

**National Bank
of the Republic of Kazakhstan**

Consolidated Financial Statements
for the year ended 31 December 2007

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Independent Auditors' Report

To the Board of the National Bank of the Republic of Kazakhstan

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the National Bank of the Republic of Kazakhstan (the "NBK") and its subsidiaries (the "National Bank"), which comprise the consolidated balance sheet as at 31 December 2007, 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 on the basis described in Note 2. 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.



Opinion

In our opinion, the consolidated financial statements as at and for the year ended 31 December 2007 are prepared in all material respect in accordance with the basis of preparation described in Note 2.

Berdalina J. K.
Certified Auditor
Managing Partner

Elvira Abibullayeva
Audit Partner

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

14 March 2008

National Bank of the Republic of Kazakhstan
Consolidated Balance Sheet as at 31 December 2007

	2007	2006
Note	'000 KZT	'000 KZT
ASSETS		
Cash in foreign currencies	20,435,781	457,099
Gold	4 215,923,786	174,787,997
Placements and balances with banks and other institutions	5 828,383,648	798,988,616
Amounts receivable under reverse repurchase agreements	6 171,937,337	39,309,550
Available-for-sale assets	7 973,283,773	1,449,864,042
Investments in associates	8 1,330,318	233,916
Property, equipment and intangible assets	9 25,143,513	13,301,392
Other assets	10 4,957,225	4,277,811
TOTAL ASSETS	<u>2,241,395,381</u>	<u>2,481,220,423</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Currency in circulation	11 859,989,151	687,350,736
Deposits and balances from banks and other institutions	12 615,491,788	822,288,006
Due to the National Fund of the Republic of Kazakhstan	13 221,127,646	64,917,772
Due to the Ministry of Finance of the Republic of Kazakhstan	14 71,514,981	213,428,455
Guarantee Funds	15 9,378,750	11,239,342
Customer accounts	16 1,500,776	373,070
Debt securities issued	17 221,263,582	526,875,224
Deferred tax liability	18 396,999	312,803
Other liabilities	19 2,600,954	2,207,474
TOTAL LIABILITIES	<u>2,003,264,627</u>	<u>2,328,992,882</u>
EQUITY		
Share capital	20 20,000,000	20,000,000
Capital reserve	20 48,774,701	11,325,781
Reserve for general banking risks	20 6,318,703	2,475,856
Revaluation reserve for available-for-sale assets	8,149,461	(5,005,421)
Revaluation reserve for foreign currency and precious metals	91,704,290	72,151,710
Revaluation reserve for property and equipment	14,797,693	2,798,868
Retained earnings	45,252,865	46,232,917
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDER OF THE NBK	<u>234,997,713</u>	<u>149,979,711</u>
Minority interest	3,133,041	2,247,830
TOTAL EQUITY	<u>238,130,754</u>	<u>152,227,541</u>
TOTAL LIABILITIES AND EQUITY	<u>2,241,395,381</u>	<u>2,481,220,423</u>

Commitments and contingencies

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The consolidated financial statements as set out on pages 5 to 60 were approved by the Board on 14 March 2008.

On behalf of the Board:

 Saidenov A.G.
Chairman

 Shalgimbayeva N.T.
Chief accountant

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 60.

National Bank of the Republic of Kazakhstan
Consolidated Income Statement for the year ended 31 December 2007

	Note	2007 '000 KZT	2006 '000 KZT
Interest income	21	95,962,294	57,859,626
Interest expense	21	(40,370,542)	(17,337,838)
NET INTEREST INCOME		55,591,752	40,521,788
Fee and commission income	22	4,370,461	4,493,696
Fee and commission expense	22	(320,337)	(388,047)
NET FEE AND COMMISSION INCOME		4,050,124	4,105,649
Net realised (loss)/gain on available-for-sale assets, foreign currency and gold	23	(1,145,355)	4,371,516
Income from associates	8	96,403	209,716
Other income	24	1,622,894	782,511
NON-INTEREST INCOME		573,942	5,363,743
OPERATING INCOME		60,215,818	49,991,180
Banknotes and coins production expenses	25	(4,528,817)	(5,690,706)
Funding of third parties	26	(2,146,520)	(1,574,881)
Payroll and related payments to employees	27	(6,862,472)	(4,391,056)
General administrative expenses	28	(2,886,373)	(2,483,720)
Depreciation and amortisation		(1,210,915)	(1,211,316)
Provision recovery/ (impairment losses)	29	2,502	(45,683)
Loss from disposal of subsidiary	30	(447,532)	-
OPERATING EXPENSES		(18,080,127)	(15,397,362)
INCOME BEFORE TAXES		42,135,691	34,593,818
Income tax expense	31	(1,263,646)	(1,350,483)
NET INCOME		40,872,045	33,243,335
Attributable to:			
Equity holders of the NBK		40,289,320	32,611,381
Minority interest		582,725	631,954
		40,872,045	33,243,335

Attributable to equity holders of the NBK

	Share capital	Capital reserve	Reserve for general banking risks	Revaluation reserve for available-for-sale assets	Revaluation reserve for foreign currency and precious metals	Revaluation reserve for property and equipment	Retained earnings	Total	Minority interest	Total equity
'000 KZT										
Balance at 1 January 2006	20,000,000	4,349,053	1,462,124	(756,939)	50,553,366	2,805,312	21,605,552	100,018,468	1,625,846	101,644,314
Net income for the year	-	-	-	(5,712,652)	-	-	32,611,381	32,611,381	631,954	33,243,335
Net unrealised losses on available-for-sale assets	-	-	-	-	-	-	-	(5,712,652)	(9,970)	(5,722,622)
Net realised losses on available-for-sale assets transferred to the income statement on disposal	-	-	-	1,464,170	-	-	-	1,464,170	-	1,464,170
Net unrealised gains on foreign currency and precious metals	-	-	-	-	27,434,030	-	-	27,434,030	-	27,434,030
Net realised gains on foreign currency and precious metals transferred to the income statement on disposal	-	-	-	-	(5,835,686)	-	-	(5,835,686)	-	(5,835,686)
Revaluation of property and equipment	-	-	-	-	-	(6,444)	6,444	-	-	-
Total realised income and expense	-	6,976,728	1,013,732	-	-	-	(7,990,460)	-	-	-
Transfer to the reserve funds	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2006	20,000,000	11,325,781	2,475,856	(5,005,421)	72,151,710	2,798,868	46,232,917	149,979,711	2,247,830	152,227,541
Net income for the year	-	-	-	4,005,635	-	-	-	4,005,635	3,119	4,008,754
Net unrealised gains on available-for-sale assets	-	-	-	-	-	-	-	-	-	-
Net realised losses on available-for-sale assets transferred to the income statement on disposal	-	-	-	9,149,247	-	-	-	9,149,247	-	9,149,247
Net unrealised gains on foreign currency and metals	-	-	-	-	27,556,473	-	-	27,556,473	-	27,556,473
Net realised gains on foreign currency and precious metals transferred to the income statement on disposal	-	-	-	-	(8,003,893)	-	-	(8,003,893)	-	(8,003,893)
Revaluation of property and equipment	-	-	-	-	-	11,998,825	22,395	12,021,220	-	12,021,220
Total realised income and expense	-	-	-	-	-	-	(41,291,767)	-	-	-
Transfer to the reserve funds	-	37,448,920	3,842,847	-	-	-	-	-	(213,404)	(213,404)
Change in minority interest due to disposal of subsidiary	-	-	-	-	-	-	-	-	512,771	512,771
Issuance of shares by subsidiary	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2007	20,000,000	48,774,701	6,318,703	8,149,461	91,704,290	14,797,693	45,252,865	234,997,713	3,133,041	238,130,754

National Bank of the Republic of Kazakhstan
Consolidated Statement of Cash Flows for the year ended 31 December 2007

	2007 '000 KZT	2006 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxes	42,135,691	34,593,818
Adjustments for:		
Depreciation and amortisation	1,819,842	1,759,505
(Provision for recovery)/impairment losses	(2,502)	45,683
Loss/(gain) on disposal of property, equipment and intangible assets	39,188	(1,035)
Amortisation of discount on debt securities issued	33,995,353	9,357,820
Amortisation of discount on available-for-sale assets	(1,852,946)	(18,092,184)
Undistributed net income of the associates	(96,403)	(209,716)
Loss from disposal of subsidiary	447,532	-
Cash flow from operating activities before changes in operating assets and liabilities	76,485,755	27,453,891
(Increase)/decrease in operating assets		
Gold	(1,359,261)	(8,686,627)
Placements and balances with banks and other institutions	(51,015,192)	49,702,363
Amounts receivable under reverse repurchase agreements	(132,627,787)	(400,301)
Available-for-sale assets	484,488,549	(744,952,005)
Other assets	(675,765)	(1,248,863)
Increase/(decrease) in operating liabilities		
Currency in circulation	172,638,415	229,074,420
Deposits and balances from banks and other institutions	(203,790,997)	580,085,034
Amounts payable under repurchase agreements	-	(9,631,814)
Due to the National Fund of the Republic of Kazakhstan	156,209,874	63,061,445
Due to the Ministry of Finance of the Republic of Kazakhstan	(141,913,474)	164,833,443
Guarantee Funds	(1,860,592)	2,606,613
Customer accounts	1,127,706	(1,323,284)
Other liabilities	393,480	373,127
Net cash provided from operating activities before taxes paid	358,100,711	350,947,442
Taxes paid	(1,323,157)	(1,277,344)
Cash flows from operations	356,777,554	349,670,098

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 10 to 60.

National Bank of the Republic of Kazakhstan
Consolidated Statement of Cash Flows for the year ended 31 December 2007

	2007	2006
	'000 KZT	'000 KZT
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and intangible assets	(1,784,340)	(1,683,817)
Proceeds from sale of property and equipment	3,771	253,424
Cash outflow from subsidiary disposed of	(4,775)	-
Investments in associates	(1,000,000)	-
Cash flows from investing activities	(2,785,344)	(1,430,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	4,252,056,064	3,827,013,110
Debt securities repaid	(4,588,887,358)	(3,463,719,777)
Cash flows from financing activities	(336,831,294)	363,293,333
Net increase in cash and cash equivalents	17,160,916	711,533,038
Effect of changes in exchange rates on cash and cash equivalents	(20,223,196)	(11,511,199)
Cash and cash equivalents at the beginning of the year	749,831,691	49,809,852
Cash and cash equivalents at the end of the year (Note 37)	746,769,411	749,831,691

Interest paid and received by the NBRK during the year ended 31 December 2007 amounted to KZT 38,980,000 thousand and KZT 94,604,670 thousand, respectively.

