# JOINT STOCK COMPANY KAZKOMMERTSBANK

**Consolidated Financial Statements**
For the Years Ended 31 December 2005 and 2004

**and Independent Auditors' Report**

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## TABLE OF CONTENTS

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Kazkommertsbank and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2005 and 2004, 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 consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group 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 Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2005 and 2004 were authorized for issue on 3 February 2006 by the Management board of JSC Kazkommertsbank.

**On behalf of the Board:**

| | |
|---|---|
| **Zhusupova N.A.**<br>**Chairman of the Board** | **Cheusov P.A.**<br>**Chief Accountant** |
| 3 February 2006<br>Almaty | 3 February 2006<br>Almaty |

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders and Board of Directors of Joint Stock Company Kazkommertsbank

We have audited the accompanying consolidated balance sheets of JSC Kazkommertsbank and its subsidiaries (the "Group") as at 31 December 2005 and 2004, the related consolidated profit and loss accounts and statements of cash flows and changes in equity ("the consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the JSC Kazkommertsbank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

The reported net profit for the year ended 31 December 2004 and shareholders' equity at 31 December 2004 and 2003, as determined in accordance with International Financial Reporting Standards have been restated for the items described in Note 3 to the Consolidated Financial Statements to comply with the changes in IAS 1 "Presentation of Financial Statements" and IAS 39 "Financial Instruments: Recognition and Measurement" effective for the periods beginning on or after 1 January 2005.

3 February 2006
Almaty

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS
## FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

| | Notes | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 (restated) KZT'000 |
|---|---|---|---|
| Interest income | 4 | 85,790,808 | 56,162,981 |
| Interest expense | 4 | (45,185,962) | (27,143,228) |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 40,604,846 | 29,019,753 |
| Provision for impairment losses on interest bearing assets | 5 | (17,832,713) | (11,221,588) |
| NET INTEREST INCOME | | 22,772,133 | 17,798,165 |
| Net gain on operations with assets held-for-trading | 6 | 742,429 | 22,153 |
| Net gain on foreign exchange operations | 7 | 1,776,692 | 1,684,259 |
| Fee and commission income | 8 | 11,389,172 | 9,102,175 |
| Fee and commission expense | 8 | (1,358,418) | (988,031) |
| Net gain from investments available-for-sale | | 11,458 | 48,778 |
| Dividends received | | 9,907 | 15,052 |
| Other income | 9 | 2,690,376 | 1,894,945 |
| NET NON-INTEREST INCOME | | 15,261,616 | 11,779,331 |
| OPERATING INCOME | | 38,033,749 | 29,577,496 |
| OPERATING EXPENSES | 10 | (13,367,825) | (9,511,039) |
| OPERATING PROFIT | | 24,665,924 | 20,066,457 |
| Insurance provision and provision for impairment losses on other transactions | 5 | (879,692) | (615,403) |
| Provision for guarantees and other off-balance sheet contingencies | 5 | (1,059,376) | (106,163) |
| Share of results of associates | 21 | 173,868 | 12,545 |
| PROFIT BEFORE INCOME TAX | | 22,900,724 | 19,357,436 |
| Income tax expense | 11 | (2,337,427) | (9,573,062) |
| NET PROFIT | | 20,563,297 | 9,784,374 |
| Attributable to: | | | |
| Equity holders of the parent | | 19,140,536 | 8,718,629 |
| Minority interest | | 1,422,761 | 1,065,745 |
| EARNINGS PER SHARE | | | |
| *Basic and diluted (KZT)* | 12 | 51.17 | 24.35 |

**On behalf of the Board of the Bank:**

**Zhusupova N.A.**
**Chairman of the Board**

3 February 2006
Almaty

**Cheusov P.A.**
**Chief Accountant**

3 February 2006
Almaty

The notes on pages 9-60 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED BALANCE SHEETS
## AS AT 31 DECEMBER 2005 AND 2004

| | Notes | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and balances with national (central) banks | 13 | 37,228,899 | 66,292,818 |
| Assets held-for-trading | 14 | 140,293,803 | 74,779,727 |
| Loans and advances to banks, less allowance for impairment losses | 15 | 253,904,247 | 41,833,562 |
| Derivative financial instruments | 16 | 81,298 | 19,844 |
| Loans to customers, less allowance for impairment losses | 17 | 729,843,813 | 494,930,550 |
| Securities purchased under reverse repurchase agreements | 18 | 13,950,232 | 8,402,463 |
| Investment available-for-sale | 19 | 427,226 | 488,668 |
| Investment held-to-maturity | 20 | 561,593 | 64,294 |
| Investments in associates and other entites | 21 | 425,042 | 217,964 |
| Goodwill | 22 | 2,405,277 | - |
| Fixed and intangible assets, less accumulated depreciation | 23 | 8,661,430 | 7,386,530 |
| Other assets, less allowance for impairment losses | 24 | 7,086,175 | 9,640,143 |
| TOTAL ASSETS | | 1,194,869,035 | 704,056,563 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Loans and advances from banks | 25 | 320,095,266 | 170,331,348 |
| Securities sold under repurchase agreements | 26 | 59,143,353 | 28,444,727 |
| Derivative financial instruments | 16 | 189,142 | 31,354 |
| Customer accounts | 27 | 303,405,222 | 197,827,313 |
| Debt securities issued | 28 | 303,133,035 | 207,840,717 |
| Other borrowed funds | 29 | 50,603,841 | 4,463,967 |
| Provisions | 5 | 4,934,212 | 3,086,716 |
| Dividends payable | | 404 | 403 |
| Deferred tax liabilities | 11 | 8,289,853 | 6,975,593 |
| Other liabilities | 30 | 4,591,131 | 2,831,978 |
| | | 1,054,385,459 | 621,834,116 |
| Subordinated debt | 31 | 46,138,569 | 19,447,698 |
| Total liabilities | | 1,100,524,028 | 641,281,814 |
| EQUITY: | | | |
| Share capital | 32 | 4,996,626 | 4,197,179 |
| Share premium | | 22,306,805 | 11,752,396 |
| Fixed assets revaluation reserves | | 1,519,676 | 1,313,280 |
| Reserves | | 58,545,650 | 40,043,825 |
| Equity attributable to equity holders of the parent | | 87,368,757 | 57,306,680 |
| Minority interest | | 6,976,250 | 5,468,069 |
| Total equity | | 94,345,007 | 62,774,749 |
| TOTAL LIABILITIES AND EQUITY | | 1,194,869,035 | 704,056,563 |

**On behalf of the Board of the Bank:**

**Zhusupova N.A.**
**Chairman of the Board**

3 February 2006
Almaty

**Cheusov P.A.**
**Chief Accountant**

3 February 2006
Almaty

The notes on pages 9-60 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

| | Share capital | Share premium | Investments available-for-sale fair value reserve | Fixed assets revaluation reserve | Retained earnings | Total attributable to equity holders of the parent | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 |
| 31 December 2003 (restated) | 4,018,930 | 9,453,411 | 40,784 | 569,783 | 31,495,984 | 45,578,892 | 4,704,625 | 50,283,517 |
| Share capital increase of - preference shares | 178,160 | 2,298,302 | - | - | - | 2,476,462 | - | 2,476,462 |
| Sale of repurchased own shares | 89 | 683 | - | - | - | 772 | - | 772 |
| Fixed assets revaluation | - | - | - | 865,057 | - | 865,057 | - | 865,057 |
| Depreciation of fixed assets revaluation reserve | - | - | - | (121,560) | 121,560 | - | - | - |
| Unrealized gain on revaluation of available-for-sale investments | - | - | 19,448 | - | - | 19,448 | - | 19,448 |
| Gain transferred to profit and loss accounts on sale of available-for-sale investments | - | - | (48,778) | - | - | (48,778) | - | (48,778) |
| Impact of decrease in minority interest in OJSC Kazkommertsbank Kyrgyzstan | - | - | - | - | - | - | (58,883) | (58,883) |
| Dividends on preference shares | - | - | - | - | (290,370) | (290,370) | - | (290,370) |
| Exchange differences on translation of foreign operations | - | - | - | - | (13,432) | (13,432) | (243,418) | (256,850) |
| Net profit | - | - | - | - | 8,718,629 | 8,718,629 | 1,065,745 | 9,784,374 |
| 31 December 2004 (restated) | 4,197,179 | 11,752,396 | 11,454 | 1,313,280 | 40,032,371 | 57,306,680 | 5,468,069 | 62,774,749 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

| | Share capital | Share premium | Investments available-for-sale fair value reserve | Fixed assets revaluation reserve | Retained earnings | Total attributable to equity holders of the parent | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 | KZT'000 |
| 31 December 2004 (restated) | 4,197,179 | 11,752,396 | 11,454 | 1,313,280 | 40,032,371 | 57,306,680 | 5,468,069 | 62,774,749 |
| Share capital increase of | | | | | | | | |
| - common shares | 288,588 | 4,141,586 | - | - | - | 4,430,174 | - | 4,430,174 |
| - preference shares | 512,516 | 6,432,107 | - | - | - | 6,944,623 | - | 6,944,623 |
| Repurchase of own shares | (1,657) | (19,284) | - | - | - | (20,941) | - | (20,941) |
| Fixed assets revaluation (less deferred income tax of KZT'000 71,688) | - | - | - | 231,023 | - | 231,023 | - | 231,023 |
| Depreciation of fixed assets revaluation reserve | - | - | - | (24,627) | 24,627 | - | - | - |
| Unrealized gains on revaluation of available-for-sale investments | - | - | 1,470 | - | - | 1,470 | - | 1,470 |
| Gains transferred to profit and loss accounts on sale of available-for-sale investments | - | - | (11,458) | - | - | (11,458) | - | (11,458) |
| Dividends on preference shares | - | - | - | - | (668,738) | (668,738) | - | (668,738) |
| Effect of purchase of Accumulation Pension Fund JSC ABN AMRO KaspiyMunaiGaz | - | - | - | - | - | - | 126,292 | 126,292 |
| Exchange differences on translation of foreign operations | - | - | - | - | 15,388 | 15,388 | (40,872) | (25,484) |
| Net profit for the year | - | - | - | - | 19,140,536 | 19,140,536 | 1,422,761 | 20,563,297 |
| 31 December 2005 | 4,996,626 | 22,306,805 | 1,466 | 1,519,676 | 58,544,184 | 87,368,757 | 6,976,250 | 94,345,007 |

**On behalf of the Board of the Bank:**

**Zhusupova N.A.**
**Chairman of the Board**

3 February 2006
Almaty

**Cheusov P.A.**
**Chief Accountant**

3 February 2006
Almaty

The notes on pages 9-60 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

| | Notes | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax | | 22,900,724 | 19,357,436 |
| Adjustments for: | | | |
| Provision for impairment losses on interest bearing assets | | 17,832,713 | 11,221,588 |
| Provision for insurance reserves and reserves for impairment losses on other transactions | | 879,692 | 615,403 |
| Provision for guarantees and other off-balance liabilities | | 1,059,376 | 106,163 |
| Unrealised gain and amortisation of discounts on securities | | (1,439,531) | (2,344,287) |
| Amortization of discount on issued securities | | 500,097 | 1,147,180 |
| Depreciation and amortization | | 1,563,971 | 1,302,066 |
| Change in interest accruals, net | | 764,443 | 326,255 |
| Exchange rate difference from translation of investments at average rate | | 197,286 | 327,051 |
| Share of results of associates | | (173,868) | (12,545) |
| Gain on sale of fixed and intangible assets, net | | (28,343) | (98,866) |
| Net change in fair value of derivative financial instruments | | 96,334 | 26,108 |
| Cash flows from operating activities before changes in operating assets and liabilities | | 44,152,894 | 31,973,552 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposit with Central Bank of Russian Federation | | 142,479 | (661,224) |
| Loans and advances to banks | | (38,337,163) | (6,029,365) |
| Precious metals | | - | 300,158 |
| Assets held-for-trading | | (63,490,689) | (1,372,000) |
| Securities purchased under reverse repurchase agreements | | (5,344,597) | (5,794,145) |
| Loans to customers | | (248,662,341) | (223,530,742) |
| Other assets | | 3,475,173 | (6,404,405) |
| Increase/(decrease) in operating liabilities: | | | |
| Loans and advances from banks | | 149,541,658 | 93,529,055 |
| Securities sold under repurchase agreements | | 30,659,386 | (8,805,948) |
| Customer accounts | | 103,026,786 | 47,571,581 |
| Other borrowed funds | | 45,970,626 | 965,464 |
| Other liabilities | | 1,721,608 | (113,501) |
| Cash inflow/(outflow) from operating activities before taxation | | 22,855,820 | (78,371,520) |
| Income tax paid | | (2,081,502) | (5,876,190) |
| Net cash inflow/(outflow) from operating activities | | 20,774,318 | (84,247,710) |

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

| | Notes | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of fixed and intangible assets | | (2,564,224) | (1,484,012) |
| Proceeds on sale of fixed and intangible assets | | 133,095 | 300,448 |
| Dividends received | | 9,907 | 15,052 |
| Net proceeds on sale/(purchase) of investments available-for-sale | | 518,527 | (380,616) |
| Net proceeds on sale/(purchase) of investments held-to-maturity | | 4,454 | (31,922) |
| Acquisition of investments in associates and other entities | | (33,210) | (59,213) |
| Acquisition of subsidiaries, net of cash acquired of | | (3,388,580) | - |
| Net cash outflow from investing activities | | (5,320,031) | (1,640,263) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Issue of common share capital | | 4,430,015 | - |
| Issue of preference share capital | | 7,019,440 | 2,476,462 |
| Proceeds from debt securities issued | | 95,731,835 | 104,352,375 |
| (Redemption)/sale of debt securities issued | | (2,479,661) | 3,341,613 |
| Subordinated debt | | 26,233,601 | 10,652,758 |
| Redemption of subordinated debt | | - | (77,526) |
| (Repurchase)/sale of own shares | | (95,599) | 772 |
| Dividends paid | | (668,738) | (290,371) |
| Net cash inflow from financing activities | | 130,170,893 | 120,456,083 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 145,625,180 | 34,568,110 |
| CASH AND CASH EQUIVALENTS, at beginning of year | 13 | 81,857,509 | 47,322,122 |
| *Effect of foreign exchange rate changes* | | (6,851) | (32,723) |
| CASH AND CASH EQUIVALENTS, at end of year | 13 | 227,475,838 | 81,857,509 |

Interest paid and received by the Group in cash during the year ended 31 December 2005 amounted to KZT 40,039,997 thousand and KZT 81,440,023 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2004 amounted to KZT 25,219,979 thousand and KZT 54,226,799 thousand, respectively.

