

EURASIAN DEVELOPMENT BANK

Financial Statements

For the Years Ended 31 December 2008 and 2007

EURASIAN DEVELOPMENT BANK

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EURASIAN DEVELOPMENT BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of the Eurasian Development Bank (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2008 and 2007, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:


- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the years ended 31 December 2008 and 2007 were authorized for issue on 6 February 2009 by the management of the Bank.

On behalf of the management of the Bank:


I.V. Finogenov
Chairman of the Executive Board




M.A. Dzhaukenov
Deputy Chairman of the Executive
Board – Financial Director

6 February 2009
Almaty, Kazakhstan

6 February 2009
Almaty, Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the members of the Council of the Eurasian Development Bank:

Report on the financial statements

We have audited the accompanying financial statements of the Eurasian Development Bank (the "Bank"), which comprise the balance sheets as at 31 December 2008 and 2007, and the income statements, statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

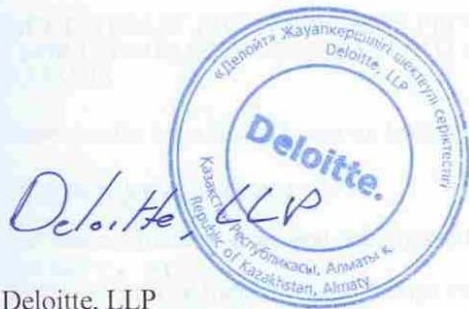
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Eurasian Development Bank as at 31 December 2008 and 2007, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.



Deloitte, LLP
State license on auditing in the Republic of Kazakhstan
Number 0000015, type MFU-2, issued by the Ministry of
Finance of the Republic of Kazakhstan
dated 13 September 2006

6 February 2009
Almaty, Kazakhstan

Mark Smith
Engagement partner
Chartered Accountant
Institute of Chartered Accountants of
Scotland
License #M21857
Glasgow, Scotland


Nurlan Bekenov
General Director
Deloitte, LLP

EURASIAN DEVELOPMENT BANK

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (in thousands of US dollars)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	4	108,083	59,281
Interest expense	4	<u>(28,849)</u>	<u>(13,436)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		79,234	45,845
Provision for impairment losses on loans to customers	5	<u>(821)</u>	<u>(556)</u>
NET INTEREST INCOME		<u>78,413</u>	<u>45,289</u>
Net loss on financial assets and liabilities at fair value through profit or loss	6	(6,798)	(11,358)
Net (loss)/gain on transactions in foreign currencies	7	(9,560)	22,046
Fee and commission income	8	5,427	75
Fee and commission expense	8	(1,075)	(1,070)
Other income		<u>9</u>	<u>-</u>
NET NON-INTEREST (EXPENSE)/ INCOME		<u>(11,997)</u>	<u>9,693</u>
OPERATING INCOME		66,416	54,982
OPERATING EXPENSES	9	<u>(25,876)</u>	<u>(15,723)</u>
NET PROFIT		<u><u>40,540</u></u>	<u><u>39,259</u></u>

On behalf of the management of the Bank:


I.V. Finogenov
Chairman of the Executive Board

6 February 2009
Almaty, Kazakhstan




M.A. Dzhaikenov
Deputy Chairman of the Executive Board –
Financial Director

6 February 2009
Almaty, Kazakhstan

The notes on pages 8-45 form an integral part of these financial statements.

EURASIAN DEVELOPMENT BANK


BALANCE SHEETS

AS AT 31 DECEMBER 2008 AND 2007

(in thousands of US dollars)


	Notes	31 December 2008	31 December 2007
ASSETS:			
Cash and balances with national (central) banks of Member-states of the Bank	10	155	1,533
Financial assets at fair value through profit or loss	11	8,331	490,844
Loans and advances to banks	12	694,597	599,379
Loans to customers	13	435,699	164,673
Financial assets available-for-sale	14	267,062	39,883
Investments held to maturity	15	577,201	-
Property and equipment	16	17,845	12,073
Intangible assets		1,328	1,368
Other assets	17	5,429	3,100
TOTAL ASSETS		2,007,647	1,312,853
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and deposits from banks	18	464,357	450,267
Financial liabilities at fair value through profit or loss	11	742	4,392
Other liabilities	19	11,065	4,269
Total liabilities		476,164	458,928
EQUITY:			
Share capital	20	1,500,000	804,787
Reserve fund		24,569	4,940
Revaluation reserve for financial assets available-for-sale		(58,195)	-
Retained earnings		65,109	44,198
Total equity		1,531,483	853,925
TOTAL LIABILITIES AND EQUITY		2,007,647	1,312,853

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Chairman of the Executive Board

6 February 2009
Almaty, Kazakhstan




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Financial Director

6 February 2009
Almaty, Kazakhstan

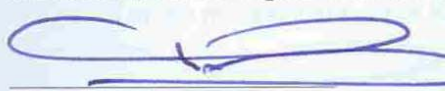
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EURASIAN DEVELOPMENT BANK

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (in thousands of US dollars)


	Share capital	Reserve fund	Revaluation reserves for financial assets available-for-sale	Retained earnings	Total
31 December 2006	614,016	-	-	9,879	623,895
Share capital increase	190,771	-	-	-	190,771
Transfer to reserve fund	-	4,940	-	(4,940)	-
Net profit	-	-	-	39,259	39,259
31 December 2007	804,787	4,940	-	44,198	853,925
Share capital increase	695,213	-	-	-	695,213
Transfer to reserve fund	-	19,629	-	(19,629)	-
Loss on financial assets available-for-sale recognized directly in equity during the year	-	-	(58,195)	-	(58,195)
Net profit	-	-	-	40,540	40,540
31 December 2008	<u>1,500,000</u>	<u>24,569</u>	<u>(58,195)</u>	<u>65,109</u>	<u>1,531,483</u>

On behalf of the management of the Bank:


I.V. Finogenov
Chairman of the Executive Board

6 February 2009
Almaty, Kazakhstan




M.A. Dzhaukenov
Deputy Chairman of the Executive Board –
Financial Director

6 February 2009
Almaty, Kazakhstan

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EURASIAN DEVELOPMENT BANK

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (in thousands of US dollars)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received on loans to customers		18,886	4,932
Interest received on loans and advances to banks		34,346	35,903
Interest and income received from financial assets and liabilities at fair value through profit or loss		27,696	3,416
Interest received on financial assets available-for-sale		8,667	-
Interest received on investments held to maturity		10,873	-
Interest paid on loans and deposits from banks		(25,102)	(11,879)
Fee and commission received		5,084	-
Fee and commission paid		(1,022)	(1,008)
Other income		9	-
Operating expenses paid		(22,908)	(12,141)
		<u>56,529</u>	<u>19,223</u>
Changes in operating assets			
Increase in loans to customers		(269,593)	(162,562)
Increase in loans and advances to banks		(143,041)	(51,417)
Increase in financial assets at fair value through profit or loss		(151,621)	(192,869)
(Increase)/decrease in other assets		(2,090)	1,486
Changes in operating liabilities			
Increase in deposits from banks		51,973	51,814
Increase in financial liabilities at fair value through profit or loss		3,071	4,086
Increase in other liabilities		1,306	3,539
		<u>(453,466)</u>	<u>(326,700)</u>
Net cash outflow from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of financial assets available-for-sale		(58,935)	(39,760)
Purchase of investments held to maturity		(183,922)	-
Purchase of property, equipment and intangible assets		(8,696)	(5,408)
		<u>(251,553)</u>	<u>(45,168)</u>
Net cash outflow from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of share capital		695,213	190,771
Proceeds from loans from banks		371,998	397,568
Repayments of loans from banks		(400,000)	(150,000)
		<u>667,211</u>	<u>438,339</u>
Net cash inflow from financing activities			
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(37,808)	66,471
CASH AND CASH EQUIVALENTS, at beginning of the year		438,508	358,248
<i>Effect of changes in foreign exchange rate on cash and cash equivalents</i>		(590)	13,789
CASH AND CASH EQUIVALENTS, at end of the year	10	<u>400,110</u>	<u>438,508</u>

On behalf of the management of the Bank:

I.V. Finogenov
Chairman of the Executive Board

6 February 2009
Almaty, Kazakhstan



M.A. Dzhapkenov
Deputy Chairman of the Executive Board –
Financial Director

6 February 2009
Almaty, Kazakhstan

The notes on pages 8-45 form an integral part of these financial statements.

