JSC SB "KZI Bank"

Financial Statements

for the year ended 31 December 2007

Contents

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Independent Auditors' Report

To the Board of Directors and Management Board of JSC SB "KZI Bank"

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Berdalina J. K.
Certified auditor
Managing Partner

Elvira Abibullayeva
Certified auditor
Audit Partner

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

20 March 2008

	Note	2007 '000 KZT	2006 '000 KZT
Interest income	4	560,992	336,270
Interest expense	4	(15,608)	(6,950)
Net interest income		**545,384**	**329,320**
Fee and commission income	5	221,234	136,058
Fee and commission expense	5	(9,970)	(9,088)
Net fee and commission income		**211,264**	**126,970**
Net foreign exchange income	6	124,094	104,830
Other income		4,743	16,240
		885,485	**577,360**
Provision recovery/(impairment losses)	7	8,815	(7,495)
General administrative expenses	8	(388,387)	(283,287)
Income before taxes		**505,913**	**286,578**
Income tax expense	9	(156,629)	(84,906)
Net income		**349,284**	**201,672**

The financial statements as set out on pages 5 to 45 were approved by the Board of Directors on 20 March 2008.

Bekir Sönmez
General Manager

Zilikha Usenova
Chief Accountant

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STAMPED FOR IDENTIFICATION PURPOSE

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 45.

	Note	2007 '000 KZT	2006 '000 KZT
ASSETS			
Cash		517,289	349,374
Due from the National Bank of the Republic of Kazakhstan		761,414	954,040
Placements with banks	10	1,872,196	338,227
Loans to customers	11	3,508,713	2,374,529
Available-for-sale assets	12	7,001	7,001
Held-to-maturity investments	13	1,727,041	698,726
Property and equipment	14	692,067	678,068
Intangible assets	15	22,021	28,051
Other assets	16	18,419	30,750
Total assets		**9,126,161**	**5,458,766**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and balances from banks	17	181,873	-
Current accounts and deposits from customers	18	5,868,687	2,750,146
Other liabilities		12,903	11,379
Deferred tax liabilities	19	106,545	90,372
Total liabilities		**6,170,008**	**2,851,897**
Shareholders' equity			
Share capital	20	2,066,287	2,066,287
Reserves for general banking risks		281,804	108,656
Revaluation reserve for property and equipment		214,353	214,353
Retained earnings		393,709	217,573
Total shareholders' equity		**2,956,153**	**2,606,869**
Total liabilities and shareholders' equity		**9,126,161**	**5,458,766**

Commitments and contingencies	23-24		

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 45.

	Note	2007 '000 KZT	2006 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		505,913	286,578
Adjustments for non-cash items:			
Depreciation and amortisation		34,523	24,048
(Provision recovery)/impairment losses		(8,815)	7,495
Gain on sale of premises and equipment		-	(12,660)
Operating income before changes in operating assets and liabilities		**531,621**	**305,461**
(Increase)/ decrease in operating assets			
Obligatory reserves		(215,640)	(144,492)
Amounts receivable under reverse repurchase agreements		-	204,072
Loans to customers		(1,134,184)	(911,255)
Held-to-maturity investments		(1,028,315)	794,268
Other assets		12,585	(8,302)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		181,873	-
Current accounts and deposits from customers		3,126,356	675,027
Other liabilities		1,524	(8,489)
Net cash from operating activities before taxes paid		**1,475,820**	**906,290**
Taxes paid		(140,456)	(84,505)
Cash flows from operations		**1,335,364**	**821,785**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(41,760)	(110,806)
Proceeds from sales of property and equipment		-	18,270
Purchases of intangible assets		(732)	(1,881)
Cash flows (used in)/from investing activities		**(42,492)**	**(94,417)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(110,115)
Cash flows used in financing activities		-	**(110,115)**
Net increase in cash and cash equivalents		**1,292,872**	**617,253**
Effect of changes in exchange rates on cash and cash equivalents		746	(12,152)
Cash and cash equivalents at the beginning of the year		1,465,637	860,536
Cash and cash equivalents at the end of the year	26	**2,759,255**	**1,465,637**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 45.

