JSC SB ALFA BANK

Financial Statements and Auditors' Report

31 December 2004

Contents

Auditors' Report

Notes to the Financial Statements

AUDITORS' REPORT

To the Board of Directors, Shareholders and Management of JSC SB Alfa Bank:

1 We have audited the accompanying balance sheet of JSC SB Alfa Bank (the "Bank") as at 31 December 2004, and the related statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 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 audit provides a reasonable basis for our opinion.

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

Almaty, Kazakhstan
11 February 2005

(in thousands of Kazakhstani Tenge)

	Note	2004	2003
Assets			
Cash and cash equivalents	5	3,143,524	1,281,163
Due from other banks	6	345,635	339,003
Loans and advances to customers	7	7,542,978	6,926,380
Investment securities available for sale	8	860,580	725,195
Other assets	9	163,985	146,665
Premises and equipment	10	119,323	133,788
Total assets		**12,176,025**	**9,552,194**
Liabilities			
Due to other banks	11	263,821	592,788
Customer accounts	12	8,725,124	6,140,659
Other borrowed funds	13	380,727	386,019
Other liabilities	14	57,725	78,904
Total liabilities		**9,427,397**	**7,198,370**
Shareholders' equity			
Share capital	15	1,000,000	1,000,000
Share premium	16	22,185	22,185
Statutory reserve fund	17	150,000	150,000
Retained earnings		1,576,443	1,181,639
Total shareholders' equity		**2,748,628**	**2,353,824**
Total liabilities and shareholders' equity		**12,176,025**	**9,552,194**

Approved for issue by the Board of Directors and signed on its behalf on 11 February 2005.

Artishko A.I	Suleimanova G.A.
Chairman	Chief Accountant

	Note	2004	2003
Interest income	18	1,136,161	1,188,607
Interest expense	18	(186,812)	(218,340)
Net interest income		**949,349**	**970,267**
Provision for loan impairment	6,7	(338,777)	(247,819)
Net interest income after provision for loan impairment		**610,572**	**722,448**
Gains less losses arising from investment securities available for sale		(17,922)	17,121
Gains less losses arising from trading in foreign currencies		127,528	153,060
Foreign exchange translation gains less losses		(136,288)	(74,499)
Fee and commission income	19	533,015	427,744
Fee and commission expense	19	(53,944)	(41,875)
Provision for losses on credit related commitments	23	(2,630)	(361)
Other operating income		62,583	43,907
Operating income		**1,122,914**	**1,247,545**
Operating expenses	20	(576,327)	(613,036)
Profit before tax		**546,587**	**634,509**
Income tax expense	21	(151,783)	(160,036)
Net profit		**394,804**	**474,473**

(in thousands of Kazakhstani Tenge)

	Note	2004	2003
Cash flows from operating activities			
Interest received		1,187,906	1,146,698
Interest paid		(160,670)	(215,067)
Income received from trading in foreign currencies		127,528	76,450
Fees and commissions received		533,010	428,136
Fees and commissions paid		(53,977)	(41,906)
Other operating income received		61,296	48,909
Operating expenses paid		(505,590)	(625,111)
Income tax paid		(151,783)	(160,036)
Cash flows from operating activities before changes in operating assets and liabilities		**1,037,720**	**658,073**
Changes in operating assets and liabilities			
Net increase in due from other banks		(5,655)	(354,833)
Net increase in loans and advances to customers		(1,003,579)	(363,328)
Net (increase)/decrease in other assets		(13,903)	5,002
Net decrease in due to other banks		(330,278)	(27,012)
Net increase in customer accounts		2,602,723	1,404,175
Net decrease in other liabilities		(54,548)	(11,714)
Net cash from operating activities		**2,232,480**	**1,310,363**
Cash flows from investing activities			
Acquisition of investment securities available for sale	8	(830,722)	(1,043,051)
Proceeds from redemption of investment securities available for sale	8	652,391	1,054,801
Acquisition of premises and equipment	10	(12,981)	(16,962)
Acquisition of intangible assets		(4,730)	(14,029)
Proceeds from disposal of premises and equipment		-	4,873
Net cash from investing activities		**(196,042)**	**(14,368)**
Cash flows from financing activities			
Repayment of other borrowed funds		-	(844,500)
Net cash from financing activities		**-**	**(844,500)**
Effect of exchange rate changes on cash and cash equivalents		**(174,077)**	**(55,581)**
Net increase in cash and cash equivalents		**1,862,361**	**395,914**
Cash and cash equivalents as at the beginning of the year		**1,281,163**	**885,249**
Cash and cash equivalents as at the end of the year	5	**3,143,524**	**1,281,163**

(in thousands of Kazakhstani Tenge)