Interest paid and received by the NBRK during the year ended 31 December 2006 amounted to KZT 16,772,212 thousand and KZT 57,938,353 thousand, respectively.

1 Organisation

The National Bank of the Republic of Kazakhstan (the “NBK”) was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan № 2134-XII dated 13 April 1993. Pursuant this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary function of the NBK is ensuring of the price stability in the Republic of Kazakhstan. The main functions of the NBK are the following: determine and carry out monetary policy, carry out the functioning of payment system, exercise foreign currency regulations and supervision, secure financial system stability. NBK implements monetary and credit policies by management of the monetary base and reserves and performs its functions as a bank, financial consultant and agent of the Government of the Republic of Kazakhstan and other state governance bodies.

The address of the NBK’s registered office is 21, microdistrict Koktem-3, Almaty, 050090. The NBK has 17 branches and 9 subsidiaries located in the Republic of Kazakhstan.

The subsidiaries as of 31 December 2007 and 2006 (hereinafter the NBK and its subsidiaries jointly referred to as the “National Bank”) comprised of the following enterprises, which are consolidated into NBK’s consolidated financial statements:

Name	Year of establishment	Main operations	Ownership interest	
			2007 %	2006 %
RSE Kazakhstan Mint of the National Bank of the Republic of Kazakhstan	1994	Coin manufacture	100.0	100.0
RSE Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan	1996	Electronic payments	100.0	100.0
RSE Banking Service Bureau of the National Bank of the Republic of Kazakhstan	1996	Software services	100.0	100.0
JSC Kazakhstan Fund of Individuals Deposits Guarantee (Insurance)	1999	Individual deposit guarantee	100.0	100.0
JSC Guarantee Fund of Insurance Payments	2003	Insurance of policyholders’ benefits	100.0	100.0
RSE Banknote Factory of National Bank of the Republic of Kazakhstan	2004	Banknote manufacture	100.0	100.0
JSC Accumulation Pension Fund “GNPF”	1997	Collection of pension payments and their investment	57.6	64.0
JSC Kazakhstan Actuarial Centre	2002	Development of actuarial activities in the Republic of Kazakhstan	100.0	100.0
JSC Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO”	2007	Provision of IT security for the NBK	100.0	-
RSE Operations Support Centre of the National Bank of the Republic of Kazakhstan	2005	Transportation services and management of property	-	100.0
JSC National Processing Centre	2000	Processing of payment cards transactions	-	66.9

1 Organisation, continued

In 31 May 2007 the NBK established JSC “Reserve Center of National Bank of the Republic of Kazakhstan “Q-BRO” with a charter capital of KZT 5,500,000 thousand which was contributed in cash.

In June 2007 JSC Accumulated Pension Fund “GNPF” increased its share capital on the amount KZT 55,000 thousand that were acquired for amount KZT 512,771 thousand by new shareholder European Bank of Reconstruction and Development.

In January 2007 due to changes in the NBK structure and in accordance with the Law of the Republic of Kazakhstan “On the National Bank” and the Decree of the President of the Republic of Kazakhstan № 177 dated September 11, 2006 “About Certain Issues of Improving Activity of the National Bank of the Republic of Kazakhstan” the NBK liquidated “RSE Operations Support Centre of the National Bank of the Republic of Kazakhstan by transferring net assets of this subsidiary to the balance sheet of the NBK and established a new branch “Activity Support Centre”.

In October 2007 in accordance with the Decree of the President of the Republic of Kazakhstan dated April 6, 2007 № 311 “About Measures on Further Scientific and Technological Development of the Republic of Kazakhstan” the National Bank transferred its shares in JSC “National Processing Centre” to the Committee of the State Property and Privatization with the Ministry of Finance of the Republic of Kazakhstan without compensation (Note 30).

During the years ended 31 December 2007 and 2006 the average number of employees of the National Bank was 3,405 and 3,417, respectively, and the total number of employees as of 31 December 2007 and 2006 was 3,429 and 3,055, respectively.

Kazakhstan business environment

The economic environment of Kazakhstan was assessed by the international rating agencies.

In 2007 Standard & Poor’s decreased the long-term foreign currency rating down to “BBB-” (from “BBB”), and the long-term rating of borrowings in the national currency down to “BBB” (from “BBB+”). The short-term ratings of borrowings in the national currency also decreased down to “A-3” (from “A-2”) and in the foreign currency were not changed and confirmed “A-3”. Forecast is “stable”. In 2007 Moody’s Investors Service confirmed rating of the long-term debts in foreign currency at “Baa2” and Kazakhstan debts in the national currency to “A2”. In December 2007 the issuance’s default rating (“IDR”) in foreign and national currency of the Kazakhstan was changed from “stable” to “negative”. At the same time IDR of Kazakhstan in foreign and national currency was confirmed at “BBB” and “BBB+” respectively. Also Fitch Rating confirmed the country limit at “BBB+” and short-term rating in foreign currency at “F3”.

The NBK’s operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying consolidated financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the National Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Accounting basis

The accompanying consolidated financial statements of the National Bank have been prepared in accordance with International Financial Reporting Standards modified as follows:

Gold is carried at market value and when the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities is a gain, the net unrealised gain is recognised directly in equity. When the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities is a loss, the net unrealised loss is recognised in consolidated income statement except to the extent that it reverses a previous net unrealised gain, in which case it is recognised directly in equity.

(b) Basis of measurement

These consolidated financial statements are prepared on an accrual basis under the historical cost convention except that gold, available-for-sale investments and financial instruments at fair value through profit or loss are measured at fair value and property and equipment are revalued periodically.

(c) Functional and presentation currency

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

Financial information presented in KZT has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management’s knowledge of current events and actions, the actual results could differ from those estimates. In the opinion of management there are no critical areas of judgement or estimate in the preparation of these consolidated financial statements.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the National Bank. Control exists when the National Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise 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 effectively commences until the date that control effectively ceases.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Associates

Associates are those enterprises in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. 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.

(iv) Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the NBK.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the National Bank. Minority interest in the profit or loss of the National Bank is separately disclosed in the consolidated income statement, as well as in the statement of changes in equity.

(b) Gold and foreign currency

(i) Gold

Refined gold in consolidated financial statement is recorded at market price at the balance sheet date. Market price is determined by reference to the London Bullion Market Association ("LBMA") AM fixings.

(ii) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Tenge at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction.

3 Significant accounting policies, continued

(b) Gold and foreign currency, continued

(iii) *Gains and losses on gold and foreign currency*

Realised gains and losses on gold and foreign currencies are recorded in the consolidated income statement. When the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities is a gain, the net unrealised gain is recognised directly in equity. When the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities is a loss, the net unrealised loss is recognised in income statement except to the extent that it reverses a previous net unrealised gain, in which case it is recognised directly in equity

The exchange rates and prices for gold at year-end used by the National Bank in the preparation of the financial statements are as follows:

	2007	2006
KZT/USD	120.30	127.00
KZT/Euro	177.17	167.12
KZT/GBP	240.14	249.01
KZT/Japanese Yen (10/1)	10.71	10.68
USD/Gold (1 troy ounce)	828.50	635.70
KZT/Special Drawing Rights (SDR)	189.89	190.90

(c) Financial assets and liabilities

(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 National Bank as at fair value through profit or loss.

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

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

All trading derivatives in a net receivable position (positive fair value), are reported assets. All trading derivatives in a net payable position (negative fair value), are reported liabilities.

3 Significant accounting policies, continued

(c) Financial assets and liabilities, continued

(i) Classification, continued

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

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

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

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.

(ii) Recognition

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

(iii) Measurement

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

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

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

3 Significant accounting policies, continued

(c) Financial assets and liabilities, continued

(iii) Measurement, continued

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 consolidated 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.

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

(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 consolidated statement of changes in 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 consolidated 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 amortization process.

3 Significant accounting policies, continued

(c) Financial assets and liabilities, continued

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the National Bank 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.

The National Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Offsetting

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

(viii) 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 consolidated 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 consolidated income statement over the term of the repo agreement using the effective interest rate method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Currency in circulation

Banknotes and coins in circulation are recorded in the consolidated balance sheet at their nominal value.

The banknotes and coins in circulation are recorded as a liability when cash is issued by the NBK to second tier banks. Cash in national currency held in the vaults and cash offices is not included in currency in circulation.

Expenses on banknotes and coins in circulation include expenses for security, transportation, insurance and other expenses. Expenses on banknotes and coins in circulation are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

(x) Guarantee Funds

Guarantee Funds represent the mandatory deposits by second tier banks and insurance companies, which are members of the guarantee systems.

3 Significant accounting policies, continued

(d) Property and equipment

(i) Owned assets

Property and equipment are carried at re-valued amounts less accumulated depreciation and any impairment losses.

(ii) Revaluation

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

(iii) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of property and equipment used in the production of banknotes and coins are included in expenses on production of banknotes and coins. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings and constructions	5 to 40 years;
Furniture and equipment	1 to 10 years;
Computer equipment	1 to 25 years;
Vehicles	5 to 10 years;
Intangible assets	1 to 3 years.

3 Significant accounting policies, continued

(e) Impairment

(i) *Financial assets carried at amortised cost*

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

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

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

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

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

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

3 Significant accounting policies, continued

(e) 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 recognised 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 recognised 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 in consolidated financial statement.

(f) Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from corporate income tax and value-added tax.

Subsidiaries and associate organisations are subject to all taxes.

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated 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.

3 Significant accounting policies, continued

(f) Taxation, continued

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The 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.

(g) Recognition of income and expense

Interest income and expense are recognised on an accrual basis using the effective interest rate method. Interest income and expenses include amortisation of discount or premium, or other differences between initially recognised value of financial instrument and its value on maturity date calculated using the effective interest rate method. Commissions and other income/expenses are recognised in the consolidated income statement when the related transactions are completed.