**On behalf of the Board of the Bank:**

**Zhusupova N.A.**
**Chairman of the Board**

3 February 2006
Almaty

**Cheusov P.A.**
**Chief Accountant**

3 February 2006
Almaty

The notes on pages 9-60 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

## 1. ORGANISATION

JSC Kazkommertsbank (the "Bank", "Kazkommertsbank") is a joint stock bank and operates in the Republic of Kazakhstan since 1990. The Bank's operations are regulated by the National Bank of the Republic of Kazakhstan ("NBRK") according to license № 48. The Bank's primary business consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: Republic of Kazakhstan, Almaty, St. Gagarin, 135Zh.

The Bank has 22 branches in the Republic of Kazakhstan, and a representative office in London (Great Britain).

Kazkommertsbank is a parent company of the banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

| Name | Country of operation | The Bank ownership interest 2005 | 2004 | Type of operation |
|---|---|---|---|---|
| JSC Kazkommerts Securities | Republic of Kazakhstan | 100% | 100% | Securities market transactions |
| JSC SK Kazkommerts-Police | Republic of Kazakhstan | 65% | 65% | Insurance |
| LLP Processing Company | Republic of Kazakhstan | 100% | 100% | Payment card and related services |
| Kazkommerts International B.V. | Kingdom of Netherlands | 100% | 100% | Raising funds for the Bank on international capital markets |
| Kazkommerts Finance II B.V. | Kingdom of Netherlands | 100% | 100% | Raising funds for the Bank on international capital markets |
| Kazkommerts Capital II B.V. | Kingdom of Netherlands | 100% | 100% | Raising funds for the Bank on international capital markets |
| OJSC Kazkommertsbank Kyrgyzstan | Kyrgyz Republic | 93.58% | 93.58% | Commercial bank |
| JSC OCOPAIM ABN AMRO Asset Management | Republic of Kazakhstan | 100% | - | Investment management of pension assets |
| JSC ABN AMRO CaspiyMunaiGaz APF | Republic of Kazakhstan | 80.01% | - | Pension fund activities |

Notwithstanding Kazkommertsbank had no ownership in the share capital of LLP Moskommertsbank ("MKB"), a commercial bank in the Russian Federation, MKB was included into the consolidated financial statements of the Group since the Bank was able and exercised effective control over its activity. In 2003 shareholders of MKB and Kazkommertsbank entered into agreements of trust management of 60.04% interest in the share capital of MKB. At the same time between shareholders of MKB owning 39.96% interest in the share capital of MKB and Kazkommertsbank there is an agreement on segregation of responsibility regarding management of MKB providing for non-involvement of these shareholders in the policy of the activity of MKB determined by Kazkommertsbank.

JSC Kazkommerts Securities is a joint stock company and operates under laws of the Republic of Kazakhstan since 1997. The company's primary business consists in trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of issues, allocation and underwriting of securities, purchase and sale of securities in the capacity of the agent. The company has license № 0401200324 dated 27 November 2000 issued by the National Bank of the Republic of Kazakhstan. The company received license for investment portfolio management № 0403200363 dated 30 September 2005 issued by the National Bank of the Republic of Kazakhstan.

JSC Insurance Company Kazkommerts-Policy is a joint stock company and operates under laws of the Republic of Kazakhstan since 1996. The company's primary business consists in insurance of property, cargoes, motor hull, civil liability insurance of vehicle owners, insurance of other civil liabilities and reinsurance. The company has licenses № 13-8/1 dated 1 July 2005 and 13-8/1 dated 1 July 2005 issued by the National Bank of the Republic of Kazakhstan.

JSC Kazkommertsbank Kyrgyzstan is a joint stock bank and operates under laws of the Kyrgyz Republic since 1991. The Bank's operations are regulated by the National Bank of the Kyrgyz Republic according to license № 010. The Bank's primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, issue of loans, operations with foreign exchange and derivative instruments, originating loans and guarantees.

LLP Processing company is a limited liability partnership and operates under laws of the Republic of Kazakhstan since 9 July 2004. The company is registered with the Ministry of justice of the Republic of Kazakhstan under № 64313-1910-TOO. The Company's primary business is to provide payment card and related services.

Kazkommerts International BV is a limited liability partnership (B.V.) and operates under laws of the Kingdom of Netherlands since 1 October 1997. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license № 24278506 dated 1 October 1997 for raising funds, including issuance of bonds and other securities, and entering into agreements regarding those activities issued by Chamber of Commerce of Netherlands.

Kazkommerts Finance II BV is a limited liability partnership (B.V.) and operates under laws of the Kingdom of Netherlands since 13 February 2001. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license № 24317181 dated 13 February 2001 for conducting separate types of banking and other types of operations issued by Chamber of Commerce of Netherlands.

Kazkommerts Capital II BV is a limited liability partnership (B.V.) and operates under laws of the Kingdom of Netherlands since 11 April 2000. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license № 24305284 dated 11 April 2000 for conducting operations issued by Chamber of Commerce of Netherlands.

In October 2005, Kazkommertsbank acquired from JSC DB ABN AMRO Bank 100 % shares in a pension assets management company – JSC OCOPAIM ABN AMRO Asset Management Kazakhstan (the "ABN AM") and 80,01% shares in the Accumulation Pension Fund JSC ABN AMRO KaspiyMunaiGaz (the "ABN APF"). (see Note 22). In the agreement with the seller, ABN APF and ABN AM should receive new name. The process of renaming is associated with making changes to the foundation documents of both organizations. New names will be announced after the end of the process of re-registration.

ABN AM is a joint stock company operating under laws of the Republic of Kazakhstan since 1998. The company's primary business consists of investment management of pension assets. The company has a license for investment management of pension funds № 0412200149 dated 18 August 2004 issued by the Republic of Kazakhstan Agency for regulation and supervision of financial market and financial organizations, license for investment portfolio management № 0403200199 dated 18 August 2004 issued by the Republic of Kazakhstan Agency for regulation and supervision of financial market and financial organizations, license for broker/dealer activity at the securities market without the right to maintain accounts of customers № 0402200216 dated 18 August 2004.

ABN APF is a joint stock company operating since 1998 under laws of the Republic of Kazakhstan. The Company's primary business is pension assets operations according to the legislation of the Republic of Kazakhstan. The Company operates under a state license for attraction of pension contribution and making pension payments № 0000019 dated 22 January 2004 issued by the RK Agency for regulation and supervision of financial market and financial organizations.

As at 31 December 2005, the following shareholders owned the issued shares of Kazkommertsbank:

| | |
|---|---|
| **Bank shareholders:** | |
| **Common shares:** | |
| JSC Central Asian Investment Company | 49.25% |
| The Bank of New York (nominal holder) | 30.50% |
| EBRD | 15.00% |
| Other | 5.25% |
| Total | 100% |
| **Preference shares:** | |
| JSC APF Ular Umit | 27.46% |
| AIFRI ZIG | 23.22% |
| The Bank of New York (nominal holder) | 19.06% |
| JSC Kazkommerts Invest | 15.98% |
| Other | 14.28% |
| Total | 100% |
| **Ultimate shareholders:** | |
| **Common shares:** | |
| Subkhanberdin N.S. | 34.26% |
| The Bank of New York (nominal holder) | 30.50% |
| EBRD | 15.00% |
| Other | 20.24% |
| Total | 100% |
| **Preference shares:** | |
| JSC Zangar Invest Group | 39.22% |
| The Bank of New York (nominal holder) | 19.06% |
| JSC APF Ular Umit | 11.30% |
| LLP Vneshinvest Company | 6.90% |
| LLP Terminal | 6.90% |
| Other | 16.62% |
| Total | 100% |

## 2. BASIS OF PRESENTATION

### Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Kazakhstani tenge (“KZT’000”), except for earnings per share amounts and unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention, except for revaluation of certain assets and fair value of financial instruments.

Kazkommertsbank and its subsidiaries in the Republic of Kazakhstan maintain its accounting records in accordance with IFRS, while its foreign subsidiaries maintain accounting records in accordance with the requirements of their countries of residence where subsidiaries operate. These consolidated financial statements have been prepared based on the accounting records of Kazkommertsbank and its subsidiaries, and have been adjusted to conform to IFRS.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Kazkommertsbank and entities controlled by the Bank made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets (including identifiable intangible assets) and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The minority interest is stated at the minority’s proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 “The Effects of Changes in Foreign Exchange Rates” and the following procedures are done:

- assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- income and expense items of the foreign entity are translated at the average exchange rate for the period;
- all resulting exchange differences are classified as equity until the disposal of the investment;
- on disposal of the investment in the foreign entity related exchange differences are recognized in the profit and loss account.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Investments in associates and other entities**

An associate is an entity over which the Group is in a position to exercise significant influence, but not control.

The results of operations and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale or available-for-sale.

Investments in associates and other entities are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

As at 31 December 2005 assets, liabilities and income of associated companies for the year then ended are presented as follows (Note 21):

| Name of associated company | Fair value of investments to associated company | Total assets of associated company | Total liabilities of associated company | Profit or loss |
|---|---|---|---|---|
| JSC APF Ular Umit | 387,782 | 1,136,455 | 194,779 | 422,215 |

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Bank's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

The Bank tests goodwill for impairment at least annually.

If the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Bank:

(a) reassess the identification and measurement of the Bank's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment on the date of acquisition.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Investments in other subsidiaries and associates**

Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Group as a whole, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as investments available-for-sale.

**Recognition and measurement of financial instruments**

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the 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 the National Bank of the Republic of Kazakhstan, Central bank of the Russian Federation, National bank of Kyrgyz Republic with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the Central bank of the Russian Federation is not included into cash equivalents due to restrictions on its availability.

**Loans and advances to banks**

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Loans and advances to banks are carried net of any allowance for impairment losses.

**Assets held-for-trading**

Assets held-for-trading represent assets acquired principally for the purpose of selling them in the near term, or it is 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 it is a derivative (except if it is designated and effective hedging instrument). Assets held-for-trading are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group's assets held-for-trading. When reliable market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on assets held-for-trading is recognized in profit and loss for the period.

**Repurchase and reverse repurchase agreements**

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

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 consolidated financial statements and consideration received under these agreements is recorded as collaterized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collaterized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

**Derivative financial instruments**

The Group enters into derivative financial instruments for trading purposes. Derivatives entered into by the Group include forwards, swaps and foreign currency options.

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given. Fair values are obtained from the interest rates model. Most of the derivatives the Group enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

**Originated loans**

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a syndicated loan.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus initial direct costs and fees that are integral to the interest rate. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the premiums/discounts on origination and the related income is recorded as interest income within the profit and loss account using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. 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 allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

**Non-accrual loans**

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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Allowance for impairment losses**

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is 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, for financial assets which are carried at amortised cost. 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 recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb probable losses incurred on the risk assets.

**Investments held-to-maturity**

Investments held-to-maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

**Investments available-for-sale**

Investments available-for-sale represent debt and equity investments that are intended to be held for an undetermined period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity, plus accrued coupon income recognized in consolidated profit or loss for the period as interest income on investment securities. The Group uses quoted market prices to determine the fair value for the Group’s investments available-for-sale. If such quotes do not exist, management estimation is used. Interest income on investments available-for-sale is reflected in the consolidated profit and loss account as interest income on investments in securities. Dividends received are included in dividend income in the consolidated profit and loss account.

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 profit and loss for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in profit and loss for the period. Reversals of such impairment losses on equity instruments are not recognized in profit and loss.

**Fixed and intangible assets**

Fixed and intangible assets, except for buildings and constructions, are carried at historical cost less accumulated depreciation. Buildings and constructions are carried at the market value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is charged on the carrying value of fixed 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:

| | |
|---|---|
| Buildings and constructions | 1-5% |
| Furniture and equipment | 8-33% |
| Intangible assets | 15-33% |

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets 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.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the fixed assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

**Taxation**

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated profit and loss account.

**Deposits from banks and customers**

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

**Debt securities issued**

Debt securities issued represent promissory notes, certificates of deposit and debentures issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

**Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and 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.

**Share capital and share premium**

Contributions to share capital are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on common shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” and disclosed accordingly.

**Retirement and defined contribution plans**

In accordance with the requirements of the legislation of the countries in which the Bank and its subsidiaries operate, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension funds. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan and countries where its subsidiaries operate. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

**Recognition of income and expense**

Interest income and expense are recognized on an accrual basis using effective interest rate method. Interest income also includes income earned on investments in securities. Other income is credited to profit and loss account when the related transactions are completed. Loan origination fees are deferred (together with related direct costs) and recognized as an adjustment to the loan’s effective yield. Commission incomes/expenses are recognized on an accrual basis.

**Fee and commission income**

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication fees. 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 profit and loss 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 profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognised in profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

**Underwriting income**

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated profit and loss accounts as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

**Reserve for insurance losses and loss adjustment expenses**

The reserve for insurance losses and loss adjustment expenses is included in the accompanying consolidated balance sheets within other liabilities and is based on the estimated amount payable on claims reported prior to the balance sheet date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

Due to the absence of prior experience, the reserve for incurred but not reported claims (“IBNR”) was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in current income.

**Reinsurance**

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated balance sheets within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

**Rates of exchange**

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

| | 2005 | 2004 |
|---|---|---|
| KZT/1 USD | 133.98 | 130.00 |
| KZT/1 Euro | 158.99 | 177.10 |
| KZT/Kyrgyz som | 3.24 | 3.12 |
| KZT/RUR | 4.66 | 4.67 |

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

**Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

**Fiduciary activities**

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group’s financial statements. The Group accepts the operational risk on these activities, but the Group’s customers bear the credit and market risks associated with such operations.

