 2006 from AFN. The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement operations, and operations with securities and foreign exchange.

The registered address of the Bank’s head office is 201, Gogol Street, Almaty. The Bank has one branch in Almaty.

The average number of people employed by the Bank during 2008 was 61 employees (2007: 54 employees).

These financial statements have been adopted by the Board of Directors on 13 March 2008.

2 Operating Environment of the Bank

Conditions affecting the performance of financing and operating activities in the Republic of Kazakhstan. The Kazakhstani economy displays certain characteristics of an emerging market, which include, but are not limited to, relatively high inflation, the existence of a currency that is not freely convertible outside of the country, and low liquidity level of debt and equity securities of the organizations of public and private sectors. Despite strong economic growth in recent years, the financial situation in the Kazakhstani market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Kazakhstani stock market since mid-2008. Due to this, the fulfillment of financing and operating activities in the Republic of Kazakhstan is associated with risks, which are not typical for the countries with a market economy.

The tax, currency and customs legislation within the Republic of Kazakhstan is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Republic of Kazakhstan. The future economic direction of the Republic of Kazakhstan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

2 Operating Environment of the Bank (Continued)

***Recent volatility in global and Kazakhstani financial markets*.** The ongoing global financial and economic crisis that emerged out of the server reduction in global liquidity crisis which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia, Kazakhstan and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

Impact on liquidity. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The management believes that the Bank is less exposed to the liquidity risk compared to other banks on the Kazakhstani market, as it can be supported by its Parent Bank in case of liquidity needs. Management is not aware of any significant liquidity problems faced by the Parent Bank and believes that the Parent Bank's exposure to liquidity risk is relatively low given that the Chinese banking sector is less exposed to the global financial crisis compared to the banking sectors of other countries. Further, the Bank is focused on specific market segment in respect of deposits (mostly Chinese owned entities), which is not particularly sensitive on changes in interest rates. The exposure to liquidity risk in case of deposits withdrawal by customers is limited through matching maturity structure of assets and liabilities, as most of deposits are placed into current accounts or short term placements with NBRK and other banks and short term securities, which can be readily converted to cash, in case of liquidity needs. Further, the liquidity is more closely monitored by the Parent Bank after the escalation of global financial crisis. The methods used for monitoring and managing liquidity risk, please refer to Note 23.

***Impact on customers/borrowers**.* Borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. As of 31 December 2008 and during the period subsequent to the balance sheet date, the management is not aware of the deterioration of quality of its loan portfolio and other financial assets in terms of delinquencies. Further, no other objective evidence of impairment was noted in respect of the Bank's borrowers that would indicate need to create impairment provision. The management is not aware of any significant financial difficulties of its borrowers, while the counterparty risk in respect of other financial assets is considered low, as they mostly relate to the state institutions (NBRK and Ministry of Finance) or to the Group of the Parent Bank.

Fair value of financial assets and liabilities. The fair values of investment securities quoted investments in active markets are based on current bid prices (financial assets). Fair value of loans and advances to customers, customer accounts and other borrowed funds is established using valuation techniques. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions.

Management is unable to reliably determine the effects on the Bank's future financial position of any further deterioration in the Bank's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

The attached financial statements reflect the assessment, performed by Bank's management in relation to probable impact of existing conditions of performing financing and operating activities on the results of activity and financial position of the Bank. Future economic conditions may differ from management's assessment.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Functional and presentation currency. The national currency of the Republic of Kazakhstan is Kazakhstani Tenge ("KZT" or "Kazakhstani Tenge"). Management has determined the Bank's functional currency to be the KZT, as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank's presentation currency for the purposes of these financial statements. Financial information presented in KZT has been rounded to the nearest thousand.

Use of estimations and judgments. Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates. For critical accounting estimates and judgements in applying accounting policies, please refer to Note 4.

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Foreign currency transactions. Transactions in foreign currencies are translated to KZT at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to KZT at the exchange rate prevailing at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to KZT at exchange rate, prevailing at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement.

For the preparation of these financial statements, the Bank has used the following exchange rates at 31 December:

Currency	***2008***	***2007***
1 USD	120.79	120.30
1 Euro	170.24	177.17

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the National Bank of Republic of Kazakhstan (hereinafter “NBRK”) and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the NBRK. Mandatory cash balances with the NBRK are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are available to finance the Bank’s day to day operations and hence are considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading, resulting in unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost. The Bank recognizes as balances due from other banks placements with other banks with initial maturity above three months.

Financial instruments.

i) Classification. Management determines the appropriate classification of financial instruments at the time of the initial recognition. During 2008 and 2007 the management has classified financial instruments in the following categories:

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

3 Summary of Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

ii) Recognition. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the settlement date. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Subsequent to initial recognition, all financial assets are measured at amortized cost using effective interest rate, as all financial instruments during 2008 and 2007 were classified either as loans and receivables or as securities held to maturity.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

vi) Derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. The Bank also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

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

Property and equipment. Property and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired. All other subsequent costs are recognized as expenses for the period, when they were incurred. If an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

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

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Depreciation on main items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives and recognized in the income statement. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Useful lives in years
Buildings	13
Computers	3 to 5
Furniture	7
Vehicles	15
Other	3 to 7

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

For the management's assumptions for determining useful life of the buildings, please refer to Note 4.

Intangible assets. Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortization and impairment losses and comprise computer software license.

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

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets is 7 years.

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

Impairment of financial assets carried at amortised cost. Financial assets carried at amortized cost consist principally of loans and other receivables, as well as securities held to maturity. The Bank reviews its loans and receivables, to assess impairment on a regular basis. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

If objective evidence of impairment is identified, the impairment provision is determined as a difference between carrying value and the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Summary of Significant Accounting Policies (Continued)

Due to relatively small size of loan portfolio, the Bank performs individual assessment on all loans to customers i.e. the Bank assesses whether objective evidence of impairment exists individually for all loans. If the Bank determines that no objective evidence of impairment exist for an individually assessed loan or receivable, it includes the loan in a group of loans or receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment. Past experience on incurred losses is used during collective assessment.

As of 31 December 2008 and 31 December 2007 no objective evidence of impairment has been identified for any of the assessed loans and receivables. Further, no impairment provision was considered necessary based on the collective assessment, given that the Bank has not incurred losses in the current and prior periods (Note 4 and 9).

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement. The Bank had no write offs in 2008 and 2007.

Impairment of non-financial assets. Other non-financial assets, other than deferred taxes, are assessed for impairment as at every balance sheet date. The recoverable amount of non-financial assets is the value, which is the higher of fair value less sale expenses and value in use. In the course of determining value in use, estimated future cash flows are discounted to their present value using discount rate before taxation, which reflects current economic assessment of time value of money and risks, attributable to this asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

All impairment losses of non-financial assets are recorded in the income statement and subject to recovery only if there were changes in measurements, used during determination of recoverable amount. Any impairment loss of an asset is subject to recovery to the extent when recovered carrying amount of an asset does no exceed such carrying amount (less depreciation and amortization), which would be if impairment loss would not be reflected in the financial statements.

Provisions. Provisions are recognized in the balance sheet when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of such obligation is significant, then provisions are determined through discounting estimated future cash flows using discount rate before taxation, which reflects current market assessment of time value of cash and, if applicable, risks, adherent to this obligation.

Provisions for restructuring are recognized in the period, when Bank approves formal detailed restructuring plan and starts its implementation or publicly declares forthcoming restructuring. Provisions for future operating expenses are not formed.

Due to other banks. Amounts due to other banks represent non-derivative financial liabilities from other banks-correspondents and are carried at amortized cost. These amounts are initially recognized when funds are advanced to the Bank.