(h) Retirement and other benefit obligations

The National Bank does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. The National Bank transfers employees' pension contributions to pension funds in accordance with legislation. Once the contributions have been paid, the National Bank has no further payment obligation. Upon retirement, all pension payments are administered by the pension funds directly.

(i) Cash and cash equivalents

For the purposes of the preparation of the consolidated statement of cash flows, cash and cash equivalents include nostro accounts, demand and term deposits maturing within three months, and cash on hand.

(j) Changes in accounting policy

As at 1 January 2007, the Bank adopted the International Financial Reporting Standard IFRS 7 "Financial Instruments: Disclosures". The application of the Standard resulted in increased disclosure in respect of National Bank's financial instruments.

3 Significant accounting policies, continued

(k) New Standards and Interpretations not yet adopted

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

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

4 Gold

	2007	2006
	'000 KZT	'000 KZT
Gold deposits with foreign banks	149,762,144	121,158,089
Gold bullion in NBK depository	66,161,642	53,629,908
	215,923,786	174,787,997

5 Placements and balances with banks and other institutions

	2007 <u>'000 KZT</u>	2006 <u>'000 KZT</u>
<i>Placements and balances with foreign banks and other institutions</i>		
Nostro accounts		
OECD banks	639,293,563	741,926,669
Other foreign banks	510,683	378,441
Due from external asset managers		
OECD banks	23,275,082	46,579,042
Deposits		
OECD banks	83,274,960	6,467,819
Commissions receivable		
OECD banks	1,893,059	559,224
Current accounts with the IMF	165,664	160,928
Derivative financial instruments		
OECD banks	-	25,188
Total placements and balances with foreign banks and other institutions	<u>748,413,011</u>	<u>796,097,311</u>
<i>Placements and balances with local banks and other institutions</i>		
Nostro accounts		
Largest 10 Kazakhstan banks	2,349,160	359,788
Other Kazakhstan banks	96,017	40,712
Deposits		
Largest 10 Kazakhstan banks	705,671	100,500
Other Kazakhstan banks	103,576	100,664
Loans		
Largest 10 Kazakhstan banks	72,787,538	-
Receivable from the Ministry of Finance of the Republic of Kazakhstan	2,672,143	1,492,756
Receivables from local banks and insurance organisations	1,162,484	796,885
Derivative financial instruments		
Largest 10 Kazakhstan banks	94,048	-
Total placements and balances with local banks and other institutions	<u>79,970,637</u>	<u>2,891,305</u>
	<u>828,383,648</u>	<u>798,988,616</u>

(a) **Concentration of placements and balances with banks and other institutions**

As at 31 December 2007 and 2006 the National Bank had two and one banks and financial institutions, respectively, whose balances exceeded 10% of total placements and balances with banks and other institutions. The gross value of these balances as of 31 December 2007 and 2006 were KZT 616,712,738 thousand and KZT 682,048,468 thousand, respectively.

5 Placements and balances with banks and other institutions, continued

(b) Derivative financial instruments

The fair values of derivative instruments held as at 31 December 2007 and 2006 are set out in the following table:

	2007			2006		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
<i>Foreign exchange derivative contracts</i>						
- currency forwards	-	-	-	38,158,623	25,188	(3,741)
- swap operations	56,788,576	94,048	-	-	-	-
	56,788,576	94,048	-	38,158,623	25,188	(3,741)

The tables below summarises, by major currencies, the contractual amounts of the National Bank's forward exchange contracts and swap operations outstanding at 31 December 2007 and 2006 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	2007			
	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Swap operations				
Buy KZT sell USD				
Less than three months	56,788,576	120.91	94,048	-
	56,788,576		94,048	-
	2006			
	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Currency forwards				
Buy USD sell KZT				
Less than three months	27,305,000	127.42	-	(3,741)
Buy USD sell EUR				
Less than three months	8,362,645	1.32	19,805	-
Buy USD sell GBP				
Less than three months	2,490,978	1.96	5,383	-
Total	38,158,623		25,188	(3,741)

5 Placements and balances with banks and other institutions, continued

(c) Analysis of movements in the impairment allowance

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	-	21,143
Reversal of provision written of in previous years	5,648	14,407
Net recovery for the year	(5,648)	(15,766)
Provision written-off	-	(19,784)
Balance at the end of the year	-	-

6 Amount receivable under reverse repurchase agreements

	2007 '000 KZT	2006 '000 KZT
OECD banks	167,933,720	39,309,550
Small and medium size Kazakhstan banks	4,003,617	-
	171,937,337	39,309,550

Collateral

As at 31 December 2007 and 2006, amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	2007 '000 KZT	2006 '000 KZT
US Government Treasury bills	168,165,084	39,314,886
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	4,206,037	-
	172,371,121	39,314,886

7 Available-for-sale assets

	2007	2006
	'000 KZT	'000 KZT
Debt instruments – Quoted		
Foreign investments		
US Government Treasury bills	347,969,052	407,532,854
Debt securities of international governmental and non-governmental financial institutions	223,865,276	421,655,351
Japanese Government Treasury bills	66,076,051	105,818,789
British Government Treasury bills	58,798,608	105,332,254
German Government Treasury bills	40,652,239	140,923,595
Italian Government Treasury bills	33,673,808	39,089,075
Greek Government Treasury bills	25,545,458	8,318,043
Australian Government Treasury bills	22,927,892	54,711,511
French Government Treasury bills	20,731,400	61,667,643
Dutch Government Treasury bills	16,236,162	8,443,390
Spanish Government Treasury bills	13,792,942	25,611,363
Belgian Government Treasury bills	9,386,600	17,476,208
Portuguese Government Treasury bills	8,997,836	16,907,756
Other	60,330,530	8,251,173
Total foreign investments available-for-sale	948,983,854	1,421,739,005
Local investments		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	22,692,375	23,113,517
Debts securities of JSC Kazakhstan Mortgage Company	1,085,541	4,489,517
Total local investments available-for-sale	23,777,916	27,603,034
Equity instruments – Unquoted		
JSC Kazakhstan Guarantee Fund of Mortgage Loans	500,000	500,000
JSC Kazakh Stock Exchange	22,003	22,003
Total unquoted equity instruments	522,003	522,003
	973,283,773	1,449,864,042

As at 31 December 2007 debt securities of international governmental and non-governmental financial institutions included securities issued by European Investment Bank, International Bank of Reconstruction and Development, Federal National Mortgage Association, Federal Home Mortgage Corporations, Federal Home Loan Bank and also State Agencies of Germany and, France, Australia, Italy (31 December 2006: Federal National Mortgage Association, Federal Home Mortgage Corporations, Federal Home Loan Bank and also State Agencies of Germany, France).

As at 31 December 2007 other foreign investments included corporate debt securities and issued by companies resident in Germany, the Netherlands, Australia, Japan (31 December 2006: Australia, Hungary, Germany, Switzerland).

As at 31 December 2007 and 2006 ordinary shares of JSC Kazakhstan Guarantee Fund of Mortgage Loans and JSC Kazakhstan Stock Exchange are unquoted and carried at cost.

8 Investments in associates

As at 31 December 2007 and 2006 the National Bank had the following investments in associates accounted for using the equity method of accounting:

Name	Country of Incorporation	Main activity	% controlled		2007	2006
			2007	2006	Carrying value '000 KZT	Carrying value '000 KZT
JSC Central Securities Depository	Republic of Kazakhstan	Operations with securities	49.79%	49.79%	341,231	233,916
JSC National Analytical Centre under the Government and the National Bank of the Republic of Kazakhstan	Republic of Kazakhstan	Scientific research and consulting services	50.0%	-	989,087	-
					1,330,318	233,916

In September 2007, following the Decree of the Government of the Republic of Kazakhstan dated September 3, 2007 №762 “On Establishment of “National Analytical Centre under the Government and the National Bank of the Republic of Kazakhstan” the NBK established and contributed KZT 1,000,000 thousand to the charter capital of the JSC National Analytical Centre under the Government and the National Bank of the Republic of Kazakhstan.

The following is the summarised financial information in respect of the associates:

	2007			2006	
	JSC Central Securities Depository	JSC National Analytical Centre under the Government and the National Bank of the Republic of Kazakhstan	Total	JSC Central Securities Depository	Total
'000 KZT					
Assets	698,450	979,932	1,678,382	482,044	482,044
Liabilities	13,167	1,758	14,925	12,279	12,279
Total equity	685,283	978,174	1,663,457	469,765	469,765
Revenue	353,171	-	353,171	234,031	234,031
Retained earnings at 1 January	388,336	-	388,336	258,838	258,838
Net profit for the period	218,348	(21,825)	196,523	132,326	132,326
Retained earnings at 31 December	606,684	(21,825)	584,859	391,164	391,164

9 Property, equipment and intangible assets

'000 KZT	Land, buildings and constructions	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/equip- ment not yet uninstalled	Intangible assets	Total
Cost/revalued amount							
1 January 2007	8,775,494	7,177,163	2,062,837	731,675	477,862	1,852,888	21,077,919
Additions	176,630	810,102	181,410	9,106	737,787	221,866	2,136,901
Revaluation	11,978,958	-	-	-	-	-	11,978,958
Disposals	(1,759,581)	(273,732)	(210,644)	(4,754)	(245,254)	(391,300)	(2,885,265)
Transfers	-	6,939	86,441	-	(150,975)	57,595	-
31 December 2007	19,171,501	7,720,472	2,120,044	736,027	819,420	1,741,049	32,308,513
Depreciation and amortisation							
1 January 2007	1,790,884	2,972,330	1,362,101	358,654	-	1,292,558	7,776,527
Charge	359,485	714,706	261,619	115,256	-	368,776	1,819,842
Disposals	(1,749,024)	(157,547)	(143,032)	(3,491)	-	(378,275)	(2,431,369)
31 December 2007	401,345	3,529,489	1,480,688	470,419	-	1,283,059	7,165,000
Net carrying value							
31 December 2007	18,770,156	4,190,983	639,356	265,608	819,420	457,990	25,143,513
31 December 2006	6,984,610	4,204,833	700,736	373,021	477,862	560,330	13,301,392

9 Property, equipment and intangible assets, continued

'000 KZT	Land, buildings and constructions	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/equipment not yet uninstalled	Intangible assets	Total
Cost/revalued amount							
1 January 2006	8,731,746	6,752,747	1,880,287	745,987	104,189	1,731,101	19,946,057
Additions	54,154	562,645	169,203	25,319	625,718	246,778	1,683,817
Disposals	(10,406)	(147,888)	(58,516)	(39,631)	(120,549)	(174,965)	(551,955)
Transfers	-	9,659	71,863	-	(131,496)	49,974	-
31 December 2006	8,775,494	7,177,163	2,062,837	731,675	477,862	1,852,888	21,077,919
Depreciation and amortisation							
1 January 2006	1,444,711	2,368,188	1,118,416	276,600	-	1,108,673	6,316,588
Charge	356,410	658,191	288,279	119,556	-	337,069	1,759,505
Disposals	(10,237)	(54,049)	(44,594)	(37,502)	-	(153,184)	(299,566)
31 December 2006	1,790,884	2,972,330	1,362,101	358,654	-	1,292,558	7,776,527
Net carrying value							
31 December 2006	6,984,610	4,204,833	700,736	373,021	477,862	560,330	13,301,392
31 December 2005	7,287,035	4,384,559	761,871	469,387	104,189	622,428	13,629,469

9 Property, equipment and intangible assets, continued

Revalued assets

At 31 December 2007 buildings and constructions were revalued by Management based on the results of an independent appraisal performed by LLP Company KBS Advisory.