	Share capital KZT'000	Reserve for general banking risk KZT'000	Revaluation reserve for property and equipment KZT'000	Retained earnings KZT'000	Total KZT'000
Balance as at 1 January 2006	**2,066,287**	**92,672**	**6,836**	**141,112**	**2,306,907**
Net income for the year	-	-	-	201,672	201,672
Revaluation of property and equipment, net of deferred tax of KZT 89,315 thousand	-	-	208,405	-	208,405
Disposal of revaluation of property and equipment	-	-	(888)	888	-
Total recognised income for the year					410,077
Dividends declared	-	-	-	(110,115)	(110,115)
Transfer to reserve for general banking risks	-	15,984	-	(15,984)	-
Balance as at 31 December 2006	**2,066,287**	**108,656**	**214,353**	**217,573**	**2,606,869**
Net income for the year	-	-	-	349,284	349,284
Transfer to reserve for general banking risks	-	173,148	-	(173,148)	-
Balance as at 31 December 2007	**2,066,287**	**281,804**	**214,353**	**393,709**	**2,956,153**

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The statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 45.

1 Background

(a) Principal activities

JSC SB "KZI Bank" (the "Bank") was established in the Republic of Kazakhstan as a closed joint-stock company in 1993 and received a banking licence in Almaty. On 31 January 2005 the Bank was re-registered as a joint-stock company in accordance with the legislation on the Republic of Kazakhstan.

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

The Bank has a banking licence # 169 received on 29 December 2007. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

"T. C. Ziraat Bankasi A. S.", Turkey, was the co-founder of the Bank and is the principal shareholder. The conditions for the Bank's establishment, management and organisational structure, within which it must conduct its activities, are regulated by the Charter documents. Details of related party transactions with the Ziraat group are provided in Note 25 to the financial statements.

The registered address of the Bank's head office is 132, Klochkova Street, Almaty. The Bank has one branch in Astana.

The average number of people employed by the Bank during 2007 was 101 (2006: 79).

(b) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and Presentation Currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"). 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.

2 Basis of preparation, continued

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Note 11 – Loans to customers.

3 Significant accounting policies

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

(a) Foreign currency transactions

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

The exchange rates at the year-end used by the Bank in the preparation of the financial statements are as follows at 31 December:

Currency	**2007**	**2006**
1 United States Dollar	120.30	127.00
1 Euro	177.17	167.12

(b) Cash and cash equivalents

The Bank considers cash, the correspondent account with the NBRK, the deposits with the NBRK with original maturities of less than three months and nostro accounts with other banks to be cash and cash equivalents. The minimum reserve requirement is not considered to be a cash equivalent due to restrictions on its withdrawability.

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- a derivative (except for a derivative that is a designated and effective hedging instrument); or,

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

- upon initial recognition, designated by the entity as at fair value through the profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- the Bank intends to sell immediately or in the near term;

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank upon initial recognition designates as available- for-sale; or

- the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank designates as available-for-sale; or

- meet the definition of loans and receivables.

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method;

- held-to-maturity investments which are measured at amortised cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

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

(iv) Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or is recognised in the income statement;

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

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

(vi) Derecognition

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

The Bank also derecognises 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

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

3 Significant accounting policies, continued

(d) Property and equipment, continued

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences 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:

Buildings	20 to 50 years
Computer equipment	3 years
Vehicles	7 to 15 years
Other	5 to 20 years

(iii) Revaluation

Land and buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

(e) Intangible assets

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

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 5- 9 years.

3 Significant accounting policies, continued

(f) Impairment

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

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

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3 Significant accounting policies, continued

(f) Impairment, continued

(ii) Non-financial assets

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

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

(g) Provisions

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

(h) Credit related commitments

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

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

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

3 Significant accounting policies, continued

(i) Share capital

Dividends

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

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

(j) Taxation

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

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

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 provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

(k) Income and expense recognition

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

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

Commissions and other income and expense items are recognised when the corresponding service has been provided.

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

3 Significant accounting policies, continued

(l) Changes in accounting policies

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

(m) New Standards and Interpretations not yet adopted

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

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

4 Net interest income

	2007 '000 KZT	2006 '000 KZT
Interest income		
Loans to customers	459,516	284,587
Held-to-maturity investments	66,088	34,687
Amounts receivable under reverse repurchase agreements	23,649	1,333
Placements with banks	11,739	15,663
	560,992	**336,270**
Interest expense		
Current accounts and deposits from customers	(11,516)	(3,881)
Deposits and balances from banks	(3,876)	(2,935)
Amounts payable under repurchase agreements	(216)	(134)
	(15,608)	**(6,950)**

5 Fee and commission income and expenses

	2007 '000 KZT	2006 '000 KZT
Fee and commission income		
Settlement fees	132,257	89,340
Cash withdrawal fees	60,392	31,024
Guarantees insurance fees	19,341	10,246
Other	9,244	5,448
	221,234	**136,058**
Fee and commission expenses		
Settlement fees	(8,074)	(6,757)
Other	(1,896)	(2,331)
	(9,970)	**(9,088)**