	Share capital	Share premium	Statutory reserve fund	Retained earnings	Total shareholders' equity
Balance as at 1 January 2003	**1,000,000**	**22,185**	**150,000**	**707,166**	**1,879,351**
Net profit	-	-	-	474,473	474,473
Balance as at 31 December 2003	**1,000,000**	**22,185**	**150,000**	**1,181,639**	**2,353,824**
Net profit	-	-	-	394,804	394,804
Balance as at 31 December 2004	**1,000,000**	**22,185**	**150,000**	**1,576,443**	**2,748,628**

1 Principal Activities

Joint Stock Company Subsidiary Bank Alfa Bank (the "Bank") was formed on 9 December 1994 as a closed joint stock company. On 19 April 1999 the Bank was re-registered as an open joint stock company and under the laws of the Republic of Kazakhstan. The Bank holds a banking license from the National Bank of the Republic of Kazakhstan (the "NBRK") for operations in Kazakhstani Tenge ("Tenge") and in foreign currencies. In addition, the Bank has a license to provide broker/dealer services issued by the National Securities Commission of the Republic of Kazakhstan.

The Bank has its main office located in Almaty and operates through three branches in Astana, Karaganda and Ust-Kamenogorsk and representative office in Ekibastuz. The average number of the Bank's employees during the year was 171 (2003: 205). The Bank provides general banking services to its clients, accepts deposits from legal entities and individuals, grants loans, broker/dealer services, transfers payments in Kazakhstan and abroad, exchanges currencies and other banking services for its commercial customers.

The share capital of the Bank is set at Tenge 1,000,000 thousand. OJSC "Alfa Bank" (Russia) (the "Shareholder") owns 100 percent of the total amount of the share capital. Before 10 March 2004 OJSC "Alfa Bank" (Russia) owned 99.54 percent of the share capital and CJSC "Alfa-Trust" (Russia) owned the remaining 0.46 percent.

The Bank has its office located at the following address: Almaty, Masanchi St., 57-A.

2 Operating Environment of the Bank

Whilst there have been improvements in recent years in the economic situation in the Republic of Kazakhstan, the economy of Kazakhstan continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity in the public and private debt and equity markets.

Additionally, the banking sector in Kazakhstan is particularly impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of a range of measures undertaken by the government, the Ministry of Finance of Republic of Kazakhstan (the "MFRK"), the NBRK and other authorities. There remains the possibility of unpredictable changes in the financial and economic environment that may have an adverse effect on the Bank's operations. Management of the Bank is unable to predict the extent and duration of future economic difficulties, consequently the accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

Economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Preparation

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its books of account and prepares its statutory records in Tenge in accordance with accounting principles prescribed by the National Bank of the Republic of Kazakhstan and the Ministry of Finance of the Republic of Kazakhstan. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

These financial statements have been measured and presented in the national currency of the Republic of Kazakhstan, Kazakhstani Tenge ("Tenge").

3 Basis of Presentation (Continued)

The preparation of these financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

4 Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into investment securities available for sale. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

4 Significant Accounting Policies (Continued)

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Investment securities available for sale. This classification includes investment securities which Management intends to hold for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investment securities available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Impairment and reversal of impairment of investment securities available for sale is recorded through the statement of income. An investment security available for sale is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the statement of income in the period in which they arise. Interest earned on investment securities available for sale is reflected in the statement of income as interest income on investment securities available for sale. Dividends received are included in dividend income within the statement of income.

All regular way purchases and sales of investment securities available for sale are recorded at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recorded as derivative forward transactions until settlement.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Gains and losses on disposal of premises and equipment are determined by reference to the carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

4 Significant Accounting Policies (Continued)

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

	Depreciation rate, %
Premises	3
Office and computer equipment	7-25
Motor vehicles	10
Other	8-12

Land is not depreciated as it deemed to have an indefinite life.

Intangible assets. Intangible assets are stated at cost and are amortised on a straight-line basis over a period of five years.

Operating leases. Where the Bank is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the statement of income on a straight-line basis over the period of the lease.

Finance leases. Where the Bank is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within loans and advances to customers. Lease income is recorded over the term of the lease using the net effective yield method.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction.

Any advance payments made by the lessee prior to commencement of the lease reduces the net investment in the leases.

Finance income from leases is recorded within other operating income in the statement of income.

When impaired, provisions against net investment in leases are created. A financial lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the financial lease receivable.

Borrowings. Borrowings are recorded initially at "cost", being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the statement of income over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective yield method.

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

4 Significant Accounting Policies (Continued)

Income taxes. Taxation has been provided for in the financial statements in accordance with Kazkhstani legislation currently in force. The income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Bank.

