

**JSC Kazakhstan Mortgage Company**

Consolidated Financial Statements  
for the year ended 31 December 2008

**Contents**

Independent Auditors' Report	
Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8
Notes to the Consolidated Financial Statements	9-46



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## **Independent Auditors' Report**

To the Management of JSC Kazakhstan Mortgage Company

### **Report on the Consolidated Financial Statements**

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

*Basis for Qualified Opinion*

As at 31 December 2008, the Group had a loan payable which contained an embedded derivative option to put the loan from US Dollars ("USD") into Japanese Yen ("JPY") at a specified exchange rate if certain conditions are met. International Financial Reporting Standard *IAS 39 Financial Instruments: Recognition and Measurement* requires that an embedded derivative of this type should be separated from the host contract and recognised in the financial statements at fair value on inception and subsequently at fair value at each reporting date. As at 31 December 2008, the Group had reflected the embedded derivative at cost in the financial statements and had not determined its fair value. Considering the change in the USD/JPY exchange rate since its inception, at 31 December 2008, the Group should have recognised a derivative liability and loss on change in fair value of derivatives in respect of the embedded derivative. It was not practicable for us to estimate the fair value of this embedded derivative at 31 December 2008. As such, the effect of this departure from International Financial Reporting Standards on embedded derivative liability, fair value gain/loss, and taxation as at and for the year ended 31 December 2008 has not been determined.

As at 31 December 2008, the Group had classified certain debt securities issued by JSC Doszhan Temir Zholy ("DTZ") as available-for-sale. As described in Note 16, in August 2008, DTZ defaulted on payment of the coupon on these debt securities, which constitutes objective evidence that the asset is impaired. As at 31 December 2008, the Group recognised KZT 329,314 thousand in respect of unrealised losses on calculation of the fair value of these securities directly in equity. International Financial Reporting Standard *IAS 39 Financial Instruments: Recognition and Measurement* requires that upon impairment the cumulative loss that had been recognised in equity shall be reclassified from equity to the income statement as a reclassification adjustment. Had the Group reclassified this unrealised loss, revaluation reserve for available-for-sale assets would have increased by KZT 329,314 thousand as at 31 December 2008. Additionally, income before taxes and net income would have decreased by KZT 329,314 thousand for the year then ended.

*Qualified Opinion*

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

Berdalina J.K.  
Certified Auditor  
President



Gregor William Mowat  
Audit Partner



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

26 January 2009

**JSC Kazakhstan Mortgage Company**  
*Consolidated Income Statement for the year ended 31 December 2008*

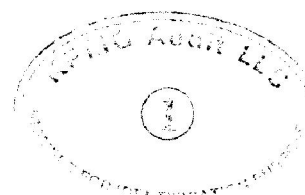
	Note	2008 KZT'000	2007 KZT'000
Interest income	5	9,276,929	6,096,331
Interest expense	5	(7,134,168)	(3,965,866)
<b>Net interest income</b>		<b>2,142,761</b>	<b>2,130,465</b>
Fee and commission income	6	57,117	125,669
Fee and commission expense	6	(38,912)	(41,304)
<b>Net fee and commission income</b>		<b>18,205</b>	<b>84,365</b>
Net losses on financial instruments at fair value through profit or loss	7	(14,854)	(51,447)
Net losses from investment securities	8	(231,537)	-
Net foreign exchange (loss)/gain		(39,973)	4,134
Other income		763	13,335
		<b>1,875,365</b>	<b>2,180,852</b>
Impairment losses	9	(184,703)	-
General administrative expenses	10	(1,290,367)	(1,017,969)
<b>Income before taxes</b>		<b>400,295</b>	<b>1,162,883</b>
Income tax expense	11	(173,717)	(145,061)
<b>Net income</b>		<b>226,578</b>	<b>1,017,822</b>
 <b>Basic earnings per share, in KZT</b>	 26	 <u>80</u>	 <u>564</u>

These consolidated financial statements as set out on pages 5 to 46 were approved by Management on January 26, 2009.

Ibadullayev A.A.  
 Chairman of the Management Board

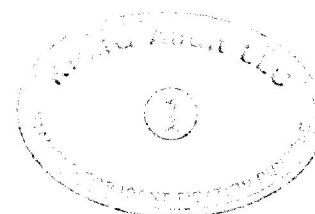


Sagimkulova B.D.  
 Chief Accountant



*JSC Kazakhstan Mortgage Company*  
*Consolidated Balance Sheet as at 31 December 2008*

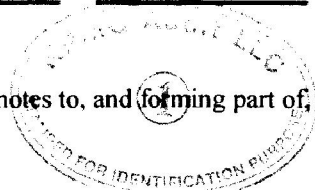
	Note	2008 KZT'000	2007 KZT'000
<b>ASSETS</b>			
Cash and equivalents	12	10,968,834	11,498,717
Placements with banks and other financial institutions	13	3,675,972	5,744,540
Financial instruments at fair value through profit or loss	14	50,412	72,879
Amounts receivable under reverse repurchase agreements	15	4,707,622	15,283,381
Available-for-sale assets	16	1,900,049	-
Loans to customers	17	72,500,099	60,153,057
Held-to-maturity investments	18	10,438,270	11,090,663
Property and equipment	19	2,283,017	1,204,526
Intangible assets	20	269,701	154,118
Deferred tax assets	21	8,640	-
Other assets	22	383,620	31,181
<b>Total assets</b>		<b>107,186,236</b>	<b>105,233,062</b>
<b>EQUITY AND LIABILITIES</b>			
Debt securities issued	23	52,680,776	53,490,593
Other borrowed funds	24	23,924,489	22,092,268
Other liabilities	25	378,737	638,165
<b>Total liabilities</b>		<b>76,984,002</b>	<b>76,221,026</b>
<b>Equity</b>	26		
Share capital		28,920,000	26,420,000
Share premium		12,661	-
Treasury shares		(1,089,922)	-
Reserve capital		2,377,179	1,937,804
Revaluation reserve for available-for-sale assets		(320,159)	-
Retained earnings		302,475	654,232
<b>Total equity</b>		<b>30,202,234</b>	<b>29,012,036</b>
<b>Total equity and liabilities</b>		<b>107,186,236</b>	<b>105,233,062</b>



**JSC Kazakhstan Mortgage Company**  
Statement of Cash Flows for the year ended 31 December 20077

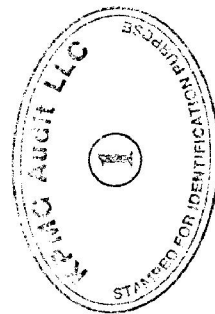
	<u>2008</u> <u>KZT'000</u>	<u>2007</u> <u>KZT'000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	400,295	1,162,883
<b>Adjustments for non-cash items:</b>		
Net gain on financial instrument at fair value through profit or loss	(108)	(732)
Depreciation and amortisation	214,116	107,805
Net loss on disposal of equipment	1,213	939
Impairment losses	184,703	-
Amortisation of discount and foreign exchange loss on borrowers funds	94,286	-
Amortisation of discount and interest charge on debt securities issued	553,897	189,442
<b>Operating income before changes in working capital</b>	<b>1,448,402</b>	<b>1,460,337</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks and other financial institutions	2,068,568	(3,319,351)
Financial instruments at fair value through profit or loss	22,467	1,785,425
Amounts receivable under reverse repurchase agreements	10,575,759	(15,283,381)
Available-for-sale assets	(2,220,100)	-
Loans to customers	(12,498,907)	(13,066,477)
Held-to-maturity investments	652,393	22,437
Other assets	(251,612)	(19,200)
<b>Increase/(decrease) in operating liabilities</b>		
Other liabilities	(4,935)	435,032
<b>Cash flows from operating activities before income taxes paid</b>	<b>(207,965)</b>	<b>(27,985,178)</b>
Income tax paid	(41,358)	-
<b>Cash flows from operating activities</b>	<b>(249,323)</b>	<b>(27,985,178)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,243,853)	(181,656)
Purchase of intangible assets	(24,823)	(32,249)
Purchase of subsidiary, net of cash received	(369,469)	-
<b>Net cash used in from investing activities</b>	<b>(1,638,145)</b>	<b>(213,905)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	2,512,661	8,500,000
Repurchase of share capital	(1,089,922)	-
Proceeds from debt securities issued	6,747,886	15,064,424
Repurchase/redemption of debt securities issued	(8,111,600)	(6,110,000)
Proceeds from other borrowers funds	1,737,935	22,150,546
Dividends paid	(439,375)	(96,316)
<b>Cash flows from financing activities</b>	<b>1,357,585</b>	<b>39,508,654</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(529,883)</b>	<b>11,309,571</b>
Cash and cash equivalents at beginning of the year	11,498,717	189,146
<b>Cash and cash equivalents at end of the year (Note 12)</b>	<b>10,968,834</b>	<b>11,498,717</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.