3 Summary of Significant Accounting Policies (Continued)

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

Other borrowed funds. Other borrowed funds include a loan taken from the Parent Bank and are carried at amortized cost.

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

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

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

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences resulting from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortized cost.

3 Summary of Significant Accounting Policies (Continued)

Recognition of income and expenses. Interest income and expense are recognized in the income statement using effective interest rate method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank

Repossessed collateral. Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets. The Bank had no cases of repossessed property during 2008 and 2007 (Note 9).

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Mandatory reserve with the National Bank of Republic of Kazakhstan is included in cash and cash equivalents for the purposes of the cash flow statements, as these deposits are available to finance the Bank's daily operations. The mandatory reserve was not included in cash and cash equivalents in the last year's financial statements. Consequently, the amount of cash and cash equivalents in the cash flow statement is increased by KZT 262,630 thousand and by KZT 378,701 thousand as of 31 December 2007 and 1 January 2007, respectively. Further, position 'Net (increase)/decrease in due from other banks' was amended accordingly.

The position 'Cash and cash equivalents' is introduced on the face of the Balance Sheet in these financial statements. Amounts with maturity less than 3 months previously classified within 'Due from the National Bank of Kazakhstan' and 'Placements with banks' are presented as 'Cash and cash equivalents'. Comparative figure of KZT 4,981,816 thousand (Note 7) was presented on the following positions in 2007 financial statements: Cash (KZT 94,120 thousand), Due from the National Bank of Kazakhstan (KZT 3,031,971 thousand) and 'Placements with banks' (KZT 1,855,725 thousand).

The position 'Due from other banks' of KZT 8,173 thousand relates to placements with other banks of KZT 8,173 thousand, previously classified within position 'Placements with banks'. These balances represent funds with maturity above 3 months and thus do not meet definition of cash and cash equivalents. The remaining amounts from position 'Placements with banks' represent correspondent accounts and are reclassified to position 'Cash and cash equivalents.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would increase by KZT 4,758 thousand (2007: KZT 370 thousand), with a corresponding entry in the fair value reserve in equity. Fair value of these financial assets is disclosed in Notes 10 and 26.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in portfolio, or national or local economic conditions that correlate with defaults on related financial assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

In 2008 and 2007 no impairment provision on loans and advances has been created, in accordance with the management's assessment that no impairment indicators exist, as all loans were performing without delays during both annual periods. Further, the management is not aware of any significant deterioration in the financial, market and business conditions of the borrowers or existence of any other impairment indicator. The management thus believes that no impairment provision in accordance with IAS 39 requirements is necessary, as no losses on loans and advances were incurred in previous years and no objective indicators of impairment exist as of balance sheet dates.

To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the impairment provision as of 31 December 2008 and 31 December 2007 would not be materially different from the current level, according to the management's assessment.

Reversals of impairment provisions. The Bank reversed loan impairment provisions of KZT 5,864 thousand in 2007 primarily as a result of the repayment of previously provided loans and closure of related guarantees and letters of credit during 2007. There were no movements in impairment provision during 2008, refer to Notes 9 and 25.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The management expects that the Bank will continue to be profitable in the future, since no significant changes in its operations and market segment are planned for the following years and the Bank is less exposed to the effects of the global financial crisis due to its low risk profile. Thus, given the level of taxable profits for 2008 and 2007 (Note 22), as well as management's expectations that the Bank's operations will be profitable in the following years, the management believes that deferred tax asset of KZT 853 thousand as of 31 December 2008 (2007: KZT 8,198 thousand) is recoverable.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28. The management believes that the loans to customers (apart from loans issued to employees), deposits from customers and borrowing from the Parent originate at the interest rates which approximate market interest rates, given the Bank's specific market segment (Chinese-owned entities) and low counterparty risks due to the Bank's conservative credit risk profile. Loans to employees in 2008 and 2007 were issued at interest rates lower compared to interest rates to other retail clients i.e. non-related parties. The interest rates on loans issued to employees in 2008 were 10.8% p.a. (2007: 10% p.a.) compared to 12% p.a. (2007: 12% p.a.) offered to non-related parties. The management believes that the departure from interest rates to non-related parties is not significant and that related loss on initial recognition in both accounting periods is immaterial.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations, access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank and the Parent Bank. The management believes that going concern assumption is appropriate, as the Bank has a history of profitable operations, no significant changes in its strategy are planned for the future and it is expected that the Parent Bank will support its operations through available financial resources in the following 12 months, if necessary. Management believes that it is unlikely that the effects of the global financial crisis would significantly affect the Bank's profitability, due to its specific strategy, market segment, as well as relatively low credit risk of its financial assets.

Depreciation of buildings. The management reviews the residual value and the useful life of all classes of fixed assets on annual basis i.e. at the end of each accounting period, in accordance with the requirements of IAS 16. The useful life of buildings of 13 years is determined based on the management's assumption that the Bank will sell the existing premises and move into new premises in the following years. The assumption is based on the information available as of balance sheet dates and in the period subsequent to the balance sheet date. Based on the management's assessment of residual value and useful life of the buildings, the residual value of buildings is higher than their carrying value as of 1 January 2008 and 31 December 2008. Therefore, in accordance with the requirements of IAS 16, no depreciation charge on buildings was recognized for 2008 (Note 11). If the management's intentions in the future change, the management will consider amending useful life and residual life and the change will be accounted for as a change in an accounting estimate, in accordance with IAS 8 requirements.

5 Adoption of New or Revised Standards and Interpretations

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

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);

- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and

- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

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

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

The optional reclassifications were not applicable for the Bank, as the Bank has no financial assets classified as financial assets available for sale or financial assets at fair value through profit or loss.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management does not expect IFRS 8 to affect the Bank's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Bank does not expect the amendment to affect its financial statements.

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

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

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

6 New Accounting Pronouncements (Continued)

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's operations because no Group companies operate any loyalty programmes.

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Bank's financial statements.

7 Cash and Cash Equivalents

(in thousands of Kazakhstani Tenge)	31 December 2008	31 December 2007
Cash on hand	74,969	94,120
Due from NBRK, including minimum reserve requirements	26,057,798	3,031,971
Correspondent accounts and overnight deposits with other banks in foreign countries	3,992,023	1,855,725
Total cash and cash equivalents	**30,124,790**	**4,981,816**

The increase in cash and cash equivalents is mostly related to short-term placements with NBRK with maturity up to 7 days, funds maintained on correspondent account with NBRK and correspondent accounts with other banks. As of 31 December 2008 amounts due to customers have increased almost 8 times (KZT 26,369,903 thousand) compared to 31 December 2007 as a result of increase in sight deposits and short-term deposits at year end (Note 15). Since sight deposits and short-term deposits are subject to high fluctuations, received funds are mostly placed in short-term placements with NBRK and funds on correspondent accounts, available for daily use, in the Bank's strategy for the management of liquidity risk (Note 23).

The amount due from NBRK relate to term placements with maturity up to 7 days in the amount of KZT 18,000,000 thousand (2007: KZT 1,800,000 thousand), funds maintained on correspondent account with NBRK of KZT 8,039,423 thousand (2007: KZT 1,230,458 thousand) and accrued interest of KZT 18,375 thousand (2007: KZT 1,513 thousand).

Funds held on correspondent accounts with NBRK include minimum amount of required obligatory reserves of KZT 638,425 thousand (2007: KZT 262,630 thousand). In accordance with legislation of the Republic of Kazakhstan, the Bank is obliged to maintain obligatory reserves, which are computed as 5% and 10% of certain liabilities of the Bank. Such reserves should be maintained on correspondent accounts with NBRK or in cash, based on the average monthly balances of the aggregate of deposits with the NBRK and cash. As these funds are available for daily use, mandatory reserve is included in cash and cash equivalents.

