(Thousands of Kazakh tenge)

20. Risk management (continued)

Introduction (continued)

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks. As of 31 December 2007 the loan given to customer is fully collateralized by the guarantee of Head Office. All issued guarantees are fully collateralized by cash.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Gross maximum exposure 2007*	*Gross maximum exposure 2006*
Cash and cash equivalents (excluding cash on hand)	5	**3,405,835**	2,740,563
Amounts due from banks	6	**726,246**	59,416
Loans to customers	7	**31,769**	–
Investment securities	8	**1,228,589**	562,437
Other assets		**6,879**	13,008
Total credit risk exposure		5,399,318	3,375,424

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(Thousands of Kazakh tenge)

20. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

		Neither past due nor impaired		
	Notes	*High grade 2007*	*Standard grade 2007*	*Total 2007*
Amounts due from banks	6	726,246	–	726,246
Loans to customers:				
Small business lending	7	–	31,769	31,769
Investment securities held to maturity	8	1,228,589	–	1,228,589
Total		1,954,835	31,769	1,986,604

		Neither past due nor impaired		
	Notes	*High grade 2006*	*Standard grade 2006*	*Total 2006*
Amounts due from banks	6	59,416	–	59,416
Investment securities held to maturity	8	562,437	–	562,437
Total		621,853	–	621,853

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products, The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Kazakh tenge)

20. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy. As at 31 December 2007 and 2006 the Bank has no loans assessed on collective basis.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2007			
	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and cash equivalents	3,688,257	–	–	3,688,257
Amounts due from banks	6,227	141,166	578,853	726,246
Loans to customers	31,769	–	–	31,769
Investment securities held-to-maturity	1,228,589	–	–	1,228,589
Deferred income tax asset	3,079	–	–	3,079
Other assets	2,519	4,583	11	7,113
	4,960,440	145,749	578,864	5,685,053
Liabilities:				
Due to banks	–	–	16,236	16,236
Due to customers	1,221,924	–	2,429,112	3,651,036
Current income tax liability	446	–	–	446
Other liabilities	1,636	477	–	2,113
	1,224,006	477	2,445,348	3,669,831
Net balance sheet position	3,736,434	145,272	(1,866,484)	2,015,222

	2006			
	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and cash equivalents	3,006,766	–	–	3,006,766
Amounts due from banks	6,606	19,768	33,042	59,416
Loans to customers	–	–	–	–
Investment securities held-to-maturity	562,437	–	–	562,437
Deferred income tax asset	1,926	–	–	1,926
Other assets	1,912	11,196	–	13,108
	3,579,647	30,964	33,042	3,643,653
Liabilities:				
Due to banks	–	–	14,160	14,160
Due to customers	606,345	–	1,258,787	1,865,132
Current income tax liability	8,796	–	–	8,796
Other liabilities	1,372	–	4,799	6,171
	616,513	–	1,277,746	1,894,259
Net balance sheet position	2,963,134	30,964	(1,244,704)	1,749,394

(Thousands of Kazakh tenge)

20. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	31 December 2007			
Financial liabilities	*Less than 3 months*	*3 to 12 Months*	*1 to 5 years*	*Total*
Amounts due to customers	3,171,679	479,357	–	3,651,036
Amounts due to banks	16,236	–	–	16,236
Other liabilities	2,113	–	–	2,113
Total undiscounted financial liabilities	3,190,028	479,357	–	3,669,385

	31 December 2006			
Financial liabilities	*Less than 3 months*	*3 to 12 Months*	*1 to 5 years*	*Total*
Amounts due to customers	1,781,347	73,646	10,139	1,865,132
Amounts due to banks	14,160	–	–	14,160
Other liabilities	6,171	–	–	6,171
Total undiscounted financial liabilities	1,801,678	73,646	10,139	1,885,463

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – Non - trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

(Thousands of Kazakh tenge)

20. Risk management (continued)

Market risk – Non - trading (continued)

Interest rate risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2007*	*Sensitivity of net interest income 2007*	*Sensitivity of equity 2007*
Tenge	1%	27,865	–
US Dollar	1%	4,865	–
EURO	1%	5	–
Japanese Yen	1%	4	–

Currency	*Decrease in basis points 2007*	*Sensitivity of net interest income 2007*	*Sensitivity of equity 2007*
Tenge	1%	(27,865)	–
US Dollar	1%	(5,998)	–
EURO	1%	(5)	–
Japanese Yen	1%	(3)	–

Currency	*Increase in basis points 2006*	*Sensitivity of net interest income 2006*	*Sensitivity of equity 2006*
Tenge	1%	25,067	–
US Dollar	1%	(3,322)	–
EURO	1%	7	–
Japanese Yen	1%	4	–

