(Thousands of Kazakh Tenge)

15. Commitments and contingencies (continued)

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2008. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

16. Net fee and commission income

Net fee and commission income comprises:

	2008	*2007*
Transfer operations	**181,595**	183,608
Cash operations	**20,480**	17,344
Other	**4,121**	4,253
Fee and commission income	**206,196**	205,205
Transfer operations	**(1,349)**	(1,183)
Other	**(2,240)**	(976)
Fee and commission expense	**(3,589)**	(2,159)
Net fee and commission income	**202,607**	203,046

17. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2008	*2007*
Salaries and bonuses	**78,178**	67,466
Social tax	**6,864**	7,563
Salaries and benefits	**85,042**	75,029
Rent	**17,082**	17,082
Information technology services	**9,870**	11,111
Security	**8,679**	8,659
Administrative expenses	**7,614**	8,554
Professional services	**7,091**	7,000
Communication expense	**7,281**	6,927
Cash collection expenses	**2,155**	6,074
Representation expenses	**3,006**	3,261
Business trip expenses	**4,578**	2,281
Transportation	**1,348**	1,274
Deposit insurance	**644**	800
Other	**694**	207
Other operating expenses	**70,042**	73,230

18. Risk management

Introduction

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

18. Risk management (continued)

Introduction (continued)

Risk management structure

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

Management Board

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

Risk Management and Law Compliance Department.

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

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

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

Assets and Liabilities Management Committee

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

Internal Audit

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

Risk measurement and reporting systems

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

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

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

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

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.

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.

(Thousands of Kazakh Tenge)

18. Risk management (continued)

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.

As at 31 December 2008, the Bank did not have outstanding credit.

	Note	*Gross maximum exposure 2008*	*Gross maximum exposure 2007*
Cash and balances with NBRK (excluding cash on hand)	5	**1,544,520**	3,405,835
Amounts due from banks	6,7	**1,652,052**	726,246
Loans to customers		**–**	31,769
Investment securities	8	**2,357,249**	1,228,589
Other assets		**8,693**	6,879
Total credit risk exposure		**5,562,514**	5,399,318

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 2008*	*Standard grade 2008*	*Total 2008*
Amounts due from banks	6,7	**1,652,052**	**–**	**1,652,052**
Investment securities held to maturity	8	**2,357,249**	**–**	**2,357,249**
Total		**4,009,301**	**–**	**4,009,301**

		Neither past due nor impaired		
	Notes	*High grade 2007*	*Standard grade 2007*	*Total 2007*
Amounts due from banks	6,7	726,246	–	726,246
Loans to customers:				
Small business lending		–	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

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.

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Credit risk (continued)

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.

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.

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:

	2008			
	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and balances with NBRK	**1,760,825**	**100,017**	**–**	**1,860,842**
Amounts due from banks	**5,467**	**18,352**	**1,628,233**	**1,652,052**
Loans to customers				
Investment securities held-to-maturity	**2,357,249**	**–**	**–**	**2,357,249**
	4,123,541	**118,369**	**1,628,233**	**5,870,143**
Liabilities:				
Due to banks	**–**	**–**	**12,087**	**12,087**
Due to customers	**2,143,861**	**–**	**1,386,198**	**3,530,059**
	2,143,861	**–**	**1,398,285**	**3,542,146**
Net balance sheet position	**1,979,680**	**118,369**	**229,948**	**2,327,997**

	2007			
	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and balances with NBRK	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
	4,954,842	141,166	578,853	5,674,861
Liabilities:				
Due to banks	–	–	16,236	16,236
Due to customers	1,221,924	–	2,429,112	3,651,036
	1,224,924	–	2,445,348	3,667,272
Net balance sheet position	3,732,918	145,166	(1,866,495)	2,007,589

(Thousands of Kazakh Tenge)

18. 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 inflow.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2008 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 2008			
Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Amounts due to customers	**3,511,324**	**20,724**	**–**	**3,532,048**
Amounts due to banks	**12,087**	**–**	**–**	**12,087**
Total undiscounted financial liabilities	**3,523,411**	**20,724**	**–**	**3,544,135**

	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
Total undiscounted financial liabilities	3,187,915	479,357	–	3,667,272

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.

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.

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 2008.

Currency	*Increase in basis points 2008*	*Sensitivity of net interest income 2008*
Tenge	1%	7,656
US Dollar	1%	12,106
EURO	1%	8
Japanese Yen	1%	5

Currency	*Decrease in basis points 2008*	*Sensitivity of net interest income 2008*
Tenge	1%	(7,656)
US Dollar	1%	(14,180)
EURO	1%	(8)
Japanese Yen	1%	(4)

(Thousands of Kazakh Tenge)

18. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

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

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.