6 Net foreign exchange income

	2007 '000 KZT	2006 '000 KZT
Gain on spot transactions	144,118	102,338
(Loss)/gain from revaluation of financial assets and liabilities	(20,024)	2,492
	124,094	**104,830**

7 (Provision recovery)/impairment losses

	2007 '000 KZT	2006 '000 KZT
Impairment losses		
Loans to customers	-	4,470
Other assets	-	3,025
	-	**7,495**
Reversals of impairment losses		
Loans to customers	(8,635)	-
Other assets	(180)	-
Net (reversals)/ impairment losses	**(8,815)**	**7,495**

8 General administrative expenses

	2007 '000 KZT	2006 '000 KZT
Employee compensation and payroll related taxes	214,182	141,687
Depreciation and amortisation	34,523	24,048
Security	23,111	15,696
Communications and information services	22,101	17,280
Taxes other than on income	17,157	14,939
Professional services	16,848	15,612
Repairs and maintenance	8,902	4,910
Contributions to deposit insurance fund	8,796	3,037
Representative expenses	7,775	2,677
Transportation expenses	3,730	3,874
Office suppliers	3,308	3,013
Advertising and marketing	3,224	2,127
Business trips	2,546	4,992
Insurance	2,042	1,278
Other	20,142	28,117
	388,387	**283,287**

9 Income tax expense

	2007 '000 KZT	2006 '000 KZT
Current tax expense		
Current year	137,382	80,508
Underprovided in prior years	3,074	3,997
	140,456	**84,505**
Deferred tax expense		
Origination and reversal of temporary differences	16,173	401
Total income tax expense in the income statement	**156,629**	**84,906**

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

Reconciliation of effective tax rate:

	2007 '000 KZT	%	2006 '000 KZT	%
Income before tax	**505,913**		**286,578**	
Income tax at the applicable tax rate	151,774	30%	85,973	30%
Net non-deductible expenses / (non-taxable income)	1,781	0.4%	(5,064)	(1.8%)
Underprovided in prior years	3,074	0.6%	3,997	1.4%
	156,629	**31.0%**	**84,906**	**29.6%**

10 Placements with banks

	2007 '000 KZT	2006 '000 KZT
OECD banks	1,780,024	278,866
Other foreign banks	60,477	10,639
Largest Kazakhstan Bank	31,695	48,722
	1,872,196	**338,227**

Concentration of placements with banks

As at 31 December 2007 the Bank had one bank (2006: three banks), whose balance exceeded 10% of total placements with banks. The gross value of this balance as at 31 December 2007 was KZT 1,611,245 thousand (2006: KZT 301,171 thousand).

11 Loans to customers

	2007 '000 KZT	2006 '000 KZT
Commercial loans		
Loans to large corporates	491,053	104,139
Loans to small and medium size companies	932,255	784,608
Total commercial loans	**1,423,308**	**888,747**
Loans to individuals		
Mortgage loans	1,913,450	1,408,337
Consumer loans	189,114	96,125
Total loans to individuals	**2,102,564**	**1,504,462**
Gross loans to customers	**3,525,872**	**2,393,209**
Impairment allowance	(17,159)	(18,680)
Net loans to customers	**3,508,713**	**2,374,529**

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

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	18,680	13,910
Net (recovery)/charge for the year	(8,635)	4,470
Recovery of loans written off in previous years	12,454	300
Write-offs	(5,340)	-
Balance at the end of the year	**17,159**	**18,680**

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11 Loans to customers, continued

(a) Credit quality of commercial loan portfolio

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

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to large corporates				
Loans for which no impairment has been identified:				
- Standard loans	467,513	2,363	465,150	0.5%
- Watch list loans	23,540	119	23,421	0.5%
Total loans to large corporates	**491,053**	**2,482**	**488,571**	**0.5%**
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- Standard loans	848,999	4,290	844,709	0.5%
- Watch list loans	83,256	421	82,835	0.5%
Total loans to small and medium size companies	**932,255**	**4,711**	**927,544**	**0.5%**
Total commercial loans	**1,423,308**	**7,193**	**1,416,115**	**0.5%**

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

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to large corporate clients				
Loans for which no impairment has been identified:				
- Standard loans	104,139	2,096	102,043	2%
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- Standard loans	765,928	15,413	750,515	2%
- Watch list loans	18,680	376	18,304	2%
Total loans to small and medium size companies	**784,608**	**15,789**	**768,819**	**2%**
Total commercial loans	**888,747**	**17,885**	**870,862**	**2%**

11 Loans to customers, continued

(a) Credit quality of commercial loan portfolio, continued

The Bank has estimated loan impairment for commercial loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for similar portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for commercial loans, the most critical assumption is an assumed historical annual loss rate of 0.5%, which is based on past historical experience.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment provision on commercial loans as of 31 December 2007 would be KZT 14,161 thousand lower/higher (2006: KZT 8,709 thousand).

