

**JOINT STOCK
COMPANY
KAZKOMMERTSBANK**

Independent Auditors' Report

Consolidated Financial Statements

For the years ended 31 December 2004, 2003
and 2002

JOINT STOCK COMPANY KAZKOMMERTSBANK

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 and 2002:	
Consolidated profit and loss accounts for the years ended 31 December 2004, 2003 and 2002	2
Consolidated balance sheets as of 31 December 2004 and 2003	3
Consolidated statements of changes in equity for the years ended 31 December 2004, 2003 and 2002	4
Consolidated statements of cash flows for the years ended 31 December 2004, 2003 and 2002	5-6
Notes to the consolidated financial statements	7-47

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 consolidated subsidiaries (the "Bank") as of 31 December 2004 and 2003, and the related consolidated profit and loss accounts, statements of cash flows and changes in equity ("the financial statements") for each of the three years ended 31 December 2004, 2003 and 2002. The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 Bank as of 31 December 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

11 February 2005

JOINT STOCK COMPANY KAZKOMMERTSBANK

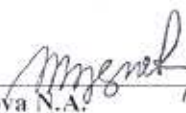
CONSOLIDATED PROFIT AND LOSS ACCOUNTS

FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

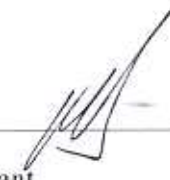
(in Kazakhstani tenge and in thousands, except per share earning amounts)

	Notes	2004	2003	2002
Interest income	4, 34	55,002,564	35,106,301	24,500,940
Interest expenses	4, 34	(26,247,764)	(18,623,916)	(11,257,899)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES				
	4	28,754,800	16,482,385	13,243,041
Provision for loan losses	5	(11,221,588)	(5,887,610)	(7,341,589)
NET INTEREST INCOME		17,533,212	10,594,775	5,901,452
Net gain/(loss) on trading securities	6	22,153	(316,992)	935,993
Net gain on foreign exchange operations	7	1,556,859	1,600,977	1,207,409
Fee and commission income	8	10,389,992	8,399,779	5,791,790
Fee and commission expense	8	(1,951,386)	(1,334,332)	(1,126,385)
Net gain/(loss) on investment securities	9	19,448	(47,397)	3,916,126
Dividends received		15,052	382,449	446,719
Other income	10	1,962,836	1,239,355	433,141
NET NON-INTEREST INCOME		12,014,954	9,923,839	11,604,793
OPERATING INCOME		29,548,166	20,518,614	17,506,245
OPERATING EXPENSES	11	(9,511,039)	(8,969,071)	(7,955,983)
OPERATING PROFIT		20,037,127	11,549,543	9,550,262
Provision for losses on other transactions	5	(721,566)	(270,312)	(1,327,071)
(Expenses)/income from associates	22	12,545	(20,249)	33,869
PROFIT BEFORE TAXATION AND MINORITY INTEREST		19,328,106	11,258,982	8,257,060
Income tax expense	12	(9,573,062)	(2,091,667)	(276,067)
NET PROFIT BEFORE MINORITY INTEREST		9,755,044	9,167,315	7,980,993
Minority interest	13	(1,065,745)	(406,554)	(2,230)
NET PROFIT		8,689,299	8,760,761	7,978,763
Earnings per share				
Basic and diluted (in tenge)	14	24.26	25.89	25.94

On behalf of the Board:


Zhusupova N.A.
Chairperson

11 February 2005
Almaty


Cheusov P.A.
Chief Accountant

11 February 2005
Almaty

The notes on pages 7-47 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 1.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003 (in Kazakhstani tenge and in thousands)

	Notes	2004	2003
ASSETS:			
Cash and balances with national (central) banks	15	66,292,818	28,484,613
Precious metals		-	300,158
Loans and advances to banks, less allowance for loan losses	16	41,833,562	38,582,824
Trading securities	17	74,779,727	71,200,859
Securities purchased under agreement to resell, less allowance for losses	18	8,402,463	2,608,318
Derivative financial instruments	19	19,844	15,399
Loans to customers, net	20	494,930,550	283,062,443
Investment securities:			
- securities available for sale	21	488,668	137,554
- securities held-to-maturity	21	64,294	32,372
Investments in associates and other entities	22	217,964	146,206
Fixed assets, less accumulated depreciation	23	7,001,056	5,867,947
Intangible assets, less accumulated amortization	24	385,474	436,051
Other assets, less allowance for losses	25	9,640,143	3,366,413
TOTAL ASSETS		704,056,563	434,241,157
LIABILITIES AND SHAREHOLDER EQUITY			
LIABILITIES:			
Loans and advances from banks	26	170,331,348	76,221,919
Securities sold under agreements to repurchase		28,444,727	37,250,675
Derivative financial instruments	19	31,354	801
Customer accounts	27	197,827,313	151,589,416
Debt securities issued	28	207,840,717	98,233,366
Other borrowed funds	29	4,463,967	3,525,473
Dividends payable		403	404
Other liabilities	30	12,894,287	8,402,672
		621,834,116	375,224,726
Subordinated debt	31	19,447,698	8,732,914
Total liabilities		641,281,814	383,957,640
Minority interest	13	5,468,069	4,704,625
FINANCIAL COMMITMENTS AND CONTINGENCIES	33		
SHAREHOLDERS' EQUITY:			
Share capital	32	4,197,179	4,018,930
Share premium		11,752,396	9,453,411
Fixed assets revaluation reserve		1,313,280	569,783
Retained earnings		40,043,825	31,536,768
Total shareholders' equity		57,306,680	45,578,892
TOTAL LIABILITIES AND SHAREHOLDER EQUITY		704,056,563	434,241,157

On behalf of the Board:

Zhusupova N.A.
Chairperson

11 February 2005
Almaty

Cheusov P.A.
Chief Accountant

11 February 2005
Almaty

The notes on pages 7-47 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 1.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in Kazakhstani tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Investments revaluation reserve	Retained earnings	Total
31 December 2001	3,497,691	5,464,687	8,125	-	15,452,525	24,423,028
Share capital increase of:						
- preference shares	1,731	8,273	-	-	-	10,004
Sale of repurchased shares	266	353	-	-	-	619
Amortization of fixed assets revaluation reserve	-	-	(1,253)	-	1,253	-
Dividends declared on preference shares	-	-	-	-	(346,626)	(346,626)
Net profit for the year	-	-	-	-	7,978,763	7,978,763
31 December 2002	3,499,688	5,473,313	6,872	-	23,085,915	32,065,788
Amortization of fixed assets revaluation reserve	-	-	(14,233)	-	14,233	-
Fixed assets revaluation (less deferred income tax of KZT 228,917 thousand)	-	-	577,144	-	-	577,144
Share capital increase of:						
- ordinary shares	519,212	3,979,934	-	-	-	4,499,146
Sale of repurchased shares	30	164	-	-	-	194
Dividends declared on preference shares	-	-	-	-	(324,141)	(324,141)
Net profit for the year	-	-	-	-	8,760,761	8,760,761
31 December 2003	4,018,930	9,453,411	569,783	-	31,536,768	45,578,892
Amortization of fixed assets revaluation reserve	-	-	(121,560)	-	121,560	-
Fixed assets revaluation (less deferred income tax of KZT 333,774 thousand)	-	-	865,057	-	-	865,057
Share capital increase of:						
- preference shares	178,160	2,298,302	-	-	-	2,476,462
Sale of repurchased shares	89	683	-	-	-	772
Dividends declared on preference shares	-	-	-	-	(290,370)	(290,370)
Foreign exchange difference arising from average rate of investments	-	-	-	(13,432)	-	(13,432)
Net profit for the year	-	-	-	-	8,689,299	8,689,299
31 December 2004	4,197,179	11,752,396	1,313,280	(13,432)	40,057,257	57,306,680

On behalf of the Board:

Zhusupova N.A.
Chairperson

11 February 2005
Almaty

Cheusov P.A.
Chief Accountant

11 February 2005
Almaty

The notes on pages 7-47 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 1.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in Kazakhstani tenge)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax and minority interest	19,328,106	11,258,982	8,257,060
Adjustments for:			
Provision for loan losses	11,221,588	5,887,610	7,341,589
Provision for losses on other transactions	721,566	270,312	1,327,071
Unrealised gain and amortisation of discounts on trading securities and securities available-for-sale	(2,344,287)	(171,831)	(4,317,810)
Amortization of discount/premium on issued securities	1,147,180	(1,467,824)	185,746
Depreciation and amortisation	1,302,066	978,832	625,058
Decrease in net interest accruals	326,255	377,057	1,465,157
Foreign exchange difference on recalculation of investments at average rate	(19,904)	-	-
Expenses/(income) from associates	(12,545)	20,249	(33,869)
Net change in recovery value of derivative financial instruments (net)	26,108	(9,801)	249,036
Cash flows from operating activities before changes in operating assets and liabilities	<u>31,696,133</u>	<u>17,143,586</u>	<u>15,099,038</u>
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation	(661,224)	(121,865)	-
Loans and advances to banks	(6,012,734)	(12,151,488)	5,409,000
Precious metals	300,158	(300,158)	-
Trading securities	(1,372,000)	(49,174,659)	(6,764,553)
Securities available-for-sale	(351,286)	9,857,668	(744,352)
Securities held-to-maturity	(31,922)	(15,305)	125,726
Securities purchased under repurchase agreements	(5,794,145)	(228,935)	(2,313,035)
Loans to clients	(222,075,053)	(112,945,369)	(35,627,095)
Dividends received	15,052	382,449	380,121
Other assets	(6,404,405)	(487,380)	(2,879,510)
Increase/(decrease) in operating liabilities			
Loans and advances from banks and repurchase agreements	84,723,107	58,144,477	10,065,523
Customer accounts	47,446,196	9,438,227	29,436,987
Other borrowed funds	965,464	(1,025,302)	(674,626)
Other liabilities	(113,501)	958,337	(714,835)
Cash (outflow)/inflow from operating activities before taxation	<u>(77,670,160)</u>	<u>(80,525,717)</u>	<u>10,798,389</u>
Income tax paid	<u>(5,876,190)</u>	<u>(471,059)</u>	<u>(722,962)</u>
Net cash (outflow)/inflow from operating activities	<u>(83,546,350)</u>	<u>(80,996,776)</u>	<u>10,075,427</u>

JOINT STOCK COMPANY KAZKOMMERTSBANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in Kazakhstani tenge)

1. ORGANIZATION

JSC Kazkommertsbank (“Kazkommertsbank”) was incorporated on 12 July 1990 as an open joint stock company, in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of JSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan (the “NBRK”) on 21 October 1991. In 1994, JSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of JSC Kazkommertsbank. Astana Holding Bank, a joint stock company, was incorporated in May 1993. Kazkommertsbank is registered in the Ministry of Justice under # 4466-1910-AO.