**Segment reporting**

A segment is a distinguishable component of the Group 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 Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

**Restatements due to the changes in IFRS**

Certain restatements have been made to the consolidated financial statements as at 31 December 2004 and for the year then ended to comply with the changes in IAS 1 “Presentation of Financial Statements” and IAS 39 “Financial Instruments: Recognition and Measurement” effective for the periods beginning on or after 1 January 2005. Such restatements have been done retrospectively to the earliest financial statements period presented.

According to the revised IAS 1 “Presentation of Financial Statements”, profit or loss attributable to minority interest should not be presented in the financial statements as items of income or expense.

According to the revised IAS 39 “Financial Instruments: Recognition and Measurement” a gain or loss on an available-for-sale financial asset shall be recognised directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses. The amount of adjustment of fair value of investments available-for-sale in the consolidated financial statements of the Group for the year ended 31 December 2004 amounted to KZT 29,330 thousand. The cumulative effect of adjustment of fair value of investments available-for-sale recognised in consolidated financial statements of the Group as at 31 December 2004 in the Revenue reserve amounted to positive valuation of KZT 11,454 thousand.

| **Balance sheet** | **Amount as per the previous report KZT’000** | **Amount as per current report KZT’000** | **Effect on the financial statements items KZT’000** |
|---|---|---|---|
| Retained earnings as at 31 December 2003 | 31,536,768 | 31,495,984 | 40,784 |
| Revaluation reserve for investments available-for-sale as at 31 December 2003 | - | 40,784 | 40,784 |
| Retained earnings as at 31 December 2004 | 40,043,825 | 40,032,371 | 11,454 |
| Revaluation reserve for investments available-for-sale as at 31 December 2004 | - | 11,454 | 11,454 |

**Reclassifications**

Certain reclassifications have been made to the financial statements as at 31 December 2004 and for the year then ended to conform to the presentation as at 31 December 2005 and for the year then ended.

**Adoption of new and revised International Financial Reporting Standards**

At the date of authorization of these financial statements, the following standards were issued but not effective:

- IFRS 4 “Insurance contracts”, amendments for financial guarantee contracts,
- IFRS 1 “First time adoption of IFRS”, amendments relating to IFRS 6,
- IFRS 6 “Exploration for and of Evaluation mineral assets”.

The Bank’s management does not believe that the effects of the new standards will be material. These standards will be effective for financial years starting on or after January 1, 2006.

## 4. NET INTEREST INCOME

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| **Interest income** | | |
| Interest on loans to customers | 77,134,949 | 49,790,474 |
| Interest on debt securities | 4,086,885 | 4,884,924 |
| Interest on loans and advances to banks | 3,922,908 | 1,028,572 |
| Interest on reverse repurchase transactions | 646,066 | 459,011 |
| Total interest income | 85,790,808 | 56,162,981 |
| **Interest expense** | | |
| Interest on debt securities issued | 23,419,864 | 15,890,104 |
| Interest on customer accounts | 10,365,532 | 6,970,456 |
| Interest on loans and advances from banks | 9,862,857 | 3,800,499 |
| Interest on repurchase transactions | 136,515 | 275,253 |
| Other interest expenses | 1,401,194 | 206,916 |
| Total interest expense | 45,185,962 | 27,143,228 |
| Net interest income before provision for impairment losses on interest bearing assets | 40,604,846 | 29,019,753 |

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

| | Loans and advances to banks KZT'000 | Loans to customers KZT'000 | Total KZT'000 |
|---|---|---|---|
| 31 December 2003 | 414,586 | 19,069,078 | 19,483,664 |
| Provision | 119,010 | 11,102,578 | 11,221,588 |
| Write-off of assets | - | (733,040) | (733,040) |
| Recoveries of assets previously written off | - | 468,562 | 468,562 |
| Exchange rate difference | (569) | (28,326) | (28,895) |
| 31 December 2004 | 533,027 | 29,878,852 | 30,411,879 |
| Provision | 711,770 | 17,120,943 | 17,832,713 |
| Write-off of assets | - | (5,359,106) | (5,359,106) |
| Recoveries of assets previously written off | - | 531,279 | 531,279 |
| Exchange rate difference | 11 | (9,936) | (9,925) |
| 31 December 2005 | 1,244,808 | 42,162,032 | 43,406,840 |

The movements in insurance provisions and allowances for impairment losses on other transactions were as follows:

| | Insurance provisions KZT'000 | Other assets KZT'000 | Total KZT'000 |
|---|---|---|---|
| 31 December 2003 | 1,056,744 | 30,520 | 1,087,264 |
| Provision | 499,780 | 115,623 | 615,403 |
| Write-off of assets | - | (38,910) | (38,910) |
| Recoveries of assets previously written off | - | 5,687 | 5,687 |
| Exchange rate difference | - | (2,205) | (2,205) |
| 31 December 2004 | 1,556,524 | 110,715 | 1,667,239 |
| Provision | 788,348 | 91,344 | 879,692 |
| Write-off of assets | - | (81,027) | (81,027) |
| Recoveries of assets previously written off | - | 6,271 | 6,271 |
| Exchange rate difference | - | 2,884 | 2,884 |
| 31 December 2005 | 2,344,872 | 130,187 | 2,475,059 |

Insurance provisions comprised:

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Property | 894,490 | 619,681 |
| Vehicles | 707,685 | 581,536 |
| Civil liability for owners of vehicles | 281,935 | 165,905 |
| Civil liability for damage | 64,044 | 157,254 |
| Other | 396,718 | 32,148 |
| | 2,344,872 | 1,556,524 |

The movements in provision for guarantees and other off-balance sheet contingencies were as follows:

| | 2005 KZT'000 | 2004 KZT'000 |
|---|---|---|
| 1 January | 1,530,192 | 1,426,290 |
| Provision for the period | 1,059,376 | 106,163 |
| Exchange rate difference | (228) | (2,261) |
| 31 December 2005 | 2,589,340 | 1,530,192 |

## 6. NET GAIN ON OPERATIONS WITH ASSETS HELD-FOR-TRADING

Net gain on assets held-for-trading comprise:

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| Equity securities | 1,146,416 | 67,078 |
| Debt securities | (403,987) | (44,925) |
| Total net gain on assets held-for-trading | 742,429 | 22,153 |

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| Dealing, net | 2,101,334 | 2,728,166 |
| Translation differences, net | (324,642) | (1,043,907) |
| Total net gain on foreign exchange operations | 1,776,692 | 1,684,259 |

## 8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| **Fee and commission income:** | | |
| Cash operations | 3,446,053 | 2,786,351 |
| Settlements | 2,417,591 | 1,990,530 |
| Documentary operations | 2,232,910 | 1,599,603 |
| Foreign exchange and securities operations | 1,333,634 | 1,236,596 |
| Credit cards operations | 1,227,060 | 892,583 |
| Encashment operations | 139,486 | 136,200 |
| Other | 592,438 | 460,312 |
| Total fee and commission income | 11,389,172 | 9,102,175 |
| **Fee and commission expense:** | | |
| Bank cards services | 467,539 | 356,498 |
| Insurance activity | 367,918 | 269,407 |
| Documentary operations | 117,105 | 93,204 |
| Foreign currency and securities operations | 105,181 | 82,406 |
| Computation center of NBRK | 82,259 | 63,397 |
| Correspondent bank services | 77,401 | 80,065 |
| Other | 141,015 | 43,054 |
| Total fee and commission expense | 1,358,418 | 988,031 |

## 9. OTHER INCOME

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| Insurance premiums | 2,393,582 | 1,479,307 |
| Fines and penalties received | 108,996 | 40,279 |
| Gain on sale of fixed assets | 28,343 | 98,866 |
| Other | 159,455 | 276,493 |
| Total other income | 2,690,376 | 1,894,945 |

## 10. OPERATING EXPENSES

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| Staff costs | 6,516,771 | 3,782,316 |
| Depreciation and amortization | 1,563,971 | 1,302,066 |
| Fixed assets maintenance | 665,678 | 542,605 |
| Advertising costs | 586,762 | 417,038 |
| Operating lease | 514,507 | 375,367 |
| Value added tax | 455,588 | 332,100 |
| Telecommunicationss | 366,676 | 333,759 |
| Payments to the Deposit Insurance Fund | 310,587 | 285,143 |
| Consulting services and audit | 257,582 | 51,010 |
| Business trip expenses | 256,401 | 252,618 |
| Penalties, fines | 212,271 | 1,433 |
| Vehicles maintenance | 150,153 | 161,837 |
| Security | 145,003 | 320,830 |
| Taxes, other than income tax | 143,589 | 333,038 |
| Servicing of the bank card system | 129,700 | 76,989 |
| Training | 94,971 | 136,381 |
| Stationery | 72,036 | 78,725 |
| Charity and sponsorship expenses | 70,144 | 88,827 |
| Cash collection expenses | 81,613 | 82,070 |
| Representative expenses | 44,585 | 50,517 |
| Mail and courier expenses | 40,553 | 41,746 |
| Legal services | 27,318 | 90,478 |
| Other expenses | 661,366 | 374,146 |
| Total operating expenses | 13,367,825 | 9,511,039 |

## 11. INCOME TAX EXPENSE

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2005 and 2004 comprise:

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| **Deferred tax assets:** | | |
| Provisions under guarantees and letters of credit | - | 28,255 |
| Other tax assets | 458,822 | 151,486 |
| Total deferred tax assets | 458,822 | 179,741 |
| **Deferred tax liabilities:** | | |
| Loans to banks and customers | 7,439,603 | 6,213,631 |
| Fixed assets | 650,412 | 692,053 |
| Provisions under guarantees and letters of credit | 372,355 | - |
| Unrealized gain on securities revaluation | 182,514 | 205,772 |
| Investments in associates | 93,991 | 21,293 |
| Other liabilities | 9,800 | 22,585 |
| Total deferred tax liabilities | 8,748,675 | 7,155,334 |
| Net deferred tax liabilities | 8,289,853 | 6,975,593 |

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| Profit before income tax | 22,900,724 | 19,357,436 |
| Tax at the statutory tax rate (30%) | 6,870,217 | 5,807,231 |
| Tax effect of permanent differences | (2,937,710) | (242,689) |
| Tax correction for previous year | (1,595,080) | - |
| Tax accruals as a result of tax audit | - | 4,008,520 |
| Income tax expense | 2,337,427 | 9,573,062 |
| Current income tax expense | 1,094,855 | 5,876,190 |
| Provision for deferred tax liabilities | 1,242,572 | 3,696,872 |
| Income tax expense | 2,337,427 | 9,573,062 |

| | 2005 KZT'000 | 2004 KZT'000 |
|---|---|---|
| **Deferred income tax liabilities** | | |
| 1 January | 6,975,593 | 2,944,947 |
| Decrease of fixed assets revaluation reserve | 71,688 | 333,774 |
| Provision for deferred tax liabilities | 1,242,572 | 3,696,872 |
| 31 December | 8,289,853 | 6,975,593 |

## 12. EARNINGS PER SHARE

| | Year ended 31 December 2005 KZT'000 | Year ended 31 December 2004 KZT'000 |
|---|---|---|
| **Profit:** | | |
| Net profit for the year | 19,140,536 | 8,718,629 |
| Less: | | |
| Dividends on preferred shares | (668,738) | (290,370) |
| Income less dividends on preferred shares | 18,471,798 | 8,428,259 |
| Weighted average number of common shares for basic and diluted earnings per share | 360,965,715 | 346,141,258 |
| Earnings per share – basic and diluted (KZT) | 51.17 | 24.35 |

## 13. CASH AND BALANCES WITH THE NATIONAL (CENTRAL) BANKS

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Cash on hand | 17,425,044 | 11,218,153 |
| Balances with the national (central) banks | 19,803,855 | 55,074,665 |
| Total cash and balances with the national (central) banks | 37,228,899 | 66,292,818 |

The balances with Central Bank of Russian Federation as at 31 December 2005 and 2004 include KZT 640,610 thousand and KZT 783,089 thousand, respectively, which represents the permanent minimum reserve deposits required by the Central Bank of Russian Federation. The Group is required to maintain the reserve balance at the Central Bank of Russian Federation at all times.

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

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Cash and balances with the national (central) banks | 37,228,899 | 66,292,818 |
| Loans and advances to banks in OECD countries | 190,887,549 | 16,357,415 |
| Less minimum reserve deposit with CBRF | (640,610) | (783,089) |
| Less accrued interest income on funds in NBRK and banks in OECD countries | - | (9,635) |
| Total cash and balances with the national (central) banks | 227,475,838 | 81,857,509 |