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

The carrying value of buildings as of 31 December 2007, if the buildings would not have been revalued, would be KZT 4,621,000 thousand (31 December 2006: KZT 4,814,411 thousand).

10 Other assets

	2007 '000 KZT	2006 '000 KZT
Inventories	2,478,132	2,460,679
Trade debtors	1,795,923	1,494,659
Accrued income	425,818	94,849
Prepayments	7,567	42,276
Other	268,453	207,407
	4,975,893	4,299,870
Impairment allowance	(18,668)	(22,059)
	4,957,225	4,277,811

Analysis of movements in the impairment allowance

	2007 '000 KZT	2006 '000 KZT
Balance at the beginning of the year	22,059	25,482
Net charge for the year	3,146	61,449
Write-offs	(6,537)	(64,872)
Balance at the end of the year	18,668	22,059

11 Currency in circulation

	2007 '000 KZT	2006 '000 KZT
Banknotes and coins in circulation	860,927,452	688,125,193
Less banknotes and coins in vaults	(938,301)	(774,457)
	859,989,151	687,350,736

12 Deposits and balances from banks and other institutions

	2007 '000 KZT	2006 '000 KZT
<i>Deposits and balances from foreign banks and other institutions</i>		
Commissions payable		
OECD banks	2,198,516	2,983,345
Loans		
Other foreign banks	228,897	241,645
Accounts of International organisations	87,048	87,965
Total deposits and balances from foreign banks and other institutions	2,514,461	3,312,955
<i>Deposits and balances from local banks and other institutions</i>		
Loro accounts		
Largest 10 Kazakhstan banks	450,889,917	607,914,151
Other Kazakhstan banks	134,698,602	72,529,306
Term deposits		
Largest 10 Kazakhstan banks	-	73,536,562
Other Kazakhstan banks	27,388,808	64,991,291
Derivative financial instruments		
Other Kazakhstan institutions	-	3,741
Total deposits and balances from local banks and other institutions	612,977,327	818,975,051
	615,491,788	822,288,006

Concentration of deposits and balances from banks and other institutions

As at 31 December 2007 and 2006 the National Bank had two and one banks and institutions, respectively, whose balances exceeded 10% of total deposits and balances from banks and other institutions. The gross value of these balances as of 31 December 2007 and 2006 were KZT 243,359,138 thousand and KZT 172,563,225 thousand, respectively.

13 Due to the National Fund of the Republic of Kazakhstan

	2007 '000 KZT	2006 '000 KZT
In national currency	208,739,409	63,615,673
In foreign currency	12,388,237	1,302,099
	221,127,646	64,917,772

In 2007 and 2006, the National Bank carried out trust management of the assets of the National Fund of the Republic of Kazakhstan. The National Fund's assets and liabilities are not included in these consolidated financial statements, except in respect of deposits by the National Fund of the Republic of Kazakhstan with the NBK.

14 Due to the Ministry of Finance of the Republic of Kazakhstan

	2007 '000 KZT	2006 '000 KZT
In national currency	71,514,981	211,962,056
In foreign currency	-	1,466,399
	71,514,981	213,428,455

15 Guarantee Funds

	2007 '000 KZT	2006 '000 KZT
Guarantee reserves on individuals deposits	8,937,750	10,949,783
Guarantee reserves on insurance deposits	441,000	289,559
	9,378,750	11,239,342

16 Customer accounts

	2007 '000 KZT	2006 '000 KZT
In national currency	1,416,542	365,172
In foreign currency	84,234	7,898
	1,500,776	373,070

17 Debt securities issued

	2007 '000 KZT	2006 '000 KZT
NBK notes	223,745,527	528,012,690
Less discount	(2,481,945)	(1,137,466)
	221,263,582	526,875,224

As at 31 December 2007 debt securities issued comprise the following issues:

Emissions	Carrying amount '000 KZT	Issue date	Maturity date	Effective rate
KZW1KM120825	77,541,746	11.05.2007	08.05.2008	6.50
KZW1KM120957	10,211,096	10.08.2007	08.08.2008	7.77
KZW1KD281122	12,875,451	07.12.2007	04.01.2008	5.64
KZW1KD281130	15,458,680	14.12.2007	11.01.2008	5.64
KZW1KD281148	62,889,704	21.12.2007	18.01.2008	5.64
KZW1KD281155	42,286,905	28.12.2007	25.01.2008	5.64
Total	221,263,582			

17 Debt securities issued, continued

As at 31 December 2006 debt securities issued comprise the following issues:

Emissions	Carrying amount		Issue date	Maturity date	Effective rate
	'000 KZT				
KZW1KD280587	108,956,757		08.12.2006	05.01.2007	4.58
KZW1KD280595	70,754,319		15.12.2006	12.01.2007	4.58
KZW1KD280603	124,176,052		22.12.2006	19.01.2007	4.58
KZW1KD280611	20,344,227		26.12.2006	23.01.2007	4.71
KZW1KD280629	156,341,817		28.12.2006	25.01.2007	4.84
KZW1KD280637	46,302,052		29.12.2006	26.01.2007	4.84
Total	526,875,224				

18 Deferred tax liability

In accordance with Kazakhstan legislation, the NBK is exempt from income tax, however all of the NBK's subsidiaries are subject to income tax.

Temporary differences between the carrying amounts of assets and liabilities of the NBK's subsidiaries for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2007 and 2006. The deferred tax assets and liabilities have been recognised in these consolidated financial statements. The future tax benefits have not been recognised due to uncertainties concerning their realisation.

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

'000 KZT	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property and equipment	-	-	450,917	318,967	450,917	318,967
Intangible assets	(21,014)	-	-	9,320	(21,014)	9,320
Other liabilities	(32,904)	(15,484)	-	-	(32,904)	(15,484)
Total deferred tax (assets)/liabilities	(53,918)	(15,484)	450,917	328,287	396,999	312,803

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

The above temporary differences do not expire under current tax legislation.

Movement in temporary differences:

'000 KZT	Balance at	Recognised	Balance at
	1 January 2007	in income	31 December 2007
Property and equipment	318,967	131,950	450,917
Intangible assets	9,320	(30,334)	(21,014)
Other liabilities	(15,484)	(17,420)	(32,904)
	312,803	84,196	396,999

18 Deferred tax liability, continued

'000 KZT	Balance at 1 January 2006	Recognised in income	Balance at 31 December 2006
Property and equipment	235,151	83,816	318,967
Intangible assets	5,163	4,157	9,320
Other liabilities	(7,590)	(7,894)	(15,484)
	232,724	80,079	312,803

19 Other liabilities

	2007 '000 KZT	2006 '000 KZT
Trade payables	1,223,050	1,433,913
Due to employees	1,272,204	578,347
Other	105,700	195,214
	2,600,954	2,207,474

20 Share capital and reserves

The share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. In accordance with the amendments to the Decree dated 18 December 2000 the share capital shall comprise KZT 20,000,000 thousand formed by appropriations of the net income as well as funding from the republican budget. As at 31 December 2007 and 2006 the share capital of the National Bank comprised KZT 20,000,000 thousand.

In accordance with the Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan", the NBK should establish a capital reserve in the amount of its share capital. At 31 December 2007 and 2006, the capital reserve amounted to KZT 48,774,701 thousand and KZT 11,325,781 thousand, respectively. In addition, the reserve for general banking risks is formed by an annual transfer from retained earnings in the amount of 0.5% of the value of certain assets. These reserves are non-distributable.

21 Net interest income

	2007 '000 KZT	2006 '000 KZT
Interest income		
Available-for-sale assets	71,987,235	45,731,317
Placements and balances with banks and other institutions	19,200,340	9,162,395
Amounts receivable under reverse repurchase agreements	4,758,448	2,949,357
Others	16,271	16,557
	95,962,294	57,859,626
Interest expense		
Debt securities issued	(33,995,353)	(9,357,820)
Deposits and balances from banks and other institutions	(4,117,964)	(6,419,568)
Due to the Ministry of Finance of the Republic of Kazakhstan	(293,197)	(1,096,457)
Amounts payable under repurchase agreements	(1,964,028)	(463,993)
	(40,370,542)	(17,337,838)
	55,591,752	40,521,788

22 Fee and commission income and expense

	2007 '000 KZT	2006 '000 KZT
Fee and commission income		
Pension asset management	3,095,222	3,458,767
Custody and trust operations	928,327	569,416
Transfer operations	346,912	465,513
	4,370,461	4,493,696
Fee and commission expense		
Custody services	(149,189)	(129,262)
Operations with foreign currencies, securities, stock exchange	(138,845)	(33,103)
Trust management services	(31,643)	(225,047)
Other	(660)	(635)
	(320,337)	(388,047)
	4,050,124	4,105,649

Fee and commission income on pension asset management consists of commission income of JSC Accumulation Pension Fund "GNPF".