**JSC Kazakhstan Mortgage Company**  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2008*

KZT'000	Share capital	Share premium	Treasury shares	Reserve capital	Revaluation reserve for available-for-sale assets	Retained earnings	Total
Balance at 1 January 2007	17,920,000	-	-	1,070,957	-	1,012,168	20,003,125
Net income for the year	-	-	-	-	-	1,017,822	1,017,822
Shares issued	8,500,000	-	-	-	-	-	8,500,000
Dividends declared	-	-	-	-	-	(508,911)	(508,911)
Transfer to reserve capital	-	-	-	866,847	-	(866,847)	-
<b>Balance at 31 December 2007</b>	<b>26,420,000</b>	<b>-</b>	<b>-</b>	<b>1,937,804</b>	<b>-</b>	<b>654,232</b>	<b>29,012,036</b>
Net income for the year	-	-	-	-	-	226,578	226,578
Net unrealised losses on available-for-sale assets	-	-	-	-	(320,159)	-	(320,159)
<b>Total recognised loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(93,581)</b>
Shares issued	2,500,000	12,661	-	-	-	-	2,512,661
Dividends declared	-	-	-	-	-	(138,960)	(138,960)
Treasury shares acquired	-	-	(1,089,922)	-	-	-	(1,089,922)
Transfer to reserve capital	-	-	-	439,375	-	(439,375)	-
<b>Balance at 31 December 2008</b>	<b>28,920,000</b>	<b>12,661</b>	<b>(1,089,922)</b>	<b>2,377,179</b>	<b>(320,159)</b>	<b>302,475</b>	<b>30,202,234</b>



The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.



## **1 Background**

### **(a) Principal activities**

These consolidated financial statements include the financial statements of JSC Kazakhstan Mortgage Company (the "Company") and its subsidiary. The Company and its subsidiary are hereinafter, collectively, referred to as the "Group".

The Company was established on 29 December 2000 in accordance with resolution number 469 of the National Bank of the Republic of Kazakhstan ("NBRK") dated 20 December 2000. The Company operates under a licence issued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisations (the "FMSA") dated 27 April 2004 for lending in national currency, factoring and issuing its own securities. The principal activities of the Company are the purchase of mortgage loans from banks and credit institutions.

During the year ended 31 December 2008 the Company acquired a subsidiary JSC United Mortgage Company, later re-registered as JSC MO Kazipoteka ("Kazipoteka"). The details of acquisition made during the year are described in Note 4.

Kazipoteka is a joint stock company incorporated in the Republic of Kazakhstan and specialises in the provision of mortgage loans to individuals. The Company acquired Kazipoteka in order to fulfil its responsibilities under the State program for the development and construction of residential premises in the Republic of Kazakhstan.

The Company's official address is 34 Abylai-khan avenue, Almaty, Kazakhstan. The Company has a representative office in Astana.

As at 31 December 2008 the Ministry of Finance of the Republic of Kazakhstan owned 94.63% of voting shares and JSC Halyk Bank of Kazakhstan owned 5.37% of Company's voting shares.

On 8 September 2008 Moody's Investors Service confirmed the Company's long-term local currency issuer rating of Baa1.

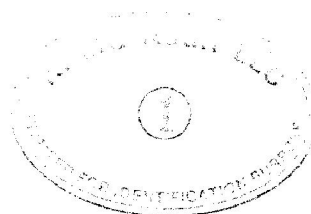
### **(b) Kazakhstan business environment**

Kazakhstan has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Kazakhstan involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

### **(a) Statement of compliance**

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



## 2 Basis of preparation, continued

### (b) Functional and presentation currency

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

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

### (c) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following notes:

Loan impairment estimates - Note 17;

Impairment of goodwill – Note 20.

## 3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3 (a) to 3(l). The accounting policies have been consistently.

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

#### (ii) Transactions eliminated on consolidation

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



### **3 Significant accounting policies, continued**

#### **(a) Basis of consolidation, continued**

##### **(iii) Goodwill**

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

#### **(b) Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

#### **(c) Cash and cash equivalents**

The Group considers cash, its current accounts in the commercial banks and the National Bank of the Republic of Kazakhstan and short-term deposits with an original maturity of less than 3 months to be cash and cash equivalents.

#### **(d) Financial instruments**

##### **(i) Classification**

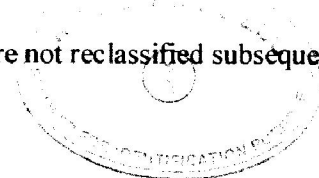
*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

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

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

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

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



### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (i) Classification, continued

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

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

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

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

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

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

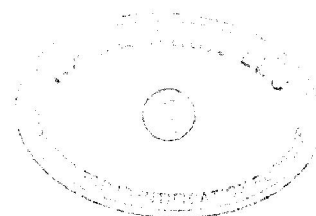
Management determines the appropriate classification of financial instruments at the time of the initial recognition.

##### (ii) Recognition

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

##### (iii) Measurement

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



### **3 Significant accounting policies, continued**

#### **(d) Financial instruments, continued**

##### **(iii) Measurement, continued**

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

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not 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 rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

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

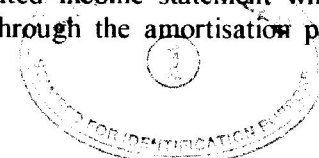
##### **(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

##### **(v) Gains and losses on subsequent measurement**

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the consolidated income statement;
- a gain or loss on an available-for-sale financial asset 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 asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the consolidated 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 consolidated income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.



### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all 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.

##### (vii) Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in the income statement over the term of the repo agreement using the effective interest rate method.

#### (e) Property and equipment

##### (i) Owned assets

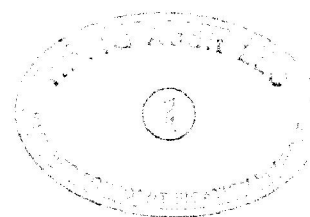
Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

##### (ii) Depreciation

Depreciation is recognised in 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:

Building	40 years
Office equipment	7 years
Vehicles	7 years
Computer equipment	3 years
Other assets	5-10 years



### 3 Significant accounting policies, continued

#### (f) Intangible assets other than goodwill

Intangible assets which are acquired by the Group, other than goodwill, are stated at cost less accumulated amortization and impairment losses.

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

Amortisation is charged to the consolidated income statement on a straight-line basis over a period of 3 years, being the estimated useful lives of intangible assets.

#### (g) Impairment

##### (i) Financial assets carried at amortised cost

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

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized 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 Group 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 consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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



### **3 Significant accounting policies, continued**

**(g) Impairment, continued**

**(ii) *Financial assets carried at cost***

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

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

**(iii) *Non financial assets***

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

All impairment losses in respect of non financial assets are recognized in the consolidated 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.

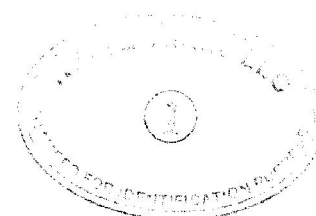
**(h) Provisions**

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

**(i) Share capital**

**(i) *Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.





### **3 Significant accounting policies, continued**

#### **(i) Share capital, continued**

##### **(ii) Dividends**

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

Dividends are reflected as an appropriation of retained earnings in the periods when they are declared.

##### **(j) Income tax expense**

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 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 following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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.