## 14. ASSETS HELD-FOR-TRADING

| | Interest to nominal | 31 December 2005 | Interest to nominal | 31 December 2004 |
|---|---|---|---|---|
| | % | KZT'000 | % | KZT'000 |
| **Debt securities:** | | | | |
| US exchequer bonds | 2.7306-10.7225% | 21,403,377 | - | - |
| Eurobonds of European Investment Bank | 3-5.625% | 13,577,031 | - | - |
| Bonds of Federal Home Loan Bank | 4.06% | 13,528,743 | - | - |
| Bonds of Freddie Mac | 4.60% | 12,964,745 | 5.25-12.36% | 1,558,647 |
| Eurobonds of InraAmerican Development Bank | 5.375-6.125% | 8,916,213 | - | - |
| Eurobonds of Iinternational Bank of Reconstruction and Development | 5% | 8,153,093 | - | - |
| Eurobonds of Nordic Investment Bank | 2.75% | 6,781,135 | - | - |
| Treasury bonds of the Ministry of finance of the Republic of Kazakhstan | 2.75-5.5% | 6,783,286 | 3.22-8.35% | 12,905,516 |
| Eurobonds of Caisse D'Amortissement Delta France | 4.60% | 6,732,036 | - | - |
| Eurobonds of KFW Intl Finance | 5.25% | 6,722,036 | - | - |
| Eurobonds of Bank Nederlandse Gemeenten | 2.50% | 5,431,866 | - | - |
| Corporate bonds of issuers of the Russian Federation | 7.5-15.5% | 5,370,955 | 11.28-12.3% | 5,632,609 |
| Bonds of the Government of Finland | 5.88% | 4,793,510 | - | - |
| Bonds of Almaty Merchant Bank | 8.50-10% | 4,466,321 | 8.5-12.5% | 1,666,851 |
| Bonds of KazTransOil | 8.50% | 2,379,281 | 8.50% | 2,424,436 |
| Eurobonds of the Ministry of finance of the Republic of Kazakhstan | 11.13% | 2,158,985 | 11.13% | 2,255,373 |
| Bonds of local executive bodies of the Russian Federation | 8.20-13.30% | 1,079,615 | 12.5-13.5% | 573,043 |
| Short-term notes of NBRK | 2.22% | 1,002,472 | 1.5-7.12% | 41,146,420 |
| Bonds of Development Bank of Kazakhstan | 9.1-13% | 964,277 | 8-13% | 924,941 |
| Bonds of Bank CenterCredit | 8.5-10.4% | 679,603 | - | - |
| Bonds of Karazhanbasmunai | 9.1-9.9% | 667,541 | 8-9.7% | 1,319,854 |
| Bonds of Kazakhaltyn | 9.90% | 579,079 | - | - |
| Bonds of Halyk Bank | 7.5-7.75% | 556,079 | 8.13% | 410,332 |
| Eurobonds of TuranAlemFinance B.V. | 7.875-8% | 333,835 | 7.88% | 50,423 |
| Bonds of Atyrau local executive committee | 8.5-8.6% | 292,094 | 8.5-8.6% | 276,122 |
| Eurobonds of ALB Finance B.V | 9% | 279,830 | - | - |
| Bonds of Bank TuranAlem | 8-9.90% | 271,764 | 8% | 157,940 |
| Bonds of Astana city administration | 8.50% | 266,611 | 8.50% | 296,304 |
| Bonds of Federal Farm Credit Bank | 3.38% | 263,208 | 3.38% | 259,066 |
| Bonds of federal loan Ministry of finance of the Russian Federation | 10% | 209,687 | 12.75% | 481,177 |
| Bonds of Kazakh Mortgage Company | 6.9-12.25% | 191,427 | 8.09-12.25% | 1,365,487 |
| Bonds of KazTransCom | 8% | 134,630 | 8% | 185,357 |
| Bonds of Kazakhstan kagazy | 10.40% | 132,428 | - | - |
| Bonds of Astana Finance | 9.40% | 125,945 | - | - |
| Bonds of Khimfarm | 10% | 120,511 | - | - |
| Bonds of Glotur | 10% | 101,972 | - | - |
| Bonds of Kazatomprom | 8.50% | 88,343 | 8.50% | 85,052 |
| Bonds of Mangistau REK | 13% | 64,900 | 13% | 66,525 |
| Bonds of Fannie MAE | - | - | 5% | 259,921 |
| Bonds of Almaty Kus | - | - | 10% | 2,558 |
| | | 138,568,464 | | 74,303,954 |

| | Ownership share<br>% | 31 December 2005<br>KZT'000 | Ownership share<br>% | 31 December 2004<br>KZT'000 |
|---|---|---|---|---|
| **Shares:** | | | | |
| ADR Kazakhtelecom | 5.11% | 1,673,114 | - | - |
| Kazzinc | 0.04% | 34,599 | - | - |
| Aktobemunaigaz | 0.004% | 8,574 | - | - |
| Shares of Kazakhtelecom | | | | |
| - common | 0.009% | 3,853 | - | - |
| - preference | 0.075% | 5,199 | - | - |
| GDR Kazakhtelecom | - | - | 0.54% | 419,641 |
| Moscow shipbuilding shipyard | - | - | 2.70% | 56,132 |
| | | 1,725,339 | | 475,773 |
| Total assets held-for-trading | | 140,293,803 | | 74,779,727 |

As at 31 December 2005 and 2004 included in assets held-for-trading is accrued interest income on debt securities amounting to KZT 1,646,393 thousand and KZT 636,043 thousand, respectively.

As at 31 December 2005 and 2004 assets held-for-trading included Eurobonds of the Ministry of finance of the Republic of Kazakhstan, bonds of the federal loan of the Ministry of finance of the Russian Federation, bonds of Kazakh and Russian companies pledged under repurchase agreements with other banks/customers with fair value amounting to KZT 59,143,353 thousand and KZT 28,444,727 thousand, respectively (Note 26).

## 15. LOANS AND ADVANCES TO BANKS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

| | 31 December 2005<br>KZT'000 | 31 December 2004<br>KZT'000 |
|---|---|---|
| Loans and advances to banks | 236,526,298 | 29,248,305 |
| Correspondent accounts with other banks | 18,477,947 | 13,020,544 |
| Accrued interest income on loans and advances to banks | 144,810 | 97,740 |
| | 255,149,055 | 42,366,589 |
| Less allowance for impairment losses | (1,244,808) | (533,027) |
| Total loans and advances to banks, less allowance for impairment losses | 253,904,247 | 41,833,562 |

Movements in allowances for impairment losses on loans and advances to banks for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005 and 2004 the Group had loans and advances to following banks, which individually exceeded 10% of the Bank's equity, calculated according to the principles employed by the Basle Committee (Note 37).

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Bank Austria AG Wien | 26,812,375 | - |
| Zurcher Kantonalbank | 26,812,078 | - |
| Dexia Bank SA | 26,802,297 | - |
| Fortis Bank NV/SA Brussels | 26,802,297 | - |
| Depfa Investment Bank LTD, Ireland | 26,802,252 | - |
| Societe Generale Paris France | 26,802,252 | - |
| Moscow Business World Bank LTD | 19,808,885 | - |
| | 180,642,436 | - |

As at 31 December 2005 and 2004 the maximum credit risk exposure of loans and advances to banks amounted to KZT 26,812,375 thousand and KZT 6,500,401 thousand, respectively.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | 31 December 2005 | | | 31 December 2004 | | |
|---|---|---|---|---|---|---|
| | Nominal amount | Net fair value | | Nominal amount | Net fair value | |
| | | Asset | Liability | | Asset | Liability |
| **Foreign currency contracts** | | | | | | |
| Foreign currency swaps | 16,864,952 | 1,600 | (94,264) | 5,131,917 | 233 | (3,283) |
| Interest rate swaps | 14,107,866 | 77,376 | (94,014) | - | - | - |
| Forward contracts | 2,633,551 | 2,322 | (864) | 7,244,700 | 17,220 | (192) |
| **Securities contracts** | | | | | | |
| Forward contracts | | - | - | 1,345,084 | 2,391 | (27,879) |
| | | 81,298 | (189,142) | | 19,844 | (31,354) |

## 17. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR LOAN LOSSES

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Loans granted | 757,118,829 | 513,294,251 |
| Accrued interest income on loans and advances to customers | 14,887,016 | 11,515,151 |
| | 772,005,845 | 524,809,402 |
| Less allowance for impairment losses | (42,162,032) | (29,878,852) |
| Total loans and advances to customers, less allowance for impairment losses | 729,843,813 | 494,930,550 |

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Loans collateralized by real estate | 203,044,740 | 112,347,494 |
| Loans collateralized by accounts receivable | 126,953,280 | 119,097,427 |
| Loans collateralized by combined collateral | 104,916,611 | 75,461,244 |
| Loans collateralized by guarantees of enterprises | 102,094,875 | 32,205,260 |
| Loans collateralized by equipment | 74,696,707 | 42,344,707 |
| Loans collateralized by shares of other companies | 33,758,597 | 26,091,709 |
| Loans collateralized by inventories | 29,893,084 | 21,084,412 |
| Loans collateralized by cash or Kazakhstani Government guarantees | 14,606,401 | 25,942,668 |
| Loans collateralized by guarantees of financial institutions | 3,197,418 | 22,305,528 |
| Unsecured loans | 78,844,132 | 47,928,953 |
| | 772,005,845 | 524,809,402 |
| Less allowance for impairment losses | (42,162,032) | (29,878,852) |
| Total loans and advances to customers, less allowance for impairment losses | 729,843,813 | 494,930,550 |

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| **Analysis by sector:** | | |
| Construction | 210,430,798 | 90,493,676 |
| Trade | 147,657,087 | 97,325,798 |
| Individuals | 101,844,054 | 72,820,907 |
| Transport and communication | 41,039,541 | 31,125,368 |
| Energy | 33,921,932 | 37,006,654 |
| Agriculture | 33,136,575 | 34,278,548 |
| Investments and finance | 30,236,642 | 32,975,228 |
| Food industry | 30,145,390 | 29,801,626 |
| Mining and metallurgy | 25,680,906 | 14,042,224 |
| Hotel business | 17,393,927 | 14,517,252 |
| Real estate | 15,743,406 | 27,596,947 |
| Machinery construction | 13,488,392 | 9,206,278 |
| Culture and art | 746,853 | 1,632,453 |
| Other | 70,540,342 | 31,986,443 |
| | 772,005,845 | 524,809,402 |
| Less allowance for impairment losses | (42,162,032) | (29,878,852) |
| Total loans and advances to customers, less allowance for impairment losses | 729,843,813 | 494,930,550 |

As at 31 December 2005 and 2004 the Group granted loans to the following borrowers, respectively, which individually exceeded 10 % of the Bank's equity, calculated according to the principles employed by the Basle Committee (Note 37).

| | **31 December 2005 KZT'000** | **31 December 2004 KZT'000** |
|---|---|---|
| Mayberry Financial Services S.A. | 20,644,858 | 9,888,402 |
| Holding KUAT | 20,615,141 | 12,349,864 |
| Holding LLP "SAT&Company" | 16,258,498 | - |
| Holding Jalan Limited | 15,625,019 | 12,849,544 |
| Holding IKAN | 14,780,323 | - |
| Holding LLC UNIMILK | - | 11,476,911 |
| Holding LLP "TKF AGROINVEST TRADING" | - | 8,977,128 |
| | 87,923,839 | 55,541,849 |

A significant part of loans (82% of the total portfolio) was granted to companies operating on the territory of the Republic of Kazakhstan, which represents significant geographical concentration.

As at 31 December 2005 and 2004 the maximal credit risk amount on loans to customers amounted KZT 20,644,858 thousand and KZT 12,849,544 thousand, respectively.

## 18. SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

Loans granted under reverse repurchase agreements are secured with the following assets:

| | **31 December 2005 KZT'000** | **31 December 2004 KZT'000** |
|---|---|---|
| Bonds of the Russian Federation organizations | 9,149,994 | 3,627,819 |
| Corporate bonds of the Republic of Kazakhstan | 2,949,004 | 2,972,160 |
| Corporate shares of the Republic of Kazakhstan | 1,644,302 | 276,899 |
| Bonds of local executive bodies of the Russian Federation | 171,926 | - |
| Bonds of the Ministry of finance of the Republic of Kazakhstan | 35,006 | 18,366 |
| Shares of the Russian Federation organization | - | 1,328,387 |
| Notes of the National Bank of the Republic of Kazakhstan | - | 178,832 |
| Total securities purchased under reverse repurchase agreement | 13,950,232 | 8,402,463 |

## 19. INVESTMENTS AVAILABLE-FOR-SALE

| | Interest to nominal % | 31 December 2005 KZT'000 | Interest to nominal % | 31 December 2004 KZT'000 |
|---|---|---|---|---|
| **Debt securities** | | | | |
| Eurobonds of Ministry of finance of the Republic of Kazakhstan | 2.75-6.99% | 339,951 | - | - |
| Bonds of Kazakhstan Mortgage Company | 6.9-8.29% | 87,275 | - | - |
| Bonds of Astana-Finance | - | - | 9% | 126,343 |
| Bonds of Kazakhaltyn | - | - | 9.7% | 123,214 |
| Bonds of Chimfarm | - | - | 10% | 119,301 |
| | | 427,226 | | 368,858 |

| | Ownership share % | 31 December 2005 KZT'000 | Ownership share % | 31 December 2004 KZT'000 |
|---|---|---|---|---|
| **Equity securities** | | | | |
| Shares of Kazakhstelecom | | | | |
| - common | - | - | 0.14% | 90,232 |
| - preference | - | - | 0.19% | 5,909 |
| Aktubinsk chromium compounds plant | - | - | 3.07% | 21,497 |
| Aktobemunaigaz | - | - | 0.004% | 2,172 |
| | | - | | 119,810 |
| Total investments available-for-sale | | 427,226 | | 488,668 |

## 20. INVESTMENTS HELD-TO-MATURITY

| | Interest to nominal % | 31 December 2005 KZT'000 | Interest to nominal % | 31 December 2004 KZT'000 |
|---|---|---|---|---|
| Bonds of the Ministry of finance of the Republic of Kazakhstan | 4-4.3% | 233,762 | - | - |
| Bonds of Halyk Bank | 7.75% | 98,592 | - | - |
| Bonds of Bank CenterCredit | 8.5% | 94,555 | - | - |
| Bonds of ATF Bank | 8.5% | 91,870 | - | - |
| Bonds of the Ministry of finance of the Republic of Kyrgyzstan | 4.52-8.15% | 40,224 | 5.91-8.10% | 64,294 |
| Bonds of the National bank of the Republic of Kyrgyzstan | 4.9% | 2,590 | - | - |
| Total investments held-to-maturity | | 561,593 | | 64,294 |

## 21. INVESTMENTS IN ASSOCIATES AND OTHER ENTITIES

| | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| | Ownership share % | Amount KZT'000 | Ownership share % | Amount KZT'000 |
| Pension Fund "Ular Umit" | 41.18% | 387,782 | 41.18% | 213,914 |
| LLP "First Credit Bureau" | 18.40% | 37,260 | 14.29% | 4,050 |
| | | 425,042 | | 217,964 |

In 2005 the Bank purchased shares of LLP "First Credit Bureau" and as at 31 December 2005 the Bank's share in the equity of the LLP "First Credit Bureau" increased by 4.11%.

The percentage held of the above associates represents both direct and indirect ownership of the Bank.

The movements of investments are accounted for in the consolidated financial statements and presented as follows:

| | 2005 KZT'000 | 2004 KZT'000 |
|---|---|---|
| 1 January | 217,964 | 146,206 |
| Purchase cost | 33,210 | 59,213 |
| Share in results of associates | 173,868 | 12,545 |
| 31 December | 425,042 | 217,964 |

## 22. GOODWILL

In October 2005 the Bank has purchased 100% shares in JSC ABN Amro Asset Management and 80.01% in JSC ABN Amro CaspiyMunaiGaz Accumulation Pension Fund from JSC ABN AMRO Bank Kazakhstan (see note 1).