(i) Analysis of collateral

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

	2007 '000 KZT	% of loan portfolio	2006 '000 KZT	% of loan portfolio
Real estate	495,860	35	710,998	82
Equipment	509,697	36	13,676	2
Vehicles	298,412	21	85,612	10
Other	112,146	8	60,576	7
Total	**1,416,115**	**100**	**870,862**	**100**

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

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

(ii) Analysis of movements in the impairment allowance

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

	Loans to large corporates	Loans to small and medium size companies	Total
Loan impairment allowance as at 1 January	2,096	15,789	17,885
Net charge/(recovery) for the year	386	(5,738)	(5,352)
Write-offs	-	(5,340)	(5,340)
Loan impairment allowance as at 31 December	**2,482**	**4,711**	**7,193**

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11 Loans to customers, continued

(a) Credit quality of commercial loan portfolio, continued

(ii) Analysis of movements in the impairment allowance, continued

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

	Loans to large corporates	Loans to small and medium size companies	Total
Loan impairment allowance as at 1 January	-	2,612	2,612
Net charge for the year	2,096	12,877	14,973
Recovery of loans written off in previous years	-	300	300
Loan impairment allowance as at 31 December	**2,096**	**15,789**	**17,885**

(b) Credit quality of loans to individuals

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

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Mortgage loans				
- Not past due	1,911,385	9,060	1,902,325	0.5%
Impaired loans:				
- overdue less than 30 days	1,216	6	1,210	0.5%
- overdue 90-179 days	849	4	845	0.5%
Total mortgage loans	**1,913,450**	**9,070**	**1,904,380**	**0.5%**
Consumer loans				
- Not past due	189,114	896	188,218	0.5%
Total loans to individuals	**2,102,564**	**9,966**	**2,092,598**	**0.5%**

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11 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

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

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Mortgage loans				
- Not past due	1,407,506	-	1,407,506	-
Impaired loans:				
- overdue less than 30 days	36	-	36	-
- overdue 180-360 days	795	795	-	100%
Total mortgage loans	**1,408,337**	**795**	**1,407,542**	-
Consumer loans				
- Not past due	96,125	-	96,125	-
Total loans to individuals	**1,504,462**	**795**	**1,503,667**	**0.1%**

In determining the impairment allowance for loans to individuals, the most critical assumption is an assumed historical annual loss rate of 1%, which is based on past historical experience.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment provision on retail loans as of 31 December 2007 would be KZT 20,926 thousand lower/higher (2006: KZT 15,037 thousand).

(i) Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Consumer loans are secured by real estate, cars, guarantees of legal entities and individuals.

The Bank estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 100% of the mortgage balance. Management believes that it is impracticable to estimate fair value of collateral held in respect of other loans to individuals.

(ii) Analysis of movements in the impairment allowance

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

	Mortgage loans	Consumer loans	Total
Loan impairment allowance as at 1 January	795	-	795
Net charge/(recovery) for the year	(3,307)	24	(3,283)
Recovery of loans written off in previous years	12,454	-	12,454
Loan impairment allowance as at 31 December	**9,942**	**24**	**9,966**

11 Loans to customers, continued

(b) Credit quality of loans to individuals, continued

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

	Mortgage loans	Consumer loan	Total
Loan impairment allowance as at 1 January	11,298	-	11,298
Net recovery for the year	(10,503)	-	(10,503)
Loan impairment allowance as at 31 December	**795**	**-**	**795**

(c) Industry and geographical analysis of the loan portfolio

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

	2007 '000 KZT	2006 '000 KZT
Individuals		
Mortgage loans	1,913,450	1,408,337
Consumers loans	189,114	96,125
	2,102,564	**1,504,462**
Corporate		
Trade	350,799	333,912
Construction	268,952	74,004
Food processing	170,265	77,264
Plastic goods manufacturing	136,480	137,424
Communication	72,705	-
Furniture manufacturing	48,075	20,465
Education and social organisations	43,028	66,550
Metallurgy	38,820	27,359
Electrical equipment manufacturing	35,964	35,898
Publishing	14,500	18,900
Textile manufacturing	12,632	29,033
Other	231,088	67,938
	1,423,308	**888,747**
	3,525,872	**2,393,209**
Impairment allowance	(17,159)	(18,680)
	3,508,713	**2,374,529**

11 Loans to customers, continued

(d) Significant credit exposures

As at 31 December 2007 and 2006 the Bank had four borrowers, whose loan balances exceeded 10% of loans to customers. The gross value of these loans as of 31 December 2007 and 2006 were KZT 407,756 thousand and KZT 284,725 thousand, respectively.

