

ATF Bank

Consolidated Financial Statements

Year ended December 31, 2005

Together with Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of ATF Bank and Subsidiaries –

We have audited the accompanying consolidated balance sheet of ATF Bank and Subsidiaries (together the “Group”) at December 31, 2005, and the related consolidated statements of income, changes in shareholders’ equity and cash flows for the year then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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.

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

March 24, 2006

Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEET**As at December 31, 2005***(Thousands of Kazakh Tenge)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Assets			
Cash and cash equivalents	4	33,049,949	14,047,880
Obligatory reserves	5	4,264,255	2,389,710
Amounts due from credit institutions	6	3,391,378	3,511,038
Financial assets at fair value through profit or loss	7	26,379,619	8,650,301
Investment securities:			
- available-for-sale	8	33,015,441	707,475
- held-to-maturity	8	—	26,008,120
Commercial loans and advances	9,10	244,874,389	112,090,157
Premises and equipment	11	5,240,414	3,316,174
Insurance reserves, reinsurance share	12	3,537,255	156,257
Current tax assets		385,626	180,294
Deferred tax assets	13	—	514,982
Investments in associates	14	169,480	313,143
Other assets		4,761,137	2,016,365
Total assets		359,068,943	173,901,896
Liabilities			
Amounts due to the Government and the NBK	15	9,260,442	3,340,948
Amounts due to credit institutions	16	83,643,375	38,762,706
Amounts due to customers	17	116,681,855	68,746,828
Insurance reserves	12	4,217,523	515,510
Debt securities issued	18	98,429,845	43,307,137
Subordinated debt	19	17,779,474	259,695
Provisions	10	283,270	253,679
Other liabilities		1,228,607	535,404
Total liabilities		331,524,391	155,721,907
Shareholders' equity:			
Share capital:			
- common shares	20	16,600,000	12,870,761
- preferred shares	20	3,400,000	1,900,000
Additional paid-in capital		242,185	201,900
Reserves		684,921	465,325
Retained earnings		6,427,584	2,742,003
Attributable to shareholders of the parent		27,354,690	18,179,989
Minority interest		189,862	—
Total shareholders' equity		27,544,552	18,179,989
Total liabilities and shareholders' equity		359,068,943	173,901,896

Financial commitments and contingencies 21

Signed and authorized for release on behalf of the Board of Directors of the Bank

Timur Issatayev

Chairman of the Board

Aida Derevyanko

Chief Accountant

March 24, 2006

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME**For the year ended December 31, 2005***(Thousands of Kazakh Tenge)*

	<i>Notes</i>	<i>Years ended December 31, 2005</i>	<i>2004</i>
Interest income			
Loans		21,690,614	10,992,017
Securities		1,964,704	1,465,739
Credit institutions		766,093	185,902
		24,421,411	12,643,658
Interest expense			
Deposits		(5,146,252)	(2,794,551)
Borrowings		(2,756,301)	(1,437,454)
Debt securities issued		(7,318,762)	(1,513,328)
Subordinated debt		(916,031)	(62,585)
		(16,137,346)	(5,807,918)
Net interest income		8,284,065	6,835,740
Impairment of interest earning assets	10	(2,101,002)	(2,894,106)
		6,183,063	3,941,634
Fee and commission income	22	3,190,309	2,349,227
Fee and commission expense	22	(463,393)	(428,114)
Fees and commissions		2,726,916	1,921,113
Gains less losses from financial assets at fair value through profit or loss		61,470	455,832
Gains less losses from available-for-sale securities		5,040	15,460
Dealing gains less losses on precious metals		(7,579)	1,533
Gains less losses from foreign currencies:			
- dealing		1,239,560	780,724
- translation differences		(45,837)	(121,799)
Underwriting income	23	1,009,964	810,282
Share of income from associates	14	39,708	49,787
Other income		585,860	60,752
Non interest income		2,888,186	2,052,571
Salaries and benefits	24	(3,047,003)	(2,481,425)
Administrative and other operating expenses	24	(2,365,775)	(1,702,175)
Depreciation and amortization	11	(590,023)	(378,321)
Taxes other than income taxes		(402,720)	(311,180)
Other provisions	10	(134,482)	(82,961)
Insurance claims incurred	12	(430,863)	(332,520)
Non interest expense		(6,970,866)	(5,288,582)
Income before income tax expense		4,827,299	2,626,736
Income tax expense	13	(771,077)	(306,894)
Net income		4,056,222	2,319,842
Attributable to:			
Equity holders of the parent		4,045,552	2,319,842
Minority interest		10,670	—
Basic and diluted earnings per share, (Tenge)	25	235	194

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2005

(Thousands of Kazakh Tenge)

	<i>Attributable to shareholders of the parent</i>							<i>Minority Interest</i>	<i>Total shareholders' equity</i>
	<i>Share Capital-Common Shares</i>	<i>Share Capital-Preferred Shares</i>	<i>Additional paid-in capital</i>	<i>General Reserves</i>	<i>Retained earnings</i>	<i>Revaluation reserve of available-for-sale securities</i>	<i>Currency translation reserve</i>	<i>Total</i>	
At December 31, 2003	4,339,523	1,900,000	201,900	465,325	1,435,485	—	—	8,342,233	8,342,233
Net income	—	—	—	—	2,319,842	—	—	2,319,842	2,319,842
Total income	—	—	—	—	2,319,842	—	—	2,319,842	2,319,842
Dividends capitalized	588,078	—	—	—	(588,078)	—	—	—	—
Dividends paid	—	—	—	—	(106,246)	—	—	(106,246)	(106,246)
Dividends declared – preferred shares	—	—	—	—	(319,000)	—	—	(319,000)	(319,000)
Capital contributions	7,943,160	—	—	—	—	—	—	7,943,160	7,943,160
At December 31, 2004	12,870,761	1,900,000	201,900	465,325	2,742,003	—	—	18,179,989	18,179,989
Fair value change of available-for-sale securities, net of tax	—	—	—	—	—	(139,269)	—	(139,269)	1,117
Realised fair value change of available-for-sale securities	—	—	—	—	—	(5,040)	—	(5,040)	—
Exchange difference	—	—	—	—	—	—	3,934	3,934	1,388
Total income and expense recognised directly in equity	—	—	—	—	—	(144,309)	3,934	(140,375)	2,505
Net income	—	—	—	—	4,045,552	—	—	4,045,552	10,670
Total income	—	—	—	—	4,045,552	(144,309)	3,934	3,905,177	13,175
Transfers	—	—	—	359,971	(359,971)	—	—	—	—
Minority interest arising on acquisition of subsidiary	—	—	—	—	—	—	—	—	176,687
Capital contributions	3,729,239	1,500,000	40,285	—	—	—	—	5,269,524	—
At December 31, 2005	16,600,000	3,400,000	242,185	825,296	6,427,584	(144,309)	3,934	27,354,690	189,862