Income and expense recognition. Interest income and expense are recorded in the statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Kazakhstani Tenge at the official exchange rate of the Kazakhstani Stock Exchange ("KASE") at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available for sale are recorded as part of the fair value gain or loss.

As at 31 December 2004 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 130 (2003: USD 1 = Tenge 144.22). At present, the Kazakhstani Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

Derivative financial instruments. Derivative financial instruments including forward rate agreements are initially recorded in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models or using the spot rate at the year end as the basis as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

(in thousands of Kazakhstani Tenge)

4 Significant Accounting Policies (Continued)

Changes in the fair value of derivative instruments are included in gains less losses arising from trading in foreign currency, gains less losses arising from trading securities and gains less losses from trading in precious metals depending on the related contracts.

The Bank does not apply hedge accounting.

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

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

Pension costs**.** The Bank does not incur any expenses in relation to provision of pensions to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Bank withholds pension contributions from employee salaries and transfers them into state or private pension funds. Upon retirement of employees, all pension payments are administered by the above pension funds.

5 Cash and Cash Equivalents

	2004	**2003**
Cash on hand	229,315	286,380
Cash balances with the NBRK	2,250,368	209,172
Mandatory reserve in NBRK	373,529	290,913
Correspondent accounts and overnight placements with other banks	290,312	494,698
Total cash and cash equivalents	**3,143,524**	**1,281,163**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

6 Due from Other Banks

	2004	**2003**
Current term placements with other banks	345,635	339,003
Less: Provision for impairment of due from other banks	-	-
Total due from other banks	**345,635**	**339,003**

Movements in the provision for impairment are as follows:

	2004	**2003**
Provision for impairment of due from other banks as at 1 January	**-**	**1,715**
Recovery of provision for impairment of due from other banks during the year	-	(1,715)
Provision for impairment of due from other banks as at 31 December	**-**	**-**

As at 31 December 2004 the estimated fair value of due from other banks was Tenge 345,635 thousand (2003: Tenge 339,003 thousand). Refer to Note 24.

(in thousands of Kazakhstani Tenge)

6 Due from Other Banks (Continued)

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

7 Loans and Advances to Customers

	2004	2003
Current loans	8,537,697	7,582,392
Overdue loans	122	52
Less: Provision for loan impairment	(994,841)	(656,064)
Total loans and advances to customers	**7,542,978**	**6,926,380**

Movements in the provision for loan impairment are as follows:

	2004	2003
Provision for loan impairment as at 1 January	**656,064**	**406,530**
Provision for loan impairment during the year	338,777	249,534
Provision for loan impairment as at 31 December	**994,841**	**656,064**

Provision for loan impairment in the amount of Tenge 994,841 thousand is established on the basis of the statutory regulatory provisioning requirements, which differ from IFRS.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2004		2003	
	Amount	%	Amount	%
Wholesale trade	2,311,184	27	3,039,503	40
Production	2,005,183	23	1,519,095	20
Financial services	1,361,778	16	373,432	5
Construction	1,001,437	12	1,053,295	14
Publishing	693,033	8	426,669	6
Services	688,979	8	5,064	0
Utility	336,135	4	273,448	4
Transport	70,400	1	588,319	8
Individuals	47,190	1	57,549	0
Oil and mining	-	-	129,727	2
Agriculture	-	-	15,192	0
Other	22,500	0	101,151	1
Total loans and advances to customers (aggregate amount)	**8,537,819**	**100**	**7,582,444**	**100**

Loans issued to ten borrowers in the amount of Tenge 5,225,577 thousand represent 61% of the total loan portfolio of the Bank as at 31 December 2004.

Loans issued to twenty-one borrowers in the amount of Tenge 4,910,522 thousand represent 69% of the total loan portfolio of the Bank as at 31 December 2003.

As at 31 December 2004 the estimated fair value of loans and advances to customers was Tenge 7,542,978 thousand (2003: Tenge 6,926,380 thousand). Refer to Note 24.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

(in thousands of Kazakhstani Tenge)

8 Investment Securities Available for Sale

	2004	2003
Notes of NBRK	669,568	386,151
Bonds of MFRK (Eurobonds)	191,012	339,044
Total investment securities available for sale	**860,580**	**725,195**

The movements in investment securities available for sale are as follows:

	2004	2003
Carrying amount as at 1 January	**725,195**	**794,274**
(Decrease)/ increase in fair value	(17,922)	17,121
Acquisition of investment securities available for sale	830,722	1,043,051
Disposal of investment securities available for sale	(652,391)	(1,054,801)
Exchange differences relating to debt investment securities	(20,832)	(81,153)
Movement in accrued interest	(4,192)	6,703
Carrying amount as at 31 December	**860,580**	**725,195**

Eurobonds are USD denominated government securities issued by the MFRK. Eurobonds are issued at a premium to face value, have maturity date on 5 November 2007, coupon rate of approximately 11.125 percent in 2004 and yield to maturity of 3.78 percent as at 31 December 2004.