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(in thousands of US dollars, except share data)

1. ORGANISATION

The Eurasian Development Bank (the “Bank”) is an international organization, which was established in accordance with the Agreement Establishing the Eurasian Development Bank, entered into between the Russian Federation and the Republic of Kazakhstan (the “Member-states”) on 12 January 2006 (the “Agreement on Incorporation”). The Agreement on Incorporation became effective on 16 June 2006, upon fulfillment of domestic procedures necessary for it to become effective.

The Bank’s membership is open to new participants such that other states and international organizations may join the Agreement on Incorporation of the Bank. The strategic objective of the Bank is to promote development of the market economy in its Member-states, including their economic growth and the expansion of mutual trade and economic relations through investment activity. The Bank was established to assist Member-states in integrating their economies and developing their infrastructure.

In December 2008 the Council of the Bank approved the accession of the Republic of Armenia, the republic of Belarus and the Republic of Tajikistan to the Establishment Agreement of the Eurasian Development Bank. Upon fulfilling appropriate domestic procedures related to the ratification of the Establishment Agreement of the Eurasian Development bank and contributing the required share capital, the abovementioned states will become members of the Bank.

The Bank's principal activities consist of investment banking, operations with securities, loans, foreign currencies and provision of loans and guarantees. The Bank finances large and medium investment projects that are medium-term and long-term in duration, including industrial and innovative programs of Member-states and interstate target programs. The Bank also provides financing for investment projects of interregional significance, and lends to industrial companies of Member-states.

The headquarters of the Bank are registered at: 98, Panfilov Street, Almaty, the Republic of Kazakhstan.

The total number of employees of the Bank as at 31 December 2008 and 2007 was 181 and 115, respectively.

In accordance with its Charter, the Bank possesses immunity against any legal proceedings, except for the cases which do not result from its execution of its powers. The property and the assets of the Bank possess the same immunities from search, requisition, arrest, confiscation, expropriation or any other form of withdrawal or alienation prior to final judgment in relation to the Bank. The Bank is exempted from any taxes, levies, duties, income taxes and other payments, except for those that represent a payment for specific types of service.

As at 31 December 2008 and 2007, shares of the Bank were owned as follows:

	31 December 2008, %	31 December 2007, %
The Russian Federation	66.67	49.70
The Republic of Kazakhstan	33.33	50.30
Total	<u>100.00</u>	<u>100.00</u>

These financial statements were authorized for issue on 6 February 2009 by the management of the Bank.

Specific volatility in global financial markets and financial markets of the Russian Federation and of the Republic of Kazakhstan

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in the Republic of Kazakhstan and the Russian Federation, notwithstanding any potential economic stabilization measures that may be put into place by the Governments of the Republic of Kazakhstan and the Russian Federation, there exists economic uncertainties surrounding the continual availability, and cost, of credit both for the Bank and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the regular course of business, and a corresponding impact on the Bank's profitability.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements are presented in thousands of US dollars, unless otherwise indicated. These financial statements have been prepared under the accrual method and historical cost convention, except for the measurement at fair value of certain financial instruments.

Functional currency

Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Bank (the "functional currency"). The functional currency of the Bank is the US dollar.

The Bank considered the following factors in determining its functional currency: the US dollar mainly influences sales prices for services, labor, material and other costs, share capital is formed in US dollars, and funds from financing activities are generated mainly in US dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with original maturities within 90 days.

Loans and advances to banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Loans and advances to banks are measured at amortized cost using the effective interest method, and are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) which are designated by the Bank at fair value through profit or loss upon initial recognition. A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (2) the financial asset forms part of a Bank of financial assets and/ or liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the income statement for the period.

Derivative financial instruments are used by the Bank for trading purposes and to provide economic hedges against exposures to fluctuations in foreign currency exchange rates and interest rates. Although the above-mentioned hedges may be effective from an economic standpoint, they do not receive hedge accounting treatment and as such, changes in the market value of these instruments are recorded in the income statement.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the balance sheet. Gains and losses resulting from these instruments are included in net (loss)/ gain from financial assets and liabilities at fair value through profit or loss in the income statement.

Securities repurchase and reverse repurchase agreements

In the normal course of business, the Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as loans from banks.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit collateralized by securities and are classified within balances due from banks.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Bank are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Such write offs are recorded after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

Allowance for impairment losses

Assets carried at amortized cost

The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate.

Such impairment losses are not reversed, unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed either direct or by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the original effective interest rate of return for a similar financial asset.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments under condition that the Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method. The Bank has reclassified securities to held to maturity based on its assessment of an active market on the date of initial purchase.

Financial assets available-for-sale

Financial assets available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Financial assets available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in equity except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. When sold, the gain/loss previously recorded in equity is recycled through the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's financial assets available-for-sale. If the market for investments is not active, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Property and equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Furniture and equipment	14.3%-50%
Vehicles	16.67%-25%
Intangible assets	15%-50%

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount; impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

The Bank, its income, property and other assets, and also its operations and transactions carried out in accordance with its Charter on the territory of Member-states of the Bank, are exempted from any taxes, levies, duties and other payments, except for that which represent payment for certain types of services.

Loans and deposits from banks

Loans and deposits from banks are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Provisions and contingencies

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Contingent liabilities are not recognized in the balance sheet but are disclosed unless the possibility of any outflow in settlement is probable.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Bank provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital

Share capital is recognized at cost.

Retirement and other benefit obligations

The Bank is exempt from payments of obligatory pension contributions to funds operating in the Member-states of the Bank. The Bank provides non-state retirement benefits in accordance with internal regulative documents of the Bank. The retirement savings plan is similar to a define contribution plan and it is recorded as operating expenses in the income statement and as other financial liabilities in the balance sheet of the Bank.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the income statement on expiry. Loan servicing fees and loan syndication fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Financial statements of the Bank are presented in its functional currency. In preparing the financial statements monetary assets and liabilities denominated in currencies other than the Bank's functional currency (foreign currencies) are translated at the appropriate spot rates of exchange rates prevailing at the balance sheet date. Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net (loss)/ gain on foreign exchange operations.

Rates of exchange

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

	31 December 2008	31 December 2007
US dollar/1 Kazakhstani tenge	0.0082764	0.0082902
US dollar/1 Russian ruble	0.0340363	0.0407501
US dollar/1 English pound sterling	1.4505010	1.9962999
US dollar/1 Euro	1.4105016	1.4646004

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty. The Bank's primary format for reporting segment information is based on geography.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans

Loans to customers and loans and advances to banks are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairment involves the exercise of significant judgment. The Bank estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience adjusted for current trends. These determinations are supplemented by the judgment of management. The allowances for impairment losses as at 31 December 2008 and 2007 were 1,377 thousand US dollars and 556 thousand US dollars, respectively.

The Bank considers accounting estimates related to provisions for loans to be key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods. The Bank's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its income statement could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Bank's reported net income.

The Bank does not have financial instruments at fair value which are determined in whole or in part using a valuation technique based on assumptions which are not supported by prices from observable current market transactions in the same instrument and not based on available observable market data.

Adoption of new and revised standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years, except for amendments to IAS 39, "Financial Instruments: Recognition and Measurement".

Amendments to IAS 39, and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available-for-sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008.

The Bank has reclassified securities from financial assets at fair value through profit or loss into the following categories with the effect from 1 July 2008:

	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Investments held to maturity	Total		
1 July 2008 (unaudited)						
Before reclassification	620,567	-	-	620,567		
Reclassification from financial assets at fair value through profit or loss to financial assets available-for-sale	(233,956)	233,956	-	-		
Reclassification from financial assets at fair value through profit or loss to investments held to maturity	(386,611)	-	386,611	-		
After reclassification	<u>-</u>	<u>233,956</u>	<u>386,611</u>	<u>620,567</u>		
	2008			31 December 2008		
	On reclassification					
	Effective	Cash flows				
	interest rate	expected to be				
	Carrying value	recovered	Carrying value	Fair value		
		(%)				
Reclassification from financial assets at fair value through profit or loss to financial assets available-for-sale	233,956	7.60%	386,380	168,124	168,124	
Reclassification from financial assets at fair value through profit or loss to investments held to maturity	<u>386,611</u>	7.77%	<u>750,479</u>	<u>366,997</u>	<u>360,320</u>	
Total	<u>620,567</u>		<u>1,136,859</u>	<u>535,121</u>	<u>528,444</u>	
	Up to the date of the reclassification	After reclassification		Amount that would have been recognized had reclassification not occurred		
	Income from FVTPL	Interest receivable/ other income	Impaired losses	Movements in available for sale revaluation reserves	Income from FVTPL	Recognized in income statement in 2007
Reclassification from financial assets at fair value through profit or loss to financial assets available-for-sale, debt securities	2,265	6,357	-	(51,080)	(45,520)	5,753
Reclassification from financial assets at fair value through profit or loss to investments held to maturity, debt securities	<u>3,916</u>	<u>11,628</u>	<u>-</u>	<u>-</u>	<u>4,844</u>	<u>2,534</u>
Total	<u>6,181</u>	<u>17,985</u>	<u>-</u>	<u>(51,080)</u>	<u>(40,376)</u>	<u>8,287</u>