The registered address of the Kazkommertsbank is 135 “Zh”, Gagarin Ave., Almaty.

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

The number of employees of the Bank at 31 December 2004 and 2003 was 3,186 and 3,044, respectively.

Kazkommertsbank is a parent company of the Banking Group (the “Bank”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Kazkommertsbank ownership interest		Type of operation
		2004	2003	
OJSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
JSC Kazkommerts Invest	Republic of Kazakhstan	-	100%	Finance services to large corporate and private clients
OJSC IC Kazkommerts Policy	Republic of Kazakhstan	65%	100%	Insurance
Processing Company LLP	Republic of Kazakhstan	100%	-	Payment and other cards operations
Kazkommerts International B.V.	Netherlands	100%	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	93.58%	73.97%	Commercial bank

Kazkommert Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100%), subsidiaries, are not consolidated into the consolidated financial statements due to the immateriality of their financial statements.

In December 2004 100% of ordinary shares of OJSC Kazkommerts Invest were classified as securities available-for-sale and were sold in December 2004.

In December 2004 the Bank acquired 39,217 shares of OJSC Kazkommertsbank Kyrgyzstan for the amount of KZT 67,943 thousand that increased its share to 93.58%.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (“MKB”), a commercial bank in the Russian Federation, MKB was included in the consolidated financial statements of the Bank since the Bank has ability and has exercised effective control over its operations. There is an agreement between the shareholders of the MKB and the Bank on purchase of no less than 51% of MKB shares by the Bank. Transaction completion is subject to approval of the NBRK and the Central Bank of the Russian Federation.

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Kazakhstani tenge (“KZT”), except for per share earning amounts and unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention, except for the buildings and constructions revaluation which was performed in 2004 to record their fair value and amounted to KZT 1,095,696 thousand and cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities held for trading, and derivative financial instruments.

The Bank maintains its accounting records in accordance with IFRS, 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 foreign subsidiaries, and have been adjusted to conform to IFRS.

Measurement currency – The measurement currency of these consolidated financial statements is Kazakhstani tenge (KZT).

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the accounts of majority-owned subsidiaries, and MKB, operations of which are controlled by Kazkommertsbank.

All significant inter-company transactions and balances have been eliminated from the consolidated financial statements. The ownership interest of Kazkommertsbank and the proportion of voting power of the Bank in the significant subsidiaries as of 31 December 2004 and 2003 is presented in Note 1.

Enterprises acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority interests are shown separately in the balance sheets and profit and loss accounts, respectively.

In translating the financial statements of a foreign subsidiary into the measurement currency for incorporation in the financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 “The Effects of Changes in Foreign Interest Rates” (“IAS 21”).

Equity accounting – The share of Kazkommertsbank in net assets and net income of entities, where Kazkommertsbank holds 20 to 50% of share capital and/or has the ability to exercise significant influence over their operating and financial policies (“associates”) is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition (Note 22). Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Bank.

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. 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 accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”).

Precious metals – Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

Loans and advances to banks – In the normal course of business, the Bank 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 method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Trading securities – Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank’s trading securities. When reliable market prices are not available or if liquidating the Bank’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 trading securities is recognized in profit and loss for the period.

Repurchase and reverse repurchase agreements – The Bank 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 Bank 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 financial statements and consideration received under these agreements are recorded as collateralized deposit received.

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

In case when 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 securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense.

Derivative financial instruments – The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps, foreign currency options.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of derivatives the Bank enters into are of 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 Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between nominal amount of consideration given and the amortized cost of loans issued at other 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.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for loan losses.

Write off of loans – Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has received all available collateral.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal of the loan given to the legal entities is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. The accrual process is continued for loans given to physical persons for the full overdue period until the appropriate board of the Bank decides about to postpone the interest accrual. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for losses – The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans to customers and banks. Management's evaluation of the

allowance is based on the Bank's past experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity – Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment plus accrued coupon income. Amortized discounts/premiums are recognized in the interest income/expense over the period to maturity.

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets – Fixed and intangible assets are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by an independent valuer. The basis for the determination of the fair market value is the real estate market. 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 designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	1 – 5%
Furniture and equipment	8 – 33%
Intangible assets	15 – 33%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Taxation – Taxes on income are computed in accordance with the laws of the countries where the Bank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

Deposits from banks and customers – Customer and bank deposits are initially recognized at cost, 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 profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued – Debt securities issued represent promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

Provisions – Provisions are recognized when the Bank 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 – Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

Retirement and other benefit obligations – The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans or interest become overdue by more than 30 days. Interest income also includes interest income earned on investment and trading securities. Other income is credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

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 transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

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

	31 December 2004	31 December 2003	31 December 2002
KZT/US Dollar	130.00	144.22	155.85
KZT/Euro	177.10	180.23	162.46
KZT/Gold (1ounce)	56,628.00	60,031.58	53,417.88
KZT/Kyrgyz Som	3.12	3.26	3.37
KZT/RUR	4.67	4.93	4.89

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

Fiduciary activities – The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank’s financial statements. The Bank accepts the operational risk on these activities, but the Bank’s customers bear the credit and market risks associated with such operations.

4. NET INTEREST INCOME

	2004	2003	2002
Interest income			
Interest on loans to customers	48,630,057	29,749,318	23,044,439
Interest on debt securities	4,884,924	3,774,899	1,110,697
Interest on loans and advances to banks	1,028,572	1,526,766	345,804
Interest on reverse repurchase transactions	459,011	55,318	-
Total interest income	<u>55,002,564</u>	<u>35,106,301</u>	<u>24,500,940</u>
Interest expense			
Interest on debt securities issued	14,994,640	8,577,577	2,083,414
Interest on customer accounts	6,970,456	7,773,268	6,880,159
Interest on loans and advances from banks	4,075,752	1,911,084	1,939,714
Other interest expenses	206,916	361,987	354,612
Total interest expense	<u>26,247,764</u>	<u>18,623,916</u>	<u>11,257,899</u>
Net interest income before provision for loan losses	<u>28,754,800</u>	<u>16,482,385</u>	<u>13,243,041</u>

5. ALLOWANCE FOR LOSSES, IMPAIRMENT, AND OTHER PROVISIONS

The movements in allowance for losses on interest earning assets, were as follows:

	Loans and advances to banks	Loans to customers	Securities under repurchase agreements	Total
31 December 2001	295,160	11,672,103	-	11,967,263
Acquisition of subsidiary bank	-	29,047	-	29,047
(Recovery)/Provision	(125,002)	7,420,331	46,260	7,341,589
Write-off of assets	-	(6,319,964)	-	(6,319,964)
Recoveries of assets previously written off	-	1,214,865	-	1,214,865
31 December 2002	<u>170,158</u>	<u>14,016,382</u>	<u>46,260</u>	<u>14,232,800</u>
Consolidation effect of MKB	5,043	4,644	-	9,687
Provision/(Recovery)	239,385	5,694,485	(46,260)	5,887,610
Write-off of assets	-	(2,233,398)	-	(2,233,398)
Recoveries of assets previously written off	-	1,586,965	-	1,586,965
31 December 2003	<u>414,586</u>	<u>19,069,078</u>	<u>-</u>	<u>19,483,664</u>
Provision/(Recovery)	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
Foreign exchange difference	(569)	(28,326)	-	(28,895)
31 December 2004	<u><u>533,027</u></u>	<u><u>29,878,852</u></u>	<u><u>-</u></u>	<u><u>30,411,879</u></u>

The movements in allowances for losses on other transactions were as follows:

	Insurance reserves	Accounts receivable	Guarantees and other commitments	Total
31 December 2001	269,704	13,309	666,776	949,789
Provision	150,800	52,840	1,123,431	1,327,071
Write-offs	-	(16,364)	-	(16,364)
Recoveries	-	3,300	-	3,300
31 December 2002	<u>420,504</u>	<u>53,085</u>	<u>1,790,207</u>	<u>2,263,796</u>
Consolidation effect of MKB	-	227	-	227
Provision/(Recovery)	636,240	(2,011)	(363,917)	270,312
Write-offs	-	(89,595)	-	(89,595)
Recoveries	-	68,814	-	68,814
31 December 2003	<u>1,056,744</u>	<u>30,520</u>	<u>1,426,290</u>	<u>2,513,554</u>
Provision	499,780	115,623	106,163	721,566
Write-offs	-	(38,910)	-	(38,910)
Recoveries	-	5,687	-	5,687
Foreign exchange difference	-	(2,205)	(2,261)	(4,466)
31 December 2003	<u><u>1,556,524</u></u>	<u><u>110,715</u></u>	<u><u>1,530,192</u></u>	<u><u>3,197,431</u></u>