(e) Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 29, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contract terms.

12 Available-for-sale assets

At 31 December 2007 and 2006, other equity investments consist of ordinary shares of JSC "Kazakhstan Stock Exchange" of KZT 6,601 thousand and Central Depository of KZT 400 thousand. These equity investments are unquoted and carried at cost.

13 Held-to-maturity investments

	2007 '000 KZT	2006 '000 KZT
Debt and other fixed-income instruments		
Notes issued by the National Bank of the Republic of Kazakhstan	1,727,041	698,726

14 Property and equipment

KZT'000	Land	Buildings	Computer equipment	Vehicles	Other	Total
Cost / Revalued amount						
At 1 January 2007	259,600	397,229	17,243	4,001	41,636	719,709
Additions	-	12,384	3,659	11,395	14,322	41,760
Disposals	-	-	(4,189)	-	(7,125)	(11,314)
Transfers	-	-	(71)	-	71	-
At 31 December 2007	**259,600**	**409,613**	**16,642**	**15,396**	**48,904**	**750,155**
Depreciation						
At 1 January 2007	-	9,228	8,311	1,279	22,823	41,641
Depreciation charge	-	15,587	5,824	773	5,577	27,761
Disposals	-	-	(4,189)	-	(7,125)	(11,314)
At 31 December 2007	-	**24,815**	**9,946**	**2,052**	**21,275**	**58,088**
Carrying value						
At 31 December 2007	**259,600**	**384,798**	**6,696**	**13,344**	**27,629**	**692,067**

KZT'000	Land	Buildings	Computer equipment	Vehicles	Other	Total
Cost / Revalued amount						
At 1 January 2006	45,080	254,742	15,256	6,137	37,389	358,604
Additions	5,000	86,215	7,708	4,979	6,904	110,806
Disposals	-	(837)	(5,721)	(7,115)	(2,657)	(16,330)
Revaluation	209,520	57,109	-	-	-	266,629
At 31 December 2006	**259,600**	**397,229**	**17,243**	**4,001**	**41,636**	**719,709**
Depreciation						
At 1 January 2006	-	30,456	10,539	3,046	21,872	65,913
Depreciation charge	-	9,863	3,490	576	3,610	17,539
Disposals	-	-	(5,718)	(2,343)	(2,659)	(10,720)
Write off of accumulated depreciation on revalued buildings	-	(31,091)	-	-	-	(31,091)
At 31 December 2006	-	**9,228**	**8,311**	**1,279**	**22,823**	**41,641**
Carrying value						
At 31 December 2006	**259,600**	**388,001**	**8,932**	**2,722**	**18,813**	**678,068**

Land and buildings were revalued by an independent appraiser as at 31 December 2006 and consequently the value of land and buildings was increased by KZT 297,720 thousand.

The market approach was used as the basis for revaluation. The cost approach was used to assess the reasonableness of the results of the market approach. The market approach was based upon an analysis of the results of comparable sales for similar buildings.

The carrying value of property and equipment as at 31 December 2007, if land and buildings would not have been revalued, would be KZT 377,145 thousand (31 December 2006: KZT 378,179 thousand).

15 Intangible assets

KZT'000	Software	Other	Total
Cost			
At 1 January 2007	46,987	7,835	54,822
Additions	155	577	732
Disposals	-	(790)	(790)
At 31 December 2007	**47,142**	**7,622**	**54,764**
Amortisation			
At 1 January 2007	20,756	6,015	26,771
Amortisation charge	5,152	1,610	6,762
Disposals	-	(790)	(790)
At 31 December 2007	**25,908**	**6,835**	**32,743**
Carrying value			
At 31 December 2007	**21,234**	**787**	**22,021**

KZT'000	Software	Other	Total
Cost			
At 1 January 2006	45,665	7,835	53,500
Additions	1,881	-	1,881
Disposals	(559)	-	(559)
At 31 December 2006	**46,987**	**7,835**	**54,822**
Amortisation			
At 1 January 2006	14,961	5,860	20,821
Amortisation charge	6,354	155	6,509
Disposals	(559)	-	(559)
At 31 December 2006	**20,756**	**6,015**	**26,771**
Carrying value			
At 31 December 2006	**26,231**	**1,820**	**28,051**