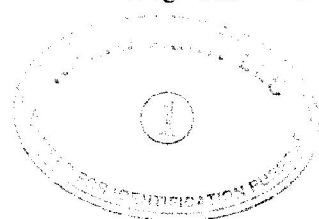
##### **(k) Income and expense recognition**

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

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

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

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



### 3 Significant accounting policies, continued

#### (l) Earnings per share

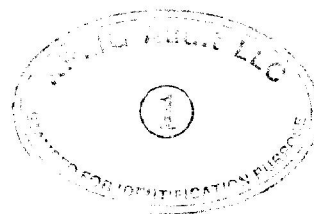
The Group presents basic earnings per share (“EPS”) data for its ordinary shares that is calculated by dividing the income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

#### (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 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group’s 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

Various *Improvements to IFRSs* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.



#### 4 Acquisition of subsidiary

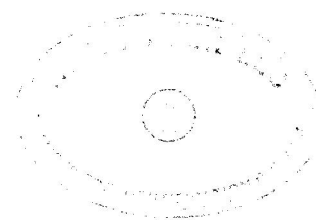
On 28 August 2008 the Company acquired all of the shares in JSC United Mortgage Company, later re-registered as JSC MO Kazipoteka, for KZT 775,373 thousand, which was settled in cash. The impact of acquiring the subsidiary was to decrease net income for the year by KZT 51,340 thousand.

If the acquisition had occurred on 1 January 2008, Group interest income for the year would have been KZT 9,363,853 thousand and the net income for the year would have been KZT 134,591 thousand. In determining these figures it has been assumed that the fair value adjustments at 1 January 2008 would have been the same as the fair value adjustments that arose on the date of acquisition.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

KZT'000	<u>Recognised fair values on acquisition</u>
<b>ASSETS</b>	
Cash and equivalents	405,904
Loans to customers	223,270
Loan impairment allowance	(31,080)
Property and equipment	3,470
Intangible assets	2,863
Prepayment for insurance	58,946
Other assets	8,024
<b>LIABILITIES</b>	
Other liabilities	<u>(45,901)</u>
<b>Net identifiable assets, liabilities and contingent liabilities</b>	<b>625,496</b>
Goodwill on acquisition	149,877
Consideration paid	775,373
Cash acquired	<u>(405,904)</u>
<b>Net cash outflow</b>	<b><u>369,469</u></b>

Goodwill recognised on the acquisition of the subsidiary is attributable to the synergies expected to be achieved from integrating JSC MO Kazipoteka into the Company's existing business.



**5 Net interest income**

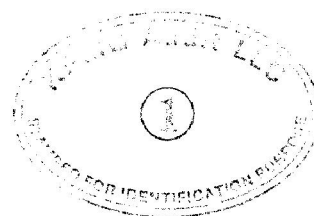
	<b>2008</b> <b>KZT'000</b>	<b>2007</b> <b>KZT'000</b>
<b>Interest income</b>		
Loans to customers	6,830,921	5,013,884
Placements with banks and other financial institutions and cash and cash equivalents	1,068,644	236,334
Held-to-maturity investments	827,663	737,938
Amounts receivable under reverse repurchase agreements	512,017	47,695
Available-for-sale assets	34,402	-
Financial instruments at fair value through profit or loss	3,282	60,480
	<b>9,276,929</b>	<b>6,096,331</b>
<b>Interest expense</b>		
Debt securities issued	(6,075,329)	(3,927,853)
Other borrowed funds	(1,058,839)	(38,013)
	<b>(7,134,168)</b>	<b>(3,965,866)</b>

**6 Fee and commission income and expense**

	<b>2008</b> <b>KZT'000</b>	<b>2007</b> <b>KZT'000</b>
<b>Commission income</b>		
Fees from loan prepayments	52,955	120,233
Commission income	4,162	5,436
	<b>57,117</b>	<b>125,669</b>
<b>Commission expense</b>		
Commission expense on trust operations	(26,621)	(32,576)
Brokerage fees	(10,074)	(2,685)
Commission expenses on transfer operations	(630)	(778)
Other commission expense	(1,587)	(5,265)
	<b>(38,912)</b>	<b>(41,304)</b>

**7 Net losses on financial instruments at fair value through profit or loss**

	<b>2008</b> <b>KZT'000</b>	<b>2007</b> <b>KZT'000</b>
Net realised losses on financial instruments at fair value through profit or loss	(14,962)	(52,179)
Net unrealised gain on revaluation of financial instruments at fair value through profit or loss	108	732
	<b>(14,854)</b>	<b>(51,447)</b>



## 8 Net losses from investment securities

During the year ended 31 December 2008, the Group sold certain corporate bonds that had been classified as held-to-maturity. The Group sold these bonds due to an unanticipated, significant deterioration in the issuer's creditworthiness that was evidenced by a temporary substantial drop in the market value of the bonds and a significant growth in the yield in comparison with corporate bonds of other issuers. The Group recognised a loss of KZT 231,537 thousand during the year ended 31 December 2008.

## 9 Impairment losses

	2008 KZT'000	2007 KZT'000
Loans to customers	161,853	-
Property and equipment	22,850	-
	<b>184,703</b>	<b>-</b>

## 10 General administrative expenses

	2008 KZT'000	2007 KZT'000
Employee compensation	646,205	592,676
Depreciation and amortisation	214,116	107,805
Advertising and marketing	100,139	89,210
Professional services	56,255	29,170
Payroll related taxes	50,440	57,722
Communications and information services	44,814	15,694
Insurance expense	44,834	-
Occupancy	24,193	14,432
Travel expenses	14,088	8,712
Storage of loan dossiers	14,071	2,893
Taxes other than on income	12,101	19,755
Listing fee	9,874	8,041
Security	4,527	5,037
Office supplies	1,911	1,940
Maintenance	563	12,438
Other	52,236	52,444
	<b>1,290,367</b>	<b>1,017,969</b>



## 11 Income tax expense

	2008 KZT'000	2007 KZT'000
<i>Current tax expense</i>		
Current year	92,290	-
Non-creditable income tax withheld at the source of payment	90,067	145,061
	<b>182,357</b>	<b>145,061</b>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	8,451	-
Change in unrecognised deferred tax assets	(17,091)	-
	<b>(8,640)</b>	<b>-</b>
	<b>173,717</b>	<b>145,061</b>

The Group's applicable tax rate for current and deferred tax is 30% (2007: 30%).

Under the privilege that was valid until 1 January 2008, interest earned on the mortgage loans issued to individuals for more than three years could be excluded from the Company's taxable income under the Law of 1995 *On Taxes and Other Mandatory Payments to the Budget*. If the combination of excluded income plus deductible expenses created an operating loss, the loss could not be carried forward to future years.

### Reconciliation of effective tax rate:

	2008 KZT'000	%	2007 KZT'000	%
<b>Income before taxes</b>	<b>400,295</b>	<b>100</b>	<b>1,162,883</b>	<b>100</b>
Income tax using the applicable tax rate	120,089	30	348,865	30
Tax-exempt securities and Repo operations	(111,678)	(28)	(137,040)	(12)
Non-deductible provision on loans to customers	48,752	12	-	-
Non-taxable interest income on loans to customers	-	-	(1,406,678)	(121)
Non-creditable income tax withheld at the source of the payment	90,067	23	145,061	12
Other non-deductible costs	34,017	8	2,198	-
Change in unrecognised deferred tax assets	(17,091)	(4)	-	-
Tax effect of changes in tax rate	9,561	2	-	-
Effect of unrecoverable tax losses	-	-	1,192,655	103
<b>Total income tax expense</b>	<b>173,717</b>	<b>43</b>	<b>145,061</b>	<b>12</b>



## 12 Cash and cash equivalents

	<b>2008</b>	<b>2007</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Current account with the National Bank of the Republic of Kazakhstan	5,060,142	428,308
Short-term deposits with other banks	4,264,116	6,080,787
Current account with other banks	1,644,551	4,989,622
Cash on hand	25	-
	<b>10,968,834</b>	<b>11,498,717</b>

As at 31 December 2008 short-term deposits consisted of three deposits in local banks with interest rates of 11.1% and 11.5% per annum (2007: 8.5% - 9%) that will be repaid in February 2009 (2007: January 2008).

## 13 Placement with banks and other financial institutions

As at 31 December 2008 and 2007 the Group placed term deposits with interest rates ranging from 10% to 12% per annum (2007: from 9% to 12.5%) and which have maturities from April 2009 to October 2009 (2007: April 2008 – January 2009).