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended December 31, 2005***(Thousands of Kazakh Tenge)*

	<i>2005</i>	<i>2004</i>
Cash flows from operating activities:		
Net income before income tax expense and minority interest	4,827,299	2,626,736
Adjustments for:		
Depreciation and amortization	590,023	378,321
Income from associates	(39,708)	(49,787)
Impairment of interest earning assets	2,101,002	2,894,106
Other impairment and provision	134,482	82,961
Provision for claims, and change in unearned premium reserves	682,759	526,610
Loss on sale of premises and equipment	6,177	9,333
Unrealised foreign exchange loss	49,293	299,148
Unrealized gain on securities	97,944	(285,195)
Income from acquisition of subsidiary	(4,938)	–
Operating income before changes in net operating assets	8,444,333	6,482,233
(Increase) decrease in operating assets:		
Obligatory reserves	(1,874,545)	(614,577)
Financial assets at fair value through profit or loss	(17,698,416)	15,115,732
Commercial loans and advances	(129,123,278)	(60,072,156)
Due from other banks and financial institutions	573,177	(3,604,613)
Other assets	(1,993,625)	(913,208)
Increase (decrease) in operating liabilities:		
Amounts due to the Government and the NBK	5,796,669	(104,277)
Short-term borrowings received from credit institutions	43,055,567	3,022,214
Amounts due to customers	44,384,127	26,191,216
Claims paid net of reinsurance	(361,744)	(326,579)
Other liabilities	867,575	(14,337)
Net cash flow from operating activities before income tax	(47,930,160)	(14,838,352)
Income tax paid	(452,625)	(739,902)
Net cash flows from operating activities	(48,382,785)	(15,578,254)
Cash flows from investing activities:		
Net cash received on acquisition of subsidiaries	709,272	–
Net cash paid on acquisition of subsidiaries and associates	(300,859)	(212,540)
Purchases of premises and equipment	(2,245,635)	(1,374,922)
Proceeds from sale of premises and equipment	31,184	10,614
Purchases of intangible assets	(859,343)	(282,828)
Purchase of available-for-sale securities	(228,744,506)	(7,100,717)
Proceeds from sale of available-for-sale securities	217,250,143	6,275,169
Purchase of held-to-maturity securities	(12,081,688)	(47,139,565)
Proceeds from redemption of held-to-maturity securities	17,611,133	20,748,458
Net cash flows from investing activities	(8,630,299)	(29,076,331)

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**For the year ended December 31, 2005***(Thousands of Kazakh Tenge)*

	<i>Years ended December 31,</i>	
	<i>2005</i>	<i>2004</i>
Cash flows from financing activities:		
Subordinated debt received	17,511,564	–
Subordinated debt repaid	–	(1,199,871)
Debt securities issued	53,095,947	42,477,951
Capital contributions	5,269,524	7,943,160
Dividends paid (Note 20)	(198,000)	(410,246)
Long term borrowings received from credit institutions	–	4,680,683
Net cash flow from financing activities	75,679,035	53,491,677
Effects of exchange rates changes on cash and equivalents	336,118	(625,031)
Net change in cash and cash equivalents	19,002,069	8,212,061
Cash and cash equivalents at the beginning of year	14,047,880	5,835,819
Cash and cash equivalents at the end of year (Note 4)	33,049,949	14,047,880
Supplemental information:		
Interest received	21,804,662	11,971,787
Interest paid	12,728,151	4,438,669

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

(Thousands of Kazakh Tenge)

1. Principal Activities

ATF Bank and subsidiary (“the Group”) provide retail, corporate banking and insurance services in Kazakhstan. The parent company of the Group, ATF Bank (the “Bank”), is registered as an open joint stock company and incorporated and domiciled in the Republic of Kazakhstan.

The Bank operates under a general banking license issued on September 2, 2005 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Institutions, which also allows the Bank to conduct operations with precious metals and foreign currency operations. The Bank also possesses licenses for securities operations and custody services from the National Bank of the Republic of Kazakhstan granted on November 27, 2003.

The Bank accepts deposits from the public, extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank has three subsidiaries and one associate (Note 2). The Bank’s registered legal address is 100 Furmanov Avenue, Almaty, Republic of Kazakhstan.

The Bank has a primary listing on the Kazakhstani Stock Exchange and certain of its debt securities are listed on the Luxemburg Stock Exchange. At December 31, 2005 and 2004 the Group had thirty seven and thirty six branches located throughout Kazakhstan, respectively.

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Kazakhstani Tenge (“KZT”), except per share amount and unless otherwise indicated. The KZT is utilized as the functional currency as the shareholders, the managers and the regulators measure the Bank’s performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies. Financial statements of subsidiaries, domiciling out of Kazakhstan, have been translated to KZT with the translation effect recognized in the statement of changes in shareholders’ equity. KZT is the presentation currency of the Group.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets at fair value through profit or loss and available-for-sale securities.

Changes in Accounting Policies

The International Accounting Standards Board (“IASB”) has developed several new IFRSs and revised certain IASs. IFRS 3 “Business Combinations” replaced IAS 22 “Business Combinations” and SIC-9, SIC-22 and SIC-28. IFRS 3 ‘Business Combinations’ and IAS 36 “Impairment of Assets” (revised in 2004) were consistently applied for all acquisitions that took place on or after March 31, 2004.

From January 1, 2005, IFRS 2 ‘Share-based Payment’, IFRS 4 ‘Insurance Contracts’, IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’ as well as fifteen revised IASs are effective.

