Альфа·Банк

JSC SB ALFA BANK

Financial Statements and Auditors' Report

31 December 2005

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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 2005, and the related statements of income, cash flows and 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 of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Almaty, Kazakhstan
27 March 2006

In thousands of Kazakhstani Tenge	Note	31 December 2005	31 December 2004
ASSETS			
Cash and cash equivalents	6	5,144,894	3,143,524
Due from other banks	7	834,812	345,635
Loans and advances to customers	8	8,975,303	7,542,978
Investment securities available for sale	9	829,203	860,580
Intangible assets	10	49,199	34,714
Premises and equipment	10	555,410	119,323
Other assets	11	121,141	129,271
TOTAL ASSETS		**16,509,962**	**12,176,025**
LIABILITIES			
Due to other banks	12	49,210	263,821
Customer accounts	13	12,015,800	8,725,124
Other borrowed funds	14	409,118	380,727
Provision for liabilities and charges and other liabilities	15	93,699	57,725
TOTAL LIABILITIES		**12,567,827**	**9,427,397**
SHAREHOLDERS' EQUITY			
Share capital	16	1,000,000	1,000,000
Share premium	16	22,185	22,185
Retained earnings		2,309,889	1,557,618
Statutory reserve fund	16	150,000	150,000
Other reserves	17	460,061	18,825
TOTAL SHAREHOLDERS' EQUITY		**3,942,135**	**2,748,628**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**16,509,962**	**12,176,025**

Approved for issue and signed on behalf of the Board of Directors on 27 March 2006.

Artishko A.I.
Chairman

Suleimanova G.A.
Chief Accountant

in thousands of Kazakhstani Tenge	**Note**	**2005**	**2004**
Interest income	18	1,228,606	1,136,161
Interest expense	18	(165,784)	(186,812)
Net interest income		**1,062,822**	**949,349**
Provision for loan impairment	8	(182,975)	(338,777)
Net interest income after provision for loan impairment		**879,847**	**610,572**
Gains less losses from investment securities available for sale		800	1,107
Gains less losses from trading in foreign currency		186,049	127,528
Foreign exchange translation gains less losses		73,830	(136,288)
Fee and commission income	19	660,286	533,015
Fee and commission expense	19	(71,503)	(53,944)
Provision for losses on credit related commitments	15	(8,184)	(2,630)
Other operating income		33,154	62,583
Operating income		1,754,279	1,141,943
Administrative and other operating expenses	20	(647,783)	(576,327)
Profit before tax		1,106,496	565,616
Income tax expense	21	(354,225)	(151,783)
Profit for the year		**752,271**	**413,833**

In thousands of Kazakhstani Tenge	Note	Share capital	Share premium	Statutory reserve fund	Other reserves	Retained earnings	Total shareholders' equity
Previously reported balance at 1 January 2004		**1,000,000**	**22,185**	**150,000**	**-**	**1,181,639**	**2,353,824**
Revaluation reserve for available for sale investments		-	-	-	37,854	(37,854)	-
Adjusted at 1 January 2004		**1,000,000**	**22,185**	**150,000**	**37,854**	**1,143,785**	**2,353,824**
Available for sale investments:							
- Fair value gains less losses	9	-	-	-	(18,721)	-	(18,721)
- Disposals	9	-	-	-	(308)	-	(308)
Net income recognised directly in equity		-	-	-	(19,029)	-	(19,029)
Profit for the year		-	-	-	-	413,833	413,833
Total recognised income for 2004		-	-	-	(19,029)	413,833	394,804
Balance at 31 December 2004		**1,000,000**	**22,185**	**150,000**	**18,825**	**1,557,618**	**2,748,628**
Adjusted balance at 1 January 2005							
Available for sale investments:							
- Fair value gains less losses	9	-	-	-	(11,548)	-	(11,548)
- Disposals	9	-	-	-	(409)	-	(409)
Premises and equipment:							
- Revaluation	10		-	-	453,193	-	453,193
Net income recognised directly in equity		-	-	-	441,236	-	441,236
Profit for the year		-	-	-	-	752,271	752,271
Total recognised income for 2005		-	-	-	441,236	752,271	1,193,507
Balance at 31 December 2005		**1,000,000**	**22,185**	**150,000**	**460,061**	**2,309,889**	**3,942,135**