The Notes of the National Bank of the Republic of Kazakhstan are short-term discount notes redeemable at par value of Tenge 100 within 180 and 360 days from the issue date. The notes have maturity dates from June to September 2005 and yield to maturity from 3.20 to 3.80 percent.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 22.

9 Other Assets

	Note	2004	2003
Intangible assets		34,714	42,518
Prepaid taxes		33,070	40,209
Unrealised gain from derivative transactions	23	25,153	14,880
Debtors on guarantees		20,750	14,422
Debtors on capital expenditures		19,597	2,307
Investments		10,200	10,200
Other		20,519	22,129
Less: Provision for impairment	21	(18)	-
Total other assets		**163,985**	**146,665**

(in thousands of Kazakhstani Tenge)

9 Other Assets (Continued)

Movements in the provision for impairment of other assets are as follows:

	2004	2003
Provision for impairment of other assets as at 1 January	**-**	**-**
Provision for impairment of other assets during the year	18	-
Provision for impairment of other assets as at 31 December	**18**	**-**

Geographical, currency and maturity analyses of other assets are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

10 Premises and Equipment

	Note	Premises and land	Office and computer equipment	Motor vehicles	Other	Total
Net book amount as at 31 December 2003		**45,438**	**27,526**	**4,416**	**56,408**	**133,788**
Book amount at cost						
Opening balance		64,873	62,077	11,667	91,991	230,608
Additions		-	3,463	-	9,518	12,981
Disposals		-	(1,530)	(2,373)	(1,761)	(5,664)
Closing balance		**64,873**	**64,010**	**9,294**	**99,748**	**237,925**
Accumulated depreciation						
Opening balance		19,435	34,551	7,251	35,583	96,820
Depreciation charge	20	2,016	12,641	962	10,796	26,415
Disposals		-	(1,509)	(2,050)	(1,074)	(4,633)
Closing balance		21,451	45,683	6,163	45,305	118,602
Net book amount as at 31 December 2004		**43,422**	**18,327**	**3,131**	**54,443**	**119,323**

(in thousands of Kazakhstani Tenge)

11 Due to Other Banks

	2004	2003
Current term placements of other banks	256,058	480,380
Correspondent accounts and overnight placements of other banks	7,763	12,394
Sale and repurchase agreements with other banks	-	100,014
Total due to other banks	**263,821**	**592,788**

As at 31 December 2004 the estimated fair value of due to other banks was Tenge 263,821 thousand (2003: Tenge 592,788 thousand). Refer to Note 24.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

12 Customer Accounts

	2004	2003
State and public organisations		
- Current/settlement accounts	91,245	166,518
- Term deposits	9,003	1,407
Other legal entities		
- Current/settlement accounts	5,176,827	2,824,174
- Term deposits	991,331	858,294
Individuals		
- Current/demand accounts	1,136,184	1,009,602
- Term deposits	1,320,534	1,280,664
Total customer accounts	**8,725,124**	**6,140,659**

Economic sector concentrations within customer accounts are as follows:

	2004		2003	
	Amount	**%**	**Amount**	**%**
Individuals	2,456,718	28	2,290,266	37
Wholesale trade	1,477,649	17	1,104,280	18
Services	1,313,053	15	897,718	15
Energy production	1,186,568	14	295,801	5
Construction	741,893	9	626,051	10
Metal production	335,466	4	170,841	3
Transport	216,338	2	113,739	2
Food production	114,521	1	27,510	0
Retail trade	112,673	1	175,072	3
Wood production	110,459	1	80,213	1
Government bodies	91,887	1	149,122	2
Mining	47,216	1	92,960	2
Hotels and restaurants	2,233	0	2,714	0
Utility	1,163	0	10,148	0
Other	517,287	6	104,224	2
Total customer accounts	**8,725,124**	**100**	**6,140,659**	**100**

(in thousands of Kazakhstani Tenge)

12 Customer accounts (Continued)

As at 31 December 2004 the Bank had 34 customers with balances above Tenge 30,000 thousand. The aggregate balance of these customers was Tenge 3,571,821 thousand or 41 percent of total customer accounts.

As at 31 December 2003 the Bank had 22 customers with balances above Tenge 30,000 thousand. The aggregate balance of these customers was Tenge 1,095,601 thousand or 18 percent of total customer accounts.

As at 31 December 2004 included in customer accounts are deposits of Tenge 145,612 thousand (2003: Tenge 96,294 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 23.