6. NET GAIN/(LOSS) ON TRADING SECURITIES

Net gain/(loss) on trading securities comprise:

	2004	2003	2002
Debt securities	(44,925)	(26,814)	885,357
Equity securities	67,078	(290,178)	50,636
Total net gain/(loss) on trading securities	<u>22,153</u>	<u>(316,992)</u>	<u>935,993</u>

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	2004	2003	2002
Dealing, net	2,600,766	1,419,322	640,405
Unrealised translation differences, net	(1,043,907)	181,655	567,004
Total net gain on foreign exchange operations	<u>1,556,859</u>	<u>1,600,977</u>	<u>1,207,409</u>

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2004	2003	2002
Fee and commission income:			
Cash operations	2,786,351	2,094,290	1,634,263
Settlements	1,990,530	1,614,231	1,269,487
Documentary operations	1,599,603	1,614,916	1,215,418
Foreign exchange and securities operations	1,236,596	1,149,461	732,067
Credit cards operations	892,583	627,323	407,121
Commission for the loan issuance	795,856	605,881	110,428
Encashment operations	136,200	112,115	79,431
Insurance operations	64,286	123,532	127,382
Commission for consulting	3,939	10,930	2,923
Other	884,048	447,100	213,270
Total fee and commission income	10,389,992	8,399,779	5,791,790
Fee and commission expense:			
Commission from loans	895,464	395,761	489,254
Bank cards services	356,498	303,630	228,832
Insurance operations	269,407	132,652	55,626
Letters of credit and guarantees	161,095	290,217	167,130
Foreign currency and securities operations	82,406	62,214	46,375
Correspondent bank services	80,065	65,565	56,870
Services of processing centre of the NBRK	63,397	39,830	49,801
Other	43,054	44,463	32,497
Total fee and commission expense	1,951,386	1,334,332	1,126,385

9. NET GAIN/(LOSS) ON INVESTMENT SECURITIES

Net gain/(loss) on investment securities include results from operations with available-for-sale securities and comprise:

	2004	2003	2002
Unrealized gain from revaluation of securities available-for-sale	11,454	40,784	3,916,126
Net gain/(loss) on derecognition of securities available-for-sale	7,994	(88,181)	-
Total net gain/(loss) on investment securities	19,448	(47,397)	3,916,126

10. OTHER INCOME

	2004	2003	2002
Insurance premiums of Kazkommerts Policy	1,479,307	1,048,665	335,214
Profit on sale of fixed assets and fixed assets received free of charge	98,866	22,281	12,192
Income from recovery of expenses paid	67,891	74,358	609
Fines and penalties received	40,279	4,565	649
Sale of low-value inventory and blanks	62	1,234	7,180
Other income	276,431	88,252	77,297
Total other income	1,962,836	1,239,355	433,141

11. OPERATING EXPENSES

	2004	2003	2002
Staff costs	3,782,316	4,201,486	4,209,693
Depreciation and amortization	1,302,066	978,832	625,058
Fixed assets maintenance (buildings, intangibles, etc.)	542,605	442,558	242,499
Advertising costs	417,038	379,117	311,911
Lease	375,367	206,609	159,584
Communications	333,759	261,981	220,203
Taxes, other than income tax	333,038	253,133	139,282
Value added tax	332,100	230,709	233,676
Security	320,830	145,681	102,290
Insurance of individual deposits	285,143	310,419	352,755
Business trip expenses	252,618	269,753	252,806
Vehicles maintenance	161,837	140,502	109,885
Training	136,381	85,055	68,093
Legal services	90,478	27,821	25,888
Charity and sponsorship expenses	88,827	136,755	157,740
Cash collection expenses	82,070	70,589	65,921
Stationery	78,725	60,116	52,411
Professional services	51,010	97,431	96,221
Entertainment expenses	50,517	47,475	35,054
Mail and courier expenses	41,746	32,764	30,157
Membership fee	25	203,357	12,904
Custom duties for import of foreign currency	-	20,433	89,420
Other expenses	452,543	366,495	362,532
	<u>9,511,039</u>	<u>8,969,071</u>	<u>7,955,983</u>

12. INCOME TAXES

The Bank 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 Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and 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 of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 comprise:

	2004	2003
Deferred assets:		
Provisions under guarantees and letters of credit	28,255	-
Other assets	151,486	398,466
Total deferred assets	<u>179,741</u>	<u>398,466</u>

Deferred liabilities:		
Loans to banks and customers	6,213,631	3,005,134
Provisions under guarantees and letters of credit	-	92,916
Investments in associates	21,293	71
Fixed and intangible assets	692,053	245,292
Total deferred liabilities	<u>7,155,334</u>	<u>3,343,413</u>
Net deferred liabilities	<u>6,975,593</u>	<u>2,944,947</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2004, 2003 and 2002 are explained as follows:

	2004	2003	2002
Profit before income tax and minority interest	<u>19,328,106</u>	<u>11,258,982</u>	<u>8,257,060</u>
Tax at the statutory tax rate	5,655,186	3,357,404	2,477,118
Tax effect of permanent differences	(90,644)	(1,265,737)	(2,201,051)
Tax impositions resulted from tax inspection	<u>4,008,520</u>		
Income tax expense	<u>9,573,062</u>	<u>2,091,667</u>	<u>276,067</u>
Current income tax expense	5,876,190	590,045	477,990
Deferred income tax expense	<u>3,696,872</u>	<u>1,501,622</u>	<u>(201,923)</u>
Income tax expense	<u>9,573,062</u>	<u>2,091,667</u>	<u>276,067</u>

Included in current income tax expense is an amount of 4,008,520 thousand tenge, which represents the additional tax assessment imposed by the tax authorities of Kazakhstan following a tax audit completed during 2004.

The additional assessment resulted mainly because the tax authorities disagreed with the Bank's treatment for tax purposes of expenses relating to loan provisions as deductions for taxable income purposes.

The Bank's management believes that it acted in good faith and on the basis of the requirements of the legislation existing at the time of the respective transactions.

Deferred income tax	2004	2003	2002
At the beginning of the period	2,944,947	1,214,408	1,416,331
Decrease in fixed assets revaluation reserve	333,774	228,917	-
Increase /(decrease) in deferred income tax for the period	<u>3,696,872</u>	<u>1,501,622</u>	<u>(201,923)</u>
At the end of the period	<u>6,975,593</u>	<u>2,944,947</u>	<u>1,214,408</u>

13. MINORITY INTEREST

The movement in minority interest during 2004 and 2003 comprises:

31 December 2002	81,240
Consolidation effect of MKB	4,220,116
Foreign exchange effect	(3,285)
Minority interest in the net profit of the Bank for the year	<u>406,554</u>
31 December 2003	4,704,625
Change on the minority interest of OJSC Kazkommertsbank Kyrgyzstan	(58,883)
Minority interest in the net profit of the Bank for the year	1,065,745
Foreign exchange effect	<u>(243,418)</u>
31 December 2004	<u>5,468,069</u>

14. EARNINGS PER SHARE

	2004	2003	2002
Income:			
Net income for the year	8,689,299	8,760,761	7,978,763
Less:			
Dividends on preference stock	<u>(290,370)</u>	<u>(324,141)</u>	<u>(346,626)</u>
Income less dividends on preference shares	<u>8,398,929</u>	<u>8,436,620</u>	<u>7,632,137</u>
Weighted average number of common stock for basic and diluted earnings per share (pieces)	<u>346,141,258</u>	<u>325,817,299</u>	<u>294,182,278</u>
Earnings per share – basic and diluted (KZT)	<u>24.26</u>	<u>25.89</u>	<u>25.94</u>

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

The balance with the Central Bank of the Russian Federation as of 31 December 2004 included amounts of KZT 783,089 thousand represented by reserve balances with the Central Bank of the Russian Federation. The Bank is required to maintain the reserve balances at all times.

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

	2004	2003	2002
Cash on hand	11,218,153	10,352,004	10,135,899
Balances with national (central) banks	55,074,665	18,132,609	9,258,872
Loans and advances to banks in OECD countries (included in Note 16)	<u>16,357,415</u>	<u>18,975,185</u>	<u>35,877,083</u>
	82,650,233	47,459,798	55,271,854
Less minimum reserve deposit with the Central Bank of the Russian Federation	(783,089)	(121,865)	-
Less accrued interest income on balances with NBRK and OECD countries	(9,635)	(15,811)	(44,942)
Total cash and cash equivalents	<u>81,857,509</u>	<u>47,322,122</u>	<u>55,226,912</u>

16. LOANS AND ADVANCES TO BANKS

	2004	2003
Loans and advances to banks	29,248,305	35,385,911
Correspondent accounts with other banks	13,020,544	3,477,327
Accrued interest income on loans and advances to banks	97,740	134,172
	<u>42,366,589</u>	<u>38,997,410</u>
Less allowance for loan losses	(533,027)	(414,586)
Total loans and advances to banks, net	<u><u>41,833,562</u></u>	<u><u>38,582,824</u></u>

Movements in allowances for loan losses and advances to banks for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