In thousands of Kazakhstani Tenge	Note	2005	2004
Cash flows from operating activities			
Interest received		1,155,639	1,206,103
Interest paid		(162,133)	(144,625)
Income received from trading in investment securities available for sale		800	1,107
Income received from trading in foreign currency		166,049	127,528
Fees and commissions received		660,393	533,010
Fees and commissions paid		(71,503)	(53,977)
Other operating income received		28,538	61,295
Administrative and other operating expenses paid		(563,514)	(505,590)
Income tax paid		(327,000)	(151,783)
Cash flows from operating activities before changes in operating assets and liabilities		**887,269**	**1,073,068**
Changes in operating assets and liabilities			
Net increase in due from other banks		(490,411)	(5,655)
Net increase in loans and advances to customers		(1,575,193)	(1,003,578)
Net decrease/(increase) in other assets		32,666	(13,903)
Net decrease in due to other banks		(212,988)	(330,278)
Net increase in customer accounts		3,285,766	2,602,723
Net decrease in provision for liabilities and charges and other liabilities		(36,682)	(54,548)
Net cash from operating activities		**1,890,427**	**2,267,829**
Cash flows from investing activities			
Acquisition of investment securities available for sale	9	(3,372,996)	(737,500)
Proceeds from redemption of investment securities available for sale	9	3,432,956	530,442
Acquisition of premises and equipment	10	(13,740)	(12,981)
Acquisition of intangible assets	10	(30,585)	(4,730)
Net cash from/(used in) investing activities		**15,635**	**(224,769)**
Effect of exchange rate changes on cash and cash equivalents		**95,308**	**(180,699)**
Net increase in cash and cash equivalents		**2,001,370**	**1,862,361**
Cash and cash equivalents at the beginning of the year		**3,143,524**	**1,281,163**
Cash and cash equivalents at the end of the year	6	**5,144,894**	**3,143,524**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for JSC SB Alfa Bank (the "Bank").

Principal activity. 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 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 two branches in Astana and Karaganda and two representative offices in Ekibastuz and Ust-Kamenogorsk. The average number of the Bank's employees during the year was 152 (2004: 171). The Bank provides general banking services to its clients, accepts deposits from legal entities and individuals, grants loans, performs broker/dealer services, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services for its commercial customers.

Registered address and place of business. The Bank's registered address is:

Almaty, Masanchi St., 57-A
Republic of Kazakhstan

Presentation currency. These financial statements are presented in thousands of Kazakhstani Tenge.

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, the Agency of the Republic of Kazakhstan for Regulation and Supervision of Financial Market and Financial Institutions (the "Agency") 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 resolution 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 and Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of premises and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortised cost as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flows models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Basis of Preparation and Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

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. Cash and cash equivalents are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Basis of Preparation and Significant Accounting Policies (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Investment securities available for sale. This classification includes investment securities which the Bank 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. The Bank classifies investments as available for sale at the time of purchase and reassesses that classification at each subsequent balance sheet date.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Derecognition of financial assets. The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, ie either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises have been revalued to market value at 31 December 2005. The revaluation was performed based on the reports of an independent appraiser, which holds a recognised and relevant professional qualification and which has recent experience in valuation of assets of similar location and category. The basis used for the appraisal was replacement cost for land and market value for premises.

3 Basis of Preparation and Significant Accounting Policies (Continued)

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. 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 asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	3-7%;
Office and Computer Equipment	7-25%; and
Other	8-12%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have a definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Bank is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term unless the Bank acts as a manufacturer or dealer lessor, in which case such costs are expensed as part of the selling profit similarly to outright sales. Finance income from leases is recorded within other operating income in the income statement.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds. Other borrowed funds include shareholder loans, which are carried at amortized cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, and forward rate agreements are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains less losses arising from trading in foreign currency depending on the related contracts. The Bank does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provisions for liabilities and charges and other liabilities. Provisions for liabilities and charges and other liabilities are non-financial liabilities of uncertain timing or amount. They are accrued 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Credit related commitments. In the normal course of business, the Bank enters into credit related commitments, including letters of credit and guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Premiums received for the financial guarantees are amortised on a straight line basis during the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

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

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The Bank's functional currency and presentation currency is the national currency of the Republic of Kazakhstan, Kazakhstani Tenge.

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 dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the KASE are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = Kazakhstani Tenge 133.77 (2004: USD 1 = Kazakhstani Tenge 130). Exchange restrictions and controls exist relating to converting Kazakhstani Tenge into other currencies. At present, the Kazakhstani Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Kazakhstan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Reclassification of comparative information. Certain prior year comparative information has been reclassified to conform to the current year's presentation.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of available for-sale equity investments. The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Tax legislation. Kazakhstani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 23.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered current intentions, profitability of operations and access to financial resources.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Bank now classifies as current all financial liabilities for which the Bank does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Bank estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Bank's policy is now not to cease depreciating assets during temporary periods when the assets are idle. The Bank now derecognises the carrying amount of a component of premises and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not have a significant effect on the carrying amount of the Bank's assets.

IAS 17 (revised 2003) Leases. Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans and receivables that are not quoted in an active market. The Bank amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited. The Bank no longer recognises gains and losses on available-for-sale financial assets in profit or loss but in equity.

The Bank amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Bank now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans and receivables which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Bank has not redesignated any financial instrument into 'at fair value through profit or loss' category at the date of initial application of the revised IAS 39.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Other new standards or interpretations. The Bank has also not early adopted amendments to IAS 19 (Actuarial Gains and Losses, Group Plans and Disclosures), IAS 21 (Net Investment in a Foreign Operation), IAS 39 (Cash Flow Hedge Accounting of Forecast Intragroup Transactions; Financial Guarantee Contracts), the new IFRIC interpretations 4 to 9 and the new standard IFRS 6 including related subsequent corrections to it and to IFRS 1. These changes to IFRSs are not expected to have a material effect on the Bank when they will be adopted on 1 January 2006 or later.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards and interpretations on the Bank's financial position at 31 December 2005 and 31 December 2004 and on the results of its operations for the years then ended was not significant.