The net assets acquired in the transaction, and the goodwill arising are as follows:

| | ABN AM | ABN APF | Total |
|---|---|---|---|
| Fixed and intangible assets | 1,419 | 17,881 | 19,300 |
| Securities held-to-maturities | 258,651 | 183,654 | 442,305 |
| Securities available-for-sale | 151,411 | 243,836 | 395,247 |
| Comission receivable | 21,660 | 47,312 | 68,972 |
| Securities purchased under reverse repurchase agreements | 81,001 | 60,009 | 141,010 |
| Other assets | 2,387 | 3,581 | 5,968 |
| Tax payables | (16,343) | (42,429) | (58,772) |
| Other liabilities | (3,421) | (27,306) | (30,727) |
| | 496,765 | 486,538 | 983,303 |
| Goodwill | 1,124,202 | 1,281,075 | 2,405,277 |
| Total consideration, satisfied by cash | 1,620,967 | 1,767,613 | 3,388,580 |
| Net cash outflow on acquisition: | | | |
| Cash consideration paid | (1,634,621) | (1,786,569) | (3,421,190) |
| Cash acquired | 13,654 | 18,956 | 32,610 |
| Total | (1,620,967) | (1,767,613) | (3,388,580) |

## 23. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

| | Buildings and construction KZT'000 | Furniture and equipment KZT'000 | Intangible assets KZT'000 | Other KZT'000 | Total KZT'000 |
|---|---|---|---|---|---|
| **At revalued cost** | | | | | |
| 31 December 2003 | 2,402,620 | 5,665,025 | 797,734 | 324,368 | 9,189,747 |
| Additions | 70,253 | 1,102,417 | 102,329 | 209,013 | 1,484,012 |
| Revaluation increase | 1,220,038 | 408 | - | - | 1,220,446 |
| Disposals | (133,627) | (232,086) | (16,768) | (2,824) | (385,305) |
| Exchange differences | - | 4,158 | 14,326 | (17,879) | 605 |
| 31 December 2004 | 3,559,284 | 6,539,922 | 897,621 | 512,678 | 11,509,505 |
| Additions | 480,927 | 1,478,191 | 298,804 | 306,302 | 2,564,224 |
| Revaluation increase | 346,321 | - | - | - | 346,321 |
| Acquisition of subsidiaries | - | 31,347 | 4,823 | 4,295 | 40,465 |
| Subsidiaries adjustments for 2004 | - | 13,508 | - | - | 13,508 |
| Disposals | (364,129) | (234,906) | (17,901) | (117,957) | (734,893) |
| Exchange differences | - | (851) | 199 | 5,337 | 4,685 |
| 31 December 2005 | 4,022,403 | 7,827,211 | 1,183,546 | 710,655 | 13,743,815 |
| **Accumulated depreciation** | | | | | |
| 31 December 2003 | 196,249 | 2,261,383 | 361,683 | 66,434 | 2,885,749 |
| Charge for the year | 48,054 | 1,012,410 | 162,767 | 78,835 | 1,302,066 |
| Eliminated on revaluation | 124,750 | - | - | - | 124,750 |
| Eliminated on disposals | (14,243) | (152,839) | (15,368) | (1,273) | (183,723) |
| Exchange differences | (2) | (5,888) | 3,065 | (3,042) | (5,867) |
| 31 December 2004 | 354,808 | 3,115,066 | 512,147 | 140,954 | 4,122,975 |
| Charge for the year | 57,761 | 1,048,422 | 204,874 | 252,914 | 1,563,971 |
| Acquisition of subsidiaries | - | 11,846 | 2,251 | 2,600 | 16,697 |
| Subsidiaries adjustments for 2004 | (163) | 7,945 | - | 163 | 7,945 |
| Eliminated on disposals | (353,458) | (157,077) | (13,264) | (106,342) | (630,141) |
| Exchange differences | - | (275) | 26 | 1,187 | 938 |
| 31 Dececmber 2005 | 58,948 | 4,025,927 | 706,034 | 291,476 | 5,082,385 |
| **Net book value** | | | | | |
| 31 December 2005 | 3,963,455 | 3,801,284 | 477,512 | 419,179 | 8,661,430 |
| 31 December 2004 | 3,204,476 | 3,424,856 | 385,474 | 371,724 | 7,386,530 |

a) The effective date of the revaluation is 10 June 2005;

b) In 2005 the real estate was revalued based on an independent expert's appraisal – LLP Price-Express, registration number UL-00301, the legal address: Republic of Kazakhstan, 050013, Almaty, Baiseitova street, 49.

c) Methods of evaluation are cost approach, benchmark (comparative) approach, profit method.

d) Additionally to point C the method of determining fair value directly by reference to observable prices in an active market has been applied. The source for obtaining information by this method are publications placing announcements on purchase-and-sale of real estate objects, and internet sites on commercial realty, helping in selecting analogues maximally approximated by their characteristics to evaluated objects.

Intangible assets include software, patents and licenses.

## 24. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Prepayments and other debtors | 2,925,941 | 7,295,992 |
| Income tax receivable | 1,684,862 | 277,585 |
| Insurance debtors | 1,040,654 | 456,442 |
| Prepaid expenses | 977,719 | 1,598,780 |
| Tax settlements, other than income tax | 587,186 | 122,059 |
| | 7,216,362 | 9,750,858 |
| Less allowance for impairment losses | (130,187) | (110,715) |
| Total other assets, less allowance for impairment | 7,086,175 | 9,640,143 |

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

## 25. LOANS AND ADVANCES FROM BANKS

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Correspondent accounts of other banks | 29,120,595 | 6,582,160 |
| Loans from banks and financial institutions, including: | | |
| Syndicated loan from banks *(Bank of Tokyo Mitsubishi)* (maturity date – December 2006, interest rate 4.819%) | 109,054,314 | - |
| Syndicated loan from banks *(Bank of Tokyo Mitsubishi)* (maturity date – December 2008, interest rate 5.26938%) | 63,854,518 | - |
| Syndicated loan from banks *(Citibank International Plc)* (maturity date – August 2006, interest rate 4.87%) | 53,361,882 | - |
| Loan from EBRD (maturity date in 2006, interest rate 3.27 – 8.42% annually) | 10,407,779 | 5,330,046 |
| Loan from the bank syndicate (Deutsche Bank AG London): | | |
| *Tranche A due on 16.12.2005 (USD 500 million), coupon rate 4.54%* | - | 65,000,000 |
| *Tranche B due on 19.12.2005 (USD 110 million), coupon rate 4.32%* | - | 14,300,000 |
| Syndicated loan from banks (City Bank Int/ PLC London, maturity date – 28.08.2005, USD 150 million, interest rate 3.64%) | | 19,500,000 |
| Loan from EBRD (maturity date in 2005, interest rate 2.84%-4.33% annually, USD 40 million and USD 22.5 million) | - | 8,130,802 |
| Loans and advances received from NBRK | 3,569,033 | 85,516 |
| Loans from other banks and financial institutions | 41,195,865 | 39,757,577 |
| Deposits of banks | 8,423,194 | 10,850,632 |
| Accrued interest expenses | 1,108,086 | 794,615 |
| Total loans and advances from banks | 320,095,266 | 170,331,348 |

## 26. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The loans received under repurchase agreements are secured with the following assets:

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Bonds of Federal Home Loan Bank | 13,533,261 | - |
| Eurobonds of International Bank of Reconstruction and Development | 8,157,945 | - |
| Eurobonds of Caisse D'Amortissement Dela France | 6,732,453 | - |
| Eurobonds of KFW Intl Finance | 6,726,110 | - |
| Eurobonds of European Investment Bank | 6,718,547 | - |
| Eurobonds of the Ministry of finance of the Republic of Kazkahstan | 5,741,805 | - |
| Eurobonds of the Bank Nederlandse Gemeenten | 5,434,137 | - |
| Eurobonds of the Government of Finland | 4,794,918 | - |
| Shares of Kazakhstani companies | 1,039,560 | - |
| Local executive authorities of the Russian Federation | 146,751 | 159,891 |
| Bonds of companies of the Russian Federation | 117,866 | 2,153,823 |
| Notes of the National Bank of the Republic of Kazakhstan | - | 19,143,741 |
| Bonds of the Monistry of finance of the Republic of Kazakhstan | - | 6,987,272 |
| Total loans received under repurchase agreements | 59,143,353 | 28,444,727 |

Securities transferred under the above indicated agreements, are included in the assets held-for trading at their fair value.

## 27. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Loans and time deposits | 184,618,677 | 110,847,104 |
| Demand deposits | 114,190,502 | 84,990,350 |
| Accrued interest expense on customer accounts | 4,596,043 | 1,989,859 |
| Total customer accounts | 303,405,222 | 197,827,313 |

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| **Analysis by sector:** | | |
| Individuals | 107,787,284 | 83,169,397 |
| Investments and finance | 74,458,106 | 26,172,970 |
| Construction in progress | 29,314,597 | 16,894,173 |
| Trade | 26,379,665 | 18,505,236 |
| Chemical industry | 14,377,074 | 4,041,066 |
| Energy | 6,849,916 | 5,178,523 |
| Transport and communication | 4,221,561 | 2,978,874 |
| Agriculture | 1,857,853 | 923,984 |
| Mining and metallurgy | 1,473,827 | 964,442 |
| Food industry | 1,121,982 | 953,398 |
| Education | 380,073 | 336,545 |
| Public organizations and unions | 219,508 | 141,560 |
| Machinery construction | 212,287 | 21,954 |
| Hotel business | 193,633 | 295,628 |
| Real estate | 196,545 | 202,306 |
| Culture and art | 25,337 | 78,046 |
| Health care | 7,598,598 | 8,972,277 |
| Light industry | 4,596,043 | 1,989,859 |
| Other | | |
| Accrued interest expense on customer accounts | 303,405,222 | 197,827,313 |
| Total customer accounts | 303,405,222 | 197,827,313 |

## 28. DEBT SECURITIES ISSUED

| | Maturity date<br>month/year | Annual coupon rate<br>% | 31 December 2005<br>KZT'000 | 31 December 2004<br>KZT'000 |
|---|---|---|---|---|
| Eurobonds of Kazkommerts International B.V. due in May 2007: | | | | |
| Tranche A, issued in May 2002 and placed at the price of 99.043% | 8 May 2007 | 10.125% | 18,561,590 | 18,534,334 |
| Tranche B, issued in Novemer 2002 and placed at the price of 107.00% | 8 May 2007 | 10.125% | 6,699,000 | 6,500,000 |
| In April 2013: | | | | |
| Tranche A, issued in April 2003 at the price of 97.548% | 16 April 2013 | 8.5% | 45,730,053 | 45,285,703 |
| Tranche B issued in April 2003 and placed in May 2003 at the price of 99.00% | 16 April 2013 | 8.5% | 20,097,000 | 19,500,000 |
| In April 2014: | | | | |
| Issued in April 2004 at the price of 99.15% | 7 April 2014 | 7.875% | 52,386,180 | 51,742,049 |
| In November 2009: | | | | |
| Tranche A issued in November 2004 at the price of 98.967% | 3 November 2009 | 7% | 46,879,602 | 45,500,000 |
| Tranche B issued in February 2005 at the price of 98.967% | 3 November 2009 | 7% | 20,097,000 | - |
| In November 2015: | | | | |
| Issued in November 2005 at the price of 98.32% | 3 November 2015 | 7.94% | 66,990,000 | - |
| | | | 277,440,425 | 187,062,086 |
| Including /(less): | | | | |
| Discount on debt securities issued | | | (4,098,337) | (1,796,329) |
| Amounts of accrued interest on debt securities issued | | | 4,124,571 | 2,984,523 |
| Total issued Eurobonds of Kazkommerts International B.V. | | | 277,466,659 | 188,250,280 |
| Issued bonds of Kazkommertsbank | | | 3,957,524 | 3,949,454 |
| Amounts of accrued expenses on issued bonds of Kazkommertsbank | | | 127,259 | 129,060 |
| Issued promissory notes of MKB | | | 21,039,947 | 15,473,395 |
| Accrued interest expense on issued promissory notes of MKB | | | 541,646 | 38,528 |
| Total debt securities issued | | | 303,133,035 | 207,840,717 |

Eurobonds were issued by the Kazkommerts International B.V., a subsidiary of the Bank, and guaranteed by the Bank. For Eurobonds with a maturity of May 2007, coupon is paid semi-annually on 8 May and 8 November, while for those having a maturity of April 2013, interest is paid on 16 April and 16 October, for Eurobonds with maturity of April 2014, interest is paid on 7 April and 7 October, for Eurobonds with maturity of November 2009, interest is paid 3 may and 3 November, for Eurobonds having a maturity of November 2015 interest is paid on 3 May and 3 November.

## 29. OTHER BORROWED FUNDS

| | Interest rate<br>% | 31 December 2005<br>KZT'000 | Interest rate<br>% | 31 December 2004<br>KZT'000 |
|---|---|---|---|---|
| Kazkommerts DPR company | 6.84 - 6.91% | 39,806,021 | - | - |
| DEG-Deutsche Investitions MBH | 7.05 - 7.32% | 6,695,918 | 4.99% | 1,687,010 |
| Private Export Funding Corporation | 4.54 - 4.64% | 1,138,470 | - | - |
| DEERE Credit | 4.74 - 4.91% | 865,088 | - | - |
| Funding of agricultural equipment purchasing | 8.04 – 8.83% | 725,003 | 3.22-7.76% | 977,452 |
| Intesa Soditic Trade Finance LTD | 6.00% | 629,706 | - | - |
| Funding by the RK Ministry of finance and KR Ministry of finance | 0.5 – 5% | 422,680 | 0.50-5.78% | 577,281 |
| Hungarian International Finance LTD | 8.04% | 54,932 | - | - |
| Funding by the Small Business Development Support Fund | 7.3% | 21,054 | 7.30-8.05% | 1,179,286 |
| Accrued interest expenses | | 244,969 | | 42,938 |
| Total other borrowed funds | | 50,603,841 | | 4,463,967 |

On December 8, 2005 Kazkommertsbank launched the inaugural future flow securitization of diversified payment rights for 300 million USD. The transaction is a true-sale securitization of the Bank's dollar-denominated present and future diversified payment rights (SWIFT USD MT100 series) to Kazkommerts DPR Company (special purpose vehicle created on Cayman Islands). Kazkommerts DPR Company is operated by Maples Finance Limited, which is incorporated in the Cayman Islands. Bonds issued by Kazkommerts DPR Company are collateralized by these future inflows of the Bank.