IFRS 3 “Business Combinations” and IAS 36 “Impairment of Assets” (revised in 2004)

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. Upon acquisition the Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority proportion of the net fair values of those items.

The goodwill acquired in a business combination is recognized as an asset and initially is measured at cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized in accordance with IFRS 3.

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

Changes in Accounting Policies (continued)

Goodwill relating to acquisitions from March 31, 2004 is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from March 31, 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Additionally, for business combinations for which the agreement date is before March 31, 2004, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing goodwill amortization and to test for impairment annually at the cash generating unit level from January 1, 2005 (unless an event occurs during the year, which requires the goodwill to be tested more frequently).

LAS 27 "Consolidated and Separate Financial Statements"

Minority interests in net assets of the Group's subsidiaries are presented within equity, separately from parent shareholders' equity. Securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

LAS 39 "Financial instruments: recognition and measurement"

Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity, through the statement of changes in equity.

The impact from the newly issued accounting guidance was not material for the Group.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 19 (amended 2004) "Employee Benefits";
 IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
 IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
 IFRS 6 "Exploration for and Evaluation of Mineral Resources";
 IFRS 7 "Financial Instruments: Disclosures";
 IFRIC 4 "Determining whether an Arrangement contains a Lease";
 IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds";
 IFRIC 6 "Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment";
 IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Holding %</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>December 31, 2005</i>	<i>December 31, 2004</i>				
ATF Policy	100.0%	100.0%	Kazakhstan	December 1999	Insurance	December 1999
Energobank OJSC	73.9%	—	Kyrgyzstan	August 1991	Bank	May-September 2005
Sibir Bank	100.0%	—	Russia	November 1992	Bank	November 2005

During 2004, the Bank acquired 34.4% of the share capital of Energobank OJSC, which had been accounted for under the equity method until April 30, 2005. On May 1, 2005, the Bank obtained control over the activities of Energobank OJSC by having a majority in the shareholders' council and appointing a new chairman to the Board followed by the decision to acquire an additional 18.1% of the Energobank's share capital by the end of July 2005. The Bank commenced consolidating Energobank OJSC within its financial statements starting from May 1, 2005. By the end of 2005, the Bank increased its holding in the share capital to 73.9% by additional contribution to the share capital of Energobank of KZT 135,378.

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

Consolidated Subsidiaries (continued)

As of the purchase dates, the Energobank's OJSC estimated fair value of the net assets as at May 1, 2005, comprised:

	<i>May 1, 2005</i>
Cash and cash equivalents	638,223
Amounts due from credit institutions	371,632
Available-for-sale securities	129,849
Loans to customers	1,663,097
Property and equipment and intangibles	195,490
Other assets	74,959
Amounts due to credit institutions	(154,680)
Amounts due to customers	(2,340,283)
Other liabilities	(45,850)
Net assets	532,437
Less minority interest	(349,066)
Share in net assets at the date of obtaining control/acquisition	(183,371)
Consideration paid	—
(Shortage)/ Excess of share in the net fair value / carrying value of the identifiable assets and liabilities over consideration paid	—

The Bank acquired 100% of the share capital of Sibirbank CJSC (Russia) on November 2, 2005.

As of the purchase date, the estimated fair value of the net assets of Sibirbank CJSC comprised:

	<i>November 2, 2005</i>
Cash and cash equivalents	71,049
Loans to customers	147,637
Property and equipment and intangibles	2,909
Other assets	35,609
Amounts due to customers	(181,256)
Other liabilities	(12,311)
Net assets	63,637
Purchase consideration paid in cash	(58,699)
Excess share in the net fair value of the identifiable assets and liabilities over consideration paid recognised in income statement	4,938

As of the purchase dates of both subsidiaries, the estimated fair values of their net assets approximated carrying values.

The Energobank's financial results from May 1, 2005, the date of acquisition, to December 31, 2005 were KZT 52,599 net income. The Sibirbank's financial results from November 2, 2005, the date of acquisition, to December 31, 2005 were net loss of KZT 964. Had the Bank consolidated in its financial statement of income results of Energobank and Sibirbank starting from January 1, 2005, the revenue and net income would be KZT 40,843,665 and KZT 4,771,148, respectively.

Associate accounted for under the equity method

The following associate is accounted for under the equity method and included into other assets:

Associates	<i>Holding, %</i>		<i>Country</i>	<i>Activities</i>	<i>Share in net income</i>	
	<i>December 31, 2005</i>	<i>December 31, 2004</i>			<i>2005</i>	<i>2004</i>
National Pension Fund						
Otan	24.3%	24.3%	Kazakhstan	Pension Fund	16,995	37,298
Energobank OJSC	—	34.4%	Kyrgyzstan	Bank	22,713	12,489

Share of income from associates in the consolidated statement of income for the period ended December 31, 2005, includes income from Energobank OJSC of KZT 22,713, which was accounted for under the equity method during the first four months of 2005.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share of the fair value of net assets is recorded as goodwill. If the cost of the acquisition is less than the Bank's share of the fair value of net assets of the subsidiary acquired the difference is recognized directly in the statement of income.

Minority interest represents the interest in Subsidiaries not held by the Group. The minority interest is presented in the consolidated balance sheet within shareholders' equity, separately from the parent shareholders' equity.

Increase in ownership interest in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Recognition of Financial Instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand, amounts due from NBK – excluding obligatory reserves, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory Reserves

Obligatory reserves represent mandatory reserve deposits and cash, which are not available to finance the Bank's daily operations and, are not considered as part of cash and cash equivalents for the purpose of consolidated cash flow statement.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Amounts Due from Credit Institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements and Securities Lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

Financial Assets at Fair Value through Profit or Loss

A new category of financial instruments has been introduced, “Financial assets at fair value through profit or loss”. This category includes trading financial assets acquired for the purpose of selling in the near term. These assets are measured at fair value with recognition of gains or losses on re-measurement to fair value in net profit or loss. The financial assets at fair value through profit or loss are initially recognized at fair value and subsequently re-measured at fair value based on their market value. In determining market value, all financial assets at fair value through profit or loss are valued at the last bid price. Directly attributable transaction costs are expensed when incurred.