6 Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	**2005**	**2004**
Cash on hand	268,521	229,315
Current balances with the NBRK	1,371,154	2,623,897
Correspondent accounts and overnight placements with other banks:		
- Republic of Kazakhstan	666,537	5,763
- Other countries	2,838,682	284,549
Total cash and cash equivalents	**5,144,894**	**3,143,524**

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 26.

7 Due from Other Banks

In thousands of Kazakhstani Tenge	**2005**	**2004**
Short-term placements with other banks	834,812	345,635
Total due from other banks	**834,812**	**345,635**

At 31 December 2005 the estimated fair value of due from other banks was Tenge 834,812 thousand (2004: Tenge 345,635 thousand). Refer to Note 25.

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 26.

8 Loans and Advances to Customers

In thousands of Kazakhstani Tenge	**2005**	**2004**
Current loans	10,152,954	8,537,697
Overdue loans	161	122
Less: Provision for loan impairment	(1,177,812)	(994,841)
Total loans and advances to customers	**8,975,303**	**7,542,978**

Movements in the provision for loan impairment are as follows:

In thousands of Kazakhstani Tenge	**2005**	**2004**
Provision for loan impairment at 1 January	**994,841**	**656,064**
Provision for loan impairment during the year	182,975	338,777
Loans and advances to customers written off during the year as uncollectible	(4)	-
Provision for loan impairment at 31 December	**1,177,812**	**994,841**

8 Loans and Advances to Customers (Continued)

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

	2005		2004	
In thousands of Kazakhstani Tenge	**Amount**	**%**	**Amount**	**%**
Wholesale trade	4,494,892	44	2,311,184	27
Construction	1,619,555	16	1,001,437	12
Financial services	1,171,446	12	1,361,778	16
Production	884,250	9	2,005,183	23
Publishing	524,438	5	693,033	8
Utility	444,644	4	336,135	4
Transport	360,092	4	70,400	1
Individuals	224,823	2	47,190	1
Services	-	-	688,979	8
Other	428,975	4	22,500	-
Total loans and advances to customers (before impairment)	**10,153,115**	**100**	**8,537,819**	**100**

Loans issued to ten borrowers in the amount of Tenge 5,576,689 thousand represent 55% of the total loan portfolio of the Bank as at 31 December 2005.

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.

At 31 December 2005 the estimated fair value of loans and advances to customers was Tenge 8,975,303 thousand (2004: Tenge 7,542,978 thousand). Refer to Note 25.

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 26.

9 Investment Securities Available for Sale

In thousands of Kazakhstani Tenge	**2005**	**2004**
Bonds of MFRK (Eurobonds)	448,053	191,012
Notes of NBRK	381,150	669,568
Total investment securities available for sale	**829,203**	**860,580**

The movements in investment securities available for sale are as follows

In thousands of Kazakhstani Tenge	**Note**	**2005**	**2004**
Carrying amount at 1 January		**860,580**	**725,195**
Revaluation	17	(11,957)	(19,029)
Purchases		3,372,996	737,500
Disposals of current investment securities available for sale		(3,432,956)	(530,442)
Exchange differences relating to debt securities		6,549	(30,255)
Movement in accrued interest		33,991	(22,389)
Carrying amount at 31 December		**829,203**	**860,580**

9 Investment Securities Available for Sale (Continued)

Eurobonds are USD denominated government securities issued by the Ministry of Finance of Republic of Kazakhstan. Eurobonds are issued at a premium to face value, have maturity date on 5 November 2007, coupon rate of approximately 11.125 percent in 2005 and yield to maturity of 4.95 percent as at 31 December 2005 (2004: 3.78 percent).

The Notes of the National Bank of the Republic of Kazakhstan are short-term discount notes redeemable at par value of Tenge 100 within 30 days from the issue date (2004: 180 and 360 days). The notes have matured in January 2006 (2004: from June to September 2005) and had a yield to maturity from 1.32 to 2.32 percent (2004: 3.20 to 3.80 percent).

At 31 December 2005 the estimated fair value of investment securities available for sale was Tenge 829,203 thousand (2004: Tenge 860,580 thousand). Refer to Note 25.