17. TRADING SECURITIES

Debt securities:		2004		2003
Short-term NBRK notes	1.5-7.12%	41,146,420	1.96-5.11%	22,700,525
Government treasury bills	3.22-8.35%	12,905,516	5.8-9.99%	6,061,421
Corporate bonds of the issuers of the Russian Federation	7.4-16%	2,454,288	-	-
Kaztransoil bonds	8.5%	2,401,938	8.5-9%	2,649,512
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125%	2,255,373	11.125-13.625%	6,399,117
AMB Bank bonds	8.5-9%	1,666,851	-	-
Freddie MAC bonds	5.25-12.36%	1,558,647	9.28-15.29%	3,909,001
Bonds of Kazakhstani Mortgage Company	8.09-12.25%	1,365,487	8-8.6%	767,742
Karazhanbasmunai bonds	8-9.7%	1,319,854	-	-
Bonds of Development Bank of Kazakhstan	7.125-8.5%	924,941	7.125-7.375%	1,017,559
Avtovaz bonds	11.28%	776,914	15.25%	151,400
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	481,177	12.75%	360,521
Rusalfin bonds	9.6%	475,471	-	-
UTK bonds	12.3%	452,718	-	-
IzhAvto bonds	12.5%	430,442	-	-
Halyk Bank bonds	8.125%	410,332	-	-
Mig-Finance bonds	16%	394,249	-	-
SUEK bonds	11.5%	392,345	-	-
Astana municipality bonds	8.5%	296,304	8-8.5%	352,098
Debt securities of Yaroslav Region	12.5%	289,662	13.76%	168,345
Novosibirsk region bonds	13.3-13.5%	283,381	-	-
Atyrau region's administration bonds	8.5-8.6%	276,122	8.5-8.6%	468,790
Fannie MAE bonds	5%	259,921	2.0%	3,605,301
Federal Farm Credit Bank bonds	3.375%	259,066	-	-
Nidan Foods bonds, 1st issue.	17%	256,182	17.0%	248,911
KAZTRANSCOM bonds	8%	185,357	8.0%	157,996
Bank TuranAlem bonds	8%	157,940	-	-
KAZATOMPROM bonds	8.5%	85,052	8.5%	95,544
Mangistau REK bonds	13%	66,525	-	-
Eurobonds of TuranAlem Finance B.V.	7.875%	50,423	7.875-11.5%	1,951,242
Kaztransoil bonds	8.5%	22,498	8.5%	20,094
Almaty Kus bonds	10%	2,558	10.0%	9,886
VITA bonds	-	-	8.6-14%	66,863
Federal Home Loan Bank bonds	-	-	2.18%	3,579,163
Bonds of PetroKazakhstan Oil Products	-	-	10.0%	1,744,830
US Treasury bills	-	-	3.63%	1,392,056
Kazakhtelecom bonds	-	-	10.0%	428,638
Dalsvyaz bonds	-	-	14.5%	317,536
East Kazakhstan regional administration bonds	-	-	5.97-6.3%	149,307
The Netherlands state bonds	-	-	3.75%	3,676,560
State bonds of the Federal Republic of Germany	-	-	4.5%-5.25%	7,731,347
Nevinnomisski Azot bonds	-	-	18.0%	69,351
Caspian Bank bonds	-	-	9.5%	3,008
		<u><u>74,303,954</u></u>		<u><u>70,253,664</u></u>

	Ownership share	2004	Ownership share	2003
Shares:				
Kazakhtelecom GDR	0.54%	419,641	0.54%	219,209
Moscow Shipyard	2.7%	56,132	-	-
Kazakhmys	-	-	0.11%	83,649
Ust-Kamenogorsk Titanium and Magnesium Plant	-	-	1.07%	56,474
Gazprom	-	-	0.82%	543,508
Mosenergo	-	-	0.03%	44,355
		<u>475,773</u>		<u>947,195</u>
Total trading securities		<u>74,779,727</u>		<u>71,200,859</u>

As of 31 December 2004 and 2003 included in trading securities is accrued interest income on debt securities amounting to KZT 636,043 thousand and KZT 773,634 thousand, respectively.

As of 31 December 2004 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, NBRK Notes, securities of the Government of the USA and corporate bonds pledged under repurchase agreements with other banks amounting to KZT 28,444,727 thousand. All the agreements have maturity within 3 months.

As of 31 December 2003 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, NBRK Notes, securities of the Government of the USA, Germany, Netherlands and corporate bonds pledged under repurchase agreements with other banks amounting to KZT 37,250,675 thousand. All the agreements have maturity within 3 months.

18. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2004 and 2003 the Bank purchased securities amounting to KZT 8,402,463 thousand and KZT 2,608,318 thousand under agreements to resell them within 3 months. The securities under agreements to resell have an interest rate of 6-10% per annum.

	2004	2003
Bonds of the Russian Federation institutions	3,627,819	1,043,008
Corporate bonds of the Republic of Kazakhstan	2,972,160	-
Shares of the Russian Federation institutions	1,328,387	945,128
Corporate shares of the Republic of Kazakhstan	276,899	-
Notes of the National Bank of the Republic of Kazakhstan	178,832	100,000
State mid-term obligations of the Ministry of Finance of the Republic of Kazakhstan	18,366	487,548
Government treasury bills of the Ministry of Finance of the Kyrgyz Republic	-	32,634
	<u>8,402,463</u>	<u>2,608,318</u>
Less allowance for losses of repurchase agreements	-	-
Total securities purchased under agreement to resell, net	<u>8,402,463</u>	<u>2,608,318</u>

Movements in allowances for loan losses under repurchase agreements for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Amount payable	2004 Net fair value		Amount payable	2003 Net fair value	
		Asset	Liability		Asset	Liability
<i>Foreign currency contracts</i>						
Forwards	7,244,892	17,220	(192)	4,407,171	15,399	-
Swaps	5,135,200	233	(3,283)	216,330	-	(801)
<i>Securities contracts</i>						
Forwards	1,372,963	2,391	(27,879)	12,569,911	-	-
		<u>19,844</u>	<u>(31,354)</u>		<u>15,399</u>	<u>(801)</u>

20. LOANS TO CUSTOMERS

	2004	2003
Originated loans	513,294,251	291,512,002
Accrued interest income on loans to customers	11,515,151	10,619,519
	<u>524,809,402</u>	<u>302,131,521</u>
Less allowance for loan losses	(29,878,852)	(19,069,078)
Total loans to customers, net	<u>494,930,550</u>	<u>283,062,443</u>
	2004	2003
Loans collateralized by accounts receivable	119,097,427	32,617,124
Loans collateralized by real estate	112,347,494	59,298,681
Loans collateralized by combined collateral	75,461,244	92,859,951
Loans collateralized by equipment	42,344,709	10,959,952
Loans collateralized by guarantees of enterprises	32,205,260	40,758,423
Loans collateralized by shares of other companies	26,091,707	13,444,865
Loans collateralized by cash or Kazakhstani Government guarantees	25,942,668	8,536,912
Loans collateralized by guarantees of financial institutions	22,305,528	4,341,365
Loans collateralized by inventories	21,084,412	27,035,014
Unsecured loans	47,928,953	12,279,234
	<u>524,809,402</u>	<u>302,131,521</u>
Less allowance for loan losses	(29,878,852)	(19,069,078)
Total loans to customers, net	<u>494,930,550</u>	<u>283,062,443</u>

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

	2004	2003
Analysis by industry:		
Trade	97,325,798	55,661,465
Construction	90,493,676	34,566,516
Individuals	72,820,907	31,790,749
Energy	37,006,654	47,506,445
Agriculture	34,278,548	34,468,555
Finance sector	32,975,228	2,640,527
Transport and communication	31,125,368	14,764,673
Food	29,801,626	24,187,221
Real estate	27,596,947	5,981,736
Hotel business	14,517,252	14,128,249
Mining and metallurgy	14,042,224	10,261,097
Machinery construction	9,206,278	4,940,297
Culture and art	1,632,453	2,335,968
Other	31,986,443	18,898,023
	<u>524,809,402</u>	<u>302,131,521</u>
Less allowance for loan losses	<u>(29,878,852)</u>	<u>(19,069,078)</u>
Total loans to customers, net	<u>494,930,550</u>	<u>283,062,443</u>

As of 31 December 2004 and 2003 included in loans to customers are non-accrual loans which amounted to KZT 7,849,748 thousand and KZT 2,452,768 thousand, respectively. As of 31 December 2004 and 2003 the total amount of interest on these loans non-recognized as income amounted to KZT 349,276 thousand and KZT 145,822 thousand, respectively.

As of 31 December 2004 and 2003 the Bank's loans to the clients, which individually exceeded ten per cent of the Bank's equity, are represented by the following enterprises and institutions:

	2004	2003
Djeilan Holding	12,849,544	10,330,813
Kuat Corporation OJSC Holding	12,349,864	-
Holding OJSC Unimilk	11,476,911	-
Mayberry Financial Services S.A.	9,888,402	-
Holding TKF Agroinvest Trading LLP	8,977,128	-
Food Contract Corporation	-	9,127,803
CNPC Aktobemunaigaz Holding	-	8,292,792
Alibi Holding	-	7,852,305
BIPEK Auto Holding	-	6,771,643
Tolkynneftegas Holding	-	6,206,352
	<u>55,541,849</u>	<u>48,581,708</u>

21. INVESTMENT SECURITIES

Securities available-for-sale

	Interest to nominal	2004	Interest to nominal	2003
Debt securities				
Astana Finance	9%	126,343	-	-
Kazakhaltyn	9.7%	123,214	-	-
Khimpharm	10%	119,301	-	-
Almaty Merchant Bank	-	-	8.6%	2,860
		<u>368,858</u>		<u>2,860</u>
Equity securities				
	Share, %		Share, %	
Kazakhtelecom, including:				
- ordinary shares	0.14%	90,232	0.04%	15,164
- preference shares	0.19%	5,909	0.01%	2,149
Aktubinsk chrome plant	3.07%	21,497	3.07%	22,805
Aktobemunaigaz	0.004%	2,172	0.004%	2,172
Bank CenterCredit	-	-	1.9%	86,000
Aluminium of Kazakhstan	-	-	16.7%	6,404
		<u>119,810</u>		<u>134,694</u>
Total securities available-for-sale		<u>488,668</u>		<u>137,554</u>

Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	Interest to nominal (margin)	2004	Interest to nominal (margin)	2003
Bonds of the Ministry of Finance of the Kyrgyz Republic	5.91-8.1%	64,294	11%	32,372
	-	-	-	-
Total securities held-to-maturity		<u>64,294</u>		<u>32,372</u>

22. INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES

The following enterprises were recorded in the financial statements using the equity method:

	2004		2003	
	% Held	Amount	% Held	Amount
UlarUmit Pension fund	41.18%	213,914	33.18%	146,206
First Credit Bureau LLP	-	4,050	-	-
		<u> </u>	-	<u> </u>
		<u>217,964</u>		<u>146,206</u>

In 2004 Kazkommertsbank purchased shares of UlarUmit Pension Fund additionally to the existing shares and for the year ended 31 December 2004 the Bank's share in the equity of the UlarUmit Pension Fund increased by 8%.