Investment securities

The Group classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity. The Group does not classify any financial assets as held-to-maturity if the Group had, during the current financial year or during the preceding two financial years sold, transferred or exercised a put option on more than insignificant portion of held-to-maturity investments before their maturity; and
- Securities that are not classified by the Bank as held-to-maturity or financial assets at fair value through profit or loss are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Available-for-sale investment securities are subsequently re-measured at fair value, which is equal to the market value as at the balance sheet date.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

Since a significant amount of the held-to-maturity securities were sold during the reporting period, the Bank is prohibited to classify any securities as held-to-maturity until January 1, 2008 according to IFRS.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax authorities and of the cities in which the Group has affiliates, branches and subsidiaries.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The Republic of Kazakhstan also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component in the statement of income.

Investments in Associates

The Groups' investment in its associates is accounted for under the equity method of accounting. This is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group (generally investments of between 20% to 50% in a company's equity). The investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and constructions	25
Furniture, fixtures and equipment	8
Vehicles	7
Computers	5

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down. Impairment is recognized in the respective period and is included in administrative and operating expenses.

Costs related to repairs and renewals are charged when incurred and included in administrative and operating expenses, unless they qualify for capitalization.

Amounts Due to Government, NBK, Credit Institutions and to Customers

Amounts due to the Government, NBK, credit institutions and to customers are initially recorded in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. If the Group 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 recognized in the statement of income.

Debt Securities Issued

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

Provisions

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

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Retirement and Other Benefit Obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

Share capital, additional paid-in capital and treasury stock are recognized at the fair value of consideration received or paid. Purchases of treasury stock are recorded at nominal value with any premium or discount recorded in additional paid in capital. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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

Dividends on common shares are recognized as a reduction in shareholders' equity in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Contingencies

Contingent liabilities are not recognised in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the balance sheet but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at market exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies (translation differences).

Underwriting Income

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the accompanying consolidated balance sheets.

Losses and loss adjustments are charged to income as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within other expenses in the accompanying consolidated statement of income.

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

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Reserve for Insurance Losses and Loss Adjustment Expenses

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

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

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

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance assets are recorded gross unless a right of offset exists and are included in the accompanying consolidated balance sheets within other assets.

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

Segment reporting

The Group’s operations are highly integrated and primarily constitute a single industry segment, banking, that accounts for more than 95% of the Group’s business. Accordingly for the purposes of IAS No. 14 “Segment Reporting” the Group is treated as one business segment. The Group’s assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group’s revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Estimation uncertainty (continued)

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are made to the provision. General insurance claims provisions are not discounted for the time value of money.

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	<i>2005</i>	<i>2004</i>
Correspondent accounts with other banks	12,834,827	9,671,876
Correspondent account with the NBK	9,043,005	565,265
Cash on hand	7,271,337	3,310,114
Short-term deposits with other banks	3,900,780	—
Time deposits with the NBK	—	500,625
Cash and cash equivalents	33,049,949	14,047,880

Interest rates and maturity of the term deposits follow:

	<i>2005</i>		<i>2004</i>	
	%	Maturity	%	Maturity
Short-term deposits with other banks	7.0%	2006	—	—
Time deposits with the NBK	—	—	2.5%	2005

At December 31, 2005, the top ten counterparty banks accounted for 63.16% (2004: 74.3%) of total cash and cash equivalents and represented 75.8% (2004: 58.0%) of the Group's total shareholders' equity.

At December 31, 2005 top ten counterparty banks accounted for 95.4% (96.0% in 2004) of total correspondent accounts with other banks and represented 75.8% (51.0% in 2004) the Group's shareholders' equity.

(Thousands of Kazakh Tenge)

5. Obligatory Reserves

Obligatory reserves represent correspondent account with the NBK allocated as obligatory reserves of KZT 4,260,089 and KZT 2,389,710 at December 31, 2005 and 2004, respectively and correspondent account with the Central Bank of Russia KZT 4,166 (2004: nil).

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Such reserves must be held in either non-interest bearing deposits with NBK, gold or in physical cash and maintained based on average monthly balances of the aggregate of deposits with the NBK and physical cash. The use of such funds is, therefore, subject to certain restrictions.

6. Amounts Due from Credit Institutions

Amounts due from credit institutions at December 31 comprise:

	2005	2004
Time deposits	3,235,378	1,548,577
Loans to local credit institutions	156,000	783,389
Correspondent accounts with other banks	—	1,180,322
	3,391,378	3,512,288
Less – Allowance for impairment	—	(1,250)
Amounts due from credit institutions	3,391,378	3,511,038

At December 31, 2005, the annual interest rates earned by the Bank on time deposits ranged from 7.1% to 10.0% per annum. These deposits mature in 2006-2010.

7. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss consisted of the following:

	2005	2004
Notes of the NBK	13,181,205	601,289
Treasury bills of the Ministry of Finance	6,110,160	4,340,452
US Treasury bills	2,308,014	—
Euronotes of the Republic of Kazakhstan	2,226,444	3,125,184
Bonds of local financial organizations	1,413,021	499,400
Corporate bonds	466,888	83,976
Government securities of OECD based countries	673,887	—
Financial assets at fair value through profit or loss	26,379,619	8,650,301
Subject to repurchase agreements	10,004	3,989,005

Interest rates and maturity of financial assets at fair value through profit or loss follow:

	2005		2004	
	%	Maturity	%	Maturity
Notes of the NBK	3.0%-4.0%	2006	5.1%	2005
Treasury bills of the Ministry of Finance	3.5%-7.0%	2006-2013	4.0%-8.3%	2005-2013
US Treasury bills	5.4%	2031	—	—
Euronotes of the Republic of Kazakhstan	11.1%	2007	11.1%	2007
Bonds of local financial organizations	7.5%-15.0%	2006-2015	8.5%-12.0%	2006-2009
Corporate bonds	8.0%-10.4%	2006-2012	8.0%-13.0%	2005-2010
Government securities of OECD based countries	4.6%	2008	—	—

(Thousands of Kazakh Tenge)

8. Investment Securities

Available-for-sale securities at December 31 comprise:

	<i>2005</i>	<i>2004</i>
Government securities of OECD based countries	10,033,843	—
Treasury bills of the Ministry of Finance	9,855,912	—
Bonds of foreign financial institutions	5,438,745	—
Corporate bonds	3,691,141	—
US Treasury bills	2,154,342	707,475
Bonds of local financial institutions	1,453,202	—
Sovereign bonds of the Republic of Kyrgyzstan	260,154	—
Notes of the NBK	128,102	—
	33,015,441	707,475

Interest rates and maturities of these securities as follows:

	<i>2005</i>		<i>2004</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Government securities of OECD based countries	3.5%-4.2%	2007-2008	—	—
Treasury bills of the Ministry of Finance	4.1%-8.9%	2006-2010	—	—
Bonds of foreign financial institutions	3.5%-8.1%	2008-2014	—	—
Corporate bonds	7.0%-9.0%	2006-2014	—	—
US Treasury bills	3.5%-4.2%	2006-2011	5.37%	2031
Bonds of local financial institutions	5.0%-9.0%	2007-2013	—	—
Sovereign bonds of the Republic of Kyrgyzstan	5.1%-13.9%	2006	—	—
Notes of the NBK	1.8%-3.1%	2006	—	—

As of December 31, 2005 securities in the total amount of KZT 4,731,713 were pledged as collateral against interbank borrowings.

Held-to-maturity securities comprise:

	<i>2005</i>		<i>2004</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Notes of the NBK	—	—	21,674,595	22,020,830
Treasury bills of the Ministry of Finance	—	—	1,325,137	1,300,000
US Treasury bills	—	—	3,008,388	2,990,000
Held-to-maturity securities	—	—	26,008,120	26,310,830

Interest rates and maturities of these securities follow:

	<i>2005</i>		<i>2004</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Notes of the NBK	—	—	2.8%-5.1%	2005
Treasury bills of the Ministry of Finance	—	—	5.7%-6.4%	2006-2011
US Treasury bills	—	—	4.3%	2012-2014

(Thousands of Kazakh Tenge)

9. Commercial Loans and Advances

Commercial loans and advances consisted of the following at December 31:

	<i>2005</i>	<i>2004</i>
Commercial loans	251,385,322	117,016,420
Advances	1,137,874	577,135
	252,523,196	117,593,555
Less – Allowance for impairment	(7,648,807)	(5,503,398)
Commercial loans and advances	244,874,389	112,090,157

The Group's gross commercial loan portfolio is concentrated in the following main sectors at December 31:

	<i>2005</i>	<i>%</i>	<i>2004</i>	<i>%</i>
Wholesale trading:	46,855,912	18.6	21,565,067	18.3
-Working capital increase	34,516,206	13.7	17,855,641	15.2
-Purchase and sale of grain	4,750,804	1.9	1,756,685	1.5
-Purchase and sale of gasoline	4,046,702	1.6	1,730,482	1.5
-Agriculture	2,223,669	0.9	–	–
-Flour production and sale	1,318,531	0.5	222,259	0.2
Individuals	42,208,255	16.7	17,017,001	14.5
Services	32,186,042	12.7	4,648,118	4.0
Construction	29,328,396	11.6	10,570,038	9.0
Food industry	25,641,601	10.2	17,023,359	14.5
Agriculture	13,558,870	5.4	8,773,040	7.5
Retail trading	10,330,050	4.1	6,231,723	5.3
Hotel business	7,652,057	3.0	3,208,190	2.7
Transport	5,876,032	2.3	3,930,903	3.3
Textile industry	5,197,151	2.1	4,875,541	4.1
Real estate	3,637,970	1.4	1,211,382	1.0
Metallurgy	2,480,430	1.0	1,727,231	1.5
Mining	2,492,672	1.0	2,390,743	2.0
Oil and Gas	2,331,378	0.9	3,123,715	2.7
Chemical	1,694,110	0.7	776,564	0.7
Communications	723,044	0.3	1,866,056	1.6
Entertainment	639,559	0.3	264,287	0.2
Other	19,689,667	7.8	8,390,597	7.1
	252,523,196	100.0	117,593,555	100.0

At December 31, 2005, the largest ten borrowers accounted for 24.7% of the Group's gross commercial loans and advances (2004: 19.79%).

10. Allowance for Impairment and Provisions

The movements in the allowance for impairment were as follows:

	<i>Loans to customers</i>	<i>Due from Banks</i>	<i>Total</i>
December 31, 2003	(3,397,203)	–	(3,397,203)
Charge	(2,892,856)	(1,250)	(2,894,106)
Write-offs	1,141,021	–	1,141,021
Recoveries	(354,360)	–	(354,360)
December 31, 2004	(5,503,398)	(1,250)	(5,504,648)
(Charge)/Reversal	(2,102,252)	1,250	(2,101,002)
Write-offs	2,729,875	–	2,729,875
Recoveries	(2,640,115)	–	(2,640,115)
Translation effect	(132,917)	–	(132,917)
December 31, 2005	(7,648,807)	–	(7,648,807)

(Thousands of Kazakh Tenge)

10. Allowance for Impairment and Provisions (continued)

The movements in allowances for other provisions were as follows:

	<i>Other assets</i>	<i>Letters of credit and guarantees</i>	<i>Total</i>
December 31, 2003	(84,188)	(158,964)	(243,152)
Charge	11,754	(94,715)	(82,961)
Write-offs	4,916	—	4,916
Recoveries	(2,089)	—	(2,089)
December 31, 2004	(69,607)	(253,679)	(323,286)
Charge	(105,513)	(28,969)	(134,482)
Write-offs	12,758	—	12,758
Recoveries	(86)	(622)	(708)
December 31, 2005	(162,448)	(283,270)	(445,718)

11. Premises and Equipment

The movements on the Group's premises and equipment during the year were as follows:

<i>Initial Cost</i>	<i>Land and Buildings</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Other assets</i>	<i>CIP</i>	<i>Total</i>
At December 31, 2003	1,344,094	308,563	309,200	933,214	—	2,895,071
Additions	546,540	91,324	163,873	463,202	109,983	1,374,922
Disposal	(12,288)	(7,698)	(17,791)	(15,060)	—	(52,837)
At December 31, 2004	1,878,346	392,189	455,282	1,381,356	109,983	4,217,156
Acquisition of subsidiaries	130,434	9,325	22,854	35,785	—	198,398
Additions	1,176,036	241,641	173,522	654,227	209	2,245,635
Disposal	(24,624)	(17,028)	(25,214)	(39,186)	—	(106,052)
At December 31, 2005	3,160,192	626,127	626,444	2,032,182	110,192	6,555,137
Accumulated Depreciation						
At December 31, 2003	(115,352)	(81,614)	(159,030)	(259,384)	—	(615,380)
Charge	(58,957)	(47,958)	(85,348)	(126,228)	—	(318,491)
Disposals	1,978	4,072	15,729	11,110	—	32,889
At December 31, 2004	(172,331)	(125,500)	(228,649)	(374,502)	—	(900,982)
Charge	(82,982)	(75,617)	(122,125)	(201,708)	—	(482,432)
Disposals	3,775	15,218	21,173	28,525	—	68,691
At December 31, 2005	(251,538)	(185,899)	(329,601)	(547,685)	—	(1,314,723)
At December 31, 2005	2,908,654	440,228	296,843	1,484,497	110,192	5,240,414
At December 31, 2004	1,706,015	266,689	226,633	1,006,854	109,983	3,316,174

Depreciation and amortization in the consolidated statements of income also include amortization of intangible assets of KZT 107,591 and KZT 59,830 for 2005 and 2004, respectively.

12. Insurance Reserves

Insurance reserves comprised the following at December 31:

	<i>2005</i>	<i>2004</i>
Unearned premiums, reinsurance share	3,534,096	153,696
Reserves for claims, reinsurance share	3,159	2,561
	3,537,255	156,257
Gross unearned premiums	(4,122,331)	(490,035)
Reserves for claims	(95,192)	(25,475)
	(4,217,523)	(515,510)
Net insurance reserves	(680,268)	(359,253)

(Thousands of Kazakh Tenge)

12. Insurance Reserves (continued)

Reserves have been established on the basis of information currently available, including potential outstanding loss notifications, experience with similar claims and case law. The reserve for claims incurred but not reported is actuarially determined by lines of business and is based on statistical claims' data for the period typical for loss development of the classes and sub-classes of business, the Group's previous experience and availability of data. While the management consider that the gross reserve for claims and the related reinsurance recoveries are fairly stated on the basis of the information available to them, the ultimate liability may vary as a result of subsequent information and events and may result in adjustments to the amounts provided. Any adjustments to the amount of reserves will be reflected in the financial statements in the period in which the necessary adjustments become known and estimable.

The movements on claims reserves during 2005 were as follows:

	<i>2005</i>	<i>2004</i>
Reserves for claims, January 1	25,475	39,835
Reserves for claims, reinsure's share January 1	(2,561)	(22,862)
Net reserves for claims, January 1	22,914	16,973
Plus claims incurred	430,863	332,520
Less claims paid	(361,744)	(326,579)
Net reserves for claims, December 31	92,033	22,914

The movements on unearned premiums during 2005 were as follows:

	<i>2005</i>	<i>2004</i>
Gross unearned premiums reserves, January 1	490,035	309,210
Unearned premiums reserves, reinsurance share, January 1	(153,696)	(166,961)
Net unearned premiums reserves, January 1	336,339	142,249
Change in unearned premiums reserves	3,632,296	180,825
Change in unearned premiums reserves, reinsurance share	(3,380,400)	13,265
Change in unearned premiums reserves, net	251,896	194,090
	588,235	336,339

13. Income Taxes

The components of income tax expense were as follows for the years ended December 31:

	<i>2005</i>	<i>2004</i>
Current tax charge	256,095	1,016,822
Current tax of prior periods	—	(280,733)
Deferred tax charge (benefit)	514,982	(429,195)
Income tax expense	771,077	306,894

(Thousands of Kazakh Tenge)

13. Income Taxes (continued)

Reconciliation between the provision for income taxes in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the years ended December 31 is as follows:

	2005	2004
IFRS income before tax	4,827,299	2,626,736
Statutory income tax	30%	30%
Income tax computed at the statutory tax rate	1,448,190	788,020
Non deductible expenses:		
Non-deductible allowance	—	(167,500)
Interest on deposits	494,316	97,470
Non deductible business expenses	303,381	82,341
Other	21,838	63,349
Tax exempt income:		
Government securities	(389,256)	(409,598)
Income on long-term loans granted for modernization of property and equipment	(1,063,960)	(135,280)
Other	(60,657)	(37,518)
Income of subsidiaries taxed at different rate	17,225	25,610
Income tax expense	771,077	306,894

Deferred tax assets and liabilities comprised the following:

	2005	2004
Tax effect of deductible temporary differences:		
Provision for loan impairment	—	422,938
Written off assets and provisions for other losses	306,508	334,805
Deferred tax assets	306,508	757,743
Tax effect of deductible temporary differences:		
Fixed assets	(272,498)	(208,913)
Associates accounted for equity method	(34,010)	(23,242)
Other	—	(10,606)
Deferred tax liabilities	(306,508)	(242,761)
Deferred tax assets	—	514,982

Kazakhstan currently has a number of laws related to various taxes imposed by both republican and regional governmental authorities. Applicable taxes include value added tax, income tax, a number of turnover-based taxes, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

(Thousands of Kazakh Tenge)

14. Investments in Associates

At December 31, investments in associated companies comprised:

	<i>2005</i>	<i>2004</i>
Balance, beginning of the period	313,143	–
Purchase cost	–	263,356
Share of net income	39,708	49,787
Transfer due to acquisition and full consolidation	(183,371)	–
Investments in associates	169,480	313,143

For the complete list of associates please refer to Note 2.