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

10 Premises, Equipment and Intangible Assets

In thousands of Kazakhstani Tenge	Note	Premises	Office and computer equipment	Other assets	Intangible assets	Total
Cost at 1 January 2004		64,873	62,077	103,658	59,654	290,262
Accumulated depreciation		(19,435)	(34,551)	(42,834)	(17,136)	(113,956)
Carrying amount at 1 January 2004		**45,438**	**27,526**	**60,824**	**42,518**	**176,306**
Additions		-	3,463	9,518	4,730	17,711
Disposals		-	(21)	(1,010)	-	(1,031)
Depreciation charge	20	(2,016)	(12,641)	(11,758)	(12,534)	(38,949)
Carrying amount at 31 December 2004		**43,422**	**18,327**	**57,574**	**34,714**	**154,037**
Cost at 31 December 2004		64,873	64,010	109,042	63,917	301,842
Accumulated depreciation		(21,451)	(45,683)	(51,468)	(29,203)	(147,805)
Carrying amount at 31 December 2004		**43,422**	**18,327**	**57,574**	**34,714**	**154,037**
Additions		-	3,068	10,672	30,585	44,325
Disposals		-	(132)	(3,970)	-	(4,102)
Depreciation charge	20	(2,015)	(10,101)	(14,628)	(16,100)	(42,844)
Revaluation	17	453,193	-	-	-	453,193
Carrying amount at 31 December 2005		**494,600**	**11,162**	**49,648**	**49,199**	**604,609**
Cost/ Valuation at 31 December 2005		787,088	60,346	109,359	94,036	1,050,829
Accumulated depreciation		(292,488)	(49,184)	(59,711)	(44,837)	(446,220)
Carrying amount at 31 December 2005		**494,600**	**11,162**	**49,648**	**49,199**	**604,609**

Premises were independently valued at 31 December 2005. The valuation was carried out by an independent licensed valuator. The basis used for the appraisal of land was replacement cost, and market value for the appraisal of premises.

10 Premises, Equipment and Intangible Assets (Continued)

Included in the above carrying amount is Tenge 453,193 thousand representing the revaluation surplus relating to premises of the Bank. At 31 December 2005 the carrying amount of premises would have been Tenge 41,407 thousand had the assets been carried at cost less depreciation.

11 Other Assets

In thousands of Kazakhstani Tenge	Note	2005	2004
Unrealized gain from derivative transactions	24	45,153	25,153
Prepaid taxes		23,243	33,070
Debtors on guarantees		13,398	20,750
Debtors on capital expenditures		13,334	19,597
Investments		10,200	10,200
Other		15,907	20,519
Less: Provision for impairment		(94)	(18)
Total other assets		**121,141**	**129,271**

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

In thousands of Kazakhstani Tenge	2005	2004
Provision for impairment of other assets at 1 January	**18**	**-**
Provision for impairment of other assets during the year	76	18
Provision for impairment of other assets at 31 December	**94**	**18**

Geographical, currency and maturity analyses of other assets are disclosed in Note 22. The information on related party balances is disclosed in Note 26.

12 Due to Other Banks

In thousands of Kazakhstani Tenge	2005	2004
Short-term placements of other banks	42,739	256,058
Correspondent accounts and overnight placements of other banks	6,471	7,763
Total due to other banks	**49,210**	**263,821**

At 31 December 2005 the estimated fair value of due to other banks was Tenge 49,210 thousand (2004: Tenge 263,821 thousand).

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 26.

13 Customer Accounts

In thousands of Kazakhstani Tenge	2005	2004
State and public organisations		
- Current/settlement accounts	1,720,350	91,245
- Term deposits	2,500	9,003
Other legal entities		
- Current/settlement accounts	6,008,033	5,176,827
- Term deposits	780,724	991,331
Individuals		
- Current/demand accounts	1,832,554	1,136,184
- Term deposits	1,671,639	1,320,534
Total customer accounts	**12,015,800**	**8,725,124**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2005		2004	
In thousands of Kazakhstani Tenge	Amount	%	Amount	%
Individuals	3,504,193	29	2,456,718	28
Wholesale trade	2,302,371	19	1,477,649	17
Government bodies	1,643,563	14	91,887	1
Energy production	1,232,609	10	1,186,568	14
Services	965,412	8	1,313,053	15
Construction	559,371	5	741,893	9
Metal production	472,003	4	335,466	4
Food production	281,784	2	114,521	1
Oil and gas	129,126	1	47,216	1
Transport	112,912	1	216,338	2
Retail trade	73,468	1	112,673	1
Other	738,988	6	631,142	7
Total customer accounts	**12,015,800**	**100**	**8,725,124**	**100**

At 31 December 2005 the Bank had 45 customers (2004: 34 customers) with balances above Tenge 30,000 thousand. The aggregate balance of these customers was Tenge 4,577,900 thousand (2004: Tenge 3,571,821 thousand) or 38% (2004: 41%) of total customer accounts.

At 31 December 2005 included in customer accounts are deposits of Tenge 1,836,512 thousand (2004: Tenge 67,979 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 23.

At 31 December 2005 the estimated fair value of customer accounts was Tenge 12,015,800 thousand (2004: Tenge 8,725,124 thousand).

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 26.

14 Other Borrowed Funds

In thousands of Kazakhstani Tenge	2005	2004
Subordinated debt	409,118	380,727
Total other borrowed funds	**409,118**	**380,727**

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.

At 31 December 2005 the estimated fair value of other borrowed funds was Tenge 409,118 thousand (2004: Tenge 380,727 thousand).

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 26.