All balances with other banks in foreign countries are related to the entities which are part of the Group of Bank of China Hong Kong i.e. these balances are related to the Parent and its subsidiaries in New York and Frankfurt. The credit rating of the Group is A (stable) according to Fitch Ratings and BBB+ (positive) according to Standard & Poor's rating agencies. No individual assessment of branches is performed by the rating agencies.

The credit rating of Kazakhstan as of 31 December 2008 was BBB+ according to Standard & Poor's rating agency. During February 2009, the credit rating of the country was downgraded to BBB-, due to the adverse effects of the global financial crisis on the Kazakhstani economy. Since NBRK is a state institution, its rating is equivalent to the country credit rating.

Given that the above balances are either with NBRK or the Group and taking into account the Group's rating, these balances are considered to be neither past due nor impaired as of 31 December 2008 and 31 December 2007.

As of 31 December 2008 and 31 December 2007, all of the balances are classified as standard receivables in accordance with AFN methodology, which is used for internal rating by the Bank (Note 23).

Given that all amounts classified as cash and cash equivalents have maturity less than 3 months, the management believes that the fair value of cash and cash equivalents as of 31 December 2008 and 31 December 2007 approximates their carrying value.

As of 31 December 2008 the Bank has balances with two correspondent banks, which represent more than 10% of total amounts due from other banks, consisting of amounts classified as cash equivalents (Note 7) and due from other banks (Note 8). The aggregate amount of such deposits is KZT 11,876,878 thousand (2007: KZT 1,851,485 thousand) or 39.5% of total amounts due from other banks (2007: 37.8%).

8 Due from other banks

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Placements with other banks	-	8,173
Total due from other banks	**-**	**8,173**

The balance relates to placements with local bank Bank Turan Alem (BTA) with original maturity more than 3 months. As of 31 December 2007 this bank was rated, according to Standard and Poor's rating agency, as BB (long-term), B (short-term) with negative outlook. According to Fitch Ratings the Bank was rated as BB+ (long-term), B (short-term) with negative outlook.

As of 31 December 2007 balances due from bank were considered neither past due nor impaired. These balances were classified as standard in accordance with AFN methodology, used for monitoring credit quality of financial assets (Note 23).

9 Loans and Advances to Customers

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Corporate loans	934,630	408,359
Loans to individuals – consumer loans	109,761	80,816
Total loans and advances to customers	**1,044,391**	**489,175**

No impairment provision was recognized as of 31 December 2008 and 31 December 2007, since no objective evidence of impairment was identified through individual assessment of loans. Further, no impairment provision was considered necessary based on the collective assessment, as the management considers the probability of default to be negligible, given that the Bank has not incurred losses in the current and prior periods.

There were no movements in impairment provision during 2008. The movements in the provision for loan impairment during 2007 are given below:

(in thousands of Kazakhstani Tenge)	**Total corporate loans**
Provision for loan portfolio impairment at 1 January 2007	**4,100**
Release of impairment provision	(4,100)
Provision for loan portfolio impairment at 31 December 2007	**-**

The structure of loan portfolio by economic sectors as of 31 December is provided below:

	2008		**2007**	
(in thousands of Kazakhstani Tenge)	**Amount**	**%**	**Amount**	**%**
Production	362,479	35	312,000	64
Trade	106,106	10	96,359	20
Construction	65,956	6	-	-
Production of crude oil and natural gas, rendering of services in this sphere	400,089	38	-	-
Individuals	109,761	11	80,816	16
Total loans and advances to clients	**1,044,391**	**100**	**489,175**	**100**

9 Loans and Advances to Customers (Continued)

As of 31 December 2008 and 31 December 2007, all loans were performing without delinquencies and no indicators of impairment were identified through the assessment performed in accordance with IAS 39 requirements. Thus, all loans as of 31 December 2008 and 31 December 2007 are considered to be neither past due nor impaired.

Credit quality of loans neither past due nor impaired is monitored by the management using methodology prescribed by AFN regulations, refer to Note 23.

The credit quality of loans as of 31 December 2008 based on AFN methodology is given below:

(in thousands of Kazakhstani Tenge)	Corporate loans	Consumer loans	Total
Standard loans	534,541	109,761	644,302
Substandard loans – 1. category	400,089	-	400,089
Total loans and advances to clients	**934,630**	**109,761**	**1,044,391**

As of 31 December 2007, all loans neither past due nor impaired were classified as standard loans based on the methodology prescribed by AFN regulations.

Information on loans covered by securities (pledges) as of 31 December 2008 is provided below:

(in thousands of Kazakhstani Tenge)	Corporate loans	Consumer loans	Total
Unsecured loans	400,089	-	400,089
Loans, secured by:			
- residential real estate objects	-	109,761	109,761
- other real estate objects	534,541	-	534,541
Total loans and advances to clients	**934,630**	**109,761**	**1,044,391**

Information on loans covered by securities (pledges) as of 31 December 2007 is provided below:

(in thousands of Kazakhstani Tenge)	Corporate loans	Consumer loans	Total
Loans, secured by:			
- residential real estate objects	408,359	80,816	489,175
Total loans and advances to clients	**408,359**	**80,816**	**489,175**

Although all retail loans are secured by residential real estate premises, the management considers them to be consumer loans, as the Bank does not differentiate mortgages from other types of retail loans at present.

During the year ending 31 December 2008 the Bank did not obtain any assets by taking control of collateral accepted as security for loans issued to customers (2007: nil).

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset from to a normal status and managed together with other similar accounts. The Bank had no renegotiated loans that would otherwise be past due or impaired at 31 December 2008 (2007: nil).

Fair value of loans and advances to clients as of 31 December 2008 and 31 December 2007 is disclosed within Note 26.

10 Investment Securities Held to Maturity

(in thousands of Kazakhstani Tenge)	31 December 2008	31 December 2007
Notes issued by the National Bank of the Republic of Kazakhstan	636,514	906,272
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	2,656,184	690,685
Total investment securities held to maturity	**3,292,698**	**1,596,957**

Movements in held to maturity investment securities portfolio is provided below:

(in thousands of Kazakhstani Tenge)	2008	2007
Carrying amount at 1 January	**1,596,957**	**2,008,903**
Additions	7,150,964	16,515,186
Redemption	(5,621,788)	(17,029,064)
Accumulated interest income	148,754	101,915
Interest received	17,811	17
Carrying amount at 31 December	**3,292,698**	**1,596,957**

The information on the fair value of investment securities held to maturity as at 31 December 2008 and 31 December 2007 is given below and in Note 26:

	31 December 2008		31 December 2007	
(in thousands of Kazakhstani Tenge)	Fair value	Carrying value	Fair value	Carrying value
Total investment securities held to maturity	3,297,456	3,292,698	1,597,327	1,596,957

The fair value of securities held to maturity is determined based on the quoted prices on the Kazakhstan stock exchange (KASE) as of balance sheet dates.

Given that securities held to maturity are issued by the state institutions of the Republic of Kazakhstan (NBRK and the Ministry of Finance), guaranteed by the state and that there were no delays in payment of interest or nominal amount of securities at redemption, all securities held to maturity are considered to bear low risk and represent neither due nor impaired financial assets. The credit rating of these issuers is equivalent to the rating of the Republic of Kazakhstan, refer to Note 7.

All securities held to maturity are classified as standard financial assets in accordance with the methodology prescribed by AFN regulations, which is used by the management for internal monitoring of credit quality of the Bank’s financial assets (Note 23).