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

The movement of investments to associates and other companies are accounted for in the financial statements using the equity method:

31 December 2001	1,773,954
Purchase cost	72,841
Reclassification of securities	(1,150,756)
Share of net income	33,869
Dividends from associates	<u>(443,991)</u>
31 December 2002	285,917
Purchase cost	19,080
Investments sale	(138,542)
Share of net loss	<u>(20,249)</u>
31 December 2003	146,206
Purchase cost	59,213
Investments sale	-
Share of net income	<u>12,545</u>
31 December 2004	<u>217,964</u>

23. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and equipment	Other	Total
At cost				
31 December 2003	2,402,620	5,665,025	324,368	8,392,013
Additions	70,253	1,102,417	209,013	1,381,683
Revaluation	1,220,038	408	-	1,220,446
Disposals	(133,627)	(232,086)	(2,824)	(368,537)
Foreign exchange difference	-	4,158	(17,879)	(13,721)
31 December 2004	<u>3,559,284</u>	<u>6,539,922</u>	<u>512,678</u>	<u>10,611,884</u>
Accumulated depreciation				
31 December 2003	196,249	2,261,383	66,434	2,524,066
Depreciation expense	48,054	1,012,410	78,835	1,139,299
Revaluation	124,750	-	-	124,750
Disposals	(14,243)	(152,839)	(1,273)	(168,355)
Foreign exchange difference	(2)	(5,888)	(3,042)	(8,932)
31 December 2004	<u>354,808</u>	<u>3,115,066</u>	<u>140,954</u>	<u>3,610,828</u>
Net book value				
31 December 2004	<u>3,204,476</u>	<u>3,424,856</u>	<u>371,724</u>	<u>7,001,056</u>
31 December 2003	<u>2,206,371</u>	<u>3,403,642</u>	<u>257,934</u>	<u>5,867,947</u>

The Bank's office building in Almaty was revalued based on the appraisal of an independent valuer.

24. INTANGIBLE ASSETS

	2004	2003
At cost		
1 January	797,734	879,734
Additions	102,329	118,710
Consolidation effect of MKB	-	842
Disposals	(16,768)	(201,552)
Foreign exchange difference	14,326	-
31 December	<u>897,621</u>	<u>797,734</u>
Accumulated amortization		
1 January	361,683	271,157
Amortization	162,767	90,687
Consolidation effect of MKB	-	250
Disposals	(15,368)	(411)
Foreign exchange difference	3,065	-
31 December	<u>512,147</u>	<u>361,683</u>
Net book value		
31 December	<u>385,474</u>	<u>436,051</u>

Intangible assets include software, patents and licenses.

25. OTHER ASSETS

	2004	2003
Prepayments and other debtors	7,295,992	1,856,938
Prepaid expenses	1,598,780	686,972
Insurance debtors	456,442	792,492
Tax settlements	399,644	60,531
	<u>9,750,858</u>	<u>3,396,933</u>
Less allowance for losses on other assets	(110,715)	(30,520)
Total other assets, net	<u>9,640,143</u>	<u>3,366,413</u>

26. LOANS AND ADVANCES FROM BANKS

	2004	2003
Correspondent accounts of other banks	6,582,160	6,087,644
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks (Deutsche Bank AG London)		
<i>Tranche A due on 19.12.2005 (\$500 mln), coupon rate 4.54%</i>	65,000,000	27,401,800
<i>Tranche B due on 19.12.2005 (110 mln.), coupon rate 4.32%</i>	14,300,000	15,864,200
Syndicated loans from banks (ING Amsterdam) 4.02%	-	6,489,900
Syndicated loans from banks (Citi Bank Int. PLC London, due in 20.08.2005, \$150 mln. Coupon rate - 3.64%)	19,500,000	-
EBRD loan (due in 2005, coupon rate 2.84%-4.33% per annum, \$40 mln and \$2.5 mln)	8,130,802	-
EBRD loan (due in 2006, coupon rate 4.27%-6.24% per annum, \$6 mln and \$35 mln)	5,330,046	7,757,044
Loans from NBRK	85,516	358,098
Loans from other banks and financial institutions	39,757,577	12,047,117
Deposits of banks	10,850,632	1,875
Accrued interest expense	794,615	214,241
	<u>170,331,348</u>	<u>76,221,919</u>
Total loans and advances from banks	<u>170,331,348</u>	<u>76,221,919</u>

Loans from NBRK include advances received under the program of gold mining enterprises support and development in the amount of KZT 85,516 thousand and KZT 300,410 thousand, respectively, as of 31 December 2004 and 2003, also include advances received under the EBRD's program of industry and construction development in the amount of KZT 57,688 thousand.

27. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2004	2003
Time deposits	110,847,104	99,227,367
Repayable on demand	84,990,350	49,163,891
Accrued interest expense on customer accounts	1,989,859	3,198,158
	<u>197,827,313</u>	<u>151,589,416</u>
Total customer accounts	<u>197,827,313</u>	<u>151,589,416</u>

28. DEBT SECURITIES ISSUED

	2004	2003
Eurobonds of Kazkommerts International B.V. due		
In April 2013 (coupon rate 8.625%)		
Tranche A issued in April 2003 at price of 97.548%	45,500,000	50,477,000
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	19,500,000	21,633,000
In May 2007 (coupon rate 10.125%):		
Tranche A issued in May 2002 at price of 99.043%	19,500,000	21,633,000
Tranche B issued in November 2002 and allocated in December 2002 at price of 107.00%	6,500,000	7,211,000
In April 2014 (coupon rate 7.875%)	52,000,000	-
In November 2009 (coupon rate 7%)	45,500,000	-
	<u>188,500,000</u>	<u>100,954,000</u>
Including/(less):		
Discount on debt securities issued	(1,796,329)	(1,282,078)
Amounts of accrued interest on debt securities issued	2,984,523	1,631,951
Eurobonds repurchased by the Bank	<u>(1,437,914)</u>	<u>(4,787,527)</u>
Total issued Eurobonds of Kazkommerts International B.V.	188,250,280	96,516,346
Issued bonds of JSC Kazkommertsbank	3,949,454	-
Accrued interest expense of issued bonds of JSC Kazkommertsbank	129,060	-
Issued promissory notes	15,511,923	1,717,020
Total debt securities issued	<u>207,840,717</u>	<u>98,233,366</u>

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

29. OTHER BORROWED FUNDS

	Interest rate	2004	Interest rate	2003
DEG-Deutsche Investitions MBH	4.99%	1,687,010	-	-
Funding by the Small Business Support Fund	7.3-8.05%	1,179,286	8.34%	2,546,170
Funding of the purchase of the agricultural equipment	3.22-7.76%	977,452	-	-
Funding by the Ministry of Finance of the Republic of Kazakhstan	0.5-5.78%	577,281	4.92%	909,395
Accrued interest expenses		42,938		69,908
		<u>4,463,967</u>		<u>3,525,473</u>
Total other borrowed funds		<u>4,463,967</u>		<u>3,525,473</u>

Funding from the Small Business Development Fund is provided by EBRD, ADB and is presented as follows:

	2004	2003
EBRD funds	1,118,000	2,321,942
ADB funds	61,286	224,228
	<u>1,179,286</u>	<u>2,546,170</u>

Funding from the Ministry of Finance of the Republic of Kazakhstan is provided under the Agriculture Industry Development Programme by funds of the International Bank for Reconstruction and Development (IBRD), and Kreditanstalt für Wiederaufbau (“KfW”) and regional departments, and represented as follows:

	2004	2003
IBRD and KfW	523,821	764,330
Regional departments	53,460	145,065
	<u>577,281</u>	<u>909,395</u>

Funding from the international financial institutions Atlantik Forfaiting AG and Export Development, Canada is provided for the purchase of the agricultural equipment and represented as follows:

	2004	2003
Export Development, Canada	510,973	-
Atlantik Forfaiting AG	466,479	-
	<u>977,452</u>	<u>-</u>

30. OTHER LIABILITIES

	2004	2003
Deferred tax liabilities	6,975,593	2,944,947
Other creditors	1,739,729	2,182,226
Insurance reserves	1,556,524	1,056,744
Allowance for losses on guarantees and letters of credit	1,530,192	1,426,290
Taxes payable	974,877	313,833
Accounts payable on re-insurers	117,372	478,632
	<u>12,894,287</u>	<u>8,402,672</u>

31. SUBORDINATED DEBT

	Maturity date	Interest rate (%)	2004	2003
Subordinated debt of Citigroup GMD AG & CO	2014	8.19 %	13,000,000	-
Indexed subordinated bonds	2009	8 %	3,548,695	3,979,575
International subordinated bonds	2007	11 %	2,571,292	2,844,149
Subordinated bonds	2007	5.5 %	48,880	54,226
Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft	2008	9.31-9.94 %	-	1,802,300
Accrued interest expenses			278,831	52,664
			19,447,698	8,732,914

Indexed subordinated bonds were issued in January 2003 in accordance with the decision of the General Shareholders Meeting and the Board of Directors Meeting for the total amount of KZT 7.5 billion and allocated for the amount of KZT 3,548,695 thousand as of 31 December 2004.