The Bank has reclassified securities from financial assets at fair value through profit or loss into the following categories with the effect from 22 December 2008:

	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Investments held to maturity	Total		
22 December 2008 (unaudited)						
Before reclassification	30,174	-	-	30,174		
Reclassification from financial assets at fair value through profit or loss to financial assets available-for-sale	(29,504)	29,504	-	-		
Reclassification from financial assets at fair value through profit or loss to investments held to maturity	(670)	-	670	-		
After reclassification	<u>-</u>	<u>29,504</u>	<u>670</u>	<u>30,174</u>		
	2008			31 December 2008		
	On reclassification					
	Effective	Cash flows				
	interest rate	expected to be				
	Carrying value	recovered		Carrying value	Fair value	
		(%)				
Reclassification from financial assets at fair value through profit or loss to financial assets available-for-sale	29,504	7.96%	71,911	25,876	25,876	
Reclassification from financial assets at fair value through profit or loss to investments held to maturity	670	6.61%	1,253	682	682	
Total	<u>30,174</u>		<u>73,164</u>	<u>26,558</u>	<u>26,558</u>	
	Up to the date of the reclassifi- cation	After reclassification		Amount that would have been recognized had reclassifi- cation not occurred	Recognized in income statement in 2007	
	Income from FVTPL	Interest receivable/ other income	Impaired losses	Movements in available for sale revaluation reserves	Income from FVTPL	
Reclassification from financial assets at fair value through profit or loss to financial assets available-for-sale, debt securities	(9,608)	139		(4,542)	(4,403)	2,667
Reclassification from financial assets at fair value through profit or loss to investments held to maturity	(253)	4			4	67
Total	<u>(9,861)</u>	<u>143</u>		<u>(4,542)</u>	<u>(4,399)</u>	<u>2,734</u>

The Bank performed the reclassification due to the occurrence of rare circumstances. The Bank believes the combination of the dramatic fall in global oil prices and the impact that has on commodity driven economies, the withdrawal of foreign investment from CIS states, the devaluation of the Rouble and the significant fall in traded volumes in the debt markets of the Russian Federation and the Republic of Kazakhstan along with the volatility in global financial markets can be considered “rare” circumstances.

Standards and interpretations issued and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRS 8 – The IASB issued IFRS 8 “Operating Segments” in December 2006. This will replace IAS 14 “Segment Reporting” for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by an entity to be based on information used by management. Management is currently assessing the impact of the adoption of IFRS 8.

IAS 1 – on 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in an entity’s financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009. The adoption of IAS 1 will not have significant impact on the Bank’s profit or loss or financial position.

4. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	8,826	4,426
- interest income on unimpaired financial assets	62,658	37,586
Interest income on financial assets at fair value through profit or loss	23,541	17,142
Interest income on financial assets reclassified to available-for-sale	13,058	127
Total interest income	<u>108,083</u>	<u>59,281</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	18,658	7,599
Interest on due from banks	35,285	34,413
Interest on investments held-to-maturity at initial recognition	1,487	-
Interest on investments reclassified to held-to-maturity	16,054	-
Total interest income on financial assets recorded at amortized cost	<u>71,484</u>	<u>42,012</u>
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	23,541	17,142
Total interest income on financial assets at fair value through profit or loss	<u>23,541</u>	<u>17,142</u>
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(28,849)	(13,436)
Total interest expense	<u>(28,849)</u>	<u>(13,436)</u>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on loans and deposits from banks	(28,849)	(13,436)
Total interest expense on financial liabilities recorded at amortized cost	<u>(28,849)</u>	<u>(13,436)</u>
Net interest income before provision for impairment losses on interest bearing financial assets	<u><u>79,234</u></u>	<u><u>45,845</u></u>

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Beginning of the year	(556)	-
Provisions	<u>(821)</u>	<u>(556)</u>
End of the year	<u>(1,377)</u>	<u>(556)</u>

6. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2008	Year ended 31 December 2007
Net loss on financial assets held-for-trading	<u>(6,798)</u>	<u>(11,358)</u>
Total net loss on financial assets at fair value through profit or loss	<u>(6,798)</u>	<u>(11,358)</u>
Net gain/(loss) on operations with financial assets held-for-trading comprise:		
Realized gain on trading operations	79	2,562
Unrealized (expense)/income on fair value adjustment	(27,222)	1,044
Net gain on operations with derivative financial instruments on bonds	1,225	222
Net gain/(loss) on operations with derivative financial instruments in foreign currency	<u>19,120</u>	<u>(15,186)</u>
Total net loss on operations with financial assets held-for-trading	<u>(6,798)</u>	<u>(11,358)</u>

The Bank enters into derivative financial instruments to manage currency and liquidity risks.

7. NET (LOSS)/ GAIN ON TRANSACTIONS IN FOREIGN CURRENCIES

	Year ended 31 December 2008	Year ended 31 December 2007
Translation differences, net	(9,580)	22,017
Dealing, net	<u>20</u>	<u>29</u>
Total net (loss)/gain on transactions with foreign currencies	<u>(9,560)</u>	<u>22,046</u>

8. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income:		
Syndicated loan organization fees	4,300	-
Expertise services	1,127	75
	<u>5,427</u>	<u>75</u>
Total fee and commission income	<u>5,427</u>	<u>75</u>
Fee and commission expense:		
Fees for trust management services	(574)	(792)
Operations with securities	(388)	(224)
Money transfer services	(105)	(46)
Other	(8)	(8)
	<u>(1,075)</u>	<u>(1,070)</u>
Total fee and commission expense	<u>(1,075)</u>	<u>(1,070)</u>

9. OPERATING EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Staff costs and other payments to employees	14,312	10,583
Professional services	3,259	981
Business trip expenses	1,397	839
Depreciation and amortization	1,357	508
Premises expenses	1,245	727
Business development expenses	996	357
Communication expenses	694	415
Training	583	74
Security	521	61
Transportation expenses	445	304
Maintenance of acquired systems and programs	448	505
Office, postal and printing expenses	260	173
Research and regional development expenses	76	-
Other expenses	283	196
	<u>25,876</u>	<u>15,723</u>

10. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS OF MEMBER -STATES OF THE BANK

	31 December 2008	31 December 2007
Balances with the National Bank of the Republic of Kazakhstan	116	1,437
Cash	<u>39</u>	<u>96</u>
Total cash and balances with national (central) banks of Member-states of the Bank	<u>155</u>	<u>1,533</u>

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2008	31 December 2007
Cash and balances with national (central) banks of Member-states of the Bank	155	1,533
Loans and advances to banks of OECD countries, the Russian Federation and the Republic of Kazakhstan	<u>399,955</u>	<u>436,975</u>
Total cash and cash equivalents	<u>400,110</u>	<u>438,508</u>

11. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2008	31 December 2007
Financial assets held-for-trading:		
Debt securities	-	439,522
Debt securities under trust management	-	51,245
Derivative financial instruments	<u>8,331</u>	<u>77</u>
Total financial assets held-for-trading	<u>8,331</u>	<u>490,844</u>
Total financial assets at fair value through profit or loss	<u>8,331</u>	<u>490,844</u>

As disclosed in Note 3, major part of financial assets through profit and loss was reclassified to financial assets available-for-sale and investments held to maturity.