11 Property, Equipment and Intangible Assets

(in thousands of Kazakhstani Tenge)	Note	Land and Buildings	Office, computer and other equipment	Total property, and equipment	Licenses for computer software
Acquisition cost at 1 January 2007		**231,037**	**102,838**	**333,875**	**19,854**
Additions		-	8,083	8,083	6,727
Disposals		-	(34,516)	(34,516)	(4,923)
Acquisition cost at 31 December 2007		**231,037**	**76,405**	**307,442**	**21,658**
Accumulated depreciation/amortization at 1 January 2007		**115,505**	**55,564**	**171,069**	**11,792**
Depreciation/amortization charge	21	18,375	14,272	32,647	2,975
Disposals		-	(34,516)	(34,516)	(4,923)
Accumulated depreciation/amortization at 31 December 2007		**133,880**	**35,320**	**169,200**	**9,844**
Carrying amount at 31 December 2007		**97,157**	**41,085**	**138,242**	**11,814**
Acquisition cost at 1 January 2008		**231,037**	**76,405**	**307,442**	**21,658**
Additions		421,132	5,787	426,919	1,059
Disposals		(6,223)	(11,188)	(17,411)	(92)
Acquisition cost at 31 December 2008		**645,946**	**71,004**	**716,950**	**22,625**
Accumulated depreciation/ amortization at 1 January 2008		**133,880**	**35,320**	**169,200**	**9,844**
Depreciation/amortization charge	21	-	12,540	12,540	3,268
Disposals		(6,223)	(11,188)	(17,411)	(92)
Accumulated depreciation/amortization at 31 December 2008		**127,657**	**36,672**	**164,329**	**13,020**
Carrying amount at 31 December 2008		**518,289**	**34,332**	**552,621**	**9,605**

The Bank has not recognized depreciation charge on buildings in 2008, as management assessed that the residual value of the buildings is higher than their carrying value as of 1 January 2008 and 31 December 2008 (refer to Note 4).

As of 31 December 2008 and 31 December 2007, the Bank does not have property, equipment or intangible asset with restricted title or which is pledged as security for liabilities.

12 Other Financial Assets

Other financial assets of KZT 49,886 thousand (2007: nil) fully relate to accrued fees for agency services, which are charged for organizing and administration of credit line facilities issued by the Bank of China in Cayman Islands to the corporate customers operating in the Republic of Kazakhstan (Note 20).

The related fee receivables are not due as of 31 December 2008, but during 2009. No indicators of impairment were identified in respect of this asset. Thus, this financial asset is considered neither past due nor impaired financial asset. In respect of credit quality and internal rating, this financial asset is classified as standard, in accordance with AFN methodology (Note 23).

13 Other Assets

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Prepayment for legal, audit services and for subscription of periodicals for 2009	1,492	643
Prepayment for renting parking space	6,009	-
Inventories	618	1,364
Total other assets	**8,119**	**2,007**

14 Due to Other Banks

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Correspondent accounts and overnight deposits from other banks	198,192	35,996
Total due to other banks	**198,192**	**35,996**

Given that amounts due to banks represent sight deposits, the fair value of these liabilities approximates their carrying amounts as of 31 December 2008 and 31 December 2007, refer to Note 26.

15 Customer accounts

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
State and public organizations		
- current accounts and demand deposits	14,781	59,102
Other legal entities		
- current accounts and demand deposits	17,727,123	1,527,449
- term deposits	10,067,052	68,737
Individuals		
- current accounts and demand deposits	1,746,022	1,760,019
- term deposits	623,203	392,971
Total customer accounts	**30,178,181**	**3,808,278**

The increase of customer accounts is not of permanent nature, as it resulted from funds deposited during last two months of 2008 by several corporate customers. Increase mostly relates to increase in sight deposits by approximately KZT 16 billion, since the Bank has opened the current accounts for large oil and gas industry companies with Chinese participation (Asia Gas Pipeline LLP and JSC Karazhanbasmunai), which deposited significant funds as of year end. Further, in December 2008 short term deposit with one month maturity of KZT 10 billion was placed by China Pipeline. These additional funds are mostly placed in short-term deposits with NBRK and on correspondent accounts, refer to Note 7.

15 Customer accounts (Continued)

Below is the allocation of customer accounts per economic sectors:

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
State administration	14,781	59,102
Transport, communication	61,557	99,085
Production	4,751,681	15,178
Construction	903,902	-
Trade	22,061,397	1,461,714
Individuals	2,369,225	2,152,990
Other	15,638	20,209
Total funds from clients	**30,178,181**	**3,808,278**

As at 31 December 2008, the Bank maintained customer deposit balances of KZT 63,145 thousand (2007: KZT 52,719 thousand) which were blocked by the Bank as collateral for off-balance sheet credit instruments (guarantees and letters of credit) issued by the Bank.

As at 31 December 2008, the Bank had four clients, whose account balances exceeded 10% of total amount of customer accounts. These current accounts and deposits as at 31 December 2008 amounted to KZT 22,010,924 thousand (2007: KZT 523,315 thousand).

For the fair value of customer accounts please refer to Note 26.

16 Other borrowed funds

Other borrowed funds of KZT 618,234 relate to the borrowing taken from the Parent bank in the amount of USD 5 million at the fixed interest rate of 4.0545% p.a. The borrowing is due for repayment in September 2009.

(in thousands of Kazakhstani Tenge)	**31 December 2008**
Borrowings due to Parent Bank, including:	618,234
- accrued interest	14,284
Total other borrowed funds	**618,234**

As of 31 December 2007, the Bank had no borrowings from the Parent Bank or other entity. Fair value of other borrowed funds is disclosed in Note 26.

17 Other Financial Liabilities

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Accrued employee benefits costs	1,179	-
Accrued expenses for administrative and operating activities	6,118	1,851
Accrued fee expenses for banking activities	2,354	4,616
Total other financial liabilities	**9,651**	**6,467**

18 Share Capital

As of 31 December 2008 and 31 December 2007 total authorized number of ordinary shares was 1,000. All ordinary shares have nominal value of KZT 1,065,050 per share (2007: KZT 1,065,050 per share) and entitles the owner one vote per share. All issued ordinary shares are fully paid.

19 Interest Income and Expenses

(in thousands of Kazakhstani Tenge)	2008	2007
Interest income		
Loans and advances to clients	60,376	60,486
Investment securities held-to-maturity	208,039	106,118
Due from NBRK	222,848	90,844
Nostro accounts and deposits with other banks	91,447	100,120
Total interest income	**582,710**	**357,568**
Interest expenses		
Current accounts and term deposits from clients	(121,444)	(31,266)
Other borrowed funds – Parent Bank	(14,208)	-
Deposits and balances from other banks	(1,594)	(1,892)
Total interest expenses	**(137,246)**	**(33,158)**
Net interest income	**445,464**	**324,410**

During 2008 and 2007 the Bank had no impaired financial assets, based on the assessment performed in accordance with IAS 39 requirements (Notes 3, 4 and 9). Thus, the Bank had no interest income on impaired financial assets in these accounting periods.

20 Fee and Commission Income and Expenses

(in thousands of Kazakhstani Tenge)	2008	2007
Fee income		
- Agency services	406,730	36,150
- Settlement transactions	196,940	183,030
- Cash operations	34,955	34,285
- Guarantees and letters of credit issued	6,515	6,309
- Client account maintenance	10,042	3,878
- Other fee income (statements, execution of documents, etc)	11,016	10,710
Total fee income	**666,198**	**274,362**
Fee expenses		
- Settlement transactions	(6,348)	(3,781)
- Cash operations	(7,965)	(7,770)
- Kazakhstan Stock Exchange membership fee	(7,935)	(4,906)
- Deposit insurance fund contributions	(7,089)	(8,271)
- Other fee expenses	(1,437)	(757)
Total fee expenses	**(30,774)**	**(25,485)**
Net fee income	**635,424**	**248,877**

Fee income for agency services relate to commissions earned by the Bank for acting as an agent for loans issued by the Bank of China Cayman Islands. The Bank provides services of organization and administration of loans issued to the corporate customers - residents of the Republic of Kazakhstan, including services of finding customers. The Bank does not bear any credit risk related to loans issued by Bank of China Cayman Islands. Thus, related loans are not recognized in the Bank's financial statements. The related receivables are due from third parties (corporate customers) and are disclosed within Note 12.