Subordinated bonds were issued in 2002 in US dollars.

Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft received in 2004 in Euro was reclassified as a loan in USD.

Subordinated debt Citigroup GMD AG & CO was received in 2004 in USD and represents a USD 100,000 thousand equivalent as of 31 December 2004.

The subordinated bonds denominated in USD were issued in April 2002 in accordance with a Decision of the Shareholders' Meeting.

32. SHAREHOLDERS' EQUITY

As of 31 December 2004 Kazkommertsbank's share capital comprised the following:

	Authorized share capital	Non-issued and unpaid share capital	Elimination amount	Repurchased share capital	Total share capital
Ordinary 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)	(26)	(1,703)	4,197,179

As of 31 December 2003 Kazkommertsbank's share capital comprised the following:

	Authorized share capital	Non-issued and unpaid share capital	Elimination amount	Repurchased share capital	Total share capital
Ordinary shares	3,750,000	(288,587)	(115)	-	3,461,298
Preference shares	1,250,000	(692,368)	-	-	557,632
	5,000,000	(980,955)	(115)	-	4,018,930

Ordinary shares: 375,000,000 shares were authorized, 346,138,644 and 346,129,915 shares were issued and partially paid, with par value of KZT 10 at 31 December 2004 and 2003, respectively.

Preference shares: 125,000,000 shares were authorized and registered, 73,579,231 and 55,763,155 shares were partially paid with par value of KZT 10 each with dividend of up to USD 0.04 per share at 31 December 2004 and 2003, respectively.

33. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,530,192 thousand and KZT 1,426,290 thousand as of 31 December 2004 and 2003, respectively.

As of 31 December 2004 and 2003, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2004		31 December 2003	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	22,971,691	22,971,691	22,769,317	22,769,317
Letters of credit and other transaction related contingent obligations	41,490,308	6,941,465	23,408,923	4,681,785
Commitments on credits and unused credit lines	14,322,098	-	15,866,353	-
Total contingent liabilities and credit commitments	78,784,097	29,913,156	62,044,593	27,451,102
	Amount payable	Risk Weighted Amount	Amount payable	Risk Weighted Amount
Derivative financial instruments				
Foreign currency forwards	7,244,892	134,858	4,407,171	14,204
Foreign currency swaps	5,135,200	-	216,330	-
Forwards with securities	1,372,963	1,372,963	12,569,911	-
Total derivative financial instruments	13,753,055	1,507,821	17,193,412	14,204

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 31 December 2004 and 2003.

Rental commitments – No material rental commitments were outstanding as of 31 December 2004 and 2003.

Fiduciary activities – The Bank renders depository services. As of 31 December 2004 the Bank had the following securities of clients at nominal account of the securities holder:

- dealing operations of 63,668,088 securities,
- custodian operations of 535,951,836 securities.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank 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 - Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The tax audit carried out by the tax authorities of Kazakhstan, which concluded at the end of May 2004 and covered the tax periods 1999, 2000, 2001 and 2002, resulted in an additional tax assessment of KZT 4,009 million.

The additional assessment resulted mainly because the tax authorities disagreed with the Bank's treatment for tax purposes of expenses relating to loan loss provisions as deductions for taxable income purposes. The Bank's management had applied to the authorized regulatory bodies for clarification of the treatment of such expenses prior to computing its tax returns for 1999, 2000, 2001 and 2002, and had followed the written instructions received.

The Bank's management believes that it acted in good faith and on the basis of the requirements of the legislation existing at the time of the respective transactions.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2004 and 2003, the Bank 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 Bank's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting business environment in the Republic of Kazakhstan are subject to rapid changes and the Bank'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, as defined by IAS 24, are those counter parties that 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 and close members of the families of such individuals; and
- (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.

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

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers	2,459,806	513,294,251	2,619,017	291,512,002
Accrued interest on loans to customers	157,488	11,515,151	150,067	10,619,519
Allowance for loans	(84,065)	(29,878,852)	(70,647)	(19,069,078)
Customer accounts	3,349,767	195,837,454	2,395,219	148,391,258
Accrued deposit interest	51,090	1,989,859	60,678	3,198,158
Allowance for guarantees and letters of credit	2,514	1,530,192	632	1,426,290
Letters of credit	-	41,490,309	-	23,408,923
Guarantees given	33,854	22,971,691	27,057	22,769,317

Transactions turnover on trading securities of the Bank with related parties in 2004 and 2003 amounted to KZT 1,187,213 thousand and KZT 391,909 thousand, respectively.

Included in the profit and loss account for the years ended 31 December 2004, 2003 and 2002 are the following amounts which arose due to transactions with related parties:

	2004		2003		2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	177,812	55,002,564	178,210	35,106,301	275,541	24,500,940
Interest expense	(209,884)	(26,247,764)	(145,829)	(18,623,916)	(99,341)	(11,257,899)

In 2004 and 2003, dividends on preference shares were accrued and paid in the amount of KZT 290,370 thousand and KZT 324,141 thousand, respectively.

35. 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 market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2004 and 2003 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with national (central) banks – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – As of 31 December 2004 and 2003, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

Trading securities – As of 31 December 2004 and 2003 trading securities are stated at fair value amounting to KZT 74,143,684 thousand and KZT 70,427,225 thousand, respectively, plus accrued interest income totalling KZT 636,043 thousand and KZT 773,634 thousand, respectively. The fair value of trading securities was determined with reference to an active market.

Derivative financial instruments – As of 31 December 2004 and 2003 derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on quoted market prices.

Securities purchased under repurchase agreements – As of 31 December 2004 and 2003, the carrying amount of securities purchased under repurchase agreements is a reasonable estimate of the fair value.

Loans and advances to customers – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Securities available-for-sale – As of 31 December 2004 and 2003 securities available-for-sale are stated at fair value amounting to KZT 481,488 thousand and KZT 137,431 thousand, respectively, plus accrued coupon income totalling KZT 7,180 thousand and KZT 123 thousand, respectively. The fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with a similar credit risk and/or maturity, in other cases – by reference to the share in estimated equity capital of the investee. If such quotes do not exist, management estimation is used.

Securities held-to-maturity – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively. The fair value of securities held-to-maturity as of 31 December 2004 and 2003 was KZT 64,294 thousand and KZT 32,372 thousand, respectively. The fair value of securities held-to-maturity was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with similar credit risk and/or maturity.

Deposits from banks – As of 31 December 2004 and 2003 the carrying amount is a reasonable estimate of their fair value.

Customer accounts – As of 31 December 2004 and 2003 the carrying amount of deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

Securities sold under repurchase agreements – As of 31 December 2004 the carrying value of securities sold under agreement to repurchase is a reasonable estimate of their fair value.

Debt securities issued – Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value.

Other borrowed funds – As of 31 December 2004 and 2003 the carrying amount of other borrowed funds is a reasonable estimate of the fair value.

Subordinated loan – As of 31 December 2004 and 2003 the carrying amount of the long-term subordinated loan is a reasonable estimate of its fair value.

36. REGULATORY MATTERS

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

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the 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 in Tenge
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Guarantees
100%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual Amount in KZT thousand	For Capital Adequacy purposes in KZT thousand	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As of 31 December 2004				
Total capital	57,306,680	87,186,112	15.02 %	8 %
Tier 1 capital	61,461,469	61,461,469	10.59 %	4 %
As of 31 December 2003				
Total capital	45,578,892	60,642,904	16.43 %	8 %
Tier 1 capital	49,713,734	49,713,734	13.47 %	4 %

37. RISK MANAGEMENT POLICIES

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

The Bank 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 Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals on the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank 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.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

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

The majority of the Bank'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 Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Effective interest rates by types of financial assets and liabilities are presented in the following tables:

For 2004

	KZT	USD	EUR	Roubles	Other currency
ASSETS					
Time deposits with NBRK	2.28	0.50	-	-	-
Loans and advances to banks, net	0.70	2.79	3.74	1.65	2.23
Trading securities	3.62	5.79	-	12.10	-
Securities purchased under agreement to resell	4.11	6.01	-	9.63	-
Investment securities	7.18	-	-	-	7.22
Loans and advances to customers, net	13.16	12.28	8.19	15.74	23.25
LIABILITIES					
Loans and advances from banks	0.29	4.02	3.60	5.37	0.04
Securities sold under agreements to repurchase	4.92	-	-	9.91	-
Customer accounts	3.87	4.00	4.83	0.27	0.41
Debt securities issued	7.21	9.23	-	11.66	-
Subordinated debt	-	7.97	-	-	-
Other borrowed funds	1.78	5.75	5.00	-	-