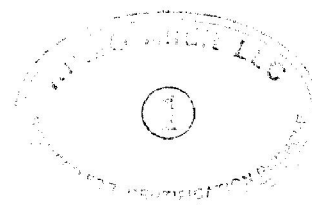
## 14 Financial instruments at fair value through profit loss

As at 31 December 2008 and 2007 financial instruments, at fair value through profit or loss include securities that are upon initial recognition, designated by the Group as financial assets at fair value through profit or loss and consist of Treasury bills of the Ministry of Finance of the Republic of Kazakhstan.

## 15 Amount receivable under reverse repurchase agreements

	<b>2008</b>	<b>2007</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Amounts receivable from local banks and other financial institutions	4,707,622	15,283,381

As at 31 December 2008, amounts receivable under reverse repurchase agreements were collateralised by Treasury bills of the Ministry of Finance of the Republic of Kazakhstan amounting to KZT 4,604,686 thousand (2007: KZT 15,291,438 thousand).



## 16 Available-for-sale assets

	2008 '000 KZT	2007 '000 KZT
<b>Corporate bonds</b>		
- issued by local banks	1,036,615	-
- issued by local companies	863,434	-
	<b>1,900,049</b>	<b>-</b>

Corporate bonds are interest-bearing securities, issued by local companies. These securities are freely tradable in the Kazakhstan stock exchange.

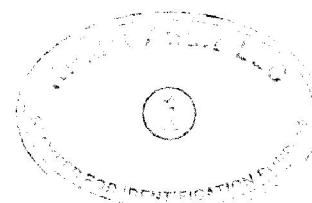
In August 2008 JSC Doszhan Temir Zholy defaulted on payment of the coupon on its debt securities in issue and the Group reclassified debt securities with a fair value on the date of reclassification of KZT 450,920 thousand from held-to-maturity to available-for-sale securities. On reclassifying these debt securities, the Group recognised a loss of KZT 329,314 thousand, calculated as the difference between the carrying amount before reclassification and the fair value of reclassification, directly in equity. The Group reclassified these bonds due to an unanticipated, significant deterioration in the issuer's creditworthiness that was evidenced by a temporary substantial drop in the market value of these bonds and a significant growth in the yield in comparison with corporate bonds of other issuers.

## 17 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise only KZT denominated mortgage loans due from individuals located within the Republic of Kazakhstan. All loans are secured by real estate collateral.

	2008 KZT'000	2007 KZT'000
Mortgage loans with recourse	44,751,196	40,326,052
Mortgage loans without recourse		
- with guarantee	26,419,707	19,170,742
- without guarantee	932,152	174,247
Accrued interest	570,503	482,016
	<b>72,673,558</b>	<b>60,153,057</b>
Impairment allowance	(173,459)	-
	<b>72,500,099</b>	<b>60,153,057</b>

Loans to customers carry interest at rates ranging from 7.8 % to 21.6% per annum (2007: 7.9% to 13.0% per annum).



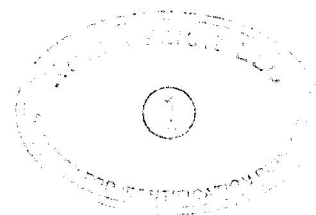


## 17 Loans to customers, continued

### (a) Credit quality of mortgage loans

The following table provides information on credit quality of mortgage loans as at 31 December 2008 and 2007:

	2008 KZT'000	2007 KZT'000
<b>Mortgage loans with recourse to the seller</b>		
- Current	42,568,354	38,944,561
- Overdue less than 30 days	684,793	476,851
- Overdue 30-89 days	1,482,360	802,895
- Overdue 90-179 days	169,742	220,613
- Overdue 180-360 days	183,437	206,881
- Overdue more than 360 days	17,464	-
<b>Mortgage loans without recourse to the seller guaranteed by the JSK Kazakhstan Fund of Guaranteeing Mortgage Loans</b>		
- Current	25,148,008	18,857,553
- Overdue less than 30 days	381,526	290,492
- Overdue 30-89 days	410,219	81,455
- Overdue 90-179 days	398,979	46,009
- Overdue 180-360 days	257,269	51,500
- Overdue more than 360 days	33,238	-
<b>Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage</b>		
- Current	720,330	9,603
- Overdue less than 30 days	2,684	3,032
- Overdue 30-89 days	41,535	16,456
- Overdue 90-179 days	6,937	2,777
- Overdue 180-360 days	-	-
- Overdue more than 360 days	166,683	142,379
Impairment allowance	(173,459)	-
	<b>72,500,099</b>	<b>60,153,057</b>



## 17 Loans to customers, continued

### (b) Analysis of impairment

As described in Note 2, the Group uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumption used in determining impairment losses for mortgage loans include:

- Mortgage loans with recourse overdue more than 60 days can be sold back by the Group at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing.
- Mortgage loans guaranteed by the State Fund JSK Kazakhstan Fund of Guaranteeing Mortgage Loans ("JSC KFGML") can be recovered from the guarantor if the sale of the collateral is not sufficient to repay the loan in full.
- With the exception of three loans, management assumes that the Group can sell mortgage loans without recourse or guarantee and overdue more than 360 days for 100% of their gross amounts, or recover them in full through the sale of the collateral. The maximum loan-to-value ratio for these loans was 90%.
- For three mortgage loans without recourse overdue more than 360 days, management provided 100% provision because it believes that foreclosure is improbable.

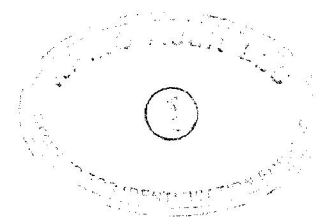
Movements in the loan impairment allowance for the year ended 31 December 2008 are as follows:

	2008 '000 KZT	2007 '000 KZT
Balance at the beginning of the year	-	-
Acquired through business combination	31,080	-
Net charge for the year	161,853	-
Write-offs	(19,474)	-
<b>Balance at the end of the year</b>	<b>173,459</b>	<b>-</b>

As at 31 December 2008, there was no interest accrued on impaired loans.

During the year ended 31 December 2008, the Group renegotiated loans that were issued with recourse or guarantee that would otherwise be past due or impaired of KZT 5,055,057 thousand (31 December 2007: none), for which the Group granted a privilege period of an average of four-six months without accrual of interest. This restructuring activity is aimed at managing customer relationships.

After 31 December 2008, as at report issue date, loans without recourse to the seller and without the guarantee of JSC KFGML amounted to KZT 131,172 thousand were subsequently guaranteed by JSC KFGML.

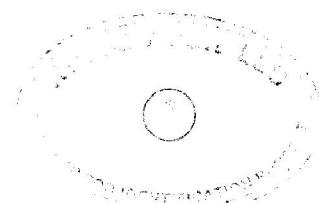


## 18 Held-to-maturity investments

	2008 KZT'000	2007 KZT'000
<b>Governments bonds</b>		
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,205,250	2,233,748
<b>Corporate bonds</b>		
- issued by local banks and financial institutions	6,939,651	6,826,277
- issued by local companies	1,293,369	2,030,638
	<b>10,438,270</b>	<b>11,090,663</b>

## 19 Property and equipment

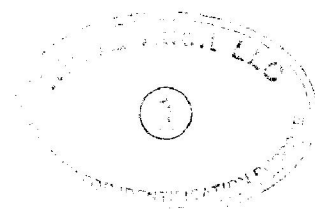
KZT'000	Land	Building	Computer equipment	Vehicles	Other fixed assets	Construction in progress/ equipment to be installed	Total
<i>Cost/Revalued amount</i>							
At 1 January 2008	121,958	541,061	373,790	9,856	186,613	145,226	1,378,504
Additions	-	8,999	22,931	490	17,194	1,194,762	1,244,376
Acquisitions through business combination	-	-	1,831	-	1,639	-	3,470
Disposals	-	-	-	(3,640)	(1,865)	-	(5,505)
Transfers	-	-	(905)	-	905	-	-
<b>At 31 December 2008</b>	<b>121,958</b>	<b>550,060</b>	<b>397,647</b>	<b>6,706</b>	<b>204,486</b>	<b>1,339,988</b>	<b>2,620,845</b>
<i>Depreciation and impairment losses</i>							
At 1 January 2008	-	15,625	66,774	1,561	24,768	65,250	173,978
Depreciation charge	-	13,545	90,057	1,242	39,925	-	144,769
Impairment losses	-	-	-	-	-	22,850	22,850
Disposals	-	-	-	(1,909)	(1,860)	-	(3,769)
<b>At 31 December 2008</b>	<b>-</b>	<b>29,170</b>	<b>156,831</b>	<b>894</b>	<b>62,833</b>	<b>88,100</b>	<b>337,828</b>
<i>Carrying value</i>							
At 31 December 2007	121,958	525,436	307,016	8,295	161,845	79,976	1,204,526
<b>At 31 December 2008</b>	<b>121,958</b>	<b>520,890</b>	<b>240,816</b>	<b>5,812</b>	<b>141,653</b>	<b>1,251,888</b>	<b>2,283,017</b>