Financial assets held-for-trading comprised:

	31 December 2008		31 December 2007	
	Nominal interest rate	Amount	Nominal interest rate	Amount
Debt securities:				
Eurobonds of the Russian Federation	-	-	7.5%	206,517
US Treasury notes	-	-	4.25%	51,033
Bonds issued by non-financial organizations	-	-	6.656-9.625%	102,233
Bonds issued by banks and financial institutions of the Russian Federation	-	-	6.2-7.85%	45,050
Bonds issued by banks and financial institutions of the Republic of Kazakhstan	-	-	9.0-9.25%	7,440
Bonds issued by banks and financial institutions of other countries	-	<u>-</u>	7.88%	<u>27,249</u>
Total debt securities		<u>-</u>		<u>439,522</u>

	31 December 2008		31 December 2007	
	Nominal interest rate	Amount	Nominal interest rate	Amount
Debt securities under trust management:				
Eurobonds of the Russian Federation and of the Ministry of finance of the Russian Federation	-	-	7.5%	15,932
Bonds issued by non-financial organizations	-	-	6.605-9.5%	8,848
Bonds issued by banks and financial institutions of the Russian Federation	-	-	6.332-9.125%	11,544
Bonds issued by banks and financial institutions of the Republic of Kazakhstan	-	-	7.625-10.0%	9,269
Bonds issued by banks and financial institutions of other countries	-	-	17.0-18.5%	5,652
Total debt securities under trust management		<u>-</u>		<u>51,245</u>

	31 December 2008			31 December 2007		
	Nominal amount	Net fair value		Nominal amount	Net fair value	
		Asset	Liability		Asset	Liability
Derivative financial instruments:						
Foreign currency contracts						
Swaps	295,708	7,786	(742)	330,310	-	(4,164)
Forwards	25,000	545	-	3,500	77	-
Securities contracts						
Options	-	-	-	40,000	-	(228)
		<u>8,331</u>	<u>(742)</u>		<u>77</u>	<u>(4,392)</u>

During 2006-2008 the Bank had an Agreement with an Asset Management Company. The Asset Management Company could invest the financial funds received for trust management into securities, reverse repurchase agreement operations, cash, and derivative financial instruments for the purpose of hedging, within the set limits. In December 2008 the Agreement with the Asset Management Company was cancelled.

As at 31 December 2007, financial assets at fair value through profit or loss included accrued interest income on debt securities amounting to 4,155 thousand US dollars.

12. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	31 December 2008	31 December 2007
Correspondent accounts in other banks	259,874	201,728
Loans under reverse repurchase agreements	223,412	150,002
Term deposits in other banks	140,194	235,925
Loans to banks	70,792	10,151
Trust management funds	278	1,547
Correspondent accounts in other banks on broker operations	47	26
Total loans and advances to banks	<u>694,597</u>	<u>599,379</u>

As at 31 December 2008, the Bank had receivables amounting to 234,654 thousand US dollars and 198,604 thousand US dollars from two banks of the Member-states of the Bank. As at 31 December 2007, the Bank had receivables amounting to 200,827 thousand US dollars and 98,218 thousand US dollars from two banks of the Member-states of the Bank. All these amounts individually exceeded 10% of the Bank's equity as at 31 December 2008 and 2007.

As at 31 December 2008 and 2007, there was no allowance for impairment losses on loans and advances to banks. During 2008 and 2007 no impairment losses were recognized on loans and advances to banks.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2008 and 2007 are presented as follows:

	31 December 2008		31 December 2007	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds issued by banks and financial institutions of the Russian Federation	144,591	165,346	-	-
Bonds issued by non-financial organizations	78,821	94,717	-	-
Eurobonds of the Russian Federation	-	-	150,002	150,336
	<u>223,412</u>	<u>260,063</u>	<u>150,002</u>	<u>150,336</u>

13. LOANS TO CUSTOMERS

	31 December 2008	31 December 2007
Loans to customers	437,076	165,229
Less allowance for impairment losses	<u>(1,377)</u>	<u>(556)</u>
Total loans to customers	<u><u>435,699</u></u>	<u><u>164,673</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2008	31 December 2007
Loans collateralized by guarantees	246,524	62,895
Loans collateralized by pledge of real estate, equipment and inventories	144,667	60,021
Loans collateralized by pledge of future inflows	<u>45,885</u>	<u>42,313</u>
	437,076	165,229
Less: allowance for impairment losses	<u>(1,377)</u>	<u>(556)</u>
Total loans to customers	<u><u>435,699</u></u>	<u><u>164,673</u></u>

	31 December 2008	31 December 2007
Analysis by sector:		
Mining and metallurgy	109,329	122,916
Agriculture	89,034	-
Woodworking	78,301	-
Machinery construction	77,724	-
Energy	64,451	42,313
Oil and gas	9,284	-
Transport and communication	8,953	-
	<u>437,076</u>	<u>165,229</u>
Less allowance for impairment losses	<u>(1,377)</u>	<u>(556)</u>
Total loans to customers	<u><u>435,699</u></u>	<u><u>164,673</u></u>

As at 31 December 2008 and 2007 the maximum credit risk exposure on loans to customers amounted to 435,699 thousand US dollars and 164,673 thousand US dollars, respectively. As at 31 December 2008 and 2007 a maximum credit risk exposure on loan commitments and overdrafts extended by the Bank to its customers amounted to 615,994 thousand US dollars and 52,050 thousand US dollars, respectively.

As at 31 December 2008 and 2007 loans to customers included loans in the amount of 138,999 thousand US dollars and 62,921 thousand US dollars, respectively, that were individually determined to be impaired due to some delays in implementation of production plans and deterioration of market conditions. As at 31 December 2008 and 2007, these loans had various types of collateral with a fair value of 112,822 thousand US dollars and 51,666 thousand US dollars, respectively.

14. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	31 December 2008	31 December 2007
Debt securities	231,322	39,883
Equity securities	35,740	-
Total financial assets available-for-sale	<u><u>267,062</u></u>	<u><u>39,883</u></u>

	31 December 2008		31 December 2007	
	Nominal interest rate	Fair value	Nominal interest rate	Fair value
Debt securities				
Eurobonds of the Russian Federation	7.5-12.75%	73,913	-	-
Bonds issued by banks and financial institutions of the Russian Federation	6.2-8.8%	59,650	-	-
Bonds issued by non-financial organizations	6.61-8.88%	48,472	-	-
Bonds issued by banks and financial institutions of other countries	7-11%	37,856	11%	39,883
Bonds issued by banks and financial institutions of the Republic of Kazakhstan	7.25-10%	10,189	-	-
City of Moscow bonds	5.06%	1,242	-	-
		<u>231,322</u>		<u>39,883</u>
	31 December 2008		31 December 2007	
	Ownership interest	Fair value	Ownership interest	Fair value
Equity securities				
Shares of OJSC "Bank of Khanty-Mansiysk"	5%	35,740	-	-
		<u>35,740</u>		<u>-</u>

15. INVESTMENTS HELD TO MATURITY

	31 December 2008		31 December 2007	
	Nominal interest rate	Amount	Nominal interest rate	Amount
Eurobonds of the Russian Federation	7.5%	290,588	-	-
Bonds issued by Governments of foreign countries	-	199,649	-	-
Bonds issued by banks and financial institutions of the Russian Federation	6.61-10.89%	55,287	-	-
Bonds issued by non-financial organizations	9.63%	31,677	-	-
Total investments held to maturity		<u>577,201</u>		<u>-</u>

16. PROPERTY AND EQUIPMENT

	Land	Vehicles	Furniture and equipment	Construction-in-progress	Total
At historical cost					
31 December 2006	1,231	120	577	8,739	10,667
Additions	-	759	447	558	1,764
Disposals	-	-	(2)	-	(2)
31 December 2007	<u>1,231</u>	<u>879</u>	<u>1,022</u>	<u>9,297</u>	<u>12,429</u>
Additions	-	286	673	5,569	6,528
Disposals	-	-	(1)	(146)	(147)
31 December 2008	<u>1,231</u>	<u>1,165</u>	<u>1,694</u>	<u>14,720</u>	<u>18,810</u>
Accumulated depreciation and amortization					
31 December 2006	-	5	24	-	29
Charge for the year	-	147	182	-	329
Eliminated on disposals	-	-	(2)	-	(2)
31 December 2007	-	<u>152</u>	<u>204</u>	-	<u>356</u>
Charge for the year	-	252	358	-	610
Eliminated on disposals	-	-	(1)	-	(1)
31 December 2008	-	<u>404</u>	<u>561</u>	-	<u>965</u>
Net book value					
As at 31 December 2008	<u>1,231</u>	<u>761</u>	<u>1,133</u>	<u>14,720</u>	<u>17,845</u>
As at 31 December 2007	<u>1,231</u>	<u>727</u>	<u>818</u>	<u>9,297</u>	<u>12,073</u>

Construction-in-progress is represented mainly by construction of office building for the headquarters of the Bank in Almaty, Kazakhstan.