Financing by the Small Business Development Support Fund is made from funds of EBRD, Asian Development Bank (further – "ADB") and is represented as follows:

| | 31 December 2005<br>KZT'000 | 31 December 2004<br>KZT'000 |
|---|---|---|
| From EBRD funds | 21,054 | 1,118,000 |
| From ADB funds | - | 61,286 |
| | 21,054 | 1,179,286 |

Funding from the Ministry of finance of the Republic of Kazakhstan is provided under the Agriculture Development Program by funds of the International Bank of Reconstruction and Development (further – "IBRD"). Kreditanschtaldt fur Videraufbau (further – "KFW") and regional departments. as well as from the funds of the Ministry of finance of Kyrgyz Republic from funds of ADB and represented as follows:

| | 31 December 2005<br>KZT'000 | 31 December 2004<br>KZT'000 |
|---|---|---|
| From funds of IBRD, KFW and ABD | 329,098 | 523,821 |
| From funds of regional subdivisions | 93,582 | 53,460 |
| | 422,680 | 577,281 |

Financing by international financial organizations Atlantik Forfaiting AG and Export Development, Canada is made for purchase of agricultural equipment and represented as follows:

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| from funds of Export Development Canada | 351,078 | 510,973 |
| from funds of Atlantik Forfaiting AG | 373,925 | 466,479 |
| | 725,003 | 977,452 |

## 30. OTHER LIABILITIES

| | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|
| Taxes payable, other than income tax | 1,760,231 | 974,877 |
| Payable to employees | 1,032,606 | 510,349 |
| Accounts payable on re-insurers | 610,759 | 117,372 |
| Prepayments received | 411,993 | 23,832 |
| Other | 775,542 | 1,205,548 |
| | 4,591,131 | 2,831,978 |

## 31. SUBORDINATED DEBT

| | Currency | Maturity date (year) | Interest rate % | 31 December 2005 KZT'000 | 31 December 2004 KZT'000 |
|---|---|---|---|---|---|
| Subordinated debt of Citigroup GMD AG & CO | USD | 2014 | 8.194 % | 13,398,000 | 13,000,000 |
| Indexed subordinated bonds | KZT | 2009 | 8 % | 3,675,584 | 3,548,695 |
| International subordinated bonds | USD | 2007 | 11 % | 2,661,739 | 2,571,292 |
| Permanent debt of Kazkommerts Finance II B.V. | USD | - | 9.2531 % | 13,285,762 | - |
| Subordinated bonds | USD | 2007 | 5.50% | 50,376 | 48,880 |
| Subordinated bonds | KZT | 2015 | 7.5% | 12,359,717 | - |
| Accrued interest expenses | | | - | 707,391 | 278,831 |
| | | | | 46,138,569 | 19,447,698 |

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 32. SHARE CAPITAL

As at 31 December 2005 the Bank's share capital comprised the following:

| | Authorized share capital | Unpaid share capital | Repurchased share capital | Total share capital |
|---|---|---|---|---|
| Common shares | 3,750,000 | - | (86) | 3,749,914 |
| Preference shares | 1,250,000 | - | (3,288) | 1,246,712 |
| | 5,000,000 | - | (3,374) | 4,996,626 |

As at 31 December 2004 the Bank's share capital comprised the following:

| | Authorized share capital | Unpaid share capital | Repurchased share capital | Total share capital |
|---|---|---|---|---|
| Common shares | 3,750,000 | (288,587) | (26) | 3,461,387 |
| Preference shares | 1,250,000 | (512,505) | (1,703) | 735,792 |
| | 5,000,000 | (801,092) | (1,729) | 4,197,179 |

The preference shares have a nominal value of KZT 10 and carry no voting rights but rank ahead of the common shares in the event of liquidation of the Bank. Annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. These shares are not redeemable. If dividends are not declared, the preference shareholders obtain the right to vote as common shareholders until such time that the dividend is paid.

Dividend declared on preference shares amounted to KZT 668,738 thousand and KZT 290,370 thousand in 2005 and 2004, respectively. In 2005 and 2004 dividends on common shares have not been declared.

## 33. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group 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.

Accrued allowance for impairment losses on letters of credit and guarantees amounted to KZT 2,589,340 thousand and KZT 1,530,192 thousand as at 31 December 2005 and 2004 respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2005 and 2004, the nominal or contract amounts and risk-weighted amounts were:

| | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| | **Nominal amount** | **Risk weighted amount** | **Nominal amount** | **Risk weighted amount** |
| **Contingent liabilities and credit commitments** | | | | |
| Guarantees issued and similar commitments | 39,927,737 | 39,927,737 | 22,971,691 | 22,971,691 |
| Letters of credit and other transaction related to contingent obligations | 59,951,285 | 11,680,273 | 41,490,308 | 6,941,465 |
| Commitments on loans and unused credit lines | 2,670,459 | 2,670,459 | 2,081,424 | 2,081,424 |
| Total contingent liabilities and credit commitments | 102,549,481 | 54,278,469 | 66,543,423 | 31,994,580 |

***Capital commitments* –** The Group had no material commitments for capital expenditure outstanding as at 31 December 2005.

***Operating lease commitments* –** No material rental commitments were outstanding as at 31 December 2005 and 2004.

***Fiduciary activities* –** In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position.

The Group also provides depositary services to its customers. As at 31 December 2005 and 2004 the Group had customer securities totaling:
- on broker-dealer operations - 13,175,579 items and 63,668,088 items, respectively,
- on custodial operations - 333,537,909 items and 535,951,836 items, respectively.

***Legal proceedings* –** From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

***Taxes* –** Due to the presence in commercial legislation of the countries where the Group operates, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for five years.

***Pensions and retirement plans* –** Employees receive pension benefits in accordance with the requirements of the legislation of the countries in which the Bank and its subsidiaries operate. As at 31 December 2005 and 2004 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

***Operating environment –*** The Group's principal business activities are within the Republic of Kazkahstan. Laws and regulations affecting the business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

## 34. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank (this includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank (also non-executive directors and close members of the families of such individuals);

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank;

(f) Parties with joint control over the Bank;

(g) Joint ventures in which the Bank is a venture; and

(h) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to the Bank,

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

| | 31 December 2005 KZT'000 | | 31 December 2004 KZT'000 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Loans to customers | 1,784,806 | 772,005,845 | 2,617,293 | 524,809,402 |
| *- who are under common control jointly with the Bank* | 342,290 | | 481,944 | |
| *- individuals influencing the Bank's operations, and their close family members* | 453,113 | | 562,638 | |
| *- key management personnel of the Bank* | 953,516 | | 1,141,712 | |
| *- Other related parties* | 35,887 | | 430,999 | |
| Allowance for impairment losses | 50,914 | 42,162,032 | 84,065 | 29,878,852 |
| *- who are under common control jointly with the Bank* | 20,131 | | 38,971 | |
| *- individuals influencing the Bank's operations, and their close family members* | 9,061 | | 11,156 | |
| *- key management personnel of the Bank* | 19,928 | | 24,576 | |
| *- Other related parties* | 1,794 | | 9,362 | |
| Customer accounts | 2,273,629 | 303,405,222 | 3,401,455 | 197,827,313 |
| *- who directly or indirectly, through one or several intermediaries, control the Bank* | 388 | | 69,956 | |
| *- who are under common control jointly with the Bank* | 15,256 | | 58,050 | |
| *- associates of the Bank* | 1,092,948 | | 2,248,268 | |
| *- individuals influencing the Bank's operations, and their close family members* | 485,819 | | 445,581 | |
| *- key management personnel of the Bank* | 672,227 | | 536,859 | |
| *- Other related parties* | 6,991 | | 42,741 | |
| Provision for guarantees and letters of credit | 389 | 2,589,340 | 2,514 | 1,530,192 |
| *- who are under common control jointly with the Bank* | - | | 1,021 | |
| *- individuals influencing the Bank's operations, and their close family members* | 27 | | 26 | |
| *- key management personnel of the Bank* | 362 | | 1,467 | |
| Loan commitments and unused card limits | 44,935 | 2,670,459 | 53,797 | 2,081,424 |
| *- individuals influencing the Bank's operations, and their close family members* | 17,365 | | 16,963 | |
| *- key management personnel of the Bank* | 27,570 | | 36,834 | |
| Guarantees given | 19,427 | 39,927,737 | 33,854 | 22,971,691 |
| *- who are under common control jointly with the Bank* | - | | 15,654 | |
| *- individuals influencing the Bank's operations, and their close family members* | 1,340 | | 1,300 | |
| *- key management personnel of the Bank* | 18,087 | | 16,900 | |

Included in the consolidated profit and loss account for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

| | Year ended 31 December 2005 KZT'000 | | Year ended 31 December 2004 KZT'000 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Interest income | 251,205 | 85,790,808 | 177,812 | 56,162,981 |
| Interest expense | (249,702) | (45,185,962) | (209,844) | (27,143,228) |
| Benefits of key personnel | (661,850) | 6,516,771 | 393,112 | 3,782,316 |

## 35. SEGMENT REPORTING

### Business segments

The Group is organized on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency products, guarantees and letters of credit and derivative products.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice.

Transactions between the business segments are conducted on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of funds attracted. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below:

| | Retail banking | Corporate banking | Investment banking | Other | Unallocated | Eliminations | Year ended 31 December 2005 KZT'000 |
|---|---|---|---|---|---|---|---|
| External revenues | 11,831,321 | 37,496,723 | 3,723,009 | 2,452,793 | 418,053 | (55,437) | 55,866,462 |
| Provision for impairment losses on interest bearing assets | (2,103,544) | (15,017,399) | (706,452) | (5,318) | - | - | (17,832,713) |
| Operating income | 9,727,777 | 22,479,324 | 3,016,557 | 2,447,475 | 418,053 | (55,437) | 38,033,749 |
| Operating expenses | (4,633,868) | (7,533,905) | (577,096) | (677,795) | (21,709) | 76,548 | (13,367,825) |
| Operating profit | 5,093,909 | 14,945,419 | 2,439,461 | 1,769,680 | 396,344 | 21,111 | 24,665,924 |
| Share of results of associates | - | - | 173,868 | - | - | - | 173,868 |
| Provision for impairment losses on other assets | - | (730,670) | (395,966) | (812,432) | - | - | (1,939,068) |
| Profit before income tax | 5,093,909 | 14,214,749 | 2,217,363 | 957,248 | 396,344 | 21,111 | 22,900,724 |
| Income tax expense | - | - | - | - | (2,337,427) | - | (2,337,427) |
| Net profit | 5,093,909 | 14,214,749 | 2,217,363 | 957,248 | (1,941,083) | 21,111 | 20,563,297 |
| Total assets | 101,844,054 | 670,161,791 | 462,837,428 | 6,188,430 | 500,216,396 | (546,379,064) | 1,194,869,035 |
| Total liabilities | 107,787,284 | 191,021,895 | 806,979,272 | 2,924,414 | 533,695,778 | (541,884,615) | 1,100,524,028 |

| | Retail Banking | Corporate banking | Investment banking | Other | Unallocated | Eliminations | Year ended 31 December 2004 KZT'000 |
|---|---|---|---|---|---|---|---|
| External revenues | 7,128,927 | 28,011,390 | 3,888,651 | 1,420,191 | 282,473 | 67,452 | 40,799,084 |
| Provision for impairment losses on interest bearing assets | (1,162,812) | (9,939,766) | (117,424) | (1,586) | - | - | (11,221,588) |
| Operating income | 5,966,115 | 18,071,624 | 3,771,227 | 1,418,605 | 282,473 | 67,452 | 29,577,496 |
| Operating expenses | (3,055,158) | (5,365,486) | (755,459) | (312,695) | (22,241) | - | (9,511,039) |
| Operating profit | 2,910,957 | 12,706,138 | 3,015,768 | 1,105,910 | 260,232 | 67,452 | 20,066,457 |
| Share of results of associates | - | - | 12,545 | - | - | - | 12,545 |
| Provision for impairment losses on other assets | - | (160,927) | (5,483) | (555,156) | - | - | (721,566) |
| Profit before income tax | 2,910,957 | 12,545,211 | 3,022,830 | 550,754 | 260,232 | 67,452 | 19,357,436 |
| Income tax expense | - | - | - | - | (9,573,062) | - | (9,573,062) |
| Net profit | 2,910,957 | 12,545,211 | 3,022,830 | 550,754 | (9,312,830) | 67,452 | 9,784,374 |
| Total assets | 72,820,907 | 451,988,495 | 200,925,813 | 3,012,410 | 280,078,691 | (304,769,753) | 704,056,563 |
| Total liabilities | 83,169,397 | 112,668,057 | 452,433,132 | 1,742,224 | 293,705,846 | (302,436,843) | 641,281,814 |

## 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". 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. As no readily available published price quotations in an active market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

| | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| | Current value KZT'000 | Fair value KZT'000 | Current value KZT'000 | Fair value KZT'000 |
| Cash and balances with national (central) banks | 37,228,899 | 37,228,899 | 66,292,818 | 66,292,818 |
| Assets held-for-trading | 140,293,803 | 140,293,803 | 74,779,727 | 74,779,727 |
| Securities purchased under reverse repurchase agreements | 13,950,232 | 13,950,232 | 8,402,463 | 8,402,463 |
| Loans and advances to banks, less allowance for impairment losses | 253,904,247 | 253,904,247 | 41,833,562 | 41,833,562 |
| Derivative financial instruments | 81,298 | 81,298 | 19,844 | 19,844 |
| Loans to customers, less allowance for impairment losses | 729,843,813 | 729,843,813 | 494,930,550 | 494,930,550 |
| Investment available-for-sale | 427,226 | 427,226 | 448,668 | 448,668 |
| Investment held-to-maturity | 561,593 | 564,211 | 64,294 | 64,294 |
| Goodwill | 2,405,277 | 2,405,277 | - | - |
| Investments in associates and other entities | 425,042 | 425,042 | 217,964 | 217,964 |
| Other assets, less allowance for impairment losses | 7,086,175 | 7,086,175 | 9,640,143 | 9,640,143 |
| | | | | |
| Loans and advances from banks | 320,095,266 | 320,095,266 | 170,331,348 | 170,331,348 |
| Securities sold under repurchase agreements | 59,143,353 | 59,143,353 | 28,444,727 | 28,444,727 |
| Derivative financial instruments | 189,142 | 189,142 | 31,354 | 31,354 |
| Customer accounts | 303,405,222 | 303,405,222 | 197,827,313 | 197,827,313 |
| Debt securities issued | 303,133,035 | 323,203,788 | 207,840,717 | 215,513,205 |
| Other borrowed funds | 50,603,841 | 50,603,841 | 4,463,967 | 4,463,967 |
| Dividends payable | 404 | 404 | 403 | 403 |
| Other liabilities | 4,591,131 | 4,591,131 | 2,831,978 | 2,831,978 |
| Subordinated debt | 46,138,569 | 45,672,941 | 19,447,698 | 18,022,956 |

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

## 37. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

| Estimate | Description of position |
|---|---|
| 0% | Cash and balances with the National Bank of the Republic of Kazakhstan |
| 0% | State debt securities |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans to customers |
| 100% | Guarantees |
| 50% | Obligations and commitments on unused loans with the initial maturity of over 1 year |
| 100% | Other assets |

As at 31 December 2005 the Group's total capital amount for capital adequacy purposes was KZT 133,719,441 thousand and tier 1 capital amount was KZT 102,457,638 thousand with ratios 14.38% and 11.02%, respectively.