21 Administrative and Other Operating Expenses

(in thousands of Kazakhstani Tenge)	Note	2008	2007
Personnel costs		125,537	114,005
Depreciation of property and equipment	11	12,540	32,647
Amortization of software	11	3,268	2,975
Communication and information services		37,684	59,015
Expenses on operating lease		8,986	5,247
Professional services		15,753	11,980
Advertising and marketing services		1,242	1,175
Expenses associated with security services		18,451	17,661
Other taxes, except for income tax		16,536	14,650
Repair and maintenance		15,111	8,647
Transport expenses		1,782	1,550
Traveling expenses		5,449	6,919
Representation costs		5,906	9,696
VAT reverse charges and penalty to the tax authorities		72,054	-
Other (maintenance of shareholders register, property valuation etc.)		14,007	15,000
Total administrative and other operating expenses		**354,306**	**301,167**

Personnel costs include pension contributions and social contributions stipulated by the law (mandatory contributions) in the amount of KZT 8,790 thousand (2007: KZT 7,490 thousand).

During 2008 the tax authorities assessed that an additional reverse VAT charges of KZT 22,493 thousand should have been paid by the Bank in the previous years. Total amount of the obligation to tax authorities of KZT 72,054 thousand includes the amount of unpaid reverse VAT charges, fine for not recognizing tax liabilities and penalty interest. The Bank has paid related tax obligations, including fine and penalty interest during 2008.

22 Income Taxes

Income tax expense include following components:

(in thousands of Kazakhstani Tenge)	2008	2007
Current tax	235,202	103,014
Deferred tax	7,345	65
Income tax expenses for the year	**242,547**	**103,079**

The income tax rate applicable to the Bank in 2008 is 30% (2007: 30%). A reconciliation between the expected and the actual taxation charge is provided below:

(in thousands of Kazakhstani Tenge)	2008	2007
Profit under IFRS before taxation	**922,265**	**477,797**
Theoretical tax charges at statutory rate of 30%	270,680	143,339
Non-taxable income	(29,303)	(25,078)
Adjustment of prior year income tax	3,903	(15,182)
Effects of change in tax rate	(2,733)	-
Income tax expenses for the year	**242,547**	**103,079**

Effect of change in tax rates in the amount of KZT 2,733 thousand resulted from the introduction of new tax code effective from January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to opening deferred tax balances.

Differences between IFRS and statutory tax regulations of the Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Tax effect of the movements in these temporary differences is detailed below and recorded at the rate of 20% (2007: 30%).

In 2008 the Bank has formed net deferred tax assets in the amount of KZT 853 thousand (2007: KZT 8,198 thousand). The decrease in deferred tax asset due to the reduction of deductible temporary difference between tax and accounting balances of fixed assets has resulted from not recognizing depreciation on buildings for accounting purposes (refer to Note 11). The depreciation on buildings of KZT 18,012 thousand is recognized in tax return for the purposes of calculating corporate income tax.

22 Income Taxes (Continued)

(in thousands of Kazakhstani Tenge)	31 December 2007	Charged to profit or loss	31 December 2008
Tax effect of deductible/(taxable) temporary differences			
Property, equipment and intangible assets	5,804	3,768	2,036
Accrued liabilities	2,394	3,577	(1,183)
Recognized deferred tax asset	8,198	-	2,036
Recognized deferred tax liability	-	-	(1,183)
Net deferred tax asset	**8,198**	**7,345**	**853**

(in thousands of Kazakhstani Tenge)	31 December 2006	Charged to profit or loss	31 December 2007
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	5,848	44	5,804
Accrued liabilities	2,415	21	2,394
Net deferred tax asset	**8,263**	**65**	**8,198**

23 Financial Risk Management

The Bank's risks management is performed in relation to financial risks (credit, market, geographic, currency risks, liquidity risk and interest rate risk), operating and legal risks. The primary objectives of the financial risk management function are to ensure that the Bank's exposure to financial risks is not significant, in accordance with the Bank's general conservative risk policy. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The risk management function in the Bank has been established during 2008. As of 31 December 2008 the Bank does not have formalized risk policies and procedures in respect of credit risk, currency risk, interest rate risk, liquidity risk, operational risk etc. Only simple risk management methods are applied as of 31 December 2008. The Bank has not yet established risk limits, apart from those required by regulators (AFN). However, the management believes that the Bank's exposure to related risks is low due to its conservative policy, relatively small size of loan portfolio and non-complex financial instruments used by the Bank.

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

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The maximum exposure to credit risk is given below:

23 Financial Risk Management (Continued)

	Maximum exposure	
(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and cash equivalents	30,124,790	4,981,816
Due from other banks	-	8,173
Loans and advances to customers:		
Loans to individuals:	934,630	408,359
Loans to corporate entities:	109,761	80,816
Investment securities held to maturity	3,292,698	1,596,957
Other financial assets	49,886	-
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees and letters of credit issued	315,282	272,379
Loan commitments and other credit related liabilities	392,656	33,995
Total	**35,219,703**	**7,382,495**

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of loan. Exposure to credit risk is also managed, in part, by obtaining collateral.

The Bank monitors compliance with prudential norms regulated by AFN which include credit risk exposure per borrower, including credit risk exposure to related parties. The Bank does not have either established limits for group of associated borrowers (apart from those stipulated by AFN) or limits on geographic and industrial segments. Customer's business and financial performance is assessed by the credit committee prior to the disbursement of loan. However, no regular monitoring of the business and financial performance of a customer after the disbursement of loan is in place, apart from annual assessment at year end. The Bank closely monitors collection of loans to ensure that payments are made timely. The management believes that the current credit risk management procedures are sufficient given relatively small size of loan portfolio (5 corporate customers and 3 corporate customers as of 31 December 2008 and 31 December 2007, respectively), specific market segment (Chinese owned entities with low credit risk and good credit history, Bank's employees and employees of corporate customers) and timely repayment of loans (no loans past due on 31 December 2008 and 31 December 2007).

The impairment provision on loans to customers is assessed through individual assessment of loans, as required by IAS 39. Refer to Notes 3 and 4.

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

All financial assets as of 31 December 2008 and 31 December 2007 are considered neither past due nor impaired, as there were no delays in repayment or other objective indicators of impairment. Credit quality of loans neither past due nor impaired is monitored by the management using methodology prescribed by AFN regulations. AFN regulations are based on the concept of expected losses based on certain criteria, such as customer's financial position, delays in payment, quality of security, existence of prolongations, overdue liabilities, written off arrears by other creditors, credit rating etc. Based on the number of allocated points per each of specified criteria, all loans are classified in the following categories:

- Standard;
- Substandard (consisting of 5 categories, 1. category representing highest credit quality and 5. category representing lowest credit quality);
- Bad;

The credit quality of financial assets is disclosed within Notes 7, 8, 9, 10 and 11.

23 Financial Risk Management (Continued)

Market risk. The Bank is exposed to market risk, associated with open positions on (a) currency, (b) interest rate, all of which are exposed to general and specific market movements. At present no limits on the value of risk are defined by the Bank's internal policies. The exposure to market risks is monitored mostly through compliance with AFN regulations (prudential norms). The management believes that the Bank's exposure to market risks is not significant (please refer to the information below).