15 Provision for Liabilities and Charges and Other Liabilities

Provision for liabilities and charges and other liabilities comprise the following:

In thousands of Kazakhstani Tenge	2005	2004
Current income tax liability	27,225	-
Trade payables	18,070	11,115
Taxes other than on income payable	16,621	23,995
Provision for losses on credit related commitments	11,175	2,991
Accrued employee benefit costs	7,899	6,705
Other accrued liabilities	12,709	12,919
Total provision for liabilities and charges and other liabilities	**93,699**	**57,725**

15 Provision for Liabilities and Charges and Other Liabilities (Continued)

Movements in provision for liabilities and charges and other liabilities are as follows:

In thousands of Kazakhstani Tenge	**Credit related commitments**
Carrying amount at 1 January 2004	**361**
Additions charged to profit or loss	2,630
Carrying amount at 31 December 2004	**2,991**
Additions charged to profit or loss	8,184
Carrying amount at 31 December 2005	**11,175**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 22. The information on related party balances is disclosed in Note 26.

16 Share Capital, Share Premium and Statutory Reserve Fund

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 authorized, issued and outstanding share capital comprises 100,000,000 ordinary shares (2004: 100,000,000). All shares have a par value of Kazakhstani Tenge 10, which results in a total authorized issued and outstanding share capital of Kazakhstani Tenge 1,000,000,000.

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.

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.

17 Other Reserves

In thousands of Kazakhstani Tenge	Revaluation reserve for Available for sale securities	Revaluation reserve for Premises and equipment	Total reserves
At 1 January 2004	**37,854**	**-**	**37,854**
Revaluation	(18,721)	-	(18,721)
Realised revaluation reserve	(308)	-	(308)
At 31 December 2004	**18,825**	**-**	**18,825**
Revaluation	(11,548)	453,193	441,645
Realised revaluation reserve	(409)	-	(409)
At 31 December 2005	**6,868**	**453,193**	**460,061**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale of the securities. Revaluation reserve for premises and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

18 Interest Income and Expense

In thousands of Kazakhstani Tenge	2005	2004
Interest income		
Loans and advances to customers	1,115,725	1,044,203
Due from other banks	41,896	45,475
Correspondent accounts with other banks	37,600	3,260
Investment securities available for sale	33,385	43,223
Total interest income	**1,228,606**	**1,136,161**
Interest expense		
Term deposits of individuals	109,155	83,711
Other borrowed funds	20,694	50,679
Current/settlement accounts	20,669	13,391
Term deposits of legal entities	10,486	23,962
Term placements of other banks	4,252	14,741
Other	528	328
Total interest expense	**165,784**	**186,812**
Net interest income	**1,062,822**	**949,349**

The information on related party transactions is disclosed in Note 26.

19 Fee and Commission Income and Expense

In thousands of Kazakhstani Tenge	2005	2004
Fee and commission income		
- Settlement transactions	267,223	230,160
- Cash transactions	206,140	176,667
- Purchase and sale of foreign currency	137,411	86,948
- Guarantees issued	17,451	19,538
- Other	32,061	19,702
Total fee and commission income	**660,286**	**533,015**

In thousands of Kazakhstani Tenge	2005	2004
Fee and commission expense		
- Cash transactions	46,027	29,470
- Settlement transactions	25,140	24,021
- Other	336	453
Total fee and commission expense	**71,503**	**53,944**
Net fee and commission income	**588,783**	**479,071**

20 Administrative and Other Operating Expenses

In thousands of Kazakhstani Tenge	Note	2005	2004
Staff costs		353,832	313,097
Communication expenses		36,139	29,196
Other expenses from banking activities		32,607	24,424
Depreciation of premises and equipment	10	26,744	26,415
Taxes other than on income		25,124	20,107
Security services		23,009	26,303
Repair and maintenance		16,860	9,504
Amortisation of software and other intangible assets	10	16,100	12,534
Cash collecting services		15,656	11,344
Transportation		10,535	9,595
Business trip expenses		8,405	8,030
Advertising and marketing services		6,896	6,110
Consulting		7,535	6,311
Administration expense		6,012	6,009
Rent		5,230	6,313
Representative expense		2,645	5,630
Other		54,454	55,405
Total administrative and other operating expenses		**647,783**	**576,327**

Included in staff costs are statutory social security contributions of Tenge 32,521 thousand (2004: Tenge 31,019 thousand).

21 Income Taxes

Income tax expense comprises the following:

In thousands of Kazakhstani Tenge	2005	2004
Current tax	354,225	151,783
Deferred tax	-	-
Income tax expense for the year	**354,225**	**151,783**

The income tax rate applicable to the majority of the Bank's income is 30% (2004: 30%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Kazakhstani Tenge	2005	2004
IFRS profit before tax	**1,106,496**	**565,616**
Theoretical tax charge at statutory rate (2005: 30%; 2004: 30%)	331,949	169,685
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(36,355)	(24,979)
- Non deductible expenses	8,282	5,840
- Other non temporary differences	(3,795)	(13,206)
- Non-deductible interest expense	4,349	13,308
- Non-deductible provision for impairment of other assets and credit related commitments	44,421	794
Unrecognised other potential deferred tax assets	5,374	341
Income tax expense for the year	**354,225**	**151,783**

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 30% (2004: 30%).