## 19 Property and equipment, continued

KZT'000	Land	Building	Computer Equipment	Vehicles	Other fixed assets	Construction in progress/ equipment to be installed	Total
<i>Cost</i>							
At 1 January 2007	121,958	541,061	80,389	9,497	29,573	506,200	1,288,678
Additions	-	-	11,238	6,216	47,522	132,436	197,412
Disposals	-	-	(237)	(5,857)	(282)	-	(6,376)
Transfers	-	-	282,400	-	109,800	(392,200)	-
Transfers to intangible assets	-	-	-	-	-	(101,210)	(101,210)
<b>At 31 December 2007</b>	<b>121,958</b>	<b>541,061</b>	<b>373,790</b>	<b>9,856</b>	<b>186,613</b>	<b>145,226</b>	<b>1,378,504</b>
<i>Depreciation and impairment losses</i>							
At 1 January 2007	-	2,098	30,315	5,926	8,608	65,250	112,197
Depreciation charge	-	13,527	36,459	1,072	16,160	-	67,218
Disposals	-	-	-	(5,437)	-	-	(5,437)
<b>At 31 December 2007</b>	<b>-</b>	<b>15,625</b>	<b>66,774</b>	<b>1,561</b>	<b>24,768</b>	<b>65,250</b>	<b>173,978</b>
<i>Carrying value</i>							
At 31 December 2006	121,958	538,963	50,074	3,571	20,965	440,950	1,176,481
<b>At 31 December 2007</b>	<b>121,958</b>	<b>525,436</b>	<b>307,016</b>	<b>8,295</b>	<b>161,845</b>	<b>79,976</b>	<b>1,204,526</b>

During the year ended 31 December 2008, the Group has written down the value of the delivered but not yet installed equipment by KZT 22,850 thousand to its estimated recoverable value.



## 20 Intangible assets

**KZT'000**

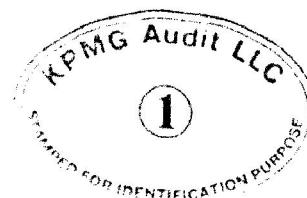
<i>Cost</i>	<b>Software</b>	<b>Goodwill</b>	<b>Total</b>
At 1 January 2008	239,769	-	239,769
Additions	32,190	-	32,190
Acquisitions through business combination	2,863	149,877	152,740
<b>At 31 December 2008</b>	<b>274,822</b>	<b>149,877</b>	<b>424,699</b>
 <i>Amortisation</i>			
At 1 January 2008	85,651	-	85,651
Amortisation charge	69,347	-	69,347
<b>At 31 December 2008</b>	<b>154,998</b>	<b>-</b>	<b>154,998</b>
 <i>Carrying value</i>			
At 31 December 2007	154,118	-	154,118
<b>At 31 December 2008</b>	<b>119,824</b>	<b>149,877</b>	<b>269,701</b>

**KZT'000**

<i>Cost</i>	<b>Software</b>
At 1 January 2007	106,310
Additions	32,249
Transfers from property and equipment	101,210
<b>At 31 December 2007</b>	<b>239,769</b>
 <i>Amortisation</i>	
At 1 January 2007	45,064
Amortisation charge	40,587
<b>At 31 December 2007</b>	<b>85,651</b>
 <i>Carrying value</i>	
At 31 December 2006	61,246
<b>At 31 December 2007</b>	<b>154,118</b>

During 2008 the Group identified no events or circumstances that would indicate that the Group's intangible assets may be impaired.

The recoverable amount for the goodwill has been calculated based on its value in use.



## 20 Intangible assets, continued

Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further ten year period were extrapolated assuming no further growth in the business, and revenue and expenses increasing in line with inflation. The forecast period is based on the Group's long-term perspective with respect to the operation of this unit.
- A discount rate of 21.06% was applied in determining the recoverable amount of the investment in subsidiary. This discount rate was estimated based on the weighted average cost of capital allocated by the Group to this unit.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of the unit to decline below the carrying amount.

## 21 Deferred tax assets

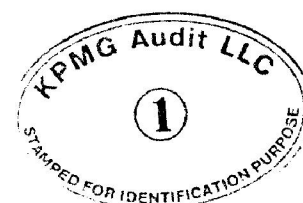
Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2008 (2007: zero). These deferred tax assets have been recognised in these consolidated financial statements.

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

	Assets		Liabilities		Net	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
'000 KZT						
Property and equipment	10,437	-	-	(2,109)	10,437	(2,109)
Other liabilities	83	19,200	(1,880)	-	(1,797)	19,200
<b>Total deferred tax assets/(liabilities)</b>	<b>10,520</b>	<b>19,200</b>	<b>(1,880)</b>	<b>(2,109)</b>	<b>8,640</b>	<b>17,091</b>
Unrecognised deferred tax assets/(liabilities)	-	(19,200)	-	2,109	-	(17,091)
<b>Total net deferred tax assets</b>	<b>10,520</b>	<b>-</b>	<b>(1,880)</b>	<b>-</b>	<b>8,640</b>	<b>-</b>

The rate of tax applicable for deferred taxes was 15% for property and equipment, 20% for other liabilities (2007: 30%).

The above deductible temporary differences do not expire under current tax legislation. The net deferred tax asset as at 31 December 2008 has been reflected in these consolidated financial statements.



## 21 Deferred tax assets, continued

### Movement in temporary differences during the year:

'000 KZT	Balance 1 January 2008	Recognised in income	Balance 31 December 2008
Property and equipment	(2,109)	12,546	10,437
Other liabilities	19,200	(20,997)	(1,797)
	<b>17,091</b>	<b>(8,451)</b>	<b>8,640</b>
Unrecognised temporary differences	(17,091)	17,091	-
	<b>-</b>	<b>8,640</b>	<b>8,640</b>

## 22 Other assets

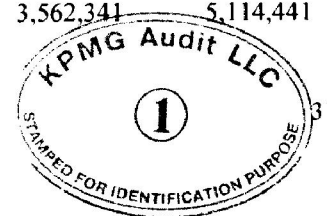
	2008 KZT'000	2007 KZT'000
Prepayments for insurance of mortgage loans to JSC KFGML	305,451	-
Income tax prepaid	41,358	-
Other prepayments	17,128	11,374
Inventory	8,183	10,970
Other	11,500	8,837
	<b>383,620</b>	<b>31,181</b>

In November 2008 the Group signed a five year insurance contract with JSC KFGML on the insurance of mortgage loans issued under the market program that were purchased by the Company from Kazipoteka before it became the Company's subsidiary. The insurance agreement was signed in order to mitigate risks of loan losses.