As at 31 December 2004 the estimated fair value of customer accounts was Tenge 8,725,124 thousand (Tenge 6,140,659 thousand). Refer to Note 24.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

13 Other Borrowed Funds

	2004	**2003**
Subordinated debt	380,727	386,019
Total other borrowed funds	**380,727**	**386,019**

The Bank received two subordinated loans from OJSC Alfa-Bank (Russia) during the period from December 1999 to January 2001. The maturity date of the subordinated loan of USD 2.5 million is 1 December 2007 and the maturity date of the subordinated loan of USD 900 thousand is 27 December 2008. The loans bear annual interest (net of withholding tax) of 0.12 percent and 4.78 percent, respectively. The fair value of these subordinated loans is estimated as the present value of the cash flows over the remaining term of the debt calculated using the effective interest rate method. The discount rate is determined based on interbank effective market rates for borrowings with similar credit and maturity characteristics.

The claims of Bank’s parent bank on subordinated loans shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

As at 31 December 2004 the estimated fair value of other borrowed funds was Tenge 380,727 thousand (Tenge 386,019 thousand). Refer to Note 24.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

(in thousands of Kazakhstani Tenge)

14 Other Liabilities

	Note	2004	2003
Taxation payable, other than corporate income tax		23,995	38,648
Trade payables		11,115	7,881
Accrued staff costs		6,705	18,792
Provision for losses on credit related commitments	23	2,991	361
Other		12,919	13,222
Total other liabilities		**57,725**	**78,904**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 22. The information on related party balances is disclosed in Note 25.

15 Share Capital

The authorised, issued and outstanding share capital comprises 100,000,000 ordinary shares (2003: 100,000,000). All shares have a par value of Kazakhstani Tenge 10, which results in a total authorised issued and outstanding share capital of Kazakstani Tenge 1,000,000,000.

16 Share Premium

In respect of shares subscribed in foreign currency before 16 September 1996, the share premium is the difference between the nominal value of the shares and the Kazakhstani Tenge value of foreign currency contributions to the share capital translated at the official exchange rate of the NBRK ruling on the date of the contributions.

A portion of the shares was originally contributed in foreign currency and on 16 September 1996 was converted into Kazakhstani Tenge. In compliance with the Kazakhstani statutory regulations, the component of the share premium created on the basis of the exchange rate difference between the nominal value of shares and value of currency paid was used to increase the share capital in accordance with the decision of the shareholders' meeting.

17 Statutory Reserve Fund

In accordance with the local legislation and regulations of the NBRK, the Bank makes an appropriation from retained earnings to statutory reserve fund for unforeseeable risks and future losses. Statutory reserve fund can only be distributed through the approval of a formal shareholders' meeting.

(in thousands of Kazakhstani Tenge)

18 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	1,044,203	1,132,939
Due from other banks	45,475	23,247
Debt investment securities available for sale	43,223	30,241
Correspondent accounts with other banks	3,260	2,180
Total interest income	**1,136,161**	**1,188,607**
Interest expense		
Term deposits of individuals	83,711	75,732
Other borrowed funds	50,679	16,426
Term deposits of legal entities	23,962	19,991
Term placements of other banks	14,741	44,950
Current/settlement accounts	13,391	5,574
Debt securities in issue	-	54,980
Other	328	687
Total interest expense	**186,812**	**218,340**
Net interest income	**949,349**	**970,267**

The information on related party transactions is disclosed in Note 25.

19 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on settlement transactions	230,160	181,567
Commission on cash transactions	176,667	145,375
Commission income on purchase and sale of foreign currency	86,948	66,063
Commission on guarantees issued	19,538	17,487
Other	19,702	17,252
Total fee and commission income	**533,015**	**427,744**
Fee and commission expense		
Commission on settlement transactions	24,021	19,444
Commission on cash transactions	29,470	22,275
Other	453	156
Total fee and commission expense	**53,944**	**41,875**
Net fee and commission income	**479,071**	**385,869**

(in thousands of Kazakhstani Tenge)

20 Operating Expenses

	Note	2004	2003
Staff costs		313,097	343,875
Communication expenses		29,196	26,365
Depreciation of premises and equipment	10	26,415	26,971
Security		26,303	23,936
Other expenses from banking activities		24,424	26,258
Taxes other than on income		20,107	25,280
Amortization of intangible assets		12,534	9,521
Cash collecting services		11,344	10,371
Transportation		9,595	7,075
Repair and maintenance		9,504	13,604
Business trip expenses		8,030	11,989
Rent		6,313	6,728
Consulting		6,311	9,850
Advertising and marketing		6,110	9,981
Administration expense		6,009	9,110
Representative expense		5,630	9,134
Other		55,405	42,988
Total operating expenses		**576,327**	**613,036**

21 Income Taxes

Income tax expense comprises the following:

	2004	2003
Current tax charge	151,783	160,036
Deferred taxation movement due to origination and reversal of temporary differences	-	-
Income tax expense for the year	**151,783**	**160,036**

The income tax rate applicable to the majority of the Bank's income is 30 percent (2003: 30 percent). A reconciliation between the expected and the actual taxation charge is provided below.