Currency risk. The Bank monitors exposure to currency risk primarily through compliance with AFN regulations (prudential norms). The reporting to AFN is done on monthly basis. The Bank does not have internally specified limits on the value of risk that may be accepted. Thus, the Bank is exposed to foreign currency risk and may incur losses outside of in the event of significant market movements. The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

	31 December 2008			31 December 2007		
(in thousands of Kazakhstani Tenge)	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance position**
Kazakhstani Tenge	23,486,615	19,749,208	3,737,407	5,034,845	1,709,765	3,325,080
US Dollars	11,015,463	11,250,355	(234,892)	2,028,166	2,136,986	(108,820)
Euro	9,687	4,695	4,992	13,110	3,990	9,120
Total	**34,511,765**	**31,004,258**	**3,507,507**	**7,076,121**	**3,850,741**	**3,225,380**

The table below reflects changes in financial result (profit) as a result of reasonably possible changes in exchange rates, used as at the balance sheet date, provided that all other variables remain unchanged:

(in thousands of Kazakhstani Tenge)	**2008**	**2007**
US Dollar increase by 5%	(11,745)	(5,441)
US Dollar decrease by 5%	11,745	5,441
Euro increase by 10% (2007: 5%)	499	456
Euro decrease by 10% (2007: 5%)	(499)	(456)

The risk was calculated only for monetary financial assets and liabilities in currencies, other than functional currency – Kazakhstani Tenge.

Bank's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied to the average exposure to currency risk during 2008, with all other variables held constant:

(in thousands of Kazakhstani Tenge)	**Effect on profit or loss**
US Dollar increase by 5%	(3,519)
US Dollar decrease by 5%	3,519
Euro increase by 10%	1,422
Euro decrease by 10%	(1,422)

Comparative data are not available within the Bank. However, the management believes that comparative data would not have material impact on the presentation of financial information of the Bank during the year 2007.

Significant devaluation of local currency took place on 4 February 2009. Should this devaluation have happened in 2008 the Bank would have realized a loss of KZT 42,478 thousand as exchange differences, due to net open short position in foreign currencies as of 31 December 2008. Subsequent events are disclosed in Note 29.

23 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Interest rates on loans and deposits are specified by the Bank's policy on interest rates, which is approved by Assets and Liabilities Committee (ALCO). No regular or formalized monitoring of exposure to interest rate risks is performed by the Bank, apart from monitoring interest rates done by ALCO and changing them, if considered necessary. Also, no limits on the level of mismatch of interest rate repricing that may be undertaken are established by the Bank.

However, the management believes that the Bank's exposure to interest rate risk is limited by the nature of its operations, given that the Bank is oriented on specific market segment (mostly Chinese-owned companies) with interest rates not significantly affected by the movements of interest rates on the Kazakhstani banking market. Further, the Bank issued loans to customers and takes deposits from customers at fixed interest rates. The specified interest rates cannot be changed during the period of loans or deposits.

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

(in thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Total**
31 December 2008					
Total financial assets	30,283,996	703,691	1,933,749	1,590,329	34,511,765
Total financial liabilities	29,889,907	115,690	926,682	71,979	31,004,258
Net interest sensitivity gap at 31 December 2008	**394,089**	**588,001**	**1,007,067**	**1,518,350**	**3,507,507**
31 December 2007					
Total financial assets	5,689,526	114,239	1,198,193	74,163	7,076,121
Total financial liabilities	3,487,573	32,061	213,888	117,219	3,850,741
Net interest sensitivity gap at 31 December 2007	**2,201,953**	**82,178**	**984,305**	**(43,056)**	**3,225,380**

The Bank does not have interest bearing assets and liabilities with variable interest rates as at 31 December 2008 and 31 December 2007 i.e. loans issued, deposits and borrowings taken are at fixed interest rates. Thus, the management believes that the changes in interest rates on the market would not have material effect on profit for the years ending 31 December 2008 and 31 December 2007. Further, the Bank's exposure to interest rate risk is considered low due to its orientation on specific market segment with limited sensitivity to changes in interest rates on the market.

23 Financial Risk Management (Continued)

Concentration of geographic risk. The analysis of geographic concentration of financial assets and liabilities of the Bank as at 31 December 2008 is provided below:

(in thousands of Kazakhstani Tenge)	**Kazakhstan**	**OECD**	**Other countries**	**Total**
Assets				
Cash and cash equivalents	26,132,767	3,737,014	255,009	30,124,790
Loans and advances to customers	1,044,391	-	-	1,044,391
Investment securities held to maturity	3,292,698	-	-	3,292,698
Other financial assets	49,886	-	-	49,886
Total financial assets	**30,519,742**	**3,737,014**	**255,009**	**34,511,765**
Non-financial assets	**571,778**	**-**	**-**	**571,778**
Total assets	**31,091,520**	**3,737,014**	**255,009**	**35,083,543**
Liabilities				
Due to other banks	196,331	-	1,861	198,192
Due to customers	30,178,181	-	-	30,178,181
Other borrowed funds	-	-	618,234	618,234
Other financial liabilities	9,651	-	-	9,651
Subordinated deposit	-	-	-	-
Total financial liabilities	**30,384,163**	**-**	**620,095**	**31,004,258**
Total liabilities	**30,384,163**	**-**	**620,095**	**31,004,258**
Net balance position	**707,357**	**3,737,014**	**(365,086)**	**4,079,285**

23 Financial Risk Management (Continued)

The analysis of geographic concentration of financial assets and liabilities of the Bank as at 31 December 2007 is provided below:

(In thousands of Kazakhstani Tenge)	**Kazakhstan**	**OECD**	**Other countries**	**Total**
Assets				
Cash and cash equivalents	3,126,091	1,325,448	530,277	4,981,816
Due from other banks	8,173	-	-	8,173
Loans and advances to customers	489,175	-	-	489,175
Investment securities held-to-maturity	1,596,957	-	-	1,596,957
Total financial assets	**5,220,396**	**1,325,448**	**530,277**	**7,076,121**
Non-financial assets	**174,187**	**-**	**-**	**174,187**
Total assets	**5,394,583**	**1,325,448**	**530,277**	**7,250,308**
Liabilities				
Due to other banks	35,996	-	-	35,996
Customer accounts	3,808,278	-		3,808,278
Other financial liabilities	6,467	-	-	6,467
Total financial liabilities	**3,850,741**	**-**	**-**	**3,850,741**
Total liabilities	**3,850,741**	**-**	**-**	**3,850,741**
Net balance position	**1,543,842**	**1,325,448**	**530,277**	**3,399,567**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees etc.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and other borrowed funds from the Parent. Due to high fluctuation of customers' deposits (as most of deposits relate to sight and short term deposits), the Bank invests the funds mostly in short-term placements with NBRK (mostly up to 7 days), as well as in short term securities held to maturity in order to be able to respond quickly to unforeseen liquidity requirements. After the outbreak of global financial crisis, the limits on placing funds have been established by the Group in order to ensure that most of the funds are placed in the liquid and secure placements (mostly NBRK).

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, including borrowings from Parent, and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on monthly basis in accordance with AFN requirements. In addition to monitoring liquidity based on AFN prudential norms, the Bank reports on maturity structure of assets and liabilities to the Group on monthly basis The Department of credit and foreign exchange transactions controls daily liquidity position by making weekly forecasts of expected cash inflows and outflows, particularly in respect of loan disbursements and loan repayments.