## 23 Debt securities issued

Debt securities issued as at 31 December 2008 and 2007 comprised KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	2008 KZT'000	2007 KZT'000
KZ2CKY07B303	01.10.2011	0.10%+floating inflation index	14.98%	5,258,546	5,171,286
KZ2CKY05B216	01.04.2009	0.39%+floating inflation index	15.12%	5,237,169	5,140,702
KZPC4Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	10.34%	5,112,061	2,619,718
KZ2CKY10B315	01.10.2014	0.1%+floating inflation index	16.68%	4,990,606	4,860,520
KZPC1Y10B543	10.04.2015	6.90%	7.25%	4,990,318	4,984,937
KZPC2Y05B145	01.03.2010	5.69%	7.98%	4,970,343	4,877,379
KZP03Y05C491	01.12.2012	11.00%	11.99%	4,734,655	-
KZ2CKY07B220	01.04.2011	0.39%+floating inflation index	15.58%	4,331,141	4,259,194
KZPC2Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	7.25%	3,562,341	5,114,441



## 23 Debt securities issued, continued

<b>Emission</b>	<b>Maturity date</b>	<b>Coupon rate</b>	<b>Effective rate</b>	<b>2008 KZT'000</b>	<b>2007 KZT'000</b>
KZ2CKY10B075	01.04.2014	0.50%+floating inflation index	15.68%	3,435,903	3,756,358
KZ2CKY10A986	01.04.2014	1.00%+floating inflation index	16.43%	3,404,722	3,728,564
KZ2CKY10A853	01.10.2013	0.80%+floating inflation index	15.99%	1,571,262	1,854,015
KZPO2Y09C495	10.06.2016	0.7%+floating inflation index (limited to 12.0%)	11.91%	1,081,709	-
KZPC1Y03B142	01.03.2008	4.90%	11.20%	-	3,210,478
KZPC3Y01B548	15.01.2008	-	12.60%	-	3,913,001
				<b>52,680,776</b>	<b>53,490,593</b>

These obligations are secured by loan agreements with customers and the related real estate supporting these loans (Note 17) in the amount of KZT 61,262,137 thousand (2007: KZT 59,052,564 thousand).

The floating inflation rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during 2008 and 2007.

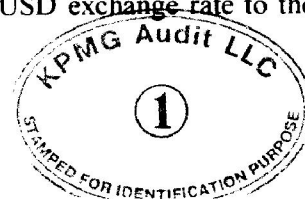
## 24 Other borrowed funds

	<b>2008 KZT'000</b>	<b>2007 KZT'000</b>
Due to the Government of the Republic of Kazakhstan	12,000,167	12,000,100
Loan from foreign financial institutions	11,924,322	10,092,168
	<b>23,924,489</b>	<b>22,092,268</b>

Due to the Government of the Republic of Kazakhstan consists of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second tier banks. The loan carries an interest rate of 0.1% per annum, repayable on demand but not later than in December 2027.

Also in December 2007 the Group received a USD denominated loan from Credit Suisse International in the amount of USD 85,000 thousand at an interest rate of 7.4% per annum that was arranged by Credit Suisse London branch. In February 2008 the Group received an additional USD 15,000 thousand under the same loan agreement. The loan matures in December 2014.

In accordance with an amendment signed on 21 July 2008 the above USD denominated loan was transferred from USD to JPY currency at an initial exchange rate of JPY:USD 107.15:1 with a corresponding reduction in interest rate from 7.4% to 6.4% per annum. Interest expenses are calculated on the loan principal amount of JPY 10,715,000 thousand and are payable in USD at the current exchange rate between JPY and USD. Principal repayment should be repaid in 9 equal instalments every six months starting from 21 December 2010. The amendment specifies a Knockout exchange rate of JPY: USD 84.95:1. Loan repayments should be made in USD applying the initial exchange rate of JPY: USD 107.15:1 to the JPY repayment amounts if the exchange rate remains above the Knockout rate for the duration of the tenor of the loan. If the exchange rate falls below the Knockout rate at any point during the life of the loan, then loan repayments should be made in USD applying the current JPY: USD exchange rate to the JPY repayment amounts.





## 25 Other liabilities

	2008 KZT'000	2007 KZT'000
Dividends payable	224,644	524,058
Payables to employees	127,316	58,034
Taxes other than on income	13,012	20,028
Professional services	5,560	13,000
Other payables	8,205	23,045
	<b>378,737</b>	<b>638,165</b>

## 26 Share capital

### (a) Issued capital and share premium

As at 31 December 2008 authorised share capital comprised 2,906,200 ordinary shares (2007: 2,642,000 shares) and issued and outstanding share capital comprised 2,892,000 shares and 2,792,010 shares, respectively (2007: 2,642,000 shares issued and outstanding). All shares have a nominal value of KZT 10,000.

On 25 December 2007, the Company issued 850,000 shares at KZT 10,000 par value to the sole shareholders, the Ministry of Finance of the Republic of Kazakhstan, for cash.

On 31 March 2008, the Company issued 250,000 shares at KZT 10,000 par value. These shares were placed through public offering on JSC Regional Financial Centre of Almaty City's stock exchange. The price per share ranged between KZT 10,050 and KZT 10,060. Total capital raised was KZT 2,512,661 thousand, with KZT 2,500,000 thousand being recorded as share capital and KZT 12,661 thousand as share premium.

Share capital as at 31 December 2008 and 2007 amounted to KZT 28,920,000 thousand and KZT 26,420,000 thousand, respectively. Share premium amounted to KZT 12,661 thousand as at 31 December 2008 (2007: nil).

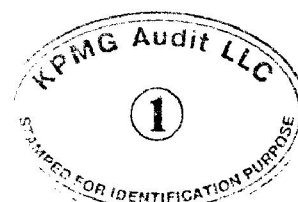
As at 31 December 2008, 94.63% of voting shares of the Company was owned by the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan and 5.37% of voting shares belonged to JSC Halyk Bank of Kazakhstan.

### (b) Treasury shares

At 31 December 2008 the Group held 99,990 of its own shares (2007: none), which it bought during the year at a cost of KZT 1,089,922 thousand.

### (c) Reserve capital

In accordance with the Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan", the Group should establish a capital reserve. At 31 December 2008 and 2007, the capital reserve amounted to KZT 2,377,179 thousand and KZT 1,937,804 thousand, respectively. This reserve is non – distributable.



## 26 Share capital, continued

### (d) Earnings per share

Basic earning per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of ordinary shares outstanding during the year.

	2008	2007
Net income, in thousand of KZT	226,578	1,017,822
Weighted average number of ordinary shares	2,827,351	1,805,973
<b>Basic earning per share, in KZT</b>	<b>80</b>	<b>564</b>

## 27 Risk management

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

### (a) Risk management policies and procedures

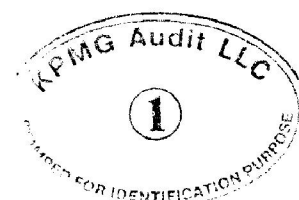
The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market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

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

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management 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.



## 27 Risk management, continued

### (b) Market risk

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

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

Overall authority for market risk is vested in the Risk Management Committee.

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

### (c) Interest rate risk

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

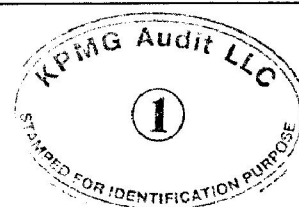
The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

An analysis of sensitivity of the Group's projected net interest margin 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 2008 and 31 December 2007 is as follows:

	2008 KZT'000		2007 KZT'000	
	Net income	Equity	Net income	Equity
100 bp parallel increase	116,024	116,024	32,107	32,107
100 bp parallel decrease	(116,024)	(116,024)	(32,107)	(32,107)

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2008		2007	
	Net income	Equity	Net income	Equity
100 bp parallel increase	(648)	(83,627)	(729)	(729)
100 bp parallel decrease	660	89,862	729	729



## 27 Risk management, continued

### (d) Currency risk

The Group 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 Group's exposure to currency risk at year end refer to Notes 34.

An analysis of sensitivity of the Group's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in USD and JPY to Republic of Kazakhstan Tenge exchange rates is as follows:

	2008		2007	
	Net income	Equity	Net income	Equity
5% appreciation of USD against KZT	(416,194)	(416,194)	(184,000)	(184,000)
5% depreciation of USD against KZT	416,194	416,194	184,000	184,000
5% appreciation of JPY against KZT	(1,250)	(1,250)	-	-
5% depreciation of JPY against KZT	1,250	1,250	-	-

The Company also has a Knockout rate Option (refer to Note 24). Management has not determined the value of this instrument, nor the impact on the above sensitivity analysis to foreign exchange risk.

### (e) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group 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 Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Minimum financial and collateral requirements for loan approvals;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.