The tables below indicate the currencies to which the Bank had exposure at 31 December 2008 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.

	2008		2007	
Currency	Increase in currency rate in %	Effect on profit before tax	Increase in currency rate in %	Effect on profit before tax
US Dollar	**25**	**1,257**	0.81	160
Euro	**10**	**79**	1.19	5
Japanese Yen	**18**	**98**	1.77	7

	2008		2007	
Currency	Decrease in currency rate in %	Effect on profit before tax	Decrease in currency rate in %	Effect on profit before tax
US Dollar	**0.17**	**(9)**	0.87	(173)
Euro	**2.59**	**(21)**	1.44	(7)
Japanese Yen	**2.13**	**(12)**	2.15	(9)

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.

(Thousands of Kazakh Tenge)

19. 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.

	2008			*2007*		
	Carrying value	*Fair value*	*Unrecognised loss*	*Carrying value*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and balances with NBRK	**1,860,842**	**1,860,842**	–	3,688,257	3,688,257	–
Amounts due from banks	**1,652,052**	**1,652,052**	–	726,246	726,246	–
Loans to customers	–	–	–	31,769	31,769	–
Investment securities held-to-maturity	**2,357,249**	**2,333,204**	**(24,045)**	1,228,589	1,224,344	(4,245)
Financial liabilities						
Amounts due to banks	**12,087**	**12,087**	–	16,236	16,236	–
Amounts due to customers	**3,530,059**	**3,530,059**	–	3,651,036	3,631,730	19,306
Total unrecognised change in unrealised fair value			**(24,045)**			15,061

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.

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.

20. 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 18 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2008			*2007*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and balances with NBRK	**1,860,842**	–	**1,860,842**	3,688,257	–	3,688,257
Amounts due from banks	**1,652,052**	–	**1,652,052**	726,246	–	726,246
Loans to customers	–			31,769	–	31,769
Investment securities held-to-maturity	**1,013,648**	**1,310,827**	**2,324,475**	1,228,589	–	1,228,589
Total	**4,526,542**	**1,310,827**	**5,837,369**	5,674,861	–	5,674,861
Financial liabilities						
Amounts due to banks	**12,087**	–	**12,087**	16,236	–	16,236
Amounts due to customers	**3,530,059**	–	**3,530,059**	3,651,036	–	3,651,036
Total	**3,542,146**	–	**3,542,146**	3,667,272	–	3,667,272
Net-position	**984,396**	**1,310,827**	**2,295,223**	2,007,589	–	2,007,589

(Thousands of Kazakh Tenge)

21. 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.

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

	2008		*2007*	
	Parent	*Key management personnel*	*Parent*	*Key management personnel*
Current accounts at 1 January	**578,853**	–	33,040	–
Receipts on current accounts during the year	**67,170,111**	–	43,327,655	–
Payments on current accounts during the year	**(66,130,540)**	–	(42,771,830)	–
Income/(loss) due to exchange rate change	**9,809**	–	(10,012)	–
Current accounts at 31 December	**1,628,233**	–	578,853	–
Interest income on current accounts	**36,586**	–	23,260	–
Deposits at 1 January	–	**8,350**	–	19,285
Receipts on deposits during the year	–	**15,642**	–	78,909
Payments of deposits during the year	–	**(22,412)**	–	(89,708)
Loss due to exchange rate change	–	–	–	(136)
Deposits at 31 December	–	**1,580**	–	8,350
Interest expense on deposits	–	**1**	–	8

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

	2008	*2007*
Salaries and other short-term benefits	**17,791**	14,084
Social security costs	**661**	641
Total key management compensation	**18,452**	14,725

22. 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 set by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of Kazakhstan ("FMSA").

During the 2008, 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 FMSA requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of total assets and a capital adequacy ratio (Tier 2) not less than 10% of risk-weighted assets, computed based on requirement. As at 31 December 2008 and 2007, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's capital adequacy ratio, computed in accordance with the NBRK, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2008 and 2007, comprised:

	2008	*2007*
Tier 1 capital	**2,068,856**	1,812,265,
Total capital	**2,068,856**	1,812,265
Total assets	**5,918,755**	5,740,063
Tier 1 capital ratio	**35.0%**	31.6%
Total capital ratio	**35.0%**	31.6%

(Thousands of Kazakh Tenge)

22. Capital adequacy (continued)

	2008	*2007*
Tier 2 capital	**2,371,484**	2,068,035
Total capital	**2,371,484**	2,068,035
Risk weighted assets	**1,134,248**	619,173
Tier 2 capital ratio	**209.2%**	334%
Total capital ratio	**209.2%**	334%

23. Subsequent events

On 4 February 2009 KZT to US Dollar exchange rate dramatically decreased by 25%. However, there was no significant impact on the Bank's financial position and its operations.