The following is a summarized financial statements of subsidiaries as of December 31, 2005 and for the year then ended:

	<i>2005</i>	<i>2004</i>	
	<i>NPF Otan</i>	<i>NPF Otan</i>	<i>EnergoBank</i>
Cash and cash equivalents	25,833	37,854	305,916
Amounts due from credit institutions	–	–	770,284
Investment securities	376,486	333,306	164,452
Commissions receivable	38,202	16,581	–
Loans to customers	–	–	1,631,392
Due from credit institutions	45,181	55,232	–
Property and equipment and intangibles	16,932	14,386	193,680
Other assets	11,137	3,311	11,844
Amounts due to credit institutions	–	–	(218,774)
Amounts due to customers	–	–	(2,355,993)
Taxes payable	(2,708)	(5,065)	–
Other liabilities	(11,025)	(9,062)	(47,387)
Net assets	500,038	446,543	455,414

Statement of income for the years ended December 31, 2005 is presented below:

	<i>2005</i>	<i>2004</i>	
	<i>NPF Otan</i>	<i>NPF Otan</i>	<i>EnergoBank</i>
Interest income	–	–	295,695
Interest expense	–	–	(67,757)
Net interest income	–	–	227,938
Impairment of interest earning assets	–	–	(28,770)
Fee and commission, net	251,261	258,186	83,098
Administrative and other operating expenses	(153,203)	(90,000)	(224,228)
Income before income tax expense	98,058	168,186	58,038
Income tax expense	(28,120)	(14,696)	(21,733)
Net income	69,938	153,490	36,305

(Thousands of Kazakh Tenge)

15. Amounts due to the Government and the NBK

At December 31, amounts due to the Government of the Republic of Kazakhstan and NBK consisted of the following:

	2005	2004
EBRD	6,349,854	—
Time deposit from the NBK	2,059,333	2,028,667
Kreditanshtalt fur Wiederaufbau	678,806	906,549
Local municipal authorities	143,644	341,961
World Bank	28,805	63,771
Amounts due to the Government and the NBK	9,260,442	3,340,948

During 2005, the Bank received pass through loan from EBRD program. The Bank will be granting loans to the entities engaged in the export of producing goods. The credit line bears interest ranging from 5.0% to 7.4% and mature from 2006 to 2010. The Bank bears the credit risks related to the loans issued from the borrowings obtained from the EBRD.

At December 31, 2005, the Group had a KZT denominated time deposit from the NBK bearing interest at 6% (2004 – 6%) per annum and maturing on July 6, 2006 (2004 – July 6, 2005).

At December 31, 2005 and 2004, amounts due to the Government include a loan obtained under a program for co-financing development of small businesses within a framework agreement with Kreditanshtalt fur Wiederaufbau (Germany). The balance outstanding at December 31, 2005, amounted to Euro 4,269,491 (2004: Euro 5,118,853) and matures between 2005 and December 2009. The interest rate on this indebtedness is 5% per annum, payable semi-annually. The Bank bears the credit risks related to the loans issued from the borrowings obtained from Kreditanshtalt fur Wiederaufbau (Germany).

The Group participates in the small and medium size business development program funded by the local authorities of the Atyrau, Almaty and Karaganda regions. The loans mature between 2006 and 2007 and bear interest at rates up to 5.78% per annum.

At December 31, 2005 and 2004, the Group had a loan from the World Bank through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. The loan matures between 2005 and December 2007 and bears interest at 2.86% (2004 -2.05%) per annum. The Bank bears the credit risks related to the loans issued from the borrowings obtained from the World Bank.

16. Amounts due to Credit Institutions

Amounts due to credit institutions consisted of the following at December 31:

	2005	2004
Loans from foreign banks in USD	45,615,180	20,652,412
Time deposits from local banks	25,873,655	1,437,828
Loans from foreign banks in Euro	8,831,795	10,246,925
Loans from the Small Business Development Fund of Kazakhstan	1,968,489	1,393,014
Current accounts	1,316,521	1,329,573
Loans from foreign banks in Swedish Krona (SEK)	27,731	—
Repurchase agreements	10,004	3,702,954
Amounts due to credit institutions	83,643,375	38,762,706

The interest rates and maturities follow:

	2005		2004	
	%	Maturity	%	Maturity
Loans from foreign banks in USD	4.6%-8.8%	2006-2009	2.8%-6.1%	2005-2009
Time deposits from local banks				
-USD	4.25%-6.5%	2006	3.0%	2005
-KZT	0.5%-8.0%	2006	9.7%	2005
Loans from foreign banks in Euro	2.8%-5.3%	2006-2010	2.9%-6.0%	2005
Loans from the Small Business Development Fund of Kazakhstan	3.6%-6.1%	2005-2008	5.2%-10.19%	2004-2007
Current accounts	—	—	—	—
Loans from foreign banks in SEK	4.3%-4.4%	2006	—	—
Repurchase agreements	7.0%	January 4, 2006	3.7%-7.0%	January 19, 2006

(Thousands of Kazakh Tenge)

17. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and were analyzed as follows at December 31:

	2005	2004
Customer current accounts:		
Commercial	45,312,597	18,825,197
Individuals	4,767,713	2,307,351
Term deposits:		
Commercial	43,340,168	34,163,151
Individuals	22,292,017	12,739,805
Held as security against letters of credit and guarantees	969,360	711,324
Amounts due to customers	116,681,855	68,746,828

At December 31, 2005 and 2004 the Group's ten largest customers accounted for approximately 34.7% and 42.9% respectively, of the total amounts due to customers. An analysis of amounts due to customers by sector follows:

	2005	%	2004	%
Individuals	27,059,730	23.2	15,047,156	21.9
Financial activities	22,732,814	19.5	5,549,862	8.1
Transport and Communication	16,452,172	14.1	10,499,462	15.3
Non-credit financial companies	13,046,107	11.2	1,754,574	2.6
Oil and Gas	9,829,115	8.4	12,902,086	18.8
Trade	7,034,755	6.0	6,021,265	8.8
Construction	6,901,757	5.9	2,268,225	3.3
Manufacturing	5,298,539	4.5	4,176,236	6.1
Services provided to enterprises	2,606,483	2.2	3,074,764	4.5
Education	1,145,610	1.0	300,542	0.4
Energy	1,143,948	1.0	2,093,549	3.0
Agriculture	897,766	0.8	504,197	0.7
Metallurgy	687,294	0.6	990,390	1.4
Research and Development	651,489	0.6	565,684	0.8
Government	24,257	0.1	21,680	0.1
Others	1,170,019	0.9	2,977,156	4.2
Total	116,681,855	100.0	68,746,828	100.0

18. Debt Securities Issued

Securities issued at December 31 comprised:

	2005	2004
USD denominated notes	94,751,991	39,189,711
KZT denominated bonds	4,531,640	4,533,136
	99,283,631	43,722,847
Less unamortized cost of issuance	(853,786)	(415,710)
Debt securities issued	98,429,845	43,307,137

The interest rates and maturities of these debt securities issued follow:

	2005		2004	
	%	Maturity	%	Maturity
USD denominated notes	8.1%-9.3%	2007-2012	8.5%-8.8%	2007-2009
KZT denominated bonds	8.5%	2008	8.5%	2008

In accordance with the terms of USD notes the Bank is required to maintain certain financial ratios, particularly with regard to liquidity, capital adequacy, and lending exposures. Management believes that the Bank maintains these ratios as of December 31, 2005.