Currency	*Decrease in basis points 2006*	*Sensitivity of net interest income 2006*	*Sensitivity of equity 2006*
Tenge	1%	(25,067)	–
US Dollar	1%	1,837	–
EURO	1%	(7)	–
Japanese Yen	1%	(2)	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

(Thousands of Kazakh tenge)

20. Risk management (continued)

Market risk – Non - trading (continued)

Currency risk (continued)

The tables below indicate the currencies to which the Bank had exposure at 31 December 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kazakh Tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	2007		*2006*	
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Increase in currency rate in %*	*Effect on profit before tax*
US Dollar	**0.81**	**160**	1.06	190
EURO	**1.19**	**5**	1.59	11
Japanese Yen	**1.77**	**7**	2.25	9

	2007		*2006*	
Currency	*Decrease in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
US Dollar	**0.87**	**(173)**	1.62	(290)
EURO	**1.44**	**(7)**	1.75	(12)
Japanese Yen	**2.15**	**(9)**	1.59	(7)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

21. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2007			*2006*		
	Carrying value	*Fair value*	*Unrecognised gain / (loss)*	*Carrying value*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	**3,688,257**	**3,688,257**	**–**	3,006,766	3,006,766	–
Amounts due from banks	**726,246**	**726,246**	**–**	59,416	59,416	–
Loans to customers	**31,769**	**31,769**	**–**	–	–	–
Investment securities held-to-maturity	**1,228,589**	**1,224,344**	**(4,245)**	562,437	571,228	8,791
Financial liabilities						
Amounts due to banks	**16,236**	**16,236**	**–**	14,160	14,160	–
Amounts due to customers	**3,651,036**	**3,631,730**	**19,306**	1,865,132	1,865,132	–
Total unrecognised change in unrealised fair value			**15,060**			8,791

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(Thousands of Kazakh tenge)

21. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

22. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 20 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2007			*2006*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	**3,688,257**	**–**	**3,688,257**	3,006,766	–	3,006,766
Amounts due from banks	**726,246**	**–**	**726,246**	59,416	–	59,416
Loans to customers	**31,769**	**–**	**31,769**	–	–	–
Investment securities held-to-maturity	**1,228,589**	**–**	**1,228,589**	562,437	–	562,437
Total	**5,674,861**	**–**	**5,674,861**	**3,628,619**	**–**	**3,628,619**
Financial liabilities						
Amounts due to banks	**16,236**	**–**	**16,236**	14,160	–	14,160
Amounts due to customers	**3,651,036**	**–**	**3,651,036**	1,854,993	10,139	1,865,132
Total	**3,667,272**	**–**	**3,667,272**	**1,869,153**	**10,139**	**1,879,292**
Net	**2,007,589**	**–**	**2,007,589**	**1,759,466**	**(10,139)**	**1,749,327**

Included in amounts due to customers are term deposits of individuals. In accordance with the Kazakhstan legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 13.

23. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Kazakh tenge)

23. Related party transactions (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2007		*2006*	
	Parent	*Key management personnel*	*Parent*	*Key management personnel*
Current accounts at 1 January	33,040	–	760,019	–
Receipts on current accounts during the year	43,327,655	–	51,438,890	–
Payments on current accounts during the year	42,771,830	–	52,130,939	–
Change due to foreign exchange (loss) gain	(10,012)	–	(34,930)	–
Current accounts at 31 December	578,853	–	33,040	–
Interest income on current accounts	23,260	–	28,849	–
Deposits at 1 January	–	19,285	–	3,542
Receipts on deposits during the year	–	78,909	–	120,681
Payments of deposits during the year	–	89,708	–	104,588
Change due to foreign exchange loss	–	(136)	–	(350)
Deposits at 31 December	–	8,350	–	19,285
Interest expense on deposits	–	8	–	12

Compensation of key management personnel which consisted of 3 members of the Management Board was comprised of the following:

	2007	*2006*
Salaries and other short-term benefits	14,084	15,046
Social security costs	641	1,327
Total key management compensation	14,725	16,373

24. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the set by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of Kazakhstan.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

The NBRK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed based on requirement set by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of Kazakhstan. As at 31 December 2007 and 2006, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2007 and 2006, comprised:

	2007	*2006*
Tier 1 capital	2,070,231	1,811,647
Total capital	2,070,231	1,811,647
Risk weighted assets	291,849	159,112
Tier 1 capital ratio	709%	1,139%
Total capital ratio	709%	1,139%