	2004	2003
IFRS profit before tax	**546,587**	**634,509**
Theoretical tax charge at the applicable statutory rate (2004 and 2003: 30 percent)	163,976	190,353
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(24,979)	(19,079)
- Non deductible expenses	11,549	4,671
- Other non temporary differences	(13,206)	(1,840)
- Non-deductible interest expense	13,308	6,901
- Non-deductible provision for impairment of other assets and credit related commitments (Notes 9 and 23)	794	108
Non-recorded net deferred tax asset movement	341	(21,078)
Income tax expense for the year	**151,783**	**160,036**

(in thousands of Kazakhstani Tenge)

21 Income Taxes (Continued)

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 30 percent (2003: 30 percent).

	2002	Movement	2003	Movement	2004
Tax effect of deductible temporary differences					
Premises and equipment	-	-	-	3,638	3,638
Accruals	2,081	4,659	6,740	(4,894)	1,846
Provisions	29,731	(29,731)	-	-	-
Tax losses carried forward	6,204	(6,204)	-	-	-
Gross deferred tax asset	**38,016**	**(31,276)**	**6,740**	**(1,256)**	**5,484**
Less: non-recorded deferred tax asset	(22,600)	21,078	(1,522)	(341)	(1,863)
Net deferred tax asset	**15,416**	**(10,198)**	**5,218**	**(1,597)**	**3,621**
Tax effect of taxable temporary differences					
Accruals	-	-	-	(3,621)	(3,621)
Premises and equipment	(13,759)	8,541	(5,218)	5,218	-
Foreign exchange gains	(1,657)	1,657	-	-	-
Gross deferred tax liability	**(15,416)**	**10,198**	**(5,218)**	**1,597**	**(3,621)**
Total net deferred tax liability	**-**	**-**	**-**	**-**	**-**

22 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

(in thousands of Kazakhstani Tenge)

22 Financial Risk Management (Continued)

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

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2004 is set out below:

	Kazakhstan	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	2,839,256	47,719	256,549	3,143,524
Due from other banks	250,017	-	95,618	345,635
Loans and advances to customers	7,542,978	-	-	7,542,978
Investment securities available for sale	860,580	-	-	860,580
Other assets	143,235	13,000	7,750	163,985
Premises and equipment	119,323	-	-	119,323
Total assets	**11,755,389**	**60,719**	**359,917**	**12,176,025**
Liabilities				
Due to other banks	196,721	59,336	7,764	263,821
Customer accounts	8,491,352	55,315	178,457	8,725,124
Other borrowed funds	-	-	380,727	380,727
Other liabilities	57,311	-	414	57,725
Total liabilities	**8,745,384**	**114,651**	**567,362**	**9,427,397**
Net balance sheet position	**3,010,005**	**(53,932)**	**(207,445)**	**2,748,628**
Credit related commitments	**2,436,084**	**-**	**-**	**2,436,084**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank's assets and liabilities as at 31 December 2003 is set out below:

	Kazakhstan	OECD	Non OECD	Total
Net balance sheet position	**2,820,804**	**108,676**	**(575,656)**	**2,353,824**
Credit related commitments	**2,529,576**	**-**	**-**	**2,529,576**

(in thousands of Kazakhstani Tenge)

22 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values. As at 31 December 2004, the Bank has the following positions in currencies:

	KZT	**USD**	**Euro**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	2,757,752	171,033	58,542	156,197	3,143,524
Due from other banks	250,017	-	-	95,618	345,635
Loans and advances to customers	4,095,153	3,140,308	307,517	-	7,542,978
Investment securities available for sale	669,568	191,012	-	-	860,580
Other assets	134,601	21,399	165	7,820	163,985
Premises and equipment	119,323	-	-	-	119,323
Total assets	**8,026,414**	**3,523,752**	**366,224**	**259,635**	**12,176,025**
Liabilities					
Due to other banks	9,466	254,233	122	-	263,821
Customer accounts	5,921,665	2,331,622	251,617	220,220	8,725,124
Other borrowed funds	-	380,727	-	-	380,727
Other liabilities	50,261	6,040	-	1,424	57,725
Total liabilities	**5,981,392**	**2,972,622**	**251,739**	**221,644**	**9,427,397**
Net balance sheet position	**2,045,022**	**551,130**	**114,485**	**37,991**	**2,748,628**
Credit related commitments	**2,436,084**	**-**	**-**	**-**	**2,436,084**
Off-balance sheet net notional position	**650,000**	**(624,847)**	**-**	**-**	**25,153**

At 31 December 2003, the Bank had the following positions in currency

	KZT	**USD**	**Euro**	**Other currencies**	**Total**
Net balance sheet position	**1,267,109**	**1,090,204**	**72,306**	**(75,795)**	**2,353,824**
Credit related commitments	**1,425,091**	**1,062,580**	**-**	**41,905**	**2,529,576**
Off-balance sheet net notional position	**425,791**	**(410,911)**	**-**	**-**	**14,880**

The off-balance sheet net notional position represents notional currency positions on derivative financial instruments entered into during 2004.