As at 31 December 2004 the Group's total capital amount for capital adequacy purposes was KZT 87,212,130 thousand and tier 1 capital amount was KZT 60,725,677 thousand with ratios 15.00% and 10.45%, respectively.

As at 31 December 2005 and 2004 the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 38. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks:

### Liquidity risk

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

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**Cash flow interest rate risk**

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

| | **31 December 2005** | | | **31 December 2004** | | |
|---|---|---|---|---|---|---|
| | **% in KZT** | **% in USD** | **% in other currencies** | **% in KZT** | **% inUSD** | **% in other currencies** |
| **ASSETS:** | | | | | | |
| Time deposits in NBRK | - | - | - | 2.28 | 0.50 | - |
| Assets held-for-trading | 2.90 | 4.62 | 10.00 | 3.62 | 5.79 | 12.10 |
| Loans and advances to banks, less allowance for impairment losses | 2.08 | 4.43 | 6.70 | 0.70 | 2.79 | 7.62 |
| Loans to customers, less allowance for impairment losses | 13.40 | 12.32 | 36.92 | 13.16 | 12.28 | 47.18 |
| Investments available-for-sale | 3.60 | - | 4.10 | 7.18 | - | 7.22 |
| Securities purchased under reverse repurchase agreements | 4.68 | - | 7.12 | 4.11 | 6.01 | 9.63 |
| **LIABILITIES:** | | | | | | |
| Loans and advances from banks | 1.46 | 5.51 | 8.09 | 0.29 | 4.02 | 9.01 |
| Securities sold under repurchase agreements | 3.27 | 4.70 | 8.25 | 4.92 | - | 9.91 |
| Customer accounts | 4.61 | 3.74 | 12.87 | 3.87 | 4.00 | 5.51 |
| Debt securities issued | 7.00 | 9.02 | 9.88 | 7.21 | 9.23 | 11.66 |
| Other borrowed funds | 2.38 | 6.81 | 5.00 | 1.78 | 5.75 | 5.00 |
| Subordinated debt | 7.61 | 9.65 | - | - | 7.97 | - |

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined, (including allowance for impairment losses) | 31 December 2005 Total (KZT'000) |
|---|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | | |
| Assets held-for-trading | 43,052,029 | 22,057,257 | 73,538,124 | - | - | - | 138,647,410 |
| Loans and advances to banks, less allowance for impairment losses | 228,266,759 | 18,642,121 | 6,755,565 | - | 1,339,800 | (1,244,808) | 253,759,437 |
| Loans to customers, less allowance for impairment losses | 36,724,897 | 49,280,985 | 174,041,147 | 294,793,895 | 202,277,905 | (42,162,032) | 714,956,797 |
| Securities purchased under reverse repurchase agreements | 11,379,019 | 1,306,890 | 1,200,008 | - | - | - | 13,885,917 |
| Investments available-for-sale | - | - | 36,405 | 286,589 | 97,193 | - | 420,187 |
| Investments held-to-maturity | 12,954 | 4,844 | 133,441 | 124,642 | 280,049 | - | 555,930 |
| Total interest bearing assets | 319,435,658 | 91,292,097 | 255,704,690 | 295,205,126 | 203,994,947 | (43,406,840) | 1,122,225,678 |
| Cash and balances with national (central) banks | 37,228,899 | - | - | - | - | - | 37,228,899 |
| Derivative financial instruments | 3,925 | - | - | 77,373 | - | - | 81,298 |
| Investments in associates and other entities | - | - | - | - | 425,042 | - | 425,042 |
| Goodwill | - | - | - | - | 2,405,277 | - | 2,405,277 |
| Fixed and intangible assets, less accumulated depreciation | 26,425 | 75 | 144 | 222,161 | 8,412,625 | - | 8,661,430 |
| Accrued interest income on interest-bearing assets | 6,017,217 | 4,131,678 | 5,036,129 | 1,560,227 | 9,985 | - | 16,755,236 |
| Other assets, less allowance for impairment losses | 2,475,256 | 360,573 | 3,706,858 | 464,491 | 209,184 | (130,187) | 7,086,175 |
| TOTAL ASSETS | 365,187,380 | 95,784,423 | 264,447,821 | 297,529,378 | 215,457,060 | (43,537,027) | 1,194,869,035 |
| **LIABILITIES:** | | | | | | | |
| Loans and advances from banks | 36,437,360 | 10,199,713 | 192,422,283 | 75,590,004 | 4,337,820 | - | 318,987,180 |
| Securities sold under repurchase agreements | 59,094,819 | - | - | - | - | - | 59,094,819 |
| Customer accounts | 167,127,230 | 24,658,392 | 62,130,940 | 43,703,626 | 1,188,991 | - | 298,809,179 |
| Debt securities issued | 73,432 | 1,585,495 | 2,152,222 | 113,331,101 | 181,197,309 | - | 298,339,559 |
| Other borrowed funds | - | - | 23,420 | 3,631,520 | 46,703,930 | - | 50,358,870 |
| Subordinated debt | - | - | - | 6,377,316 | 39,053,861 | - | 45,431,177 |
| Total interest bearing liabilities | 262,732,841 | 36,443,600 | 256,728,865 | 242,633,567 | 272,481,911 | - | 1,071,020,784 |
| Derivative financial instruments | 188,380 | - | 762 | - | - | - | 189,142 |
| Reserves | - | - | - | - | - | 4,934,212 | 4,934,212 |
| Dividends payable | 404 | - | - | - | - | - | 404 |
| Deferred tax liability | - | - | - | 8,289,853 | - | - | 8,289,853 |
| Accrued interest expense on interest-bearing liabilities | 2,188,917 | 1,268,159 | 6,593,264 | 1,448,162 | - | - | 11,498,502 |
| Other liabilities | 1,329,610 | 2,074,843 | 746,199 | 440,479 | - | - | 4,591,131 |
| TOTAL LIABILITIES | 266,440,152 | 39,786,602 | 264,069,090 | 252,812,061 | 272,481,911 | 4,934,212 | 1,100,524,028 |
| Liquidity gap | 98,747,228 | 55,997,821 | 378,731 | 44,717,317 | (57,024,851) | | |
| Interest sensitivity gap | 56,702,817 | 54,848,497 | (1,024,175) | 52,571,559 | (68,486,964) | | |
| Cumulative interest sensitivity gap | 56,702,817 | 111,551,314 | 110,527,139 | 163,098,698 | 94,611,734 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 4.75% | 9.34% | 9.25% | 13.65% | 7.92% | | |

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined (including allowance for impairment losses) | 31 December 2004 Total (KZT'000) |
|---|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | | |
| Cash and balances with central (national) banks | 26,250,000 | - | - | - | - | - | 26,250,000 |
| Assets held-for-trading | 5,031,729 | 19,028,118 | 50,083,837 | - | - | - | 74,143,684 |
| Loans and advances to banks, less allowance for impairment losses | 27,375,798 | 7,928,051 | 6,965,000 | - | - | (533,027) | 41,735,822 |
| Loans to customers, less allowance for impairment losses | 35,323,580 | 34,429,717 | 123,290,134 | 190,567,982 | 129,682,838 | (29,878,852) | 483,415,399 |
| Securities purchased under reverse repurchase agreements | 8,271,319 | 28,000 | 86,000 | - | - | - | 8,385,319 |
| Investments available-for-sale | - | - | 367,139 | 114,349 | - | - | 481,488 |
| Investments held-to-maturity | 23,697 | 7,999 | 32,598 | - | - | - | 64,294 |
| Total interest bearing assets | 102,276,123 | 61,421,885 | 180,824,708 | 190,682,331 | 129,682,838 | (30,411,879) | 634,476,006 |
| Cash and balances with central (national) banks | 40,033,584 | - | - | - | - | - | 40,033,584 |
| Derivative financial instruments | 9,453 | 10,391 | - | - | - | - | 19,844 |
| Investments in associates and other entities | - | - | - | - | 217,964 | - | 217,964 |
| Fixed and intangible assets, less accumulated depreciation | - | - | - | - | 7,386,530 | - | 7,386,530 |
| Other assets, less allowance for impairment losses | 561,666 | 6,818,924 | 1,328,392 | 986,368 | 55,508 | (110,715) | 9,640,143 |
| Accrued interest income on interest bearing assets | 5,922,461 | 1,554,581 | 2,292,812 | 2,264,188 | 248,450 | - | 12,282,492 |
| TOTAL ASSETS | 148,803,287 | 69,805,781 | 184,445,912 | 193,932,887 | 137,591,290 | (30,522,594) | 704,056,563 |
| **LIABILITIES:** | | | | | | | |
| Loans and advances from banks | 30,911,708 | 5,665,624 | 117,951,732 | 15,007,669 | - | - | 169,536,733 |
| Securities sold under repurchase agreements | 28,435,433 | - | - | - | - | - | 28,435,433 |
| Customer accounts | 106,694,795 | 18,442,733 | 39,888,071 | 29,788,268 | 1,023,587 | - | 195,837,454 |
| Debt securities issued | 2,540,560 | 856,844 | 4,126,734 | 82,133,024 | 115,031,444 | - | 204,688,606 |
| Other borrowed funds | - | 390,000 | 734,498 | 3,158,803 | 137,728 | - | 4,421,029 |
| Subordinated debt | - | - | - | 6,168,867 | 13,000,000 | - | 19,168,867 |
| Total interest bearing liabilities | 168,582,496 | 25,355,201 | 162,701,035 | 136,256,631 | 129,192,759 | - | 622,088,122 |
| Derivative financial instruments | 31,274 | - | 80 | - | - | - | 31,354 |
| Reserves | - | - | - | - | - | 3,086,716 | 3,086,716 |
| Dividends payable | - | 374 | 29 | - | - | - | 403 |
| Deferred tax liability | - | - | - | 6,975,593 | - | - | 6,975,593 |
| Accrued interest expenses on interest bearing liabilities | 638,970 | 767,470 | 4,436,096 | 425,112 | - | - | 6,267,648 |
| Other liabilities | 1,347,700 | 247,103 | 1,076,063 | 161,112 | - | | 2,831,978 |
| TOTAL LIABILITIES | 170,600,440 | 26,370,148 | 168,213,303 | 143,818,448 | 129,192,759 | 3,086,716 | 641,281,814 |
| Liquidity gap | (21,797,153) | 43,435,633 | 16,232,609 | 50,114,439 | 8,398,531 | | |
| Interest sensitivity gap | (66,306,373) | 36,066,684 | 18,123,673 | 54,425,700 | 490,079 | | |
| Cumulative interest sensitivity gap | (66,306,373) | (30,239,689) | (12,116,016) | 42,309,684 | 42,799,763 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | (9.42 %) | (4.30 %) | (1.72 %) | 6.01 % | 6.08 % | | |

## 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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of national (central) banks.