21 Income Taxes (Continued)

In thousands of Kazakhstani Tenge	31 Dec 2003	Charged/ (credited) to profit or loss	31 Dec 2004	Charged / (credited) profit or loss	31 Dec 2005
Tax effect of deductible temporary differences					
Premises and equipment	-	3,638	3,638	2,515	6,153
Accruals	6,740	(4,894)	1,846	(762)	1,084
Gross deferred tax asset	**6,740**	**(1,256)**	**5,484**	**1,753**	**7,237**
Less unrecognized deferred tax asset	**(1,522)**	**(341)**	**(1,863)**	**(5,374)**	**(7,237)**
Recognised deferred tax asset	**5,218**	**(1,597)**	**3,621**	**(3,621)**	**-**
Tax effect of taxable temporary differences					
Premises and equipment	(5,218)	5,218	-	-	-
Accruals	-	(3,621)	(3,621)	3,621	-
Gross deferred tax liability	**(5,218)**	**1,597**	**(3,621)**	**3,621**	**-**
Recognised 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.

22 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is primarily 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 at 31 December 2005 is set out below:

In thousands of Kazakhstani Tenge	**Kazakhstan**	**OECD**	**Non OECD**	**Total**
Assets				
Cash and cash equivalents	2,306,212	1,708,365	1,130,317	5,144,894
Due from other banks	740,098	-	94,714	834,812
Loans and advances to customers	8,894,205	-	81,098	8,975,303
Investment securities available for sale	829,203	-	-	829,203
Intangible assets	49,199	-	-	49,199
Premises and equipment	555,410	-	-	555,410
Other assets	121,141	-	-	121,141
Total assets	**13,495,468**	**1,708,365**	**1,306,129**	**16,509,962**
Liabilities				
Due to other banks	122	42,739	6,349	49,210
Customer accounts	11,324,310	128,373	563,117	12,015,800
Other borrowed funds	-	-	409,118	409,118
Provision for liabilities and charges and other liabilities	93,427	-	272	93,699
Total liabilities	**11,417,859**	**171,112**	**978,856**	**12,567,827**
Net balance sheet position	**2,077,609**	**1,537,253**	**327,273**	**3,942,135**
Credit related commitments (Note 23)	**4,480,436**	**-**	**-**	**4,480,436**

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.

22 Financial Risk Management (Continued)

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

In thousands of Kazakhstani Tenge	Kazakhstan	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	2,853,212	47,719	242,593	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
Intangible assets	34,714	-	-	34,714
Premises and equipment	119,323	-	-	119,323
Other assets	108,521	13,000	7,750	129,271
Total assets	**11,769,345**	**60,719**	**345,961**	**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
Provision for liabilities and charges and other liabilities	57,311	-	414	57,725
Total liabilities	**8,745,384**	**114,651**	**567,362**	**9,427,397**
Net balance sheet position	**3,023,961**	**(53,932)**	**(221,401)**	**2,748,628**
Credit related commitments (Note 23)	**2,436,084**	**-**	**-**	**2,436,084**

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 at 31 December 2005:

In thousands of Kazakhstani Tenge	Tenge	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	1,498,433	1,870,737	79,304	1,696,420	5,144,894
Due from other banks	-	670,058	-	164,754	834,812
Loans and advances to customers	5,735,486	3,159,953	79,864	-	8,975,303
Investment securities available for sale	381,150	448,053	-	-	829,203
Intangible assets	49,199	-	-	-	49,199
Premises and equipment	555,410	-	-	-	555,410
Other assets	104,688	16,393	-	60	121,141
Total assets	**8,324,366**	**6,165,194**	**159,168**	**1,861,234**	**16,509,962**

In thousands of Kazakhstani Tenge	Tenge	USD	Euro	Other	Total
Liabilities					
Due to other banks	6,338	11	42,739	122	49,210
Customer accounts	6,363,582	3,721,730	80,359	1,850,129	12,015,800
Other borrowed funds	-	409,118	-	-	409,118
Provision for liabilities and charges and other liabilities	88,453	5,042	-	204	93,699
Total liabilities	**6,458,373**	**4,135,901**	**123,098**	**1,850,455**	**12,567,827**
Less fair value of currency derivatives	(45,153)	-	-	-	**(45,153)**
Net balance sheet position, excluding currency derivatives	**1,820,840**	**2,029,293**	**36,070**	**10,779**	**3,896,982**
Currency derivatives (Note 24)	**2,613,530**	**(2,568,377)**	**-**	**-**	**45,153**
Credit related commitments (Note 23)	**1,849,714**	**769,694**	**66,378**	**1,794,650**	**4,480,436**

22 Financial Risk Management (Continued)

At 31 December 2004, the Bank had the following positions in currencies:

In thousands of Kazakhstani Tenge	Tenge	USD	Euro	Other	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
Intangible assets	34,714	-	-	-	34,714
Premises and equipment	119,323	-	-	-	119,323
Other assets	99,887	21,399	165	7,820	129,271
Total assets	**8,026,414**	**3,523,752**	**366,224**	**259,635**	**12,176,025**