## **27 Risk management, continued**

### **(e) Credit risk, continued**

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

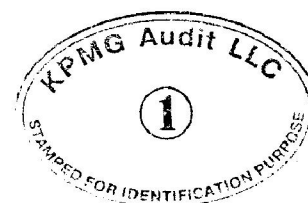
Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet.

Financial assets of the Group's counterparties are classified by the lowest out of ratings assigned to the Group's counterparties by three international rating agencies Moody's Investors Services, Standard and Poor's, and Fitch.

Ratings are listed below as per the coding of rating agency Standard and Poor's using the rating correspondence table of Bloomberg information system.

State securities of the Republic of Kazakhstan and their accrued income are classified in accordance with the lowest long term rating of the Republic of Kazakhstan.

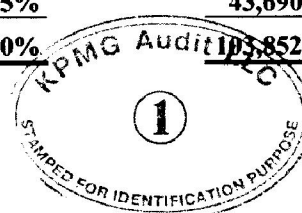


## 27 Risk management, continued

### (e) Credit risk, continued

Below is the Group's financial assets credit rating, except for loans to customers which have no ratings, as 31 December 2008 and 31 December 2007:

	2008			2007		
	Rating	Amount KZT'000	Share in financial assets, %	Rating	Amount KZT'000	Share in financial assets, %
<b>Financial assets</b>						
Cash and cash equivalents	BBB	5,060,522	4.85%	AA	4,989,622	4.80%
	BB	4,890,096	4.69%	BBB	428,308	0.41%
	B+	4,716	-	BB	1,001,416	0.96%
	B	1,013,525	0.97%	B+	5,079,371	4.90%
Placement with banks and other financial institutions	BB+	1,070,000	1.03%	BB+	1,001,222	0.96%
	B+	2,090,972	2.01%	BB	2,503,066	2.41%
	B	515,000	0.49%	BB-	338,779	0.33%
				B+	1,401,473	1.35%
				B-	500,000	0.48%
Financial instruments at fair value through profit or loss	BBB	50,412	0.05%	BBB	72,879	0.07%
Amount receivable under reverse repurchase agreements	BBB	4,707,622	4.52%	BBB	15,283,381	14.72%
Available-for-sale assets	B3 without rating	1,036,616	0.99%			
		863,433	0.83%			
Held-to-maturity investments	BBB-	2,205,250	2.12%	BBB	2,233,748	2.15%
	BB	4,041,004	3.88%	BB+	733,501	0.71%
	BB-	732,334	0.70%	BB	176,107	0.17%
	B-	1,658,920	1.59%	B+	2,523,136	2.43%
	without rating	1,800,762	1.73%	B	311,186	0.30%
				B-	1,329,999	1.28%
				BB-	1,689,348	1.63%
				without rating	2,093,638	2.02%
<b>Total</b>		<b>31,741,159</b>	<b>30.45%</b>		<b>43,690,180</b>	<b>42.07%</b>
<b>Total financial assets</b>		<b>104,252,758</b>	<b>100.00%</b>		<b>103,852,074</b>	<b>100.0%</b>



## 27 Risk management, continued

### (f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

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

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- development of reserve plans to maintain balance sheet liquidity and set level of financing.

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

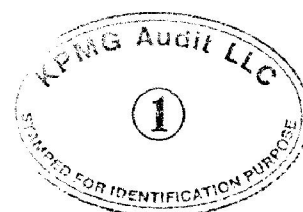
The position of the Group as at 31 December 2008 was as follows:

KZT'000	Demand and less than	From 1 to	From 3 to 6	From 6 to	More than	Total gross	Carrying amount
	1 month	3 months	months	12 months	1 year	amount outflow	
Debt securities issued	180,938	142,250	8,881,327	3,189,638	71,103,924	83,498,077	52,680,776
Other borrowed funds	12,000,167	-	-	930,988	27,061,965	39,993,120	23,924,489
Other liabilities	348,558	30,179	-	-	-	378,737	378,737
<b>Total</b>	<b>12,529,663</b>	<b>172,429</b>	<b>8,881,327</b>	<b>4,120,626</b>	<b>98,165,889</b>	<b>123,869,934</b>	<b>76,984,002</b>

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

KZT'000	Demand and less than	From 1 to 3	From 3 to 6	From 6 to	More than	Total gross	Carrying amount
	1 month	months	6 months	12 months	1 year	amount outflow	
Debt securities issued	4,060,938	3,312,744	2,499,055	2,225,199	71,970,903	84,068,839	53,490,593
Other borrowed funds	12,000,100	-	-	19,277	10,503,017	22,522,394	22,092,268
Other liabilities	101,107	13,000	524,058	-	-	638,165	638,165
<b>Total</b>	<b>16,162,145</b>	<b>3,325,744</b>	<b>3,023,113</b>	<b>2,224,476</b>	<b>82,473,920</b>	<b>107,229,398</b>	<b>76,221,026</b>

For further information on the Group's exposure to liquidity risk at year end refer to Note 33.



## 28 Capital management

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations (“FMSA”) the Group has to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2008 this minimum level was 12% (2007: 8%). The Group was in compliance with the statutory capital ratio during the years ended 31 December 2008 and 2007.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the Group’s capital position calculated in accordance with the requirement of the Basle Accord, as at 31 December 2008 and 2007:

	<b>2008</b>	<b>2007</b>
	<b>KZT’000</b>	<b>KZT’000</b>
Tire 1 capital		
Share capital	27,842,739	26,420,000
General reserves	2,377,179	1,937,804
Retained earning	302,475	654,332
<b>Total tier 1 capital</b>	<b>30,522,393</b>	<b>29,012,036</b>
Tier 2 capital		
Reserves on revaluation of available-for-sale assets	(320,159)	-
<b>Total tier 2 capital</b>	<b>(320,159)</b>	<b>-</b>
<b>Total capital</b>	<b>30,202,234</b>	<b>29,012,036</b>
<b>Risk-weighted assets</b>		
Banking book	45,669,803	41,356,779
Trading book	26,836,825	17,871,264
<b>Total risk weighted assets</b>	<b>72,506,628</b>	<b>59,228,043</b>
<b>Total capital expressed as a percentage of risk-weighted assets (“total capital ratio”)</b>	<b>42%</b>	<b>49%</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (“tier 1 capital ratio”)</b>	<b>42%</b>	<b>49%</b>

The risk-weighted assets are measured by means of a hierarchy of risk weight 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 exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Group. As at 31 December 2008, this minimum level is 8%. The Group has complied with these capital requirements during the years ended 31 December 2008 and 2007.





## 29 Contingencies

### (a) Insurance

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

### (b) Litigation

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

### (c) Taxation contingencies

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

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

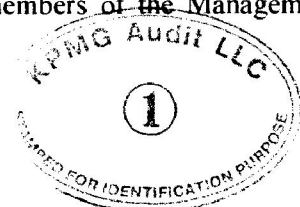
## 30 Related party transactions

### (a) Transactions with the members of the Management Board

Total remuneration included in employee compensation (refer Note 10):

	2008 KZT'000	2007 KZT'000
Members of the Board of Directors	4,115	-
Members of the Management Board	91,890	57,282
	<b>96,005</b>	<b>57,282</b>

The above amounts include non-cash benefits in respect of the members of the Management Board.