16 Other assets

	2007 '000 KZT	2006 '000 KZT
Receivables from sale of foreclosed assets	6,423	10,369
Debtors on capital expenditures	4,442	2,981
Prepayments	2,340	10,075
Other assets	5,214	7,579
	18,419	**31,004**
Impairment allowance	-	(254)
	18,419	**30,750**

16 Other assets, continued

Analysis of movements in the impairment allowance

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	254	3,781
Net (recovery)/charge for the year	(180)	3,025
Write-offs	(74)	(6,552)
Balance at the end of the year	**-**	**254**

17 Deposits and balances from banks

	2007 '000 KZT	2006 '000 KZT
Nostro accounts	181,873	-

18 Current accounts and deposits from customers

	2007 '000 KZT	2006 '000 KZT
Current accounts and demand deposits		
- Retail	839,296	933,293
- Corporate	4,686,159	1,703,549
Term deposits		
- Retail	207,836	-
- Corporate	135,396	113,304
	5,868,687	**2,750,146**

Blocked accounts

As at 31 December 2007, the Bank maintained customer deposit balances of KZT 262,979 thousand (2006: KZT 95,362 thousand) which were blocked by the Bank as collateral for off-balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2007 and 2006, the Bank had three and one customers, respectively, whose balances exceeded 10% of total customer accounts. These balances as at 31 December 2007 and 2006 were KZT 2,404,935 thousand and KZT 445,585 thousand, respectively.

19 Deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2007 and 2006.

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

	Assets		Liabilities		Net	
'000 KZT	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Loans to customers	-	-	(431)	(4,237)	(431)	(4,237)
Property and equipment	-	-	(111,703)	(89,323)	(111,703)	(89,323)
Intangible assets	2,047	639	-	-	2,047	639
Other assets	-	76	-	-	-	76
Other liabilities	3,542	2,473	-	-	3,542	2,473
Recognised net deferred tax (liabilities)/assets	**5,589**	**3,188**	**(112,134)**	**(93,560)**	**(106,545)**	**(90,372)**

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

Movement in temporary differences during the year ended 31 December 2007

'000 KZT	**Balance at 1 January 2007**	**Recognised in income**	**Balance at 31 December 2007**
Loans to customers	(4,237)	3,806	(431)
Property and equipment	(89,323)	(22,380)	(111,703)
Intangible assets	639	1,408	2,047
Other assets	76	(76)	-
Other liabilities	2,473	1,069	3,542
	(90,372)	**(16,173)**	**(106,545)**

20 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 2,066,287 ordinary shares (2006: 2,066,287 ordinary shares). All shares have a nominal value of KZT 1,000.

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

(b) Dividends

Dividends payable are restricted to the maximum of the retained earnings of the Bank, which are determined according to the legislation of the Republic of Kazakhstan. In 2007, no dividends were declared (2006: KZT 110,115 thousand).

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21 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

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

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

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

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank is exposed 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 also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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

	2007 '000 KZT		2006 '000 KZT	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	(15,914)	(15,914)	(9,616)	(9,616)
100 bp parallel decrease	15,914	15,914	9,616	9,616

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 30 – Currency analysis.

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

	2007 '000 KZT		2006 '000 KZT	
	Net income	**Equity**	**Net income**	**Equity**
5% appreciation of USD against KZT	4,585	4,585	5,129	5,129
5% depreciation of USD against KZT	(4,585)	(4,585)	(5,129)	(5,129)
5% appreciation of other foreign currencies against KZT	2,733	2,733	1,122	1,122
5% depreciation of other foreign currencies against KZT	(2,733)	(2,733)	(1,122)	(1,122)

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21 Risk management, continued

(c) Credit risk

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

The Bank's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate and retail);
- Methodology for the credit assessment of counterparties;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Credit Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the these department's are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal Department, depending on the specific risks and pending final approval of the Credit Committee.

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

Retail loan/credit applications are reviewed by the Bank's Credit Department through the use of application data verification procedures approved by the Bank's Credit policy.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and guarantees and letters of credits in note 23. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank monitors concentrations of credit risk by industry/sector. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 11 - Loans to customers.

21 Risk management, continued

(d) Liquidity risk

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

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

The Bank seeks to actively support a diversified and stable funding base comprising government securities in issue, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Bank requires:

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

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

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

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Agency. The Bank was in compliance with these ratios during the years ended 31 December 2007 and 31 December 2006.