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

| | KZT | USD | EUR | RUR | Other currency | Currency undefined, (including allowance for impairment losses) | 31 December 2005 Total |
|---|---|---|---|---|---|---|---|
| | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) |
| **ASSETS:** | | | | | | | |
| Cash and balances with the national (central) banks | 16,405,685 | 16,731,019 | 1,167,555 | 1,825,693 | 1,098,947 | - | 37,228,899 |
| Assets held-for-trading | 13,335,351 | 120,298,197 | - | 6,660,255 | - | - | 140,293,803 |
| Loans and advances to banks, less allowance for impairment losses | 3,730,775 | 236,836,600 | 10,775,462 | 2,821,528 | 984,690 | (1,244,808) | 253,904,247 |
| Derivative financial instruments | 3,922 | 77,362 | - | 14 | - | - | 81,298 |
| Loans to customers, less allowance for impairment losses | 234,045,799 | 525,069,414 | 7,004,151 | 5,493,407 | 393,074 | (42,162,032) | 729,843,813 |
| Securities purchased under reverse repurchase agreements | 4,628,312 | - | - | 9,321,920 | - | - | 13,950,232 |
| Investments available-for-sale | 427,226 | - | - | - | - | - | 427,226 |
| Investments held-to-maturity | 518,780 | - | - | - | 42,813 | - | 561,593 |
| Goodwill | 2,405,277 | - | - | - | - | - | 2,405,277 |
| Investments in associates and other entities | 425,042 | - | - | - | - | - | 425,042 |
| Fixed and intangible assets, less accumulated depreciation | 8,416,730 | - | - | 145,759 | 98,941 | - | 8,661,430 |
| Other assets, less allowance for impairment losses | 5,186,618 | 1,453,314 | 93,132 | 477,031 | 6,267 | (130,187) | 7,086,175 |
| TOTAL ASSETS | 289,529,517 | 900,465,906 | 19,040,300 | 26,745,607 | 2,624,732 | (43,537,027) | 1,194,869,035 |

| | KZT | USD | EUR | RUR | Other currency | Currency undefined, (including allowance for impairment losses) | 31 December 2005 Total |
|---|---|---|---|---|---|---|---|
| | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) |
| LIABILITIES: | | | | | | | |
| Loans and advances from banks | 13,290,806 | 288,754,223 | 11,409,437 | 5,271,664 | 1,369,136 | - | 320,095,266 |
| Derivative financial instruments | 94,533 | 94,609 | - | - | - | - | 189,142 |
| Customer accounts | 135,746,546 | 153,155,796 | 7,491,334 | 6,463,257 | 548,289 | | 303,405,222 |
| Securities sold under repurchase agreements | 6,781,365 | 52,097,370 | - | 264,618 | - | - | 59,143,353 |
| Debt securities issued | 4,084,782 | 293,887,660 | - | 5,160,593 | - | - | 303,133,035 |
| Other borrowed funds | 209,690 | 50,182,989 | 211,162 | - | - | - | 50,603,841 |
| Reserves | - | - | - | - | - | 4,934,212 | 4,934,212 |
| Dividends payable | 374 | - | - | - | 30 | - | 404 |
| Deferred tax liabilities | 8,013,724 | - | - | 257,609 | 18,520 | - | 8,289,853 |
| Other liabilities | 3,418,175 | 1,100,818 | 33,650 | 32,674 | 5,814 | - | 4,591,131 |
| Subordinated debt | 16,281,442 | 29,857,127 | - | - | - | - | 46,138,569 |
| TOTAL LIABILITIES | 187,921,437 | 869,130,592 | 19,145,583 | 17,450,415 | 1,941,789 | 4,934,212 | 1,100,524,028 |
| OPEN BALANCE SHEET POSITION | 101,608,080 | 31,335,314 | (105,283) | 9,295,192 | 682,943 | | |

### Derivative financial instruments

Fair value of derivative financial instruments is included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2005:

| | KZT | USD | EUR | RUR | Other currency | Currency undefined, (including allowance for impairment losses) | 31 December 2005 Total |
|---|---|---|---|---|---|---|---|
| | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) | (KZT'000) |
| Accounts payable on derivative contracts | (9,657,320) | (9,079,881) | (794,950) | - | (155,494) | - | (19,687,645) |
| Accounts receivable on derivative contracts | 6,895,560 | 11,277,399 | 1,192,425 | 14,697 | 199,720 | - | 19,579,801 |
| NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION | (2,761,760) | 2,197,518 | 397,475 | 14,697 | 44,226 | | |
| TOTAL OPEN POSITION | 98,846,320 | 33,532,832 | 292,192 | 9,309,889 | 727,169 | | |

| | Тенге (KZT'000) | USD (KZT'000) | EUR (KZT'000) | RUR (KZT'000) | Other currency (KZT'000) | Currency undefined, (including allowance for impairment losses) (KZT'000) | 31 December 2004 Total (KZT'000) |
|---|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | | |
| Cash and balances with the national (central) banks | 53,297,742 | 9,578,262 | 1,252,516 | 2,040,715 | 123,583 | - | 66,292,818 |
| Assets held-for-trading | 55,519,709 | 12,517,059 | - | 6,742,959 | - | - | 74,779,727 |
| Loans and advances to banks, less allowance for impairment losses | 4,175,053 | 36,547,136 | 619,748 | 468,920 | 555,732 | (533,027) | 41,833,562 |
| Derivative financial instruments | 17,453 | 2,391 | - | - | - | - | 19,844 |
| Loans to customers, less allowance for impairment losses | 120,822,034 | 395,396,705 | 6,647,180 | 1,708,681 | 234,802 | (29,878,852) | 494,930,550 |
| Securities purchased under agreements to resell | 3,446,257 | 150,160 | - | 4,806,046 | - | - | 8,402,463 |
| Investments available-for-sale | 488,668 | - | - | - | - | - | 488,668 |
| Investments held-to-maturity | - | - | - | - | 64,294 | - | 64,294 |
| Investments in associates and other entities | 217,964 | - | - | - | - | - | 217,964 |
| Fixed and intangible assets, less accumulated depreciation | 7,181,026 | - | - | 111,127 | 94,377 | - | 7,386,530 |
| Other assets, less allowance for impairment losses | 1,708,022 | 7,974,974 | 32,743 | 29,715 | 5,404 | (110,715) | 9,640,143 |
| TOTAL ASSETS | 246,873,928 | 462,166,687 | 8,552,187 | 15,908,163 | 1,078,192 | (30,522,594) | 704,056,563 |
| **LIABILTIES:** | | | | | | | |
| Loans and advances from banks | 4,298,651 | 160,023,043 | 4,119,046 | 1,686,850 | 203,758 | - | 170,331,348 |
| Securities sold under repurchase agreements | 26,131,013 | - | - | 2,313,714 | - | - | 28,444,727 |
| Derivative financial instruments | 3,474 | 27,880 | - | - | - | - | 31,354 |
| Customer accounts | 113,169,251 | 75,444,462 | 6,180,345 | 2,647,149 | 386,106 | - | 197,827,313 |
| Debt securities issued | 4,078,514 | 202,099,852 | - | 1,662,351 | - | - | 207,840,717 |
| Other borrowed funds | 188,781 | 3,914,452 | 360,734 | - | - | - | 4,463,967 |
| Provision | - | - | - | - | - | 3,086,716 | 3,086,716 |
| Dividends payable | 374 | - | - | - | 29 | - | 403 |
| Deferred tax liabilities | 6,774,084 | - | - | 196,481 | 5,028 | - | 6,975,593 |
| Other liabilities | 1,921,955 | 731,847 | 102,921 | 52,719 | 22,536 | 3,086,716 | 5,918,694 |
| Subordinated debt | - | 19,447,698 | - | - | - | - | 19,447,698 |
| TOTAL LIABILITIES | 156,566,097 | 461,689,234 | 10,763,046 | 8,559,264 | 617,457 | 3,086,716 | 641,281,814 |
| OPEN BALANCE SHEET POSITION | 90,307,831 | 477,453 | (2,210,859) | 7,348,899 | 460,735 | | |

**Derivative financial instruments**

Fair value of derivative financial instruments is included in the currency analysis presented above, The following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2004:

| | **KZT (KZT'000)** | **USD (KZT'000)** | **EUR (KZT'000)** | **RUR (KZT'000)** | **Other currency (KZT'000)** | **Currency undefined, (including allowance for impair-ment losses) (KZT'000)** | **31 December 2004 Total (KZT'000)** |
|---|---|---|---|---|---|---|---|
| Accounts payable on forwards | (6,937,547) | (6,759,376) | - | (56,132) | - | - | (13,753,055) |
| Accounts receivable on forwards | 2,339,820 | 8,302,475 | 3,099,250 | - | - | - | 13,741,545 |
| NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION | (4,597,727) | 1,543,099 | 3,099,250 | (56,132) | - | | |
| TOTAL OPEN POSITION | 85,710,104 | 2,020,552 | 888,391 | 7,292,767 | 460,735 | | |

**Price Risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

**Fair value interest rate risk**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

**Credit risk**

The Group 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.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc,) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Heads of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or a group of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Off-balance sheet credit liabilities represent unused credit lines, guarantees or letters of credit. The credit risk on financial instruments on off-balance accounts is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i,e, the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

**Geographical concentration**

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses. The Bank’s Management Board sets up country limits, which are mainly applied by banks of the Commonwealth of Independent States (further – “CIS”) and Baltic countries.

The geographical concentration of assets and liabilities is set out in tables for 2005 below:

| | Kazakhstan | CIS | Non-OECD countries | OECD countries | Undefined (incl, allowance for impairment losses) | 31 December 2005 Total (KZT'000) |
|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | |
| Cash and balances with the national (central) banks | 26,924,236 | 2,915,000 | 8 | 7,389,655 | - | 37,228,899 |
| Assets held-for-trading | 19,511,185 | 6,660,254 | - | 114,122,364 | - | 140,293,803 |
| Loans and advances to banks, less allowance for impairment losses | 26,725,717 | 41,372,971 | 6,912,000 | 180,138,367 | (1,244,808) | 253,904,247 |
| Derivative financial instruments | 3,926 | 595 | - | 76,777 | - | 81,298 |
| Loans to customers, less allowance for impairment losses | 601,001,241 | 76,728,593 | 74,520,930 | 19,755,081 | (42,162,032) | 729,843,813 |
| Securities purchased under reverse repurchase agreements | 4,628,312 | 9,321,920 | - | - | - | 13,950,232 |
| Investments available-for-sale | 427,226 | - | - | - | - | 427,226 |
| Investments held-to-maturity | 518,780 | 42,813 | - | - | - | 561,593 |
| Investments in associates and other entities | 425,042 | - | - | - | - | 425,042 |
| Goodwill | 2,405,277 | - | - | - | - | 2,405,277 |
| Fixed and intangibles assets, less accumulated depreciation | 8,416,730 | 244,700 | - | - | - | 8,661,430 |
| Other assets, less allowance for impairment losses | 5,332,252 | 634,738 | 469,382 | 779,990 | (130,187) | 7,086,175 |
| TOTAL ASSETS | 696,319,924 | 137,921,584 | 81,902,320 | 322,262,234 | (43,537,027) | 1,194,869,035 |
| **LIABILITIES:** | | | | | | |
| Loans and advances from banks | 23,266,891 | 21,833,714 | 6,776,068 | 268,218,593 | - | 320,095,266 |
| Securities sold under repurchase agreements | 6,781,366 | 264,618 | - | 52,097,369 | - | 59,143,353 |
| Derivative financial instruments | 94,532 | 1,241 | - | 93,369 | - | 189,142 |
| Customer accounts | 257,106,110 | 9,319,871 | 18,288,323 | 18,690,918 | - | 303,405,222 |
| Debt securities issued | 1,344,931 | 202,290,673 | 1,452,447 | 98,044,984 | - | 303,133,035 |
| Other borrowed funds | 282,030 | 50,321,811 | - | - | - | 50,603,841 |
| Reserves | - | - | - | - | 4,934,212 | 4,934,212 |
| Dividends payable | 374 | 30 | - | - | - | 404 |
| Deferred tax liabilities | 8,013,724 | 276,129 | - | - | - | 8,289,853 |
| Other liabilities | 3,452,609 | 209,991 | 83,999 | 844,532 | - | 9,525,343 |
| Subordinated debt | 30,152,701 | 2,543 | - | 15,983,325 | - | 41,204,357 |
| TOTAL LIABILITIES | 330,495,268 | 284,520,621 | 26,600,837 | 453,973,090 | 4,934,212 | 1,100,524,028 |
| NET POSITION | 365,824,656 | (146,599,037) | 55,301,483 | (131,710,856) | | |

The geographical concentration of assets and liabilities is set out in tables for 2004 below:

| | Kazakhstan | CIS | OECD countries | Non-OECD countries | Undefined (incl, allowance for impair-ment losses) | 31 December 2004 Total (KZT'000) |
|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | |
| Cash and balances with national (central) banks | 59,790,480 | 2,380,453 | 4,121,885 | - | - | 66,292,818 |
| Assets held-for-trading | 65,908,709 | 6,742,961 | 2,128,057 | - | - | 74,779,727 |
| Loans and advances to banks, less allowance for impairment losses | 1,836,355 | 18,825,677 | 16,459,503 | 5,245,054 | (533,027) | 41,833,562 |
| Derivative financial instruments | 353 | 16,491 | - | 3,000 | - | 19,844 |
| Loans to customers, less allowance for impairment losses | 399,225,110 | 78,106,468 | 9,537,802 | 37,940,022 | (29,878,852) | 494,930,550 |
| Investments available-for-sale | 488,668 | - | - | - | - | 488,668 |
| Securities purchased under reverse repurchase agreements | 3,446,257 | 4,806,047 | - | 150,159 | - | 8,402,463 |
| Investments held-to-maturity | - | 64,294 | - | - | - | 64,294 |
| Investments in associates and other entities | 217,964 | - | - | - | - | 217,964 |
| Fixed and intangible assets, less accumulated depreciation | 7,181,028 | 205,502 | - | - | - | 7,386,530 |
| Other assets, less allowance for impairment losses | 1,992,260 | 5,897,349 | 1,860,195 | 1,054 | (110,715) | 9,640,143 |
| TOTAL ASSETS | 540,087,184 | 117,045,242 | 34,107,442 | 43,339,289 | (30,522,594) | 704,056,563 |
| **LIABILITIES:** | | | | | | |
| Loans and advances from banks | 20,521,383 | 12,976,177 | 132,438,012 | 4,395,776 | - | 170,331,348 |
| Securities sold under repurchase agreements | 26,131,013 | 2,313,714 | - | - | - | 28,444,727 |
| Derivative financial instruments | 28,059 | - | 3,295 | - | - | 31,354 |
| Customer accounts | 179,274,861 | 6,242,074 | 4,496,155 | 7,814,223 | - | 197,827,313 |
| Debt securities issued | 4,078,514 | 15,233,806 | 188,250,280 | 278,117 | - | 207,840,717 |
| Other borrowed funds | 1,783,025 | 2,728 | 2,678,214 | - | - | 4,463,967 |
| Dividends payable | 374 | 29 | - | - | - | 403 |
| Reserves | - | - | - | - | 3,086,716 | 3,086,716 |
| Deferred tax liability | 6,774,084 | 201,509 | - | - | - | 6,975,593 |
| Other liabilities | 1,014,358 | 96,111 | 1,673,798 | 47,711 | - | 2,831,978 |
| Subordinated debt | 3,251,772 | - | 15,837,988 | 357,938 | - | 19,447,698 |
| TOTAL LIABILITIES | 242,857,443 | 37,066,148 | 345,377,742 | 12,893,765 | 3,086,716 | 641,281,814 |
| OPEN BALANCE SHEET POSITION | 297,229,741 | 79,979,094 | (311,270,300) | 30,445,524 | | |