Fee and commission income on custody and trust operations consists of income for trust management services provided to the National Fund of the Republic of Kazakhstan, JSC State Export Credits and Investments Guarantee Corporation, JSC Kazakhstan Mortgage Company, JSC Social Insurance State Fund and other institutions. The NBK renders asset management services to these organisations, or invests funds received in various financial instruments in accordance with customers' instructions.

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of RSE Kazakhstan Centre of Inter-banking Settlements.

23 Net realised (loss)/gain on available-for-sale assets, foreign currency and gold

	2007 '000 KZT	2006 '000 KZT
Foreign currency operations	8,251,608	5,905,501
Precious metals operations	(247,716)	(69,815)
Available-for-sale assets	(9,149,247)	(1,464,170)
	(1,145,355)	4,371,516

24 Other income

	2007 '000 KZT	2006 '000 KZT
Income from the sale of printed products	792,922	440,715
Income from the sale of coins for collection	300,933	178,755
Income from the sale of medals and gems	133,517	93,651
Income from lease of property and equipment	107,470	36,987
Income from transportation services	100,026	-
Income from processing liquid gold to granules	34,429	-
Income from collection services	19,235	17,410
Income from actuarial services	14,828	3,258
Income from penalties and fines	14,121	8,465
Other	105,413	3,270
	1,622,894	782,511

25 Banknotes and coins production expenses

	2007 '000 KZT	2006 '000 KZT
Banknote production expenses	2,937,372	4,479,575
Coin production expenses	1,522,128	1,146,449
Other	69,317	64,682
	4,528,817	5,690,706

26 Funding of third parties

	2007 '000 KZT	2006 '000 KZT
Funding of the AFS	2,080,540	1,493,033
Funding of the Magistrate at Kazakh Economic University in the name of Ryskulov	65,980	81,848
	2,146,520	1,574,881

In accordance with the Law of the Republic of Kazakhstan, dated 4 July 2003 № 474 “On State Regulation and Supervision of the Financial Market and Financial Organisations”, and the Decree of the President of the Republic of Kazakhstan dated 31 December 2003 № 1270 “On Further Improvement of the System of State Management of the Republic of Kazakhstan” the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations (the “AFS”) is funded from the budget of the NBK.

27 Payroll and related payments to employees

	2007	2006
	'000 KZT	'000 KZT
Payroll	3,100,145	2,378,923
Bonuses	2,525,365	1,140,911
Social tax	668,608	443,161
Training	90,528	81,502
Other	477,826	346,559
	6,862,472	4,391,056

28 General administrative expenses

	2007	2006
	'000 KZT	'000 KZT
Taxes other than income tax	581,853	623,326
Information and other services	477,620	337,706
Communication	350,451	300,733
Materials	339,469	216,310
Repair and maintenance	216,899	178,829
Security	182,091	183,072
Business trips	108,465	105,837
Advertising expenses	95,684	114,461
Utilities	83,629	42,774
Rent	68,519	64,191
Representation	58,682	52,009
Gifts	38,277	27,272
Insurance of property and equipment	4,816	5,107
Other	279,918	232,093
	2,886,373	2,483,720

29 (Provision recovery)/impairment losses

	2007	2006
	'000 KZT	'000 KZT
Impairment losses		
Other assets	3,146	61,449
Reversals of impairment losses		
Placements and balances with banks and other institutions	(5,648)	(15,766)
	(2,502)	45,683

30 Loss from disposal of subsidiary

In October 2007 the NBK transferred its shares in JSC "National Processing Center" which comprises 66.9% of the share capital, to the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan without any further compensation. The subsidiary contributed to the net loss for the year was KZT 52,785 thousand, including the loss on disposal of KZT 447,532 thousand.

30 Loss from disposal of subsidiary, continued

The disposal of subsidiary had the following effect on the National Bank's assets and liabilities at the date of disposal:

	Carrying amount at the date of disposal '000 KZT
Assets	
Cash	4,775
Placements and balances with banks and other institutions	150,000
Available-for-sale assets	334,127
Property, equipment and intangible assets	116,795
Income tax receivable	107
Other assets	61,252
Liabilities	
Deferred tax liability	(2,081)
Other liabilities	(14,545)
Net identifiable assets, liabilities	650,430
Consideration received	-
Cash disposed of	(4,775)
Net cash outflow	(4,775)

31 Income tax expense

	2007 '000 KZT	2006 '000 KZT
Current tax expense		
Current year	1,164,674	1,356,654
Under/(over) provided in prior years	14,776	(86,250)
	1,179,450	1,270,404
Deferred tax expense		
Origination and reversal of temporary differences	84,196	80,079
	1,263,646	1,350,483

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

Reconciliation of effective tax rate:

	2007 '000 KZT	%	2006 '000 KZT	%
Income of subsidiaries before tax	4,605,218	100.00%	5,088,140	100.00%
Income tax at the applicable tax rate	1,381,565	30.00%	1,526,442	30.00%
Non-deductible costs/(non-taxable income)	(132,695)	(2.88%)	(89,709)	(1.76%)
Under/(over) provided in prior years	14,776	0.32%	(86,250)	(1.70%)
	1,263,646	27.44%	1,350,483	26.54%

32 Related party transactions

The outstanding balances and the results of transactions with companies and organisations that are related parties of National Bank for the years ended 31 December 2007 and 2006 are as follows.

	2007			2006			Total category per financial statements captions
	Associates	State companies and organisations	Total category per financial statements captions	Associates	State companies and organisations	Total category per financial statements captions	
'000 KZT							
Consolidated balance sheet							
Assets							
Placements and balances with banks and other institutions	-	2,672,143	828,383,648	-	-	798,988,616	
Available-for-sale assets	-	24,299,919	973,283,773	-	28,125,037	1,449,864,042	
Investments in associates	1,330,318	-	1,330,318	233,916	-	233,916	
Other assets	827	467,591	4,957,225	3,782	1,841,645	4,277,811	
Liabilities							
Deposits and balances from banks and other institutions	7,192,974	38,197,734	615,491,788	12,431,170	31,096,683	822,288,006	
Due to the National Fund of the Republic of Kazakhstan	-	221,127,646	221,127,646	-	64,917,772	64,917,772	
Due to the Ministry of Finance of the Republic of Kazakhstan	-	71,514,981	71,514,981	-	213,428,455	213,428,455	
Customer accounts	16,857	1,241,077	1,500,776	33,442	64,106	373,070	
Debt securities issued	-	33,273,994	221,263,582	7,036	13,367,607	526,875,224	
Deferred tax liability	-	396,999	396,999	-	312,803	312,803	
Other liabilities	3,179	564,868	2,600,954	2,433	1,762,930	2,207,474	
Consolidated Income Statement							
Interest income	-	1,586,979	95,962,294	-	583,689	57,859,626	
Interest expense	-	(310,442)	(40,370,542)	(281)	(1,715,770)	(17,337,838)	
Fee and commission income	25,609	1,326,170	4,370,461	20,215	960,076	4,493,696	
Fee and commission expense	(43,748)	(36,752)	(320,337)	(30,582)	(190,824)	(388,047)	
Net realised (loss)/gain on available-for-sale assets, foreign currency and gold	2,579,440	(544,786)	(1,145,355)	-	-	4,371,516	
Income from associates	96,403	-	96,403	209,716	-	209,716	
Other income	24,201	330,849	1,622,894	20,043	756,165	782,511	
Banknotes and coins issuance expenses	-	(42,503)	(4,528,817)	-	(42,243)	(5,690,706)	
Funding of third parties	-	(2,146,520)	(2,146,520)	-	(1,574,881)	(1,574,881)	
Payroll and related payments to employees	-	(673,462)	(6,862,472)	-	(443,161)	(4,391,056)	
Administrative expenses	4,597	(805,060)	(2,886,373)	(23)	(973,435)	(2,483,720)	
Loss from disposal of subsidiary	-	(447,532)	(447,532)	-	-	-	
Income tax	-	(1,263,646)	(1,263,646)	-	(1,350,483)	(1,350,483)	

The remuneration to members of National Bank's Board of Directors and Management Board for the years ended 31 December 2007 and 2006 comprised KZT 260,127 thousand and KZT 180,250 thousand, respectively. The remuneration consists of salaries and bonuses.

33 Risk management policy

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, which includes interest rate, currency and other price risks, credit risk and liquidity risk.

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

The Investment Committee of the NBK 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 Board, committees, commissions and related working groups review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on Gold and Foreign Currency Assets Management of the NBK ("the Investment Strategy") approved by the Board on October, 27 2006, the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, its purchasing power, and profitability growth.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, foreign assets investment portfolio, absolute profitability portfolio and gold portfolio.

The operations of the NBK's subsidiaries are also exposed to the number of risks, the most significant are those related to market risks. Risk management procedures of subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' Board of Directors and internal control departments.

(a) 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 National Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

The National Bank manages its market risk by conducting regular assessment of all open positions. In addition, the National Bank sets 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.

The National Bank utilizes Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the bench mark portfolio. In accordance with Investment Strategy Tracking Error limit is 2% for the years ended 31 December 2007 and 31 December 2006.

Tracking Error can be used only when investor manages portfolio against the bench mark portfolio on comparative basis.

33 Risk management policy, continued

(a) Market risk, continued

As at 31 December 2007 and 2006 the bench mark portfolio for investment portfolio is a composite index of:

- Merrill Lynch United States Treasuries 1-5 years – 45%,
- Merrill Lynch European Economic and Monetary Union Direct Governments 1-5 years – 30%;
- Merrill Lynch United Kingdom Gilts 1-5 years – 10%;
- Merrill Lynch Japanese Treasuries 1-5 years – 10%;
- Merrill Lynch Australian Treasuries 1-5 years – 5%.

(i) Interest rate risk

Interest rate risk is the risk of change in National Bank profit amount or its financial instruments portfolios due to change in interest rates.