### 30 Related party transactions, continued

#### (a) Transactions with the members of the Management Board, continued

The outstanding balances and average interest rates as of 31 December 2008 with the members of the Management Board are as follows:

	2008 KZT'000	Average interest rate	2007 KZT'000	Average interest rate
<b>Balance Sheet</b>				
Loans to customers	56,719	11.04%	24,990	10.4%

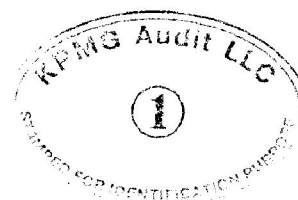
Amounts included in the consolidated income statement in relation to transactions with the members of the Management Board are as follows:

	2008 KZT'000	2007 KZT'000
<b>Income statement</b>		
Interest income	5,415	1,389

#### (b) Transaction with other related parties

Other related parties include the Ministry of Finance of the Republic of Kazakhstan, State organisations and JSC Halyk Bank of Kazakhstan. The amounts below are included in the balance sheet and income statement for transactions with related parties as of 31 December 2008 and 2007:

	2008 KZT'000	2008 KZT'000	2008 KZT'000	2007 KZT'000	2007 KZT'000
	<b>Ministry of Finance</b>	<b>State organisations</b>	<b>JSC Halyk Bank of Kazakhstan</b>	<b>Ministry of Finance</b>	<b>State organisations</b>
Interest income	107,782	512,017	24,525	165,251	-
Interest expense	(12,067)	-	-	(100)	-
Commission expenses	-	(12,288)	-	-	(3,174)
General administrative expenses	-	(21,975)	-	-	(27,796)
Income tax	-	(173,717)	-	-	(145,061)



### 30 Related party transactions, continued

The balances with related parties as of 31 December include:

	<u>2008</u> <u>KZT'000</u>	<u>2008</u> <u>KZT'000</u>	<u>2008</u> <u>KZT'000</u>	<u>2007</u> <u>KZT'000</u>	<u>2007</u> <u>KZT'000</u>
	<u>Ministry of</u> <u>Finance</u>	<u>State</u> <u>organisations</u>	<u>JSC Halyk</u> <u>Bank of</u> <u>Kazakhstan</u>	<u>Ministry of</u> <u>Finance</u>	<u>State</u> <u>organisations</u>
Cash and cash equivalents	-	5,060,142	-	-	428,308
Financial instruments at fair value through profit or loss	-	50,412	-	72,879	-
Loans to customers guaranteed by JSC KFGML		26,629,239	-	-	19,327,009
Held-to maturity investment	2,205,250	-	356,083	2,233,748	-
Deferred tax assets	-	8,640	-	-	-
Other assets	-	346,809	-	-	-
Other borrowed funds	12,000,167	-	-	12,000,100	-
Other liabilities	224,644	13,012	-	524,058	20,028

### 31 Fair value of financial instruments

The estimated fair value of the Group's financial assets and liabilities, as required to be disclosed by IAS 32 *Financial Instruments: Disclosure and Presentation*, is as follows:

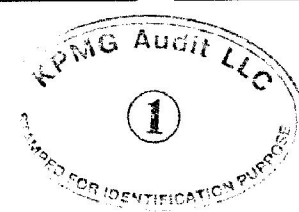
The estimated fair values of financial instruments at fair value through profit or loss, available-for-sale assets, held to maturity investments and other borrowed funds are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

The estimated fair values of all financial instruments approximate their carrying values.

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:

	<u>2008</u>		<u>2007</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
<b>KZT'000</b>				
<b>Assets</b>				
Loans to customers	70,227,331	72,500,099	54,954,118	60,153,057
Held-to-maturity investments	8,788,434	10,438,270	9,473,575	11,090,663
<b>Liabilities</b>				
Debt securities issued	52,593,338	52,680,776	49,926,887	53,490,593



## 32 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2008 and 2007 and their corresponding average effective interest rates as at that date.

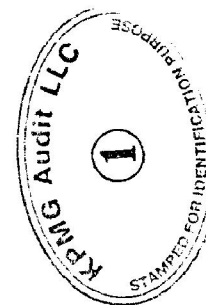
	Value 000 KZT	2008 Average Effective interest rate	Value 000 KZT	2007 Average Effective interest rate
<b>Interest Bearing Assets</b>				
<b>Cash and cash equivalents</b>				
<i>Short term deposits</i>	4,264,116	11.22%	6,080,787	8.7%
Placement with banks and other financial institutions				
<i>Term deposit</i>	3,675,972	11.13%	5,744,540	9.79%
Financial instruments at fair value through profit or loss	50,412	5.32%	72,879	4.07%
Amount receivable under reverse repurchase agreements	4,707,622	8.88%	15,283,381	7.28%
Available-for-sale assets	1,900,049	14.29%	-	-
Loan to customers	72,500,099	10.83%	60,153,057	10.28%
Held-to-maturity investments	10,438,270	8.15%	11,090,663	6.9%
Debt securities issued	52,680,776	11.35%	53,490,593	9.83%
Other borrowed funds	23,924,489	4.35%	22,092,268	4.27%



### 33 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2008. The amounts in the tables below represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

Assets	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Cash and cash equivalents	8,379,424	2,589,410	-	-	-	-	10,968,834
Placements with banks and other financial institutions	-	-	2,142,333	1,533,639	-	-	3,675,972
Financial instruments at fair value through profit or loss	-	-	31,087	19,325	-	-	50,412
Amounts receivable under reverse repurchase agreements	4,707,622	-	-	-	-	-	4,707,622
Available-for-sale assets	-	61,921	52,539	1,424,053	361,536	-	1,900,049
Loans to customers	1,047,791	415,273	1,868,730	11,396,972	57,734,016	37,317	72,500,099
Held-to-maturity investments	167,750	794,900	633,228	3,582,974	5,259,418	-	10,438,270
Property and equipment	-	-	-	-	-	2,283,017	2,283,017
Intangible assets	-	-	-	-	-	269,701	269,701
Deferred tax assets	-	-	-	8,640	-	-	8,640
Other assets	15,052	3,198	124,743	240,627	-	-	383,620
<b>Total assets</b>	<b>14,317,639</b>	<b>3,864,702</b>	<b>4,852,660</b>	<b>18,206,230</b>	<b>63,354,970</b>	<b>2,590,035</b>	<b>107,186,236</b>
<b>Liabilities</b>							
Debt securities issued	166,865	94,833	6,483,132	20,234,217	25,701,729	-	52,680,776
Other borrowed funds	12,000,167	-	35,736	9,219,291	2,669,295	-	23,924,489
Other liabilities	348,558	30,179	-	-	-	-	378,737
<b>Total liabilities</b>	<b>12,515,590</b>	<b>125,012</b>	<b>6,518,868</b>	<b>29,453,508</b>	<b>28,371,024</b>	<b>-</b>	<b>76,984,002</b>
<b>Net position as at 31 December 2008</b>	<b>1,802,049</b>	<b>3,739,690</b>	<b>(1,666,208)</b>	<b>(11,247,278)</b>	<b>34,983,946</b>	<b>2,590,035</b>	<b>30,202,234</b>
Net position as at 31 December 2007	6,350,418	(3,085,107)	2,897,658	(1,635,821)	17,708,314	6,776,574	29,012,036



### 34 Currency analyses

The currency structure of financial assets and liabilities of the Group as at 31 December 2008 is shown in the table below:

KZT'000	KZT	USD	JPY	Total
<b>Assets</b>				
Cash and cash equivalents	10,968,834	-	-	10,968,834
Placements with banks and other financial institutions	3,675,972	-	-	3,675,972
Financial instruments at fair value through profit or loss	50,412	-	-	50,412
Amount receivable under reverse repurchase agreements	4,707,622	-	-	4,707,622
Available-for-sale assets	1,900,049	-	-	1,900,049
Loans to customers	72,500,099	-	-	72,500,099
Held to maturity investments	10,438,270	-	-	10,438,270
Other assets	11,500	-	-	11,500
<b>Liabilities</b>				
Debt securities issued	(52,680,776)	-	-	(52,680,776)
Other borrowed funds	(12,000,167)	(11,888,586)	(35,736)	(23,924,489)
Other liabilities	(378,737)	-	-	(378,737)
<b>Net carrying amount as at 31 December 2008</b>	<b>39,193,078</b>	<b>(11,888,586)</b>	<b>(35,736)</b>	<b>27,268,756</b>
Net carrying amount as at 31 December 2007	32,910,520	(5,257,128)	-	27,653,392

### 35 Event subsequent to the balance sheet date

In accordance with the Edict of the President # 669 on 13 October 2008, ownership of the Group should be transferred to JSC Sovereign Wealth Fund Samruk-Kazyna. Accordingly, on 8 December 2008, the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan issued an order under which 2,642,000 shares would be transferred to JSC Sovereign Wealth Fund Samruk-Kazyna. The order will come into force from the date of enactment of the Law of the Republic of Kazakhstan "On Making Amendments and Additions to the Civil Code of the Republic of Kazakhstan (General Part)" and upon approval by Credit Suisse Investment Bank of the change in the Company's shareholders as required by the debt covenants on the borrowings detailed in Note 24.