(in thousands of Kazakhstani Tenge)

22 Financial Risk Management (Continued)

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Kazakhstani Tenge may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset and Liability Committee of the Bank.

The table below shows assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The liquidity position of the Bank as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	3,143,524	-	-	-	-	3,143,524
Due from other banks	250,017	95,618	-	-	-	345,635
Loans and advances to customers	394,867	4,743,896	834,075	1,570,140	-	7,542,978
Investment securities available for sale	860,580	-	-	-	-	860,580
Other assets	32,074	31,184	15,786	-	84,941	163,985
Premises and equipment	-	-	-	-	119,323	119,323
Total assets	**4,681,062**	**4,870,698**	**849,861**	**1,570,140**	**204,264**	**12,176,025**
Liabilities						
Due to other banks	204,485	59,336	-	-	-	263,821
Customer accounts	6,950,593	50,291	1,095,301	628,939	-	8,725,124
Other borrowed funds	-	-	-	380,727	-	380,727
Other liabilities	29,817	3,913	8,998	14,997	-	57,725
Total liabilities	**7,184,895**	**113,540**	**1,104,299**	**1,024,663**	**-**	**9,427,397**
Net liquidity gap	**(2,503,833)**	**4,757,158**	**(254,438)**	**545,477**	**204,264**	**2,748,628**
Cumulative liquidity gap as at 31 December 2004	**(2,503,833)**	**2,253,325**	**1,998,887**	**2,544,364**	**2,748,628**	
Cumulative liquidity gap as at 31 December 2003	**(1,576,532)**	**1,092,909**	**1,071,710**	**2,219,491**	**2,353,824**	

22 Financial Risk Management (Continued)

Overdue liabilities are classified within the "demand and less than 1 month" column. Overdue assets are fully provided against, and thus, have no impact on the above table.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank. However, in accordance with Kazakhstani Civil Code, individuals have a right to withdraw their deposits prior to maturity.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

(in thousands of Kazakhstani Tenge)

22 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	3,143,524	-	-	-	-	3,143,524
Due from other banks	250,017	95,618	-	-	-	345,635
Loans and advances to customers	394,867	4,743,896	834,075	1,570,140	-	7,542,978
Investment securities available for sale	860,580	-	-	-	-	860,580
Other assets	32,074	31,184	15,786	-	84,941	163,985
Premises and equipment	-	-	-	-	119,323	119,323
Total assets	**4,681,062**	**4,870,698**	**849,861**	**1,570,140**	**204,264**	**12,176,025**
Liabilities						
Due to other banks	204,485	59,336	-	-	-	263,821
Customer accounts	6,950,593	50,291	1,095,301	628,939	-	8,725,124
Other borrowed funds	-	-	-	380,727	-	380,727
Other liabilities	29,817	3,913	8,998	14,997	-	57,725
Total liabilities	**7,184,895**	**113,540**	**1,104,299**	**1,024,663**	**-**	**9,427,397**
Net sensitivity gap	**(2,503,833)**	**4,757,158**	**(254,438)**	**545,477**	**204,264**	**2,748,628**
Cumulative sensitivity gap as at 31 December 2004	**(2,503,833)**	**2,253,325**	**1,998,887**	**2,544,364**	**2,748,628**	
Cumulative sensitivity gap as at 31 December 2003	**(1,576,532)**	**1,092,909**	**1,071,710**	**2,219,491**	**2,353,824**	

(in thousands of Kazakhstani Tenge)

22 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

	2004				2003			
	USD	**KZT**	**Euro**	**Other currencies**	**USD**	**KZT**	**Euro**	**Other currencies**
Assets								
Cash and cash equivalents	0.0	0.7	0.6	1.2	-	0.7	0.6	1.2
Due from other banks	2.4	2.9	2.4	7.9	3.5	5.4	13.8	5.1
Loans and advances to customers	12.8	13.4	12.2	-	14.7	15.8	11.4	-
Investment securities available for sale	4.2	3.6	-	-	4.2	3.6	-	-
Liabilities								
Due to other banks	3.1	2.7	5.2	-	7.8	13.6	-	8.3
Customer accounts								
- current and settlement accounts	0.1	0.3	0.3	-	2.2	2.3	-	-
- term deposits of individuals	6.8	6.2	6.8	2.6	7.8	12.5	4.9	-
- term deposits of legal entities	4.0	2.4	-	-	8.2	10.4	-	-
Other borrowed funds	6.0	-	-	-	6.0	-	-	-