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

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

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

33 Risk management policy, continued

(a) Market risk, continued

(i) Interest rate risk, continued

	Value '000 KZT	2007 Average Effective Interest Rate, %	Value '000 KZT	2006 Average Effective Interest Rate, %
Interest Bearing Assets				
Gold	215,923,786	0.14	174,787,997	0.03
Placements and balances with banks and other institutions				
<i>Nostro accounts</i>				
- KZT	2,445,177	5.40	400,500	3.53
- USD	290,773,161	4.09	586,092,727	1.90
- Japanese yen	284,715,610	0.23	132,489,905	0.30
- EUR	28,491,483	3.50	19,720,471	1.72
- GBP	9,879,220	2.71	2,679,989	2.43
- other foreign currency	25,944,772	1.48	1,322,018	3.24
<i>Due from external assets managers</i>				
- USD	23,275,082	5.50	46,579,042	4.55
<i>Deposits</i>				
- KZT	809,247	9.95	201,164	10.75
- USD	67,811,891	4.73	1,727,743	3.74
- GBP	9,924,303	6.00	4,438,276	3.05
- other foreign currency	5,538,766	6.00	301,800	3.70
<i>Loans</i>				
- KZT	67,259,314	9.15	-	-
- USD	5,528,224	3.75	-	-
Amounts receivable under reverse repurchase agreements				
- KZT	4,003,617	9.00	-	-
- USD	167,933,720	5.12	39,309,550	3.71
Available-for-sale assets				
- KZT	24,299,919	5.08	28,125,037	4.20
- USD	510,004,477	4.29	795,186,835	3.19
- EUR	264,733,268	4.08	347,726,886	1.67
- GBP	76,811,575	5.52	111,815,694	3.40
- Japanese yen	66,076,051	1.02	109,747,606	1.39
- other foreign currency	31,358,483	6.37	57,261,984	3.91
Interest bearing liabilities				
Deposits and balances from banks and other financial institutions				
<i>Term deposits</i>				
- KZT	27,072,574	5.50	138,172,136	3.81
- USD	316,233	0.60	355,717	1.00
Due to Ministry of Finance of the Republic of Kazakhstan				
- KZT	71,514,981	-	211,962,056	0.84
Debt securities issued				
- KZT	221,263,582	5.08	526,875,224	3.56

33 Risk management policy, continued

(a) **Market risk, continued**

(i) *Interest rate risk, continued*

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

	2007		2006	
	'000 KZT		'000 KZT	
	Net income	Equity	Net income	Equity
100 bp parallel increase	(5,413,921)	(5,413,921)	(9,831,763)	(9,831,763)
100 bp parallel decrease	5,413,921	5,413,921	9,831,763	9,831,763

An analysis of the sensitivity of the equity as a result of changes in the fair value of financial assets available for sale due to changes in interest rate based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2007	2006
	'000 KZT	'000 KZT
100 bp parallel increase	(22,124,797)	(31,801,971)
100 bp parallel decrease	30,109,443	28,531,930

This analysis assumes that available-for-sale assets are held to maturity.

(ii) *Currency risk*

The National Bank 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. The Investment Committee sets up limits on the level of exposure by currencies on overnight and daily positions and monitors them.

The National Bank's exposure to foreign currency exchange rate risk by currencies as of 31 December 2007 and 2006 is presented in the table below:

33 Risk management policy, continued

(a) Market risk, continued

(ii) Currency risk, continued

	KZT	Gold 1 troy ounce= 99,668.5 KZT	USD 1 USD =120.30 KZT	EURO 1 EURO = 177.17 KZT	Japanese yen 10 yens = 10.71 KZT	SDR 1 SFR = 189.89 KZT	GBP 1 pound = 240.14 KZT	Other	2007 Total
Assets									
Cash in foreign currencies	-	-	20,237,980	149,240	-	-	-	48,561	20,435,781
Gold	-	215,923,786	-	-	-	-	-	-	215,923,786
Placements and balances with banks and other institutions									
<i>Foreign</i>	74,442,413	-	382,193,255	28,492,833	284,715,610	165,664	19,803,523	33,042,126	748,413,011
<i>Local</i>	4,003,617	-	5,528,224	-	-	-	-	-	79,970,637
Amounts receivable under reverse repurchase agreements	-	-	167,933,720	-	-	-	-	-	171,937,337
Available-for-sale assets									
<i>Foreign</i>	-	-	510,004,477	264,733,268	66,076,051	-	76,811,575	31,358,483	948,983,854
<i>Local</i>	24,299,919	-	-	-	-	-	-	-	24,299,919
Investments in associates	1,330,318	-	-	-	-	-	-	-	1,330,318
Property, equipment and intangible assets	25,143,513	-	-	-	-	-	-	-	25,143,513
Other assets	4,946,282	5,012	5,181	-	-	-	-	-	4,957,225
Total assets	134,166,062	215,928,798	1,085,902,837	293,375,341	350,791,661	165,664	96,615,848	64,449,170	2,241,395,381
Liabilities									
Currency in circulation	859,989,151	-	-	-	-	-	-	-	859,989,151
Deposits and balances from banks and other institutions									
<i>Foreign</i>	2,284,510	-	229,951	-	-	-	-	-	2,514,461
<i>Local</i>	182,636,608	-	180,284,755	10,187,478	239,868,298	-	-	188	612,977,327
Due to the National Fund of the Republic of Kazakhstan	208,739,409	-	2,725	449,153	2,892,075	-	2,949,994	6,094,290	221,127,646
Due to the Ministry of Finance of the Republic of Kazakhstan	71,514,981	-	-	-	-	-	-	-	71,514,981
Guarantee Funds	9,378,750	-	-	-	-	-	-	-	9,378,750
Customer accounts	1,416,543	-	71,692	5,170	-	-	-	7,371	1,500,776
Debt securities issued	221,263,582	-	-	-	-	-	-	-	221,263,582
Deferred tax liability	396,999	-	-	-	-	-	-	-	396,999
Other liabilities	2,543,398	-	55,721	494	83	-	-	883	2,600,954
Total liabilities	1,560,163,931	-	180,644,844	10,642,295	242,760,456	-	2,950,369	6,102,732	2,003,264,627
Net on balance sheet position	(1,425,997,869)	215,928,798	905,257,993	282,733,046	108,031,205	165,664	93,665,479	58,346,438	238,130,754
Net off balance sheet position	56,788,576	-	(56,788,576)	-	-	-	-	-	-
Net on and off balance sheet positions	(1,369,209,293)	215,928,798	848,469,417	282,733,046	108,031,205	165,664	93,665,479	58,346,438	238,130,754

33 Risk management policy, continued

(a) Market risk, continued

(ii) Currency risk, continued

	KZT	Gold 1 troy ounce=	USD 1 USD = 127.00 KZT	EURO 1 EURO = 167.12 KZT	Japanese yen 10 yens = 10,68 KZT	SDR 1 SFR = 190.90 KZT	GBP 1 pound = 249.01 KZT	Other	2006 Total
Assets									
Cash in foreign currencies	-	174,787,997	275,922	163,380	-	-	-	17,797	457,099
Gold	-	174,787,997	-	-	-	-	-	-	174,787,997
Placements and balances with banks and other institutions	-	-	-	-	-	-	-	-	-
<i>Foreign</i>	-	-	634,579,100	19,897,683	132,665,497	160,928	7,119,827	1,674,276	796,097,311
<i>Local</i>	2,891,305	-	-	-	-	-	-	-	2,891,305
Amounts receivable under reverse repurchase agreements	-	-	39,309,550	-	-	-	-	-	39,309,550
Available-for-sale assets	-	-	-	-	-	-	-	-	-
<i>Foreign</i>	-	-	795,186,834	347,726,887	109,747,606	-	111,815,694	57,261,984	1,421,739,005
<i>Local</i>	28,125,037	-	-	-	-	-	-	-	28,125,037
Investments in associates	233,916	-	-	-	-	-	-	-	233,916
Property, equipment and intangible assets	13,301,392	-	-	-	-	-	-	-	13,301,392
Other assets	4,265,529	4,627	7,226	429	-	-	-	-	4,277,811
Total assets	48,817,179	174,792,624	1,469,358,632	367,788,379	242,413,103	160,928	118,935,521	58,954,057	2,481,220,423
Liabilities									
Currency in circulation	687,350,736	-	-	-	-	-	-	-	687,350,736
Deposits and balances from banks and other institutions	-	-	-	-	-	-	-	-	-
<i>Foreign</i>	-	-	1,878,033	-	-	-	-	-	3,312,955
<i>Local</i>	1,434,922	-	14,418,053	16,127,863	130,940,756	-	593	-	818,975,051
Due to the National Fund of the Republic of Kazakhstan	63,615,673	-	1,280	224,752	236,440	-	642,908	196,719	64,917,772
Due to the Ministry of Finance of the Republic of Kazakhstan	211,962,056	-	1,438,615	17,806	-	-	9,959	19	213,428,455
Guarantee Funds	11,239,342	-	-	-	-	-	-	-	11,239,342
Customer accounts	365,172	-	7,195	699	-	-	-	4	373,070
Debt securities issued	526,875,224	-	-	-	-	-	-	-	526,875,224
Deferred tax liability	312,803	-	-	-	-	-	-	-	312,803
Other liabilities	2,127,434	-	79,330	674	-	-	-	36	2,207,474
Total liabilities	2,162,771,148	-	17,822,506	16,371,794	131,177,196	-	652,867	197,371	2,328,992,882
Net position	(2,113,953,969)	174,792,624	1,451,536,126	351,416,585	111,235,907	160,928	118,282,654	58,756,686	152,227,541
Net off balance sheet position	(27,305,000)	-	38,158,623	(8,362,645)	(2,490,978)	-	-	-	-
Net on and off balance sheet positions	(2,141,258,969)	174,792,624	1,489,694,749	343,053,940	111,235,907	160,928	115,791,676	58,756,686	152,227,541

33 Risk management policy, continued

(a) **Market risk, continued**

(ii) *Currency risk, continued*

An analysis of sensitivity of the Bank's equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2007 and 2006, and a simplified scenario of a 5% change in gold, USD, Euro, Japanese yen, SDR, GBP and other foreign currencies to Kazakhstan Tenge exchange rates is as follows:

	2007	2006
	'000 KZT	'000 KZT
5% appreciation of Troy ounce against KZT	10,796,440	8,739,631
5% depreciation of Troy ounce against KZT	(10,796,420)	(8,739,631)
5% appreciation of USD against KZT	42,423,471	74,484,737
5% depreciation of USD against KZT	(42,423,471)	(74,484,737)
5% appreciation of EUR against KZT	14,136,652	17,152,697
5% depreciation of EUR against KZT	(14,136,652)	(17,152,697)
5% appreciation of Japanese yen against KZT	5,401,560	5,561,795
5% depreciation of Japanese yen against KZT	(5,401,560)	(5,561,795)
5% appreciation of SDR against KZT	8,283	8,046
5% depreciation of SDR against KZT	(8,283)	(8,046)
5% appreciation of GBP against KZT	4,683,274	5,789,584
5% depreciation of GBP against KZT	(4,683,274)	(5,789,584)
5% appreciation of Other currencies against KZT	2,917,322	2,937,834
5% depreciation of Other currencies against KZT	(2,917,322)	(2,937,834)

The analysis is prepared on the assumption that the National Bank is in a net unrealised foreign currency exchange and gold position at each period end thus there is no income statement effect. The effect on the income statement will depend on whether the National Bank ends the year in an overall net unrealised gain or loss position.