17. OTHER ASSETS

	31 December 2008	31 December 2007
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Accrued commission income	373	30
	<u>373</u>	<u>30</u>
Other non-financial assets:		
Prepaid amounts on construction works	3,348	1,674
Prepaid expenses	612	563
Value added tax reimbursable	609	144
Prepayments and other debtors	487	689
	<u>5,429</u>	<u>3,100</u>

18. LOANS AND DEPOSITS FROM BANKS

	31 December 2008	31 December 2007
Recorded at amortized cost:		
Syndicated loan from a group of banks due in August 2010, interest rate LIBOR+1.0%, net of discount	298,850	-
Loan from a bank due in July 2009, interest rate LIBOR+0.5%, net of discount	50,713	-
Loans under repurchase agreements	114,794	-
Syndicated loan from a group of banks due in December 2008, interest rate LIBOR+0.6%, net of discount	-	398,294
Term deposits of banks and other financial institutions	-	51,973
	<u>464,357</u>	<u>450,267</u>

The Bank uses the loans from banks for financing its projects in the loans portfolio. The syndicated loans are subject to certain financial covenants under the terms of the loan agreements. During the 2008 and 2007, the Bank was in compliance with all such covenants.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2008 and 2007 are presented as follows:

	31 December 2008		31 December 2007	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Eurobonds of the Russian Federation	122,052	114,794	-	-
Total	<u>122,052</u>	<u>114,794</u>	<u>-</u>	<u>-</u>

Maturities of amounts loans and deposits from banks are included in Note 26 under liquidity risk.

These liabilities are measured at amortized cost.

19. OTHER LIABILITIES

	31 December 2008	31 December 2007
Other financial liabilities:		
Deferred income	3,977	52
Short-term payments to employees	3,858	3,239
Retirement savings plan	1,634	589
Accrued commission expenses	213	101
	<u>9,682</u>	<u>3,981</u>
Other non-financial liabilities:		
Accrued administrative expenses	144	162
Other payables	1,239	126
	<u>1,383</u>	<u>288</u>
Total other liabilities	<u><u>11,065</u></u>	<u><u>4,269</u></u>

The Bank has developed a retirement savings plan aimed at providing savings that are transferred to employees at the date of retirement or employment termination whichever is earlier. The program was developed as an equivalent to pension plans those are stipulated by legislation of Member-states of the Bank. The retirement savings plan consists of two savings plans: obligatory plan and optional plan. The obligatory plan covers all employees while the optional plan is at the discretion of each employee. The obligatory plan is paid by the Bank. A contribution is provided by the Bank on a monthly basis for each member of the plan, and the amount is stipulated by the Bank's internal regulation. The optional plan is jointly financed by the Bank and each employee participating in the plan in equal parts.

20. SHARE CAPITAL

At 31 December 2008 and 2007, the authorized share capital consists of 1,500,000 common shares with nominal value of 1,000 US dollars each. Each share has one voting right. At 31 December 2008 and 2007, shares issued and outstanding consisted of 1,500,000 and 804,787 shares, respectively. At 31 December 2008 the Bank's share capital comprised the following:

	Share capital issued	Share capital authorized and not issued	Share capital authorized
The Russian Federation	1,000,000	-	1,000,000
The Republic of Kazakhstan	500,000	-	500,000
	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>

As at 31 December 2007 the Bank's share capital comprised of the following:

	Share capital issued	Share capital authorized and not issued	Share capital authorized
The Russian Federation	400,000	600,000	1,000,000
The Republic of Kazakhstan	404,787	95,213	500,000
	<u>804,787</u>	<u>695,213</u>	<u>1,500,000</u>

The below table provides a reconciliation of the number of shares outstanding as at 31 December 2008 and 2007:

	Number of shares issued, quantity	Issued share capital, USD thousands
31 December 2006	614,016	614,016
Issue of shares	<u>190,771</u>	<u>190,771</u>
31 December 2007	804,787	804,787
Issue of shares	<u>695,213</u>	<u>695,213</u>
31 December 2008	<u><u>1,500,000</u></u>	<u><u>1,500,000</u></u>

The Bank has established a reserve fund that represents a segregation of a portion of its retained earnings. The Council of the Bank determines annually the amount of the prior year's profit to be transferred to this fund. The Council of the Bank has restricted any distributions to participants until such time as this reserve fund represents fifteen percent of the total share capital. Any such distributions will be made to participants proportionately based upon the number of the shares.

The below table provides a reconciliation of reserve fund as at 31 December 2008 and 2007:

	Reserve fund
31 December 2006	-
Transfer from retained earnings	<u>4,940</u>
31 December 2007	4,940
Transfer from retained earnings	<u>19,629</u>
31 December 2008	<u><u>24,569</u></u>

The objective of the Bank's share capital is to cover potential losses from its operations. In accordance with the Bank's internal policies, the Bank's Capital should exceed 16% of the sum of credit, market and operational risks, estimated as per the Basle II Standardized approach. As at 31 December 2008 and 2007, the Bank was in compliance with its internal policy requirements. The Bank is not subject to any capital requirements from external regulatory entities.

21. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while improving its performance through the optimization of debt and equity.

The capital structure of the Bank consists of debt, which mainly includes loans and deposits from banks disclosed in Note 18, and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in statements of changes in equity.

The Assets and Liabilities Management Committee ("ALMC") reviews the capital structure on a monthly basis. As a part of this review, the ALMC considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the ALMC the Executive Board of the Bank makes decisions over the issue of new debt or the redemption of existing debt. Changes in the share capital of the Bank are approved by the Council of the Bank.

22. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2008 and 2007 the nominal or contract amounts were:

	31 December 2008 Nominal Amount	31 December 2007 Nominal amount
Commitments on loans and unused credit lines	<u>615,994</u>	<u>52,050</u>
Total contingent liabilities and credit commitments	<u><u>615,994</u></u>	<u><u>52,050</u></u>

Capital commitments

As at 31 December 2008 and 2007, capital commitments amounted to 150 thousand US dollars and 1,853 thousand US dollars, respectively. All capital commitments of the bank are short-term in nature.

Operating environment

The Bank's principal business activities are in the Republic of Kazakhstan and the Russian Federation. Laws and regulations affecting the business environment in the Republic of Kazakhstan and in the Russian Federation are subject to changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

23. TRANSACTIONS WITH RELATED PARTIES

Related parties and transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures." As discussed in Note 1, the Bank's operations include the financing of projects within its Member-states, which include projects undertaken by local or national governmental entities. Accordingly, the Bank enters into numerous transactions with related parties as a result of its ownership by the Russian Federation and the Republic of Kazakhstan. These balances and transactions have been disclosed throughout the financial statements and as such have not been included below.

The remuneration of directors and other members of key management was as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
Short-term employee benefits:				
Staff costs and other payments to employees	3,323	13,076	2,337	9,484
Accommodation costs of employees	509	1,236	393	1,099
	<u>3,832</u>	<u>14,312</u>	<u>2,730</u>	<u>10,583</u>
Key management personnel compensation	<u>3,832</u>	<u>14,312</u>	<u>2,730</u>	<u>10,583</u>

24. SEGMENT REPORTING

The Bank's primary format for reporting segment information is based on geography.

Segment information for the main geographical segments of the Bank is set out below as at 31 December 2008 and 2007 and for the years then ended.

	Russia	Kazakhstan	Other countries	As at and for the year ended 31 December 2008 Total
Interest income	58,963	27,944	21,176	108,083
Interest expense	(2,283)	(686)	(25,880)	(28,849)
Provisions for impairment losses on loans to customers	(679)	(142)	-	(821)
Net (loss)/gain on financial assets at fair value through profit or loss	7,602	(223)	(14,177)	(6,798)
Net gain on transactions in foreign currencies	(4,457)	330	(5,433)	(9,560)
Fee and commission income	4,977	450	-	5,427
Fee and commission expense	(463)	(38)	(574)	(1,075)
Other income	711	271	-	982
External operating income	64,371	27,906	(24,888)	67,389
Cash and balances with national (central) banks of Member-states of the Bank	-	155	-	155
Financial assets at fair value through profit or loss	7,370	961	-	8,331
Loans and advances to banks	507,365	70,926	116,306	694,597
Loans to customers	106,715	328,984	-	435,699
Financial assets available-for-sale	218,477	10,729	37,856	267,062
Investments held to maturity	377,552	-	199,649	577,201
Property, equipment and intangible assets	713	18,460	-	19,173
Other assets	1,230	3,976	223	5,429
Total assets	1,219,422	434,191	354,034	2,007,647
Total liabilities	120,106	6,491	349,567	476,164
Capital expenditure	682	6,553	-	7,235
Depreciation and amortization	87	1,270	-	1,357