23 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

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

(in thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	198,192	-	-	-	198,192
Other borrowed funds	-	-	634,831	-	634,831
Due to customers	29,682,064	115,690	308,448	71,979	30,178,181
Other financial liabilities	9,651	-	-	-	9,651
Gross loan commitments	392,656	-	-	-	392,656
Total potential future payments on financial liabilities	**30,282,563**	**115,690**	**943,279**	**71,979**	**31,413,511**

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

(in thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	35,996	-	-	-	35,996
Due to customers	3,445,110	32,061	213,888	117,219	3,808,278
Other financial liabilities	6,467	-	-	-	6,467
Gross loan commitments	33,995	-	-	-	33,995
Total potential future payments on financial liabilities	**3,521,568**	**32,061**	**213,888**	**117,219**	**3,884,736**

Information on future interest expenses related to customer accounts as of 31 December 2008 and 31 December 2007 is not available within the Bank and thus not disclosed. However, the management believes that this information would not have significant impact on the financial statements, given that majority of customer deposits are demand deposits and short-term deposits, which bear either no interest or interest at low rates.

23 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2008:

(in thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	30,124,790	-	-	-	-	30,124,790
Loans and advances to customers	25,364	44,806	406,818	497,104	70,299	1,044,391
Investment securities held to maturity	101,430	641,411	1,526,931	1,022,926	-	3,292,698
Other financial assets	32,412	17,474	-	-	-	49,886
Total financial assets	**30,283,996**	**703,691**	**1,933,749**	**1,520,030**	**70,299**	**34,511,765**
Liabilities						
Due to other banks	198,192	-	-	-	-	198,192
Other borrowed funds	-	-	618,234	-	-	618,234
Due to customers	29,682,064	115,690	308,448	71,979	-	30,178,181
Other financial liabilities	9,651	-	-		-	9,651
Total financial liabilities	**29,889,907**	**115,690**	**926,682**	**71,979**	**-**	**31,004,258**
Net liquidity gap at 31 December 2008	**394,089**	**588,001**	**1,007,067**	**1,448,051**	**70,299**	**3,507,507**
Aggregate liquidity gap at 31 December 2008	-	-	-	-	-	**3,507,507**

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

(in thousands of Kazakhstani Tenge)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	4,981,816	-	-	-	-	4,981,816
Due from other banks	8,173	-	-	-	-	8,173
Loans and advances to customers	692	1,105	413,215	25,593	48,570	489,175
Investment securities held to maturity	698,845	113,134	784,978	-	-	1,596,957
Total financial assets	**5,689,526**	**114,239**	**1,198,193**	**25,593**	**48,570**	**7,076,121**
Liabilities						
Due to other banks	35,996	-	-	-	-	35,996
Due to customers	3,445,110	32,061	213,888	117,219	-	3,808,278
Other financial liabilities	6,467	-	-	-	-	6,467
Total financial liabilities	**3,487,573**	**32,061**	**213,888**	**117,219**	**-**	**3,850,741**
Net liquidity gap at 31 December 2007	**2,201,953**	**82,178**	**984,305**	**(91,626)**	**48,570**	**3,225,380**
Aggregate liquidity gap at 31 December 2007	-	-	-	-	-	**3,225,380**

23 Financial Risk Management (Continued)

Due to the fact that substantial portion of customer accounts relates to demand deposits or deposits with maturity less than 1 month, the Bank mitigates the liquidity risk by placing related funds with NBRK and correspondent banks as sight deposits or deposits with maturity up to 1 month. Given that net liquidity gap is positive for all maturities as of 31 December 2008,the management believes that the Bank is not exposed to significant liquidity risk.

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

24 Management of Capital

The Bank's objectives when managing capital are i) to comply with the capital requirements set by AFN; ii) to safeguard the Bank's ability to continue as a going concern; and (iii) to maintain a sufficient capital base to achieve adequate level of capital adequacy ratio. Control over maintaining capital adequacy ratio, prescribed by AFN, is performed using monthly reports, containing respective calculations, which are reviewed and approved by the Chairman of the Management Board and the Chief Accountant of the Bank. The assessment of other objectives of capital management is performed on annual basis.

In accordance with current requirements in relation to capital, established by AFN, banks should maintain the ratio of capital and risk-weighted assets ("capital adequacy ratio"), on the level above obligatory minimum value. The table below shows standard capital on the basis of Bank's report, prepared in accordance with requirements of Kazakhstani legislation:

The Bank is obliged to meet requirements in relation to minimal level of capital, including the level of capital adequacy, calculated on the basis of regulatory requirements. The composition of the Bank's capital position is as follows:

(in thousands of Kazakhstani Tenge)	**31 December 2008**	**31 December 2007**
Tier 1 Capital		
Share capital	1,065,050	1,065,050
Reserves formed from retained earnings	122,849	122,849
Retained earnings	2,198,697	1,827,371
Total Tier 1 Capital	**3,386,596**	**3,015,270**
Tier 2 Capital	-	-
Revaluation reserve	-	6,224
General reserves	12,970	7,955
Retained earnings	679,719	370,118
Total Tier 2 Capital	**692,689**	**384,297**
Total capital	**4,079,285**	**3,399,567**
Risk-weighted assets, contingent liabilities, operating and market risks:		
Risk-weighted assets	3,715,499	1,617,671
Risk-weighted contingent liabilities	457,549	269,294
Operating risk	329,190	276,358
Market risk	234,890	154,521
Total risk-weighted assets, contingent liabilities, operating and market risks:	**4,737,128**	**2,317,844**
Tier 1 capital to total assets	**0.715**	**0.416**
Total capital to risk weighted assets, contingent liabilities, operational and market risks	**0.861**	**1.467**

During 2007 and 2008 the Bank has met all external capital requirements.

25 Contingent liabilities

Legal proceedings. The management of the Bank is not aware of any significant current or pending proceedings that may result in potential risks threatening to the Bank. Thus, no provision has been created, as the Bank's management believes that it is unlikely that any significant loss will eventuate.During 2008 the Bank has terminated all legal proceedings in relation to tax authorities claims. Tax authorities claims have been settled during 2008 and recognized in the Income Statement (Note 21).

Tax legislation. Kazakhstani tax and customs legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Bank may not coincide with that of management. Tax authorities of RK may have stricter position in interpreting legislation and assessing accruals, and there is probability that transactions and activities that were not disputed in past will be disputed. Tax legislation of RK does not contain any clear guidance on all tax issues. According to Bank's management opinion, tax liabilities of the Bank were completely reflected in these financial statements, basing on interpretation by the management of the Bank of current tax legislation of RK. Such interpretation of tax positions may be subject to thorough review. The tax authorities have right to perform tax inspection at any moment at their discretion and to review previous five year period. The consequences of such tax authorities' reviews may not be reliably estimated; however they may be significant for the financial position and/or activity of organization as a whole.

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

(in thousands of Kazakhstani Tenge)	**2008**	**2007**
Not later than 1 year	8,986	8,988
Later than 1 year and not later than 5 years	26,964	35,952
Total operating lease commitments	**35,950**	**44,940**

The Bank leases premises for its branch "Yalan" under operating lease agreement. The lease runs for an initial period of five years, with an option to renew the lease after the expiry of its term. Lease payments are usually increased annually to reflects market rentals. The lease does not include contingent rentals. During 2008 the total amount of payments under operating lease recognized in the income statement was KZT 8,986 thousand (2007: KZT 5,247 thousand), refer to Note 21.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

25 Contingent liabilities (Continued)

(in thousands of Kazakhstani Tenge)	31 December 2008	31 December 2007
Loan and credit line commitments	392,656	33,995
Export letters of credit	-	70,148
Import letters of credit	-	155,450
Guarantees issued	315,282	46,781
Total credit related commitments	**707,938**	**306,374**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The Bank's management believes that fair value of issued guarantees and letters of credit is not material as of 31 December 2008 and 31 December 2007. The fair value of loan and credit line commitments approximates their notional amounts of KZT 392,656 thousand (2007: KZT 33,995 thousand).