(iii) **Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the National Bank takes a long or short position in a financial instrument.

The National Bank manages price risk by establishment of limits on deviation of the National Bank's portfolio performance from benchmark. The main indicator of such deviation is value of Tracking error that is monitored on regular basis and approved by the Board in accordance with Investment Strategy.

As at 31 December 2007 and 2006 the National Bank had no significant exposure to equity price risk.

33 Risk management policy, continued

(b) 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 National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks. The National Bank's credit policy is reviewed and approved by the Board.

The Bank's credit policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on National Bank's counterparties;
- Procedures for ongoing monitoring and review of the limit of National Bank's counterparties.

Requests for inclusion in the list of counterparties are received by National Bank's analysts. Analysts' report on potential counterparty is based on a financial performance and financial position ratios analysis with use of international rating agencies' data. On the basis of this report Investment Committee approves counterparty.

The National Bank analysts conduct daily monitoring of compliance with limits imposed on each individual counterparty. Apart to individual counterpart analysis, the National Bank performs valuation of portfolios in relation to concentration of credit risks.

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

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

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

State securities of the Republic of Kazakhstan and accrued income of them are classified in accordance with the lowest long-term rating of the Republic of Kazakhstan. Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as International Monetary Fund.

Below is the National Bank assets and liabilities credit rating as at 31 December 2007 and 31 December 2006:

33 Risk management policy, continued

(b) Credit risk, continued

	31 December 2007			31 December 2006		
	Rating	Amount, '000 KZT	Share in financial assets, %	Rating	Amount, '000 KZT	Share in financial assets, %
Financial assets						
Gold, deposited with financial institutions	AA+	18,864,948	0.89	AA+	33,518,400	1.39
	AA	13,457,569	0.63	AA-	44,604,627	1.85
	AA-	56,106,892	2.64	A+	19,785,394	0.82
	A+	13,643,008	0.64	A	23,249,668	0.96
	A	47,689,726	2.25			
Placements and balances with banks and other institutions	AAA+	165,664	0.01	AAA+	160,928	0.01
	AAA	594,024,514	27.98	AAA	703,022,774	29.19
	AA+	103,002	-	AA+	22,042,669	0.91
	AA	17,654,734	0.83	AA	6,279,324	0.26
	AA-	77,094,526	3.63	AA-	27,370,886	1.14
	A+	33,515,583	1.58	A+	2,054,650	0.09
	A	8,704,941	0.41	A	34,722,540	1.44
	BBB	2,537,752	0.12	A-	12,994	-
	BB+	67,282,300	3.17	BBB	1,492,756	0.06
	BB	2,344,790	0.11	BB+	353,851	0.01
	B+	68,054	-	BB	5,932	-
	B	629,944	0.03	B	201,164	0.01
	B- without ratings	61,091 24,196,753	- 1.14	without ratings	1,268,148	0.05
Amounts receivable under reverse repurchase agreements	AAA	167,933,720	7.91	AAA	39,309,550	1.63
	BBB	4,003,617	0.19			
Available-for-sale assets	AAA	716,422,929	33.74	AAA	1,109,419,623	46.05
	AA+	9,386,600	0.44	AA+	18,170,026	0.75
	AA	66,076,051	3.11	AA	105,259,396	4.37
	AA-	25,533,508	1.20	AA-	24,150,413	1.00
	A+	46,714,553	2.20	A+	39,089,075	1.62
	A	29,084,849	1.37	A	8,318,043	0.35
	BBB	22,664,797	1.07	BBB	21,688,344	0.90
	without ratings	57,400,486	2.71	without ratings	123,769,122	5.14
Other assets	AA-	3,188	-	AA+	429	-
	BBB	5,012	-	AA-	5,867	-
	without ratings	8,411	-	BBB	4,627	-
				without ratings	4,369	-
Total		2,123,383,512	100		2,409,335,589	100

33 Risk management policy, continued

(c) Liquidity risk

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

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

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy of the National Bank requires:

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

The department of Monetary Operations obtains information from Department of Monetary Operations Accounting related to the liquidity of assets and liabilities and performs analysis of the liquidity position. After this the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold if it required as soon as it possible

33 Risk management policy, continued

(c) Liquidity risk, continued

According to current NBK's Investment Strategy the liquidity portfolio consists of highly liquid financial assets such as:

- cash in foreign currencies;
- foreign government treasury bills, debt securities of international governments and non-governments financial institutions with short-term credit rating A and above and long-term credit rating BBB and above;
- foreign currency and gold deposits with counterparties that have credit ratings A and above;
- Repo and reverse Repo operations with counterparties that have credit rating A- and above and collateral fair value not less than 100% of the reverse Repo amount, and;
- shares included to the indexes S&P500, DJ STOXX 50€, Nikkei 225, FTSE 100, S&P/ASX, etc.

The volume of the liquidity portfolio should not fall below equivalent of USD 1 billion (2006: USD 500 million).

33 Risk management policy, continued

(c) Liquidity risk, continued

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

'000 KZT	On demand and up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Assets							
Cash in foreign currencies	20,435,781	-	-	-	-	-	20,435,781
Gold	186,407,463	29,516,323	-	-	-	-	215,923,786
Placements and balances with banks and other institutions							
<i>Foreign</i>	748,413,011	-	-	-	-	-	748,413,011
<i>Local</i>	79,970,637	-	-	-	-	-	79,970,637
<i>Local</i>	171,937,337	-	-	-	-	-	171,937,337
Amounts receivable under reverse repurchase agreements							
<i>Available-for-sale assets</i>							
<i>Foreign</i>	116,761,509	37,494,198	44,596,319	671,285,660	78,846,168	-	948,983,854
<i>Local</i>	6,664,765	-	1,206,700	6,626,104	9,280,347	522,003	24,299,919
Investments in associates	-	-	-	-	-	1,330,318	1,330,318
Property, equipment and intangible assets	-	-	-	-	-	25,143,513	25,143,513
Other assets	2,479,093	-	2,478,132	-	-	-	4,957,225
Total assets	1,333,069,596	67,010,521	48,281,151	677,911,764	88,126,515	26,995,834	2,241,395,381
Liabilities							
Currency in circulation	859,989,151	-	-	-	-	-	859,989,151
Deposits and balances from banks and other institutions							
<i>Foreign</i>	2,514,461	-	-	-	-	-	2,514,461
<i>Local</i>	612,666,989	310,338	-	-	-	-	612,977,327
<i>Local</i>	221,127,646	-	-	-	-	-	221,127,646
Due to the National Fund of the Republic of Kazakhstan							
Due to the Ministry of Finance of the Republic of Kazakhstan	71,514,981	-	-	-	-	-	71,514,981
Guarantee Funds	-	-	-	-	-	9,378,750	9,378,750
Customer accounts	1,500,776	-	-	-	-	-	1,500,776
Debt securities issued	133,205,278	-	88,058,304	-	-	-	221,263,582
Deferred tax liability	-	-	-	396,999	-	-	396,999
Other liabilities	2,600,954	-	-	-	-	-	2,600,954
Total liabilities	1,905,120,236	310,338	88,058,304	396,999	-	9,378,750	2,003,264,627
Net position	(572,050,640)	66,700,183	(39,777,153)	677,514,765	88,126,515	17,617,084	238,130,754
Accumulated gap	(572,050,640)	(505,350,457)	(545,127,610)	132,387,155	220,513,670	238,130,754	-

33 Risk management policy, continued

(c) Liquidity risk, continued

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2006:

'000 KZT	On demand and up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Assets							
Cash in foreign currencies	457,099	-	-	-	-	-	457,099
Gold	174,787,997	-	-	-	-	-	174,787,997
Placements and balances with banks and other institutions							
<i>Foreign</i>	796,097,311	-	-	-	-	-	796,097,311
<i>Local</i>	2,891,305	-	-	-	-	-	2,891,305
Amounts receivable under reverse repurchase agreements	39,309,550	-	-	-	-	-	39,309,550
Available-for-sale assets							
<i>Foreign</i>	101,840,940	233,991,494	56,738,184	992,949,539	36,218,848	-	1,421,739,005
<i>Local</i>	11,369,567	-	1,037,088	5,933,232	9,263,147	522,003	28,125,037
Investments in associates	-	-	-	-	-	233,916	233,916
Property, equipment and intangible assets	-	-	-	-	-	13,301,392	13,301,392
Other assets	1,817,132	-	2,460,679	-	-	-	4,277,811
Total assets	1,128,570,901	233,991,494	60,235,951	998,882,771	45,481,995	14,057,311	2,481,220,423
Liabilities							
Currency in circulation	687,350,736	-	-	-	-	-	687,350,736
Deposits and balances from banks and other institutions							
<i>Foreign</i>	3,312,955	-	-	-	-	-	3,312,955
<i>Local</i>	818,647,193	327,858	-	-	-	-	818,975,051
Due to the National Fund of the Republic of Kazakhstan	64,917,772	-	-	-	-	-	64,917,772
Due to the Ministry of Finance of the Republic of Kazakhstan	213,428,455	-	-	-	-	-	213,428,455
Guarantee Funds	-	-	-	-	-	11,239,342	11,239,342
Customer accounts	373,070	-	-	-	-	-	373,070
Debt securities issued	526,875,224	-	-	-	-	-	526,875,224
Deferred tax liability	-	-	-	312,803	-	-	312,803
Other liabilities	2,207,474	-	-	-	-	-	2,207,474
Total liabilities	2,317,112,879	327,858	-	312,803	-	11,239,342	2,328,992,882
Net position	(1,188,541,978)	233,663,636	60,235,951	998,569,968	45,481,995	2,817,969	152,227,541
Accumulated gap	(1,188,541,978)	(954,878,342)	(894,642,391)	103,927,577	149,409,572	152,227,541	152,227,541