	Russia	Kazakhstan	Other countries	As at and for the year ended 31 December 2007 Total
Interest income	27,514	27,347	4,420	59,281
Interest expense	(1,689)	(1,519)	(10,228)	(13,436)
Provisions for impairment losses on loans to customers	-	(556)	-	(556)
Net (loss)/gain on financial assets at fair value through profit or loss	(12,483)	252	873	(11,358)
Net gain on transactions in foreign currencies	8,225	276	13,545	22,046
Fee and commission income	-	75	-	75
Fee and commission expense	(187)	(23)	(860)	(1,070)
External operating income	21,380	25,852	7,750	54,982
Cash and balances with national (central) banks of Member-states of the Bank	-	1,533	-	1,533
Financial assets at fair value through profit or loss	414,506	16,709	59,629	490,844
Loans and advances to banks	371,293	200,979	27,107	599,379
Loans to customers	-	164,673	-	164,673
Financial assets available-for-sale	39,883	-	-	39,883
Property, equipment and intangible assets	40	13,401	-	13,441
Other assets	843	2,164	93	3,100
Total assets	826,565	399,459	86,829	1,312,853
Total liabilities	4,467	56,118	398,343	458,928
Capital expenditure	39	2,904	-	2,943
Depreciation and amortization	9	499	-	508

External operating income, assets, capital expenditure have generally been allocated based on the domicile of the counterparty. Tangible assets (cash on hand, precious metals, premises and equipment) have been allocated based on the country in which they are physically held.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities approximates the carrying amount in the balance sheet of the Bank, with the exception of these presented below:

	31 December 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
Investments held to maturity	577,201	570,524	-	-

26. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. The risk management framework involves the Council of the Bank, the Executive Board of the Bank, the Department of Risk Management, the Credit Committee of the Bank, the Assets and Liabilities Management Committee ("ALMC"), and different departments and staff in the Bank's daily operations. Through the risk management framework, the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management of credit risk is performed by the Council, the Executive Board and the Credit Committee of the Bank. These groups manage credit risk primarily through the issuance of loans only within set limits.

The Council of the Bank determines credit risk limits by determining maximum credit risk exposure on single borrowers or groups of borrowers. The Executive Board sets limits in relation to the credit risk on one borrower or groups of borrowers, as well as limits on individual counterparties (including banks and brokers), and determines the amount and structure of risk bearing assets. In accordance with the internal limits maximum credit exposure on a single borrower or a group of associated borrowers cannot be more than 25 per cent of the Bank's equity. The Bank's Executive Board has right to approve projects on a group of associated borrowers with a maximum exposure of 100 million US dollars. In cases where the credit exposure exceeds the limit, the Council of the Bank is responsible for the approval of the project.

For the purpose of effective credit risk management, employees of relevant departments of the Bank are included in the Credit Committee and participate in the process of considering loan applications. Based on the presentation and preliminary decision of the Credit Committee, either the Executive Board or the Council of the Bank within the limits of their powers, reviews and approves investment projects and makes decisions on any changes and addenda to the existing loan agreements.

Functions of the Credit Committee include establishing control over the level of credit risk. The Credit and Investment Department and Risk Management Department monitor the level of credit risk via analysis of counterparties financial reports, performance and market data and inform the Credit Committee if negative trends are found. Credit risks are compared to the limits set on a daily basis.

Credit risk in the project financing

The Bank sets project financing as its core activity. Hence, credit risk management is the major and integral part of activities of the Bank and the major risk that the Bank is exposed to.

The Bank estimates that the major components of credit risk in project finance are:

- project risks;
- financial risks;
- market and industry risks;
- operational risks;
- country or sovereign risks;
- collateral risks; and
- legal, social, ecological risks.

The process of credit risk management in project finance consists of identification of potential risks, analysis of the risks, management and control of revealed risks.

During the identification phase the Bank reveals all components of credit risk associated with a particular project. The Bank prepares risk matrix for each project where all major types of risks associated with a project are summarized and the magnitude of risks are assessed.

A further analysis of identified risks is performed to determine the possible consequences of risks when they occur. At this stage the Bank prepares a sensitivity analysis for each project. The main sensitivity analysis performed by the Bank are interest rate sensitivity analysis, currency sensitivity analysis, inflation sensitivity analysis, commodity price change sensitivity analysis, and an analysis of the effect of a change in major production costs of borrowers. Major factors considered in the identification of risks for the Bank are potential financial performance of borrowers and their expected debt servicing. The Bank also performs an analysis of each industry where borrowers operate to identify if there could be any risks due to current or possible negative market trends.

Risk identification and control is aimed at minimizing the credit risks of the Bank while providing necessary rate of return. The Bank developed and implemented the following action plan to protect its financial assets from impairment:

- risk sharing due to co-participation with other financial institutions;
- proposals of hedging strategies;
- optimization of financing structure;
- optimization of collateral structure; and
- monitoring of industry trends and the project realization to anticipate potential future problems.

As risks have increased significantly due to the volatility in the global financial markets, the Bank proposed additional actions to control credit risks:

- performance of additional stress-tests of projects to consider currency exchange rates volatility, price risks, and inflation;
- analysis short-term solvency of borrowers;
- use of a conservative approach to the acceptance of collateral.

Maximum Exposure

The Banks maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure is equal to the carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on, or in the case of commitments, if the loan amount was called on.

As at 31 December 2008:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and balances with national (central) banks of member-states of the Bank	155	-	155	-	155
Financial assets at fair value through profit or loss	8,331	-	8,331	-	8,331
Loans and advances to banks	694,597	-	694,597	260,063	434,534
Loans to customers	435,699	-	435,699	367,194	68,505
Financial assets available-for-sale	267,062	-	267,062	-	267,062
Investments held to maturity	577,201	-	577,201	-	577,201
Other assets	373	-	373	-	373

As at 31 December 2007:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and balances with national (central) banks of member-states of the Bank	1,533	-	1,533	-	1,533
Financial assets at fair value through profit or loss	490,844	-	490,844	-	490,844
Loans and advances to banks	599,379	-	599,379	150,336	449,043
Loans to customers	164,673	-	164,673	125,305	39,368
Financial assets available-for-sale	39,883	-	39,883	-	39,883
Other assets	30	-	30	-	30

Collateral for loans to customers comprised of:

As at 31 December 2008:

	Nominal value	Bank's evaluated value
Guarantees	345,848	177,446
Real estate or rights thereon	407,016	154,198
Future inflows	118,500	35,550
	<u>871,364</u>	<u>367,194</u>

As at 31 December 2007:

	Nominal value	Bank's evaluated value
Future inflows	186,000	55,800
Guarantees	62,832	31,416
Money deposits	15,358	15,358
Goods	46,073	13,822
Real estate or rights thereon	35,107	8,777
Other	1,328	132
	<u>346,698</u>	<u>125,305</u>

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Bank:

	AAA	AA	A	BBB	<BBB-	Not rated	31 December 2008 Total
Cash and balances with national (central) banks of member-states of the Bank	-	-	-	155	-	-	155
Financial assets at fair value through profit or loss	-	-	-	-	8,331	-	8,331
Loans and advances to banks	-	-	116,028	198,650	379,919	-	694,597
Loans to customers	-	-	-	-	-	435,699	435,699
Financial assets available-for-sale	-	-	533	149,319	44,147	73,063	267,062
Investments held to maturity	199,649	-	-	354,603	22,949	-	577,201
Other assets	-	-	-	-	-	373	373

	AAA	AA	A	BBB	<BBB-	Not rated	31 December 2007 Total
Cash and balances with national (central) banks of Member-states of the Bank	-	-	-	1,533	-	-	1,533
Financial assets at fair value through profit or loss	51,033	-	-	337,230	102,581	-	490,844
Loans and advances to banks	-	25,559	-	210,822	362,998	-	599,379
Loans to customers	-	-	-	-	-	164,673	164,673
Financial assets available-for-sale	-	-	-	-	-	39,883	39,883
Other assets	-	-	-	-	-	30	30

As at 31 December 2008 the Bank issued loans to 13 customers (31 December 2007: 3) and one bank (31 December 2007: two banks). The loans are made with intention to develop economies of the Member-states. The borrowers are not rated by international rating agencies, however, the Bank is able to perform specific monitoring of each individual loan. Each loan is regularly reviewed by the Bank's internal Credit Committee.

Loans to customers are classified based on internal assessments and other analytical procedures. The Bank classifies loans according to their risk and the exposure that they potentially present to the Bank. At present, the Bank uses classifications as follows:

Loans classified to the *1st Category (standard loans)* are expected to possess minimal credit risk. The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Bank has confidence that the borrower will be able to cope with such temporary difficulties. Interest and principal are repaid in full and in a timely fashion. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions. Security provided for the loan must cover at least 100 per cent of the outstanding amount, not less than 75 per cent in case of highly liquid collateral (which may include a Government guarantee, bank guarantee with an individual rating not lower than AA - from one of the rating agencies, corporate guarantee with an individual rating not lower than AA, cash collateral, Government securities or precious metals).