21 Risk management, continued

(d) Liquidity risk, continued

For further information on the Bank's exposure to liquidity risk at year end refer to Note 29 – Maturity analysis.

22 Capital management

The Agency sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Agency banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2007, this minimum level of tier 1 capital to total assets is 0.06 and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 0.12. The Bank was in compliance with the statutory capital ratios during the years ended 31 December 2007 and 31 December 2006.

22 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Agency, as at 31 December:

	2007 '000 KZT	2006 '000 KZT
Tier 1 capital:		
Share capital	2,066,287	2,066,287
Retained earnings of prior periods	23,594	9,450
Reserves formed from retained earnings	222,409	63,696
Intangible assets	(16,188)	(19,427)
Total tier 1 capital	**2,296,102**	**2,120,006**
Tier 2 capital:		
Retained earnings of the current period	267,651	188,787
Asset revaluation reserve	214,353	272,578
General reserves not higher than 1,25% of total risk-weighted assets	59,395	40,627
Total tier 2 capital	**541,399**	**501,992**
Total capital	**2,837,501**	**2,621,998**
Risk weighted assets, contingent liabilities, operational and market risks:		
Risk weighted assets	6,336,855	3,363,320
Operational risk	200,071	131,849
Market risk	240,526	299,166
Total risk weighted assets, contingent liabilities, operational and market risks	**6,777,452**	**3,794,335**
Tier 1 capital to total assets	**0.252**	**0.388**
Total capital to risk weighted assets, contingent liabilities, operational and market risks	**0.419**	**0.691**

The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

23 Commitments

At any time the Bank has outstanding commitments to extend loans. These commitments take the form of approved loans. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

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

	2007 '000 KZT	2006 '000 KZT
Contracted amount		
Guarantees	535,759	117,639
Letters of credit	1,712	-

24 Contingencies

(a) Insurance

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

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

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25 Related parties transactions

(a) Control relationships

The Bank's Parent is "T.C. Ziraat Bankasi A.S." Publicly available financial statements are produced by the Bank's parent. The party with ultimate control over the Bank is the government of the Republic of Turkey.

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

Total remuneration included in employee compensation (refer Note 8):

	2007 '000 KZT	**2006 '000 KZT**
Members of the Board of Directors	20,441	20,547
Members of the Management Board	13,954	7,521
	34,395	**28,068**

The outstanding balances and average interest rates as at 31 December 2007 and 2006 with members of the Board of Directors and the Management Board are as follows:

	2007 '000 KZT	**Average Interest Rate**	**2006 '000 KZT**	**Average Interest Rate**
Balance Sheet				
Assets				
Loans to members of the Board of Directors and the Management Board	31,004	9%	11,265	10.4%
Liabilities				
Current accounts and deposits from customers	-	-	978	-

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

	2007 '000 KZT	**2006 '000 KZT**
Income statement		
Interest income	2,201	167

25 Related parties transactions, continued

(c) Transactions with other related parties

Other related parties include: the parent bank, fellow subsidiaries and other entities owned by the government of the Republic of Turkey .The outstanding balances and the related average interest rates as of 31 December 2007 and 2006 and related income statement amounts of transactions for the year ended 31 December 2007 and 2006 with other related parties are as follows.

	Parent Bank				Fellow subsidiaries			
	2007 KZT '000	Average interest rate	2006 KZT '000	Average interest rate	2007 KZT '000	Average interest rate	2006 KZT '000	Average interest rate
Assets								
Placements with banks	83	-	54	-	16,745	-	19,658	-
Liabilities								
Deposits and balances from other banks	-	-	-	-	181,873	5.5%	-	-
Income Statement								
Interest expense	-	-	-	-	221	-	-	-

26 Cash and cash equivalents

Cash and cash equivalents at 31 December as shown in the statement of cash flow is composed of the following items:

	2007 '000 KZT	2006 '000 KZT
Placements with banks (Note 10)	1,872,196	338,227
Due from the NBRK	761,414	954,040
Cash	517,289	349,374
Minimum reserve requirements	(391,644)	(176,004)
	2,759,255	**1,465,637**

Under Kazakhstan legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either correspondent accounts with the NBRK or in physical cash and maintained based on average monthly balances of the aggregate of deposits with the NBRK and physical cash. The use of such funds is, therefore, subject to certain restrictions and excluded from cash and cash equivalents.

27 Fair value of financial instruments

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

The estimated fair values of held to maturity investments are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date. As disclosed in Note 12 the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 7,001 thousand could not be determined.