For 2003

	KZT	USD	EUR	Roubles	Other currency
ASSETS					
Time deposits with NBRK	3.25	-	-	-	-
Loans and advances to banks, net	1.67	2.96	2.17	1.15	0.58
Trading securities	5.64	5.23	4.21	9.47	-
Securities purchased under agreement to resell	3.87	-	-	9.70	5.55
Investment securities	-	8.60	-	-	11.00
Loans and advances to customers, net	14.82	12.26	12.46	15.73	14.21
LIABILITIES					
Loans and advances from banks	1.05	2.90	3.57	6.35	1.99
Securities sold under agreements to repurchase	5.12	1.53	1.77	-	-
Customer accounts	4.36	5.53	3.39	0.21	2.66
Debt securities issued	-	9.28	-	11.76	-
Subordinated debt	-	9.22	9.94	-	-
Other borrowed funds	4.67	8.15	5.00	-	-

The analysis of interest rate and liquidity risk on balance sheet transaction 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	Allowance for losses	2004 Total
ASSETS							
Time deposits with NBRK	26,250,000	-	-	-	-	-	26,250,000
Loans and advances to banks, net	27,375,798	7,928,051	6,965,000	-	-	(533,027)	41,735,822
Trading securities	5,031,729	19,028,118	50,083,837	-	-	-	74,143,684
Securities purchased under agreement to resell	8,271,319	28,000	86,000	-	-	-	8,385,319
Investment securities	23,697	7,999	399,737	114,349	-	-	545,782
Loans to customers, net	35,323,580	34,429,717	123,290,134	190,567,982	129,682,838	(29,878,852)	483,415,399
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 national (central) banks	40,033,584	-	-	-	-	-	40,033,584
Precious metals							
Derivative financial instruments	9,453	10,391	-	-	-	-	19,844
Investments in associates	-	-	-	-	217,964	-	217,964
Fixed assets, net	-	-	-	-	7,001,056	-	7,001,056
Intangible assets, net	-	-	-	-	385,474	-	385,474
Interest accrued on interest bearing assets	5,922,461	1,554,581	2,292,812	2,264,188	248,450	-	12,282,492
Other assets, net	561,666	6,818,924	1,328,392	986,368	55,508	(110,715)	9,640,143
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 agreements to repurchase	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	4,165,262	82,133,024	115,031,444	-	204,727,134
Other borrowed funds	-	390,000	734,498	3,158,803	137,728	-	4,421,029
Subordinated loan	-	-	-	6,168,867	13,000,000	-	19,168,867
Total interest bearing liabilities	168,582,496	25,355,201	162,739,563	136,256,631	129,192,759	-	622,126,650
Derivative financial instruments	31,274	-	80	-	-	-	31,354
Other liabilities	1,347,700	247,103	1,076,063	7,136,705	-	3,086,716	12,894,287
Interest accrued on interest bearing liabilities	638,970	767,470	4,397,568	425,112	-	-	6,229,120
Dividends payable	-	374	29	-	-	-	403
TOTAL LIABILITIES	170,600,440	26,370,148	168,213,303	143,818,448	129,192,759	3,086,716	641,281,814
Interest sensitivity gap	(66,306,373)	36,066,684	18,085,145	54,425,700	490,079		
Cumulative interest sensitivity gap	(66,306,373)	(30,239,689)	(12,154,544)	42,271,156	42,761,235		
Cumulative interest sensitivity gap as a percentage of total assets	(9.42 %)	(4.30 %)	(1.73 %)	6.0 %	6.07 %		

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2004 is presented in the table below.

OFF BALANCE SHEET LIABILITIES	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2004 Total
Accounts payable on forwards and securities operations	(5,637,192)	(7,855,863)	(260,000)	-	-	-	(13,753,055)
Accounts receivable on forwards and securities operations	<u>5,634,150</u>	<u>7,847,475</u>	<u>259,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,741,545</u>
Liquidity gap	<u>(3,042)</u>	<u>8,388</u>	<u>(80)</u>	<u>-</u>	<u>-</u>		
Cumulative liquidity gap	<u>(3,042)</u>	<u>(11,430)</u>	<u>(11,510)</u>	<u>(11,510)</u>	<u>(11,510)</u>		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2003 Total
ASSETS							
Loans and advances to banks, net	23,064,504	11,609,691	4,189,043	-	-	(414,586)	38,448,652
Trading securities	31,091,764	11,976,770	14,783,571	9,153,225	3,421,895	-	70,427,225
Securities purchased under agreement to resell	2,512,145	60,200	32,600	-	-	-	2,604,945
Investment securities	-	27,286	139,780	2,737	-	-	169,803
Loans to customers, net	<u>23,672,832</u>	<u>18,849,182</u>	<u>86,946,870</u>	<u>122,369,177</u>	<u>39,673,941</u>	<u>(19,069,078)</u>	<u>272,442,924</u>
Total interest bearing assets	80,341,245	42,523,129	106,091,864	131,525,139	43,095,836	(19,483,664)	384,093,549
Cash and balances with national (central) banks	28,480,419	-	-	-	-	-	28,480,419
Precious metals	300,158	-	-	-	-	-	300,158
Derivative financial instruments	15,399	-	-	-	-	-	15,399
Investments into associates	-	-	-	-	146,206	-	146,206
Fixed assets, net	-	-	-	-	5,867,947	-	5,867,947
Intangible assets, net	-	-	-	-	436,051	-	436,051
Interest accrued on interest bearing assets	4,680,285	1,571,893	3,088,830	1,911,285	282,722	-	11,535,015
Other assets, net	<u>541,237</u>	<u>318,948</u>	<u>2,022,971</u>	<u>504,162</u>	<u>9,615</u>	<u>(30,520)</u>	<u>3,366,413</u>
TOTAL ASSETS	<u>114,358,743</u>	<u>44,413,970</u>	<u>111,203,665</u>	<u>133,940,586</u>	<u>49,838,377</u>	<u>(19,514,184)</u>	<u>434,241,157</u>
LIABILITIES							
Loans and advances from banks	9,648,980	310,540	39,911,806	26,136,352	-	-	76,007,678
Securities sold under agreements to repurchase	37,216,263	-	-	-	-	-	37,216,263
Customer accounts	64,183,505	19,433,587	51,903,435	12,726,511	144,220	-	148,391,258
Debt securities issued	137,365	1,039,145	540,510	25,838,315	69,046,080	-	96,601,415
Other borrowed funds	-	216,330	982,450	1,623,628	633,157	-	3,455,565
Subordinated loan	-	-	-	4,702,161	3,978,089	-	8,680,250
Total interest bearing liabilities	111,186,113	20,999,602	93,338,201	71,026,967	73,801,546	-	370,352,429
Derivative financial instruments	801	-	-	-	-	-	801
Other liabilities	1,707,447	145,476	1,122,703	2,944,012	-	2,483,034	8,402,672
Interest accrued on interest bearing liabilities	250,893	821,695	3,385,874	742,872	-	-	5,201,334
Dividends payable	<u>30</u>	<u>374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>404</u>
TOTAL LIABILITIES	<u>113,145,284</u>	<u>21,967,147</u>	<u>97,846,778</u>	<u>74,713,851</u>	<u>73,801,546</u>	<u>2,483,034</u>	<u>383,957,640</u>
Interest sensitivity gap	(30,844,868)	21,523,527	12,753,663	60,498,172	(30,705,710)		
Cumulative interest sensitivity gap	<u>(30,844,868)</u>	<u>(9,321,341)</u>	<u>3,432,322</u>	<u>63,930,494</u>	<u>33,224,784</u>		
Cumulative interest sensitivity gap as a percentage of total assets	<u>(7.10%)</u>	<u>(2.15%)</u>	<u>0.79%</u>	<u>14.72%</u>	<u>7.65%</u>		

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2003 is presented in the table below.

OFF BALANCE SHEET LIABILITIES	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	Total
Accounts payable on forwards	(17,193,412)	-	-	-	-	-	(17,193,412)
Accounts receivable on forwards	<u>17,208,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,208,010</u>
Liquidity gap	<u>14,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Cumulative liquidity gap	<u>14,598</u>	<u>14,598</u>	<u>14,598</u>	<u>14,598</u>	<u>14,598</u>		

Currency risk

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

The 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 Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of national (central) banks.

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

	KZT	USD	EUR	RUR	Other currency	Allowance for losses	2004 Total
		USD 1 = KZT 130.00	EUR 1 = KZT 177.10	RUR 1=KZT 4.67			
ASSETS							
Cash and balances with national (central) banks	30,288,553	6,328,217	1,252,516	2,040,715	123,583	-	40,033,584
Precious metals							
Loans and advances to banks, net	4,172,996	36,451,645	619,703	468,791	555,714	(533,027)	41,735,822
Time deposits in NBRK	23,000,000	3,250,000	-	-	-	-	26,250,000
Trading securities	55,243,667	12,320,881	-	6,579,136	6,579,136	-	74,143,684
Securities purchased under agreement to resell	3,432,905	149,814	-	4,802,600	4,802,600	-	8,385,319
Securities available for sale	481,488	-	-	-	-	-	481,488
Securities held to maturity	-	-	-	-	64,294	-	64,294
Loans and advances to customers, net	117,015,381	387,950,190	6,409,300	1,686,869	232,511	(29,878,852)	483,415,399
Derivative financial instruments	17,453	2,391	-	-	-	-	19,844
Investments into associates	217,964	-	-	-	-	-	217,964
Fixed assets, net	6,816,665	-	-	93,825	90,566	-	7,001,056
Intangible assets, net	364,361	-	-	17,302	3,811	-	385,474
Interest accrued on interest bearing assets	4,114,473	7,738,575	237,925	189,210	191,519	-	12,282,492
Other assets, net	1,708,022	7,974,974	32,743	29,715	5,404	(110,715)	9,640,143
TOTAL ASSETS	<u>246,873,928</u>	<u>462,166,687</u>	<u>8,552,187</u>	<u>15,908,163</u>	<u>1,078,192</u>	<u>(30,522,594)</u>	<u>704,056,563</u>
LIABILITIES							
Loans and advances from banks	4,298,593	159,265,413	4,092,136	1,676,833	203,758	-	169,536,733
Securities sold under agreements to repurchase	26,123,951	-	-	2,311,482	-	-	28,435,433
Customer accounts	112,369,981	74,345,242	6,089,198	2,647,060	385,973	-	195,837,454
Debt securities issued	3,949,454	199,115,329	-	1,662,351	-	-	204,727,134
Subordinated loan		19,168,867	-	-	-	-	19,168,867
Other borrowed funds	188,460	3,872,385	360,184	-	-	-	4,421,029
Derivative financial instruments	3,474	27,880	-	-	-	-	31,354
Dividends payable	374	-	-	-	29	-	403
Interest accrued on interest bearing liabilities	935,771	5,162,271	118,607	12,338	133	-	6,229,120
Other liabilities	8,696,039	731,847	102,921	249,200	27,564	3,086,716	12,894,287
TOTAL LIABILITIES	<u>156,566,097</u>	<u>461,689,234</u>	<u>10,763,046</u>	<u>8,559,264</u>	<u>617,457</u>	<u>3,086,716</u>	<u>641,281,814</u>
OPEN BALANCE SHEET POSITION	<u>90,307,831</u>	<u>477,453</u>	<u>(2,210,859)</u>	<u>7,348,899</u>	<u>460,735</u>		