In thousands of Kazakhstani Tenge	Tenge	USD	Euro	Other	Total
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
Provision for liabilities and charges and 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**
Less fair value of currency derivatives	(25,153)	-	-	-	(25,153)
Net balance sheet position, excluding currency derivatives	**5,956,239**	**2,972,622**	**251,739**	**221,644**	**9,402,244**
Currency derivatives (Note 24)	**637,073**	**(611,920)**	**-**	**-**	**25,153**
Credit related commitments (Note 23)	**1,532,752**	**778,079**	**227**	**125,026**	**2,436,084**

22 Financial Risk Management (Continued)

The currency derivatives position in each column represents the fair value, at the balance sheet date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross as stated in Note 24. The net total represents fair value of the derivatives.

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/Liability Committee of the Bank.

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, 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.

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. Certain assets which do not have a contractual maturity date, for example available for sale equity securities and some non-current assets held for sale (or disposal groups), are assumed to mature on the expected date on which the assets will be realised.

22 Financial Risk Management (Continued)

The liquidity position of the Bank at 31 December 2005 is set out below.

In thousands of Kazakhstani Tenge	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Assets					
Cash and cash equivalents	5,135,020	9,874	-	-	5,144,894
Due from other banks	740,098	94,714	-	-	834,812
Loans and advances to customers	1,591,240	5,655,811	336,461	1,391,791	8,975,303
Investment securities available for sale	381,150	-	-	448,053	829,203
Intangible assets	-	-	-	49,199	49,199
Premises and equipment	-	-	-	555,410	555,410
Other assets	95,562	-	-	25,579	121,141
Total assets	**7,943,070**	**5,760,399**	**336,461**	**2,470,032**	**16,509,962**
Liabilities					
Due to other banks	6,471	42,739	-	-	49,210
Customer accounts	9,621,560	271,888	928,842	1,193,510	12,015,800
Other borrowed funds	-	-	-	409,118	409,118
Provision for liabilities and charges and other liabilities	93,699	-	-	-	93,699
Total liabilities	**9,721,730**	**314,627**	**928,842**	**1,602,628**	**12,567,827**
Net liquidity gap	**(1,778,660)**	**5,445,772**	**(592,381)**	**867,404**	**3,942,135**
Cumulative net liquidity gap at 31 December 2005	**(1,778,660)**	**3,667,112**	**3,074,731**	**3,942,135**	

22 Financial Risk Management (Continued)

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

In thousands of Kazakhstani Tenge	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**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
Intangible assets	-	-	-	34,714	34,714
Premises and equipment	-	-	-	119,323	119,323
Other assets	32,074	31,184	15,786	50,227	129,271
Total assets	**4,681,062**	**4,870,698**	**849,861**	**1,774,404**	**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
Provision for liabilities and charges and 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)**	**749,741**	**2,748,628**
Cumulative net liquidity gap at 31 December 2004	**(2,503,833)**	**2,253,325**	**1,998,887**	**2,748,628**	

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 customers 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 customer accounts provide a long-term and stable source of funding for the Bank.

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.

22 Financial Risk Management (Continued)

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 table below summarises the Bank's exposure to interest rate risks at 31 December 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In thousands of Kazakhstani Tenge	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
Assets						
Cash and cash equivalents	5,135,020	9,874	-	-	-	5,144,894
Due from other banks	740,098	94,714	-	-	-	834,812
Loans and advances to customers	1,591,240	5,655,811	336,461	1,391,791	-	8,975,303
Investment securities available for sale	381,150	-	-	448,053	-	829,203
Intangible assets	-	-	-	-	49,199	49,199
Premises and equipment	-	-	-	-	555,410	555,410
Other assets	95,562	-	-	25,579	-	121,141
Total assets	**7,943,070**	**5,760,399**	**336,461**	**1,865,423**	**604,609**	**16,509,962**

In thousands of Kazakhstani Tenge	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
Liabilities						
Due to other banks	6,471	42,739	-	-	-	49,210
Customer accounts	9,621,560	271,888	928,842	1,193,510	-	12,015,800
Other borrowed funds	-	-	-	409,118	-	409,118
Provision for liabilities and charges and other liabilities	93,699	-	-	-	-	93,699
Total liabilities	**9,721,730**	**314,627**	**928,842**	**1,602,628**	**-**	**12,567,827**
Net sensitivity gap	**(1,778,660)**	**5,445,772**	**(592,381)**	**262,795**	**604,609**	**3,942,135**
Cumulative net sensitivity gap at 31 December 2005	**(1,778,660)**	**3,667,112**	**3,074,731**	**3,337,526**	**3,942,135**	

22 Financial Risk Management (Continued)

The following table summarises the Bank's exposure to interest rate risks at 31 December 2004 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	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
Intangible assets	-	-	-	-	34,714	34,714
Premises and equipment	-	-	-	-	119,323	119,323
Other assets	32,074	31,184	15,786	-	50,227	129,271
Total assets	**4,681,062**	**4,870,698**	**849,861**	**1,570,140**	**204,264**	**12,176,025**