The sign “-“ in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

23 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Due to the presence in Kazakhstani commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management’s judgement of the Bank’s business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for five years.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

(in thousands of Kazakhstani Tenge)

23 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivative instruments unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they considered to be "regular way" transactions. Outstanding credit related commitments are as follows:

	Note	2004	2003
Undrawn credit lines		2,005,851	1,871,629
Export letters of credit	12	77,633	27,914
Import letters of credit	12	67,979	68,380
Guarantees issued		287,612	589,567
Less: Provision for losses on credit related commitments	14	(2,991)	(361)
Total credit related commitments		**2,436,084**	**2,557,129**

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Movements in the provision for losses on credit related commitments are as follows:

	Note	2004	2003
Provision for losses on credit related commitments as at 1 January		**(361)**	**-**
Provision for losses on credit related commitments during the period	21	(2,630)	(361)
Provision for losses on credit related commitments as at 31 December	**14**	**(2,991)**	**(361)**

Derivative financial instruments. Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004. These contracts were entered into in July and September 2004 and are short term in nature.

(in thousands of Kazakhstani Tenge)

23 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic counterparties			**Foreign counterparties**		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	650,000	-	25,153	-	-	-
Total	**650,000**	**-**	**25,153**	**-**	**-**	**-**

During 2004 the Bank has recorded a net gain on these deals of Tenge 127,528 thousand, which is included within, gains less losses arising from trading in foreign currency.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2003. These contracts were entered into in 31 December 2003 and are short term in nature.

	Domestic			**Foreign**		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	360,550	-	14,915	-	-	-
Spot						
Foreign currency						
- sale of foreign currency	-	-	-	76,450	35	-
Total	**360,550**	**-**	**14,915**	**76,450**	**35**	**-**

During 2003 the Bank has recorded a net gain on these deals of Tenge 91,330 thousand, which is included within, gains less losses arising from trading in foreign currency.

Assets pledged and restricted. As at 31 December 2004 the Bank has the following assets pledges as collateral:

	2004		**2003**	
	Asset pledged	**Related liability**	**Asset pledged**	**Related liability**
Investment securities available for sale	-	-	100,000	100,000
Total	**-**	**-**	**100,000**	**100,000**

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents and investment securities available for sale are carried on the balance sheet at their fair value.

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 6 and 7 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 11, 12 and 13 for the estimated fair values of due to other banks, customer accounts and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 23.

(in thousands of Kazakhstani Tenge)

25 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with shareholder, directors, associates and companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans and deposit taking. These transactions are priced predominantly at market rates. The outstanding balances at the year end and income and expense items for the year with related parties are as follows:

	2004		**2003**	
	Share-holder	**Members of the Board**	**Share-holder**	**Members of the Board**
Correspondent accounts and overnight placements with other banks as at the year end	**128,450**	**-**	**69,801**	**-**
Due from other banks				
Term placements as at the year end contractual interest rate: 2004: 8.5-9.25%; 2003: 6.75 %)	95,636	-	49,300	-
Interest income for the year (based on contractual rates)	7,277	-	3,504	-
Loans and advances to customers				
Loans and advances as at the year end (contractual interest rate: 2004: 11-16%; 2003: 11-16%)	-	23,404	-	5,600
Provision for impairment of loans and advance to customers as at the year end	-	(91)	-	-
Interest income for the year (based on contractual rates)	-	595	-	620
Other assets				
Debtors on guarantees	7,750	-	-	
Due to other banks				
Correspondent accounts and overnight placements of other banks as at the year end	7,641	-	1,701	-
Subordinated debt (contractual interest rate: 2004: 0.12-4.78%; 2003: 0.12-4.78%, effective interest rate: 2004 and 2003: 6%)	380,727	-	386,019	-
Interest expense for the year (based on effective rates used for amortisation)	50,679	-	16,426	-
Customer accounts				
Current/settlement accounts as at the year end	-	7,219	-	7,536
Term deposits outstanding as at the year end (contractual interest rate: 2004: 6.5-10%; 2003: 5-13%)	-	37,555	-	48,214
Interest expense for the year (based on contractual rates)		1,350	-	4,197

In 2004 the total remuneration of members of the Board, including social tax, and discretionary compensation amounted to Tenge 59,310 thousand (2003: Tenge 56,849 thousand).