The following table summarises the fair values of major financial assets and liabilities which are not presented on the balance sheet at their fair value:

ASSETS	2007 '000 KZT Fair Value	2007 '000 KZT Carrying Value	2006 '000 KZT Fair Value	2006 '000 KZT Carrying Value
Loans to customers	3,500,264	3,508,713	2,373,324	2,374,529
Held to maturity investments	1,721,277	1,727,041	695,427	698,726

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

28 Average effective interest rates

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

	Value '000 KZT	2007 Average Effective Interest Rate	Value '000 KZT	2006 Average Effective Interest Rate
Interest bearing assets				
Placements with banks	**1,872,196**		**338,227**	
Nostro accounts				
- KZT	796	-	12,675	-
- USD	1,689,995	0.25%	224,070	1.87%
- other currencies	181,405	1.8%	101,482	1.87%
Loans to customers	**3,508,713**		**2,374,529**	
- KZT	2,804,240	13.92%	1,964,645	14.73%
- USD	704,473	12.98%	409,884	13.45%
Held-to-maturity investments				
- KZT	1,727,041	6.04%	698,726	3.38%
Interest bearing liabilities				
Deposits and balances from other banks				
- USD	181,873	5.50%	-	-
Current accounts and deposits from customers	**343,232**		**113,304**	
Term deposits				
- KZT	30,000	2.70%	-	-
- USD	203,696	3.10%	38,100	2.00%
- other currencies	109,536	2.80%	75,204	1.50%

29 Maturity analysis

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

	Less than 1 month '000 KZT	1 to 3 months '000 KZT	3 months to 1 year '000 KZT	1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
Assets							
Cash	517,289	-	-	-	-	-	517,289
Due from the National Bank of the Republic of Kazakhstan	761,414	-	-	-	-	-	761,414
Placements with banks	1,872,196	-	-	-	-	-	1,872,196
Loans to customers	-	72,705	439,655	2,585,890	410,463	-	3,508,713
Available-for-sale assets	-	-	-	-	-	7,001	7,001
Held-to-maturity investments	1,208,271	-	518,770	-	-	-	1,727,041
Property and equipment	-	-	-	-	-	692,067	692,067
Intangible assets	-	-	-	-	-	22,021	22,021
Other assets	-	-	18,419	-	-	-	18,419
Total assets	**4,359,170**	**72,705**	**976,844**	**2,585,890**	**410,463**	**721,089**	**9,126,161**
Liabilities							
Deposits and balances from banks	181,873	-	-	-	-	-	181,873
Current accounts and deposits from customers	5,430,087	279,325	132,351	26,924	-	-	5,868,687
Other liabilities	12,903	-	-	-	-	-	12,903
Deferred tax liabilities	-	-	-	-	-	106,545	106,545
Total liabilities	**5,624,863**	**279,325**	**132,351**	**26,924**	-	**106,545**	**6,170,008**
Net position as at 31 December 2007	**(1,265,693)**	**(206,620)**	**844,493**	**2,558,966**	**410,463**	**614,544**	**2,956,153**
Net position as at 31 December 2006	(356,156)	(13,983)	289,805	1,861,039	(55,959)	882,123	2,606,869

Due to the fact that substantially all the financial instruments of the Bank are fixed-rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates. The amounts in the table above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

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30 Currency analysis

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

	Tenge '000 KZT	USD '000 KZT	Other currencies '000 KZT	Total '000 KZT
Assets				
Cash	237,840	198,209	81,240	517,289
Due from the National Bank of the Republic of Kazakhstan	520,833	240,581	-	761,414
Placements with banks	796	1,689,995	181,405	1,872,196
Loans to customers	2,804,240	704,473	-	3,508,713
Available-for-sale assets	7,001	-	-	7,001
Held-to-maturity investments	1,727,041	-	-	1,727,041
Property and equipment	692,067	-	-	692,067
Intangible assets	22,021	-	-	22,021
Other assets	18,419	-	-	18,419
Total assets	**6,030,258**	**2,833,258**	**262,645**	**9,126,161**
Liabilities				
Deposits and balances from banks	-	181,873	-	181,873
Current accounts and deposits from customers	3,162,531	2,521,590	184,566	5,868,687
Other liabilities	12,903	-	-	12,903
Deferred tax liabilities	106,545	-	-	106,545
Total liabilities	**3,281,979**	**2,703,463**	**184,566**	**6,170,008**
Net on balance sheet position as at 31 December 2007	**2,748,279**	**129,795**	**78,079**	**2,956,153**
Net on balance sheet position as at 31 December 2006	2,428,268	146,541	32,060	2,606,869

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