Credit related commitments are denominated in currencies as follows:

(in thousands of Kazakhstani Tenge)	31 December 2008	31 December 2007
Kazakhstani Tenge	322,912	22,708
US Dollars	385,026	181,180
Euro	-	102,486
Total credit related commitments	**707,938**	**306,374**

The Bank has not recognized provision on credit related commitments, as the management is not aware of any losses incurred due to the deterioration of the financial conditions of the customers. As of 31 December 2008 and 31 December 2007 losses on credit related commitments are not considered probable and cannot be reliably measured. Thus, there were no movements in related provision during 2008.

During 2007 the Bank has released provision on guarantees and letters of credit of KZT 1,764 thousand, which was created as of 31 December 2006. The provision was released after related credit related commitments were closed.

Assets pledged and restricted. The Bank has no assets pledged as collateral as of 31 December 2008 and 31 December 2007.

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

26 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used own judgements, and not market judgements, in estimating the fair value of financial instruments.

Financial instruments at amortized cost. Cash and cash equivalents, balances due from other banks, and other financial assets are carried at amortised cost which approximates fair value, given their short-term nature. Similarly, balances due to other banks and other financial liabilities are carried at amortized cost which approximates their fair value, given their short-term nature.

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

(in thousands of Kazakhstani Tenge)	**2008**	**2007**
Loans and advances to customers – Note 9		
Corporate loans	10.5 % p.a.	10.5 % p.a.
Loans to individuals – consumer credits	12 % p.a.	7 % - 12 % p.a.

Held to maturity investment securities. The fair value of held to maturity investment securities is based on quoted market price as of 31 December 2008 and 31 December 2007, as these securities are actively traded on the Kazakhstan Stock Exchange (KASE).

Due to customers and other borrowed funds. The fair value of financial liabilities at fixed interest rate instruments was estimated based on estimated future cash flows expected to be paid discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

26 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

	31 December 2008		31 December 2007	
(in thousands of Tenge)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- Cash	74,969	74,969	94,120	94,120
- Due from NBRK	26,057,798	26,057,798	3,031,971	3,031,971
- Correspondent accounts	3,992,023	3,992,023	1,855,725	1,855,725
Due from other banks	-	-	8,173	8,173
Loans and advances to customers				
- Corporate loans	934,630	905,874	408,359	389,615
- Loans to individuals	109,761	89,500	80,816	77,107
Held to maturity Investment securities				
- Notes issued by the National Bank of the Republic of Kazakhstan	636,514	643,805	906,272	906,453
- Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	2,656,184	2,653,651	690,685	690,874
Other financial assets	49,886	49,886	-	-
TOTAL FINANCIAL ASSETS	**34,511,765**	**34,467,506**	**7,076,121**	**7,054,038**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks	198,192	198,192	35,996	35,996
Customer accounts	30,178,181	30,100,845	3,808,278	3,776,843
Other borrowed funds	618,234	628,410	-	-
Other financial liabilities	9,651	9,651	6,467	6,467
TOTAL FINANCIAL LIABILITIES	**31,004,258**	**30,937,098**	**3,850,741**	**3,819,306**

27 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets held to maturity.

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

(in thousands of Kazakhstani Tenge)	**Loans and receivables**	**Held to maturity**	**Total**
Assets			
Cash and cash equivalents	30,124,790	-	30,124,790
Loans and advances to customers			
- Corporate loans	934,630	-	934,630
- Loans to individuals – consumer credits	109,761	-	109,761
Investment securities held to maturity	-	3,292,698	3,292,698
Other financial asset:	49,886	-	49,886
Total financial assets	**31,219,067**	**3,292,698**	**34,511,765**
Non-financial assets	-	-	**571,778**
Total assets	**-**	**-**	**35,083,543**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets held to maturity.

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

(in thousands of Kazakhstani Tenge)	**Loans and receivables**	**Held to maturity**	**Total**
Assets			
Cash and cash equivalents	4,981,816	-	4,981,816
Due from other banks	8,173	-	8,173
Loans and advances to customers			
- Corporate loans	408,359	-	408,359
- Loans to individuals – consumer credits	80,816	-	80,816
Investment securities held to maturity	-	1,596,957	1,596,957
Total financial assets	**5,479,164**	**1,596,957**	**7,076,121**
Non-financial assets	-	-	**174,187**
Total assets	**-**	**-**	**7,250,308**

As of 31 December 2008 and 31 December 2007 all of the Bank's financial liabilities were carried at amortised cost.

28 Related Party Transactions

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

As of 31 December 2008 and 2007 the Bank's immediate parent company was Bank of China Limited. The Bank was ultimately controlled by the Government of the People's Republic of China.

The balances as at 31 December 2008 with related parties are presented below:

(in thousands of Kazakhstani Tenge)	**Parent Bank**	**Banks under common control**
Due from other banks (contractual interest rate: 1.15 - 1.32 %)	255,009	3,737,014
Other borrowed funds (contractual interest rate: 4.0545 %)	603,950	-
Accrued interest on other borrowed funds	14,284	-

The balances as at 31 December 2007 with related parties are presented below:

(in thousands of Kazakhstani Tenge)	**Parent Bank**	**Banks under common control**
Due from other banks (contractual interest rate: 1.15 – 4.8 %)	530,277	1,325,448

Income and expenses on related party transactions for 2008 are presented below:

(in thousands of Kazakhstani Tenge)	**Parent Bank**	**Banks under common control**
Interest income	457	90,981
Interest expenses	14,208	-
Administrative and other operating expenses	-	20,062

Apart from the balances with related parties which are disclosed above, as of 31 December 2008 the Bank had customer deposits of the entities owned by the Government of the Republic of China (i.e. ultimate parent) in the amount of KZT 72,912 thousand (2007: KZT 1,102,722 thousand).

Income and expenses on related party transactions for 2007 are presented below:

(in thousands of Kazakhstani Tenge)	**Parent Bank**	**Banks under common control**
Interest income	1,066	96,377
Administrative and other operating expenses	3,781	39,638

28 Related Party Transactions (Continued)

The information on income and expenses related to entities owned by the ultimate parent is not available within the Bank. However, management believes that these amounts are not material and would not have significant effect on the presentation of financial information in these financial statements.

Other balances with related parties at 31 December 2008 are provided below:

(in thousands of Kazakhstani Tenge)	**Parent Bank**	**Banks under common control**
Guarantees received by Bank in respect of loans issued at the year end	-	2,569,696

Other balances with related parties at 31 December 2007 are provided below:

(in thousands of Kazakhstani Tenge)	**Parent Bank**	**Banks under common control**
Guarantees issued by Bank at the year end	-	39,485

Key management compensations, which include compensations to the members of the Management Board and Board of Directors, are presented below:

(in thousands of Kazakhstani Tenge)	**2008**	**2007**
Short-term payments:		
- Salaries	13,950	15,169
- Short-term bonuses	1,896	859
Other payments	1,831	1,644
Total	**17,677**	**17,672**

The management compensations fully relate to short-term employee benefits i.e. no post-employment benefits, other long-term benefits, termination benefits or share-based payments are in place.

29 Events After the Balance Sheet Date

Devaluation of Tenge took place on 4 February 2009. The exchange rate has changed from USD 1 = KZT 122.32 to USD 1 = KZT 143.98. The exchange rate has stabilized in the following period at the rate of USD 1 = KZT 150. Currency risk is disclosed in Note 23.

No other significant subsequent events have taken place from the balance sheet date up until 21 March 2009.