Loans classified to the *2nd category* are expected to possess medium credit risk. The financial condition of the borrower is stable, though there is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower may delay loan repayments or the interest but only in single cases and not more than for 5 days.

Loans classified to the *3d category* are expected to possess significant credit risk. The financial condition of the borrower is stable, though there is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. Due to temporary difficulties the borrower repays the loan and the interest with several short delays.

Loans classified to the *4th category* are expected to bear high credit risk. There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and the interest in full. Due to severe deterioration of financial health the borrower may repay the loan and interest with several long delays.

Loans classified to the *5th category* are considered to have the highest credit risk. The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The borrower has considerable repayments' delays more than for 30 days.

Loss – In the absence of any information to the contrary, the borrower’s financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50 per cent of the borrowers’ outstanding debt.

	31 December 2008	31 December 2007
Standard loans	298,0	101,7
Loans classified to 2nd category	<u>138,9</u>	<u>63,4</u>
	437,0	165,2
Less – Allowance for loan impairment (Note 5)	<u>(1,3)</u>	<u>(556)</u>
Loans to customers	<u><u>435,6</u></u>	<u><u>164,6</u></u>

As at 31 December 2008 and 2007 number of loans classified as 2nd category was four and one, respectively.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Russian Federation and the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank’s risk management policy are not breached.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

As at 31 December 2008:

	Neither past due nor impaired	Financial assets past due but not impaired	Financial assets that have been impaired	31 December 2008 Total
Cash and balances with national (central) banks of the Member-states of the Bank	155	-	-	155
Financial assets at fair value through profit or loss	8,331	-	-	8,331
Loans and advances to banks	694,597	-	-	694,597
Loans to customers	298,077	-	137,622	435,699
Financial assets available-for-sale	267,062	-	-	267,062
Investments held to maturity	577,201	-	-	577,201
Other assets	373	-	-	373
	Neither past due nor impaired	Financial assets past due but not impaired	Financial assets that have been impaired	31 December 2007 Total
Cash and balances with national (central) banks of the Member-states of the Bank	1,533	-	-	1,533
Financial assets at fair value through profit or loss	490,844	-	-	490,844
Loans and advances to banks	599,379	-	-	599,379
Loans to customers	101,752	-	62,921	164,673
Financial assets available-for-sale	39,883	-	-	39,883
Other assets	30	-	-	30

Liquidity risk

Liquidity risk refers to the risk of the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

The ALMC manages this risk through analysis of asset and liability maturity and performance of money market transactions by the treasury department of the Bank to maintain current liquidity and optimize cash flows. The risk management department of the Bank monitors liquidity indicators and payment list, conducts gap-analysis and stress-tests.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS:								
Loans and advances to banks	4.87%	623,80	-	-	70,79	-	-	694,59
Loans to customers	9.11%	-	-	-	143,41	292,28	-	435,69
Financial assets available-for-sale	8.19%	-	871	6,746	62,738	160,967	35,74	267,06
Investments held to maturity	7.77%	49,90	159,55	24,90	52,00	290,58	-	577,20
Total interest bearing financial assets		673,70	160,42	31,70	329,04	743,80	35,74	1,974,56
Cash and balances with the national (central) banks of the Member-states of the Bank		155	-	-	-	-	-	155
Financial assets at fair value through profit or loss		8,30	-	-	-	-	-	8,30
Other assets		373	-	-	-	-	-	373
Total financial assets		682,60	160,42	31,70	329,04	743,80	35,74	1,983,41
FINANCIAL LIABILITIES:								
Loans and deposits from banks	5.57%	114,70	-	50,71	298,80	-	-	464,30
Total interest bearing financial liabilities		114,70	-	50,71	298,80	-	-	464,30
Financial liabilities at fair value through profit or loss		742	-	-	-	-	-	742
Other liabilities		4,10	3,80	-	1,60	-	-	9,60
Total financial liabilities		119,70	3,80	50,71	300,40	-	-	474,70
Liquidity gap		562,90	156,50	(18,97)	28,50	743,80	35,74	
Interest sensitivity gap		558,90	160,42	(18,97)	30,10	743,80	35,74	
Cumulative interest sensitivity gap		558,90	719,40	700,42	730,60	1,474,40	1,510,20	
Cumulative interest sensitivity gap as a percentage of total assets		28.18%	36.27%	35.31%	36.84%	74.34%	76.14%	

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2007 Total
FINANCIAL ASSETS:							
Financial assets at fair value through profit or loss	9.33%	490,884	-	-	-	-	490,884
Loans and advances to banks	4.58%	439,226	-	160,153	-	-	599,379
Loans to customers	8.58%	-	-	-	-	164,673	164,673
Financial assets available-for-sale	11%	-	-	-	-	39,883	39,883
Total interest bearing financial assets		930,110	-	160,153	-	204,556	1,294,819
Cash and balances with the national (central) banks of the Member-states of the Bank		1,533	-	-	-	-	1,533
Other assets		30	-	-	-	-	30
Total financial assets		<u>931,673</u>	<u>-</u>	<u>160,153</u>	<u>-</u>	<u>204,556</u>	<u>1,296,382</u>
FINANCIAL LIABILITIES:							
Loans and deposits from banks	5.62%	<u>51,973</u>	<u>-</u>	<u>398,294</u>	<u>-</u>	<u>-</u>	<u>450,267</u>
Total interest bearing financial liabilities		51,973	-	398,294	-	-	450,267
Financial liabilities at fair value through profit or loss		4,392	-	-	-	-	4,392
Other liabilities		<u>153</u>	<u>3,239</u>	<u>-</u>	<u>589</u>	<u>-</u>	<u>3,981</u>
Total financial liabilities		<u>56,518</u>	<u>3,239</u>	<u>398,294</u>	<u>589</u>	<u>-</u>	<u>458,640</u>
Liquidity gap		<u>875,155</u>	<u>(3,239)</u>	<u>(238,141)</u>	<u>(589)</u>	<u>204,556</u>	
Interest sensitivity gap		<u>878,137</u>	<u>-</u>	<u>(238,141)</u>	<u>-</u>	<u>204,556</u>	
Cumulative interest sensitivity gap		<u>878,137</u>	<u>878,137</u>	<u>639,996</u>	<u>639,996</u>	<u>844,552</u>	
Cumulative interest sensitivity gap as a percentage of total assets		<u>67.74%</u>	<u>67.74%</u>	<u>49.37%</u>	<u>49.37%</u>	<u>65.15%</u>	

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the balance sheet as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS:							
Cash and balances with the national (central) banks of the Member-states of the Bank	155	-	-	-	-	-	155
Financial assets at fair value through profit or loss	8,331	-	-	-	-	-	8,331
Loans and advances to banks	626,872	-	-	74,319	-	-	701,191
Loans to customers	-	-	-	186,327	499,007	-	685,334
Financial assets available-for-sale	-	866	7,426	85,932	445,741	35,740	575,705
Investments held to maturity	50,000	160,000	25,128	65,543	661,031	-	961,702
Other assets	373	-	-	-	-	-	373
Total financial assets	685,731	160,866	32,554	412,121	1,605,779	35,740	2,932,791
FINANCIAL LIABILITIES:							
Loans and deposits from banks	115,194	-	51,835	323,281	-	-	490,310
Financial liabilities at fair value through profit or loss	742	-	-	-	-	-	742
Other liabilities	4,190	3,858	-	1,634	-	-	9,682
Commitments to extend credit	-	-	-	-	615,994	-	615,994
Total financial liabilities	120,126	3,858	51,835	324,915	615,994	-	1,116,728

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2007 Total
FINANCIAL ASSETS:						
Cash and balances with the national (central) banks of the Member-states of the Bank	1,55	-	-	-	-	1,55
Financial assets at fair value through profit or loss	490,88	-	-	-	-	490,88
Loans and advances to banks	439,97	-	162,60	-	-	602,57
Loans to customers	-	-	-	72,13	151,09	223,22
Financial assets available-for-sale	42,20	-	-	-	-	42,20
Other assets	30	-	-	-	-	30
Total financial assets	974,62	-	162,60	72,13	151,09	1,360,44
FINANCIAL LIABILITIES:						
Loans and deposits from banks	52,61	-	421,49	-	-	474,10
Financial liabilities at fair value through profit or loss	4,35	3,26	-	-	-	7,61
Other liabilities	153	3,22	-	589	-	3,98
Commitment to extend credit	-	-	-	-	52,05	52,05
Total financial liabilities	57,16	6,50	421,49	589	52,05	537,80

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. In order to measure its risks the Bank uses the following instruments: duration, modified duration and dollar value of 1 basis point and applies Value-at-Risk models.