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
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
Provision for liabilities and charges and 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 net sensitivity gap at 31 December 2004	**(2,503,833)**	**2,253,325**	**1,998,887**	**2,544,364**	**2,748,628**	

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

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

22 Financial Risk Management (Continued)

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

	2005				2004			
In % p.a.	**USD**	**Tenge**	**Euro**	**Other**	**USD**	**Tenge**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0.8	0.0	0.0	0.5	0.0	0.7	0.6	1.2
Due from other banks	3.4	-	-	7.5	-	2.9	-	7.9
Loans and advances to customers	12.8	11.4	7.3	-	12.8	13.4	12.2	-
Investment securities available for sale	8.3	3.2	-	-	8.4	3.6	-	-

	2005				2004			
In % p.a.	**USD**	**Tenge**	**Euro**	**Other**	**USD**	**Tenge**	**Euro**	**Other**
Liabilities								
Due to other banks	4.2	0.7	4.2	0.0	3.1	2.7	5.2	-
Customer accounts								
- current and settlement accounts	0.1	0.4	0.0	0.0	0.1	0.3	0.3	-
- term deposits of individuals	6.5	8.5	6.5	3.6	6.8	6.2	6.8	2.6
- term deposits of legal entities	3.0	1.7	-	-	4.0	2.4	-	-
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 and Commitments

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 addressed additional taxes, penalties and interest, which can be significant. Three last tax years remain open to review by the tax authorities.

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.

23 Contingencies and Commitments (Continued)

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. Outstanding credit related commitments are as follows:

In thousands of Kazakhstani Tenge	Note	2005	2004
Undrawn credit lines		2,295,632	2,005,851
Import letters of credit	13	1,836,512	67,979
Guarantees issued		324,542	287,612
Export letters of credit		34,925	77,633
Less: Provision for losses on credit related commitments	15	(11,175)	(2,991)
Total credit related commitments		**4,480,436**	**2,436,084**

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.

24 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

		2005	2004
In thousands of Kazakhstani Tenge	Note	Net asset forwards	Net asset forwards
Foreign exchange forwards: fair values, at the balance sheet date, of	25		
- USD receivable on settlement (+)		408,298	-
- USD payable on settlement (-)		(2,976,675)	(611,920)
- Tenge receivable on settlement (+)		3,005,461	637,073
- Tenge payable on settlement (-)		(391,931)	-
Net fair value of foreign exchange forwards	**11**	**45,153**	**25,153**

In respect of derivatives the Bank has recorded a net gain of Tenge 186,049 thousand (2004: Tenge 127,528 thousand) within gains less losses arising from trading in foreign currency.

25 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 be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment securities available for sale and financial derivatives are carried on the balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices.

Loans and receivables carried at amortised cost. 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 7 and 8 for the estimated fair values of due from other banks and loans and advances to customers, 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. Refer to Note 24.

26 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, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2005 and 31 December 2004, the outstanding balances with related parties were as follows:

	31 December 2005		**31 December 2004**	
In thousands of Kazakhstani Tenge	**Share-holder**	**Members of the Board**	**Share-holder**	**Members of the Board**
Due from other banks (contractual interest rate: 2005: 5.25-7.25%; 2004: 8.5-9.25%)	359,879	-	224,086	-
Gross amount of loans and advances to customers (contractual interest rate: 2005: 11-14%; 2004: 11-16%)	-	32,084	-	3,305
Debtors on guarantees	-	-	7,750	-
Due to other banks	6,349	-	7,641	-
Customer accounts (contractual interest rate:2005: 3.5-9%; 2004: 6.5-10%)	-	10,379	-	44,774
Other borrowed funds (contractual interest rate: 2005 and 2004: 0.12-4.78%)	409,118	-	380,727	-

26 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2005 and 2004 were as follows:

In thousands of Kazakhstani Tenge	2005 Share-holder	2005 Members of the Board	2004 Share-holder	2004 Members of the Board
Interest income	11,370	1,948	7,277	595
Interest expense	20,694	392	50,679	1,350
Provision for receivables	-	(1,589)	-	(91)

At 31 December 2005 and 31 December 2004, other rights and obligations with related parties were as follows:

In thousands of Kazakhstani Tenge	31 December 2005 Share-holder	31 December 2005 Members of the Board	31 December 2004 Share-holder	31 December 2004 Members of the Board
Guarantees received by the Bank at the year end	-	83,398	-	33,694
Other contingent obligations	-	3,513	-	2,205

Aggregate amounts lent to and repaid by related parties during 2005 and 2004 were:

In thousands of Kazakhstani Tenge	2005 Share-holder	2005 Members of the Board	2004 Share-holder	2004 Members of the Board
Amounts lent to related parties during the period	-	47,243	-	17,408
Amounts repaid by related parties during the period	-	18,685	-	18,322

The Bank's policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

In 2005, the remuneration of members of the Board of Directors comprised salaries, discretionary bonuses and other short-term benefits totalling to Tenge 78,824 thousand (2004: Tenge 59,310 thousand).