33 Risk management policy, continued

(c) Liquidity risk, continued

The following table shows the undiscounted cash flows on the National Bank's financial liabilities. The gross nominal (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The National Bank's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

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

'000 KZT	On demand and up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 5 years	Total gross nominal outflow /(inflow)	Carrying amount
Liabilities						
Currency in circulation	859,989,151	-	-	-	859,989,151	859,989,151
Deposits and balances from banks and other institutions						
Accounts and deposits	612,764,534	310,467	-	-	613,075,001	613,064,375
Commission payable	2,198,516	-	-	-	2,198,516	2,198,516
Loans	228,897	-	-	-	228,897	228,897
Derivatives				-		
<i>Outflow</i>	56,711,150	-	-	-	56,711,150	-
<i>Inflow</i>	(56,788,576)	-	-	-	(56,788,576)	(94,048)
Due to the National Fund of the Republic of Kazakhstan	221,127,646	-	-	-	221,127,646	221,127,646
Due to the Ministry of Finance of the Republic of Kazakhstan	71,514,981	-	-	-	71,514,981	71,514,981
Guarantee Funds	9,378,750	-	-	-	9,378,750	9,378,750
Customer accounts	1,500,776	-	-	-	1,500,776	1,500,776
Debt securities issued	133,530,653	-	90,214,874	-	223,745,527	221,263,582
Deferred tax liability	-	-	-	396,999	396,999	396,999
Other liabilities	2,600,954	-	-	-	2,600,954	2,600,954
Total	1,914,757,432	310,467	90,214,874	396,999	2,005,679,772	2,003,170,579

33 Risk management policy, continued

(c) Liquidity risk, continued

The position of the Group as at 31 December 2006 was as follows:

'000 KZT	On demand and up to 1 month	1 month to 6 months	1 year to 5 years	Total gross nominal outflow/ (inflow)	Carrying amount
Liabilities					
Currency in circulation	687,350,736	-	-	687,350,736	687,350,736
Deposits and balances from banks and other institutions					
Accounts and deposits	818,960,672	328,000	-	819,288,672	819,059,275
Commission payable	2,983,345	-	-	2,983,345	2,983,345
Loans	241,645	-	-	241,645	241,645
Derivatives					
<i>Outflow</i>	38,241,400	-	-	38,241,400	3,741
<i>Inflow</i>	(38,158,623)	-	-	(38,158,623)	(25,188)
Due to the National Fund of the Republic of Kazakhstan	64,917,772	-	-	64,917,772	64,917,772
Due to the Ministry of Finance of the Republic of Kazakhstan	213,428,455	-	-	213,428,455	213,428,455
Guarantee Funds	11,239,342			11,239,342	11,239,342
Customer accounts	373,070	-	-	373,070	373,070
Debt securities issued	528,012,690	-	-	528,012,690	526,875,224
Deferred tax liability	-	-	312,803	312,803	312,803
Other liabilities	2,207,474	-	-	2,207,474	2,207,474
Total	2,329,797,978	328,000	312,803	2,330,438,781	2,328,967,694

33 Risk management policy, continued

(d) Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, or systems failure. Operational risk includes legal risk.

The National Bank's objective is to manage operational risk through implementing preventive and detective control procedures. The primary responsibility for the control implementation is assigned to management within each operational department. This responsibility is supported by the development of standards and procedures for the management of operational risk and which cover the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced;
- the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical standards;
- risk mitigation, including insurance where this is effective.

Compliance with the National Bank's standards and procedures is supported by a programme of periodic reviews undertaken by Internal Audit Department. The results of Internal Audit reviews are discussed with the management of operational departments to which they relate and presented to the Chairman of the Board.

33 Risk management policy, continued

(e) Geographical risk

The geographical analysis of assets and liabilities of the National Bank as of 31 December 2007 is given below:

'000 KZT	Kazakhstan	OECD countries	Other countries	Total
Assets				
Cash in foreign currencies	20,435,781	-	-	20,435,781
Gold	66,161,642	149,762,144	-	215,923,786
Placements and balances with banks and other institutions				
<i>Foreign</i>	2,632,613	745,269,715	510,683	748,413,011
<i>Local</i>	79,970,637	-	-	79,970,637
Amounts receivable under reverse repurchase agreements	4,003,617	167,933,720	-	171,937,337
Available-for-sale assets				
<i>Foreign</i>	-	948,983,854	-	948,983,854
<i>Local</i>	24,299,919	-	-	24,299,919
Investments in associates	1,330,318	-	-	1,330,318
Property, equipment and intangible assets	25,143,513	-	-	25,143,513
Other assets	4,196,391	739,727	21,107	4,957,225
Total assets	228,174,431	2,012,689,160	531,790	2,241,395,381
Liabilities				
Currency in circulation	859,989,151	-	-	859,989,151
Deposits and balances from banks and other institutions				
<i>Foreign</i>	-	2,284,510	229,951	2,514,461
<i>Local</i>	612,977,327	-	-	612,977,327
Due to the National Fund of the Republic of Kazakhstan	221,127,646	-	-	221,127,646
Due to the Ministry of Finance of the Republic of Kazakhstan	71,514,981	-	-	71,514,981
Guarantee Funds	9,378,750	-	-	9,378,750
Customer accounts	1,500,776	-	-	1,500,776
Debt securities issued	221,263,582	-	-	221,263,582
Deferred tax liability	396,999	-	-	396,999
Other liabilities	2,007,316	593,638	-	2,600,954
Total liabilities	2,000,156,528	2,878,148	229,951	2,003,264,627
Net position	(1,771,982,097)	2,009,811,012	301,839	238,130,754

33 Risk management policy, continued

(e) Geographical risk, continued

The geographical analysis of assets and liabilities of the National Bank as of 31 December 2006 is given below:

'000 KZT	Kazakhstan	OECD countries	Other countries	Total
Assets				
Cash in foreign currencies	457,099	-	-	457,099
Gold	53,629,908	121,158,089	-	174,787,997
Placements and balances with banks and other institutions				
<i>Foreign</i>	-	795,718,870	378,441	796,097,311
<i>Local</i>	2,891,305	-	-	2,891,305
Amounts receivable under reverse repurchase agreements	-	39,309,550	-	39,309,550
Available-for-sale assets				
Foreign	-	1,421,739,005	-	1,421,739,005
Local	28,125,037	-	-	28,125,037
Investments in associates	233,916	-	-	233,916
Property, equipment and intangible assets	13,301,392	-	-	13,301,392
Other assets	3,536,366	726,816	14,629	4,277,811
Total assets	102,175,023	2,378,652,330	393,070	2,481,220,423
Liabilities				
Currency in circulation	687,350,736	-	-	687,350,736
Deposits and balances from banks and other institutions				
<i>Foreign</i>	-	3,070,342	242,613	3,312,955
<i>Local</i>	818,975,051	-	-	818,975,051
Due to the National Fund of the Republic of Kazakhstan	64,917,772	-	-	64,917,772
Due to the Ministry of Finance of the Republic of Kazakhstan	213,428,455	-	-	213,428,455
Guarantee Funds	11,239,342	-	-	11,239,342
Customer accounts	373,070	-	-	373,070
Debt securities issued	526,875,224	-	-	526,875,224
Deferred tax liability	312,803	-	-	312,803
Other liabilities	1,998,458	209,016	-	2,207,474
Total liabilities	2,325,470,911	3,279,358	242,613	2,328,992,882
Net position	(2,223,295,888)	2,375,372,972	150,457	152,227,541

34 Commitments and contingent

At any time the National Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The National Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The National Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

	2007 '000 KZT	2006 '000 KZT
Contracted amount		
Undrawn loan commitments	98,755	99,109
Guarantees and letters of credit	37,758	10,257
	136,513	109,366

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(a) Insurance

The insurance industry in 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 National Bank has partial insurance coverage for its premises and equipment. The insurance covers property damage, caused by fire, thunderbolt, gas explosion, natural disaster, water damage, etc. according to the insurance contract.

The National Bank 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 the National Bank's property or relating to the National Bank's operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the National Bank's operations and financial position.

(b) Litigation

From time to time and in the normal course of business, claims against the National Bank are received from customers and counterparties. Based on their own estimate and also on recommendations by internal and external professional advisors, the management of the National Bank is of the opinion that no material unaccrued losses will occur and accordingly no provision for litigation has been made in these financial statement.

(c) Taxation contingencies

The taxation system in the Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which can be 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.

34 Commitments and contingent, continued

(c) Taxation contingencies, continued

A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the 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 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 National Bank's financial position, if the authorities were successful in enforcing their interpretations, could be significant.

35 Fair value of financial instruments

The estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures".

The estimated fair values of quoted available-for-sale assets 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 is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date. As disclosed in Note 7 the fair value of unquoted equity securities with a carrying value of KZT 522,003 thousand (2006: KZT 522,003 thousand) could not be determined.

Management of the National Bank believes that fair value of financial instruments, except for unquoted equity instruments, does not differ significantly from their carrying value.

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

36 Trust and custody activities

(a) Trust activities

The National Bank provides trust services to trusts, pension funds and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated balance sheet. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2007 the total assets held by the National Bank on behalf of customers were KZT 362,718,322 thousand (31st of December 2006: KZT 232,791,700 thousand).

36 Trust and custody activities, continued

(b) Custody activities

The National Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the National Bank and are not recognised in the consolidated balance sheet.

37 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flow are composed of the following items:

	2007 '000 KZT	2006 '000 KZT
Nostro accounts in foreign banks	639,804,246	742,305,110
Term deposit in foreign banks, with maturity less than 3 months	83,274,960	6,467,819
Cash in foreign currencies	20,435,781	457,099
Nostro accounts in local banks	2,445,177	400,500
Term deposit in local banks, with maturity less than 3 months	809,247	201,163
	746,769,411	749,831,691