Interest rate sensitivity

Interest rate risk refers to the risk of fluctuations in the fair value of financial instruments due to changes in market interest rates.

The ALMC of the Bank manages interest rate risk through the management of interest-sensitive asset and liability positions of the Bank, and ensures the positive margin and expected profitability from changes in market interest rates with set limits on the maximum amount of interest rate risk accepted by the Bank. The Bank's risk management department monitors interest rate risk, estimates sensitivity of the Bank in relation to changes in interest rates and the influence of changes in interest rates on the net profit of the Bank.

The following table details the Bank's Sensitivity to a 3% and 1% increase and decrease in the interest rates in 2008 and 2007, respectively. Management of the Bank believe that given the current economic conditions in Russia and Kazakhstan that a 3% increase is a realistic movement in the interest rates. This is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. The sensitivity analysis includes only outstanding financial assets and liabilities.

Impact on net profit based on asset values as at 31 December 2008 and 2007:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +3%	Interest rate -3%	Interest rate +1%	Interest rate -1%
Assets:				
Financial assets at fair value through profit or loss	-	-	2,455	(2,455)
Loans and advances to banks	2,079	(2,079)	6,108	(5,913)
Loans to customers	5,850	(5,850)	773	(773)
Liabilities:				
Loans and deposits from banks	(10,488)	10,488	(2,133)	2,133
Net impact on net profit	(2,559)	2,559	7,203	(7,008)

Impact on equity based on asset values as at 31 December 2008 and 2007:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +3%	Interest rate -3%	Interest rate +1%	Interest rate -1%
Assets:				
Financial assets at fair value through profit or loss	-	-	2,455	(2,455)
Loans and advances to banks	2,079	(2,079)	6,108	(5,913)
Loans to customers	5,850	(5,850)	773	(773)
Financial assets available-for-sale	(56,706)	93,459	13	(13)
Liabilities:				
Loans and deposits from banks	(10,488)	10,488	(2,133)	2,133
Net impact on equity	(59,265)	96,018	7,216	(7,021)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department together with the Risk Management Department manages currency risk through the management of the quantities held in open currency positions, which enables the Bank to minimize losses from significant fluctuations of exchange rates of foreign currencies. The Risk Management Department monitors the currency risk limits set by the Executive Board of the Bank.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	US dollars	Kazakhstani tenge	Russian ruble	Euro	Other currencies	31 December 2008 Total
Financial assets						
Cash and balances with the national (central) banks of the Member-states of the Bank	31	121	3	-	-	155
Financial assets at fair value through profit or loss	8,331	-	-	-	-	8,331
Loans and advances to banks	436,797	-	35,020	222,780	-	694,597
Loans to customers	420,821	-	-	14,878	-	435,699
Financial assets available-for-sale	172,224	-	92,658	2,179	-	267,061
Investments held to maturity	577,201	-	-	-	-	577,201
Other assets	373	-	-	-	-	373
Total financial assets	1,615,778	121	127,681	239,837	-	1,983,416
Financial liabilities						
Loans and deposits from banks	349,561	-	114,794	-	-	464,355
Financial liabilities at fair value through profit or loss	-	742	-	-	-	742
Other liabilities	8,901	112	9	658	-	9,680
Total financial liabilities	358,462	854	114,803	658	-	474,717
OPEN BALANCE SHEET POSITION	1,257,316	(733)	12,878	239,179	-	
	US dollars	Kazakhstani tenge	Russian ruble	Euro	Other currencies	31 December 2007 Total
Financial assets						
Cash and balances with the national (central) banks of the Member-states of the Bank	46	1,481	5	-	-	1,532
Financial assets at fair value through profit or loss	407,621	-	83,221	-	-	490,842
Loans and advances to banks	285,870	102,461	10,051	200,981	-	599,363
Loans to customers	164,671	-	-	-	-	164,671
Financial assets available-for-sale	39,881	-	-	-	-	39,881
Other assets	30	-	-	-	-	30
Total financial assets	898,120	103,942	93,281	200,981	-	1,296,324
Financial liabilities						
Loans and deposits from banks	398,294	51,971	-	-	-	450,265
Financial liabilities at fair value through profit or loss	3,530	-	-	862	-	4,392
Other liabilities	3,921	50	2	-	-	3,973
Total financial liabilities	405,745	52,021	2	862	-	458,630
OPEN BALANCE SHEET POSITION	492,375	51,921	93,281	200,119	-	

Derivative financial instruments and spot contracts

Transactions are undertaken in derivative financial instruments (“derivatives”), which include cross currency swaps, and forwards. Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	US dollars	Kazakhstani tenge	Russian ruble	Euro	Other currencies	31 December 2008 Total
Accounts payable on spot and derivative contracts	(25,000)	(24,455)	(20,287)	(240,322)	-	(310,064)
Accounts receivable on spot and derivative contracts	293,395	24,258	-	-	-	317,653
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	268,395	(197)	(20,287)	(240,322)	-	7,589
TOTAL OPEN POSITION	1,525,708	(930)	(7,748)	(804)	-	

	US dollars	Kazakhstani tenge	Russian ruble	Euro	Other currencies	31 December 2007 Total
Accounts payable on spot and derivative contracts	-	(50,000)	(82,800)	(202,200)	(1,900)	(337,000)
Accounts receivable on spot and derivative contracts	332,900	-	-	-	-	332,900
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	332,900	(50,000)	(82,800)	(202,200)	(1,900)	(4,000)
TOTAL OPEN POSITION	825,300	1,800	10,400	(2,100)	(1,900)	

Currency risk sensitivity

The following table details the Bank's Sensitivity to a 25% and 10% increase and decrease in the US Dollar/Russian Rouble and US Dollar/Kazakhstan Tenge exchange rates in 2008 and 2007, respectively and a 10% increase and decrease in the US Dollar/Euro exchange rate. Management of the Bank believe that given the current economic conditions in Russia and Kazakhstan that a 25% decrease is a realistic movement in the Rouble and Tenge exchange rates against the US Dollar. This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 25% and 10% change in currency rates as at 31 December 2008 and 2007, respectively.

Impact on net profit based on asset values as at 31 December 2008 and 31 December 2007:

	As at 31 December 2008		As at 31 December 2007	
	USD/RUR +25%	USD/RUR -25%	USD/RUR +10%	USD/RUR -10%
Impact on net profit and equity	(1,937)	1,937	1,109	(1,109)

	As at 31 December 2008		As at 31 December 2007	
	USD/KZT +25%	USD/KZT -25%	USD/KZT +10%	USD/KZT -10%
Impact on net profit and equity	(233)	233	327	(327)

	As at 31 December 2008		As at 31 December 2007	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on net profit and equity	(4,185)	4,185	(211)	211

Impact on equity based on asset values as at 31 December 2008 and 31 December 2007:

	As at 31 December 2008		As at 31 December 2007	
	USD/RUR +25%	USD/RUR -25%	USD/RUR +10%	USD/RUR -10%
Impact on net profit and equity	(1,937)	1,937	1,109	(1,109)

	As at 31 December 2008		As at 31 December 2007	
	USD/KZT +25%	USD/KZT -25%	USD/KZT +10%	USD/KZT -10%
Impact on net profit and equity	(233)	233	327	(327)

	As at 31 December 2008		As at 31 December 2007	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on net profit and equity	(4,185)	4,185	(211)	211

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

27. SUBSEQUENT EVENTS

During 2008 and 2007 the National Bank of the Republic of Kazakhstan supported the exchange rate of the Kazakhstan tenge to the US Dollar within a range of 117 KZT to 1 US Dollar to 123 KZT to 1 US Dollar. On 4 February 2009, the National Bank of the Republic of Kazakhstan reduced the support level of the exchange rate to 150 KZT to 1 US Dollar +/- 3%.

During 2009, the exchange rate of the Russian ruble to the US Dollar decreased dramatically from 29.3804 RUR for 1 US Dollar as at 31 December 2008 to 36.0135 RUR for 1 US Dollar as at 5 February 2009.

Although the Bank operates in the Russian Federation and in the Republic of Kazakhstan and has certain assets and liabilities in local currency financial position, management believe the effects of currency devaluation will not significantly impact their operations, given the fact they have a US Dollar functional currency.

Management of the Bank assessed the possible effect of changes in exchange rates in their exchange rate sensitivity analysis which is presented in Note 26.