Derivative financial instruments

The fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2004:

OFF-BALANCE LIABILITIES	KZT	USD	EUR	RUR	Other currency	Allowance for losses	Total
Accounts payable on forwards and securities operations	(6,937,547)	(6,759,376)	-	(56,132)	-	-	(13,753,055)
Accounts receivable on forwards and securities operations	<u>2,339,820</u>	<u>8,302,475</u>	<u>3,099,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,741,545</u>
OPEN OFF-BALANCE POSITION	<u>(4,597,727)</u>	<u>1,543,099</u>	<u>3,099,250</u>	<u>(56,132)</u>	<u>-</u>		
TOTAL OPEN POSITION	<u>85,710,104</u>	<u>2,020,552</u>	<u>888,391</u>	<u>7,292,767</u>	<u>460,735</u>		

	KZT	USD	EUR	RUR	Other currency	Allowance for losses	2003 Total
		USD1= KZT 144.22	EUR1 = KZT 180.23	RUR1=KZT 4.93			
ASSETS							
Cash and balances with national (central) banks	22,310,905	4,533,995	800,584	759,026	75,909	-	28,480,419
Precious metals	-	-	-	-	300,158	-	300,158
Loans and advances to banks, net	1,786,062	34,219,406	1,963,138	603,605	291,027	(414,586)	38,448,652
Trading securities	29,020,756	28,698,320	11,179,126	1,528,246	777	-	70,427,225
Securities purchased under agreement to resell	585,200	-	-	1,987,145	32,600	-	2,604,945
Investment securities	134,694	2,737	-	-	32,372	-	169,803
Loans and advances to customers, net	58,616,965	223,933,230	6,492,375	1,836,145	633,287	(19,069,078)	272,442,924
Derivative financial instruments	15,399	-	-	-	-	-	15,399
Investments in associates	146,206	-	-	-	-	-	146,206
Fixed assets, net	5,718,297	-	-	92,857	56,793	-	5,867,947
Intangible assets, net	419,320	-	-	296	16,435	-	436,051
Interest accrued on interest bearing assets	5,067,997	5,981,428	442,368	40,330	2,892	-	11,535,015
Other assets, net	1,506,612	1,846,310	18,959	10,014	15,038	(30,520)	3,366,413
TOTAL ASSETS	125,328,413	299,215,426	20,896,550	6,857,664	1,457,288	(19,514,184)	434,241,157
LIABILITIES							
Loans and advances from banks	1,711,996	72,331,640	1,913,930	42,510	7,602	-	76,007,678
Securities sold under agreements to repurchase	6,827,000	19,634,063	10,755,200	-	-	-	37,216,263
Customer accounts	49,212,509	93,237,189	4,647,984	1,135,379	158,197	-	148,391,258
Debt securities issued	-	95,831,580	-	769,835	-	-	96,601,415
Subordinated loan	-	6,877,950	1,802,300	-	-	-	8,680,250
Other borrowed funds	145,065	2,680,657	629,843	-	-	-	3,455,565
Derivative financial instruments	801	-	-	-	-	-	801
Dividends payable	374	-	-	-	30	-	404
Interest accrued on interest bearing liabilities	361,032	4,742,751	96,575	8	968	-	5,201,334
Other liabilities	4,745,183	1,143,509	19,720	7,919	3,307	2,483,034	8,402,672
TOTAL LIABILITIES	63,003,960	296,479,339	19,865,552	1,955,651	170,104	2,483,034	383,957,640
OPEN BALANCE SHEET POSITION	62,324,453	2,736,087	1,030,998	4,902,013	1,287,184		

Derivative financial instruments

The fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2003:

OFF-BALANCE LIABILITIES	KZT	USD	EUR	RUR	Other currency	Allowance for losses	Total
Accounts payable on forwards	(143,780)	(14,037,219)	-	(3,012,413)	-	-	(17,193,412)
Accounts receivable on forwards	388,595	10,886,734	2,072,645	3,860,036	-	-	17,208,010
OPEN OFF-BALANCE POSITION	244,815	(3,150,485)	2,072,645	847,623	-		
TOTAL OPEN POSITION	62,569,268	(414,398)	3,103,643	5,749,636	1,287,184		

Market Risk

Market 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 Bank is exposed to market risks of its products which are subject to general and specific market fluctuations.

The Bank manages market 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 Bank 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.

Credit risk

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Commercial Directorate. 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 Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the maximum amount of risk accepted in relation to one borrower, or groups 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 Bank 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.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments 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 Bank 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 Bank 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 Bank monitors the term to maturity of credit commitments 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 Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Bank's Commercial Directorate sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	CIS	OECD countries	Other non-OECD countries	Allowance for losses	2004 Total
ASSETS						
Cash and balances with national (central) banks	59,790,480	2,380,453	4,121,885	-	-	66,292,818
Precious metals	-	-	-	-	-	-
Loans and advances to banks, net	1,836,355	18,825,677	16,459,503	5,245,054	(533,027)	41,833,562
Trading securities	65,908,709	6,742,961	2,128,057	-	-	74,779,727
Securities purchased under agreement to resell	3,446,257	4,806,047	-	150,159	-	8,402,463
Derivative financial instruments	353	16,491	-	3,000	-	19,844
Loans to customers, net	399,225,110	78,106,468	9,537,802	37,940,022	(29,878,852)	494,930,550
Securities held to maturity	-	64,294	-	-	-	64,294
Securities available for sale	488,668	-	-	-	-	488,668
Investments in associates	217,964	-	-	-	-	217,964
Fixed assets, net	6,816,666	184,390	-	-	-	7,001,056
Intangible assets, net	364,362	21,112	-	-	-	385,474
Other assets, net	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 agreements to repurchase	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
Other liabilities	7,788,442	297,620	1,673,798	47,711	3,086,716	12,894,287
Subordinated loan	3,251,772	-	15,837,988	357,938	-	19,447,698
Dividends payable	374	29	-	-	-	403
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		

	Kazakhstan	CIS	OECD countries	Other non-OECD countries	Allowance for losses	2003 Total
ASSETS						
Cash and balances with the National Bank of the Republic of Kazakhstan	27,372,888	1,111,725	-	-	-	28,484,613
Precious metals	-	-	300,158	-	-	300,158
Loans and advances to banks, less allowance for loan losses	564,138	15,895,068	18,975,185	3,563,019	(414,586)	38,582,824
Trading securities	43,548,181	1,903,927	25,748,751	-	-	71,200,859
Investment securities	137,554	32,372	-	-	-	169,926
Securities purchased under agreement to resell	587,010	2,020,770	538	-	-	2,608,318
Loans to customers, less allowance for loan losses	245,647,791	27,890,871	9,057,608	19,535,251	(19,069,078)	283,062,443
Derivative financial instruments	9,509	5,890	-	-	-	15,399
Investments in associates	146,206	-	-	-	-	146,206
Fixed assets, net	5,718,297	149,650	-	-	-	5,867,947
Intangible assets, net	419,320	16,731	-	-	-	436,051
Other assets, net	2,312,212	58,716	996,797	29,208	(30,520)	3,366,413
TOTAL ASSETS	326,463,106	49,085,720	55,079,037	23,127,478	(19,514,184)	434,241,157
LIABILITIES						
Loans and advances from banks	17,818,730	10,771,617	47,533,427	98,145	-	76,221,919
Loans from financial institutions	-	-	-	-	-	-
Repurchase operations with securities	6,833,086	-	30,417,589	-	-	37,250,675
Derivative financial instruments	801	-	-	-	-	801
Debt securities issued	-	1,717,020	96,516,346	-	-	98,233,366
Subordinated debt	3,654,999	-	4,683,221	394,694	-	8,732,914
Customer accounts	139,488,173	2,887,620	7,970,186	1,243,437	-	151,589,416
Other borrowed funds	3,522,159	3,314	-	-	-	3,525,473
Other liabilities	5,359,521	316,104	100,815	143,198	2,483,034	8,402,672
Dividends payable	374	30	-	-	-	404
TOTAL LIABILITIES	176,677,843	15,695,705	187,221,584	1,879,474	2,483,034	383,957,640
OPEN BALANCE SHEET POSITION						
	149,785,263	33,390,015	(132,142,547)	21,248,004		