(Thousands of Kazakh Tenge)

19. Subordinated Debt

	<i>2005</i>	<i>2004</i>
KZT denominated notes	17,624,356	—
USD denominated subordinated bonds	1,346,525	1,343,551
Own USD subordinated bonds held by the Group	(1,069,274)	(1,083,856)
	17,901,607	259,695
Less unamortized cost of issuance	(122,133)	—
Subordinated debt	17,779,474	259,695

The interest rates and maturities of subordinated debt issued follow:

	<i>2005</i>		<i>2004</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
KZT denominated notes	8.5%	2012-2014	—	—
USD denominated subordinated bonds	9.0%	2007	9.0%	2007

The subordinated notes of December 31, 2005 and 2004, are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

20. Shareholders' Equity

At December 31, 2005 the authorized share capital comprised 16,600,000 common and 3,400,000 preferred shares, which were fully paid by the year end (December 31, 2004: 12,870,761 and 1,900,000). Each share has a nominal value of KZT 1. Each common share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 10 % per annum and do not have any voting rights.

Preferred share give the holder the right to participate in general shareholders' meeting without voting rights except in instance where decision are made in relation to reorganization and liquidation of the Bank, and where changes and amendments to the Bank's charter which restrict the rights of preferred shareholders are proposed. The preferred share has no rights of redemption or conversion but carry cumulative dividends per share at least of 10% of nominal value. If the Bank fails to pay dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting.

During 2005, the Bank paid dividends on preferred shares, which were declared in 2004. During 2004 the Bank declared and paid dividends on preferred shares of KZT 319,000. In May 2004, and in accordance with a general shareholders' meeting resolution, the Group declared dividends of KZT 694,324 on common shares. The share capital was increased through the capitalization of dividends declared on ordinary shares of KZT 588,078 with withholding tax of KZT 106,246 paid on dividends.

During 2005 and 2004 dividends payments comprise:

	<i>2005</i>	<i>2004</i>
Dividends declared	—	106,246
Dividends declared on preferred shares	—	319,000
Unpaid declared dividends on preferred shares	—	(198,000)
Payment of previously declared dividends on preferred shares	198,000	183,000
	198,000	410,246

	<i>2005</i>	<i>2004</i>
Dividends declared	—	106,246
Number of common shares as of the date of dividends declaration	—	9,783,043
Dividends per common shares, Tenge	—	11
Dividends declared on preferred shares	—	319,000
Number of preferred shares as of the date of dividends declaration	—	1,900,000
Dividends per preferred shares, Tenge	—	168

(Thousands of Kazakh Tenge)

Nature and purpose of other reserves

General reserves

General reserves include income that is not distributable in accordance with shareholder's decision.

Revaluation reserve of available-for-sale securities

This reserve records fair value changes on available-for-sale investment securities.

Currency translation reserve

Currency translation reserve reflects the translation effect of the subsidiaries financial statements into KZT, which are domiciling out of Kazakhstan.

21. Commitments and Contingencies

Operating Environment

Kazakhstani economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have higher than normal historical inflation and lack of liquidity in capital markets in the past, as well as an existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

At December 31, the Group's financial commitments and contingencies comprised the following:

	<i>2005</i>	<i>2004</i>
Undrawn loan commitments	33,305,967	17,929,827
Guarantees	15,029,449	16,107,883
Letters of credit	3,600,930	5,037,319
	51,936,346	39,075,029
Less – Provisions	(283,270)	(253,679)
Less – Cash collateral	(969,360)	(711,324)
Financial commitments and contingencies	50,683,716	38,110,026

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as involved in extend facilities to other customers.

The Group applies similar principles to those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under a guarantee. Commercial letters of credit represent a financing transaction by the Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction. The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in bank, government securities, and other.

At December 31, 2005, the top ten guarantees accounted for 61.7% (2004: 70.3%) of total financial guarantees and represented 33.7% (2004: 63.0%) of the Group's total shareholders' equity. At December 31, 2005, the top ten letters of credit accounted for 63.5% (2004: 80.7%) of total commercial letters of credit and represented 8.3% (2004: 22.7%) of the Group's total shareholders' equity.

Insurance

The Group in 2005 obtained insurance coverage related to property, vehicles as motor insurance is obligatory in accordance with the legislation of the Republic of Kazakhstan, and insurance for responsibility of the employer.

(Thousands of Kazakh Tenge)

22. Fee and Commission Income

Fees and commissions income for the year ended December 31 comprised the following:

	<i>2005</i>	<i>2004</i>
Settlement operations	1,009,357	690,824
Cash operations	773,621	480,589
Guarantees	458,198	385,934
Foreign currency trading	434,099	334,779
Debit/credit cards	251,009	199,113
Projects management	49,467	48,196
Cash collection	40,664	25,779
Reinsurance commission	26,506	26,177
Custodian activity	14,488	33,119
Bank references	14,492	11,649
Other	118,408	113,068
Fee and commission income	3,190,309	2,349,227

(Thousands of Kazakh Tenge)

22. Fee and Commission Income (continued)

Fee and commission expense for the year ended December 31, comprised the following:

	2005	2004
Debit/credit cards	(143,506)	(115,739)
Settlement operations	(95,956)	(75,704)
Insurance	(69,479)	(48,693)
Reinsurance commission	(48,343)	(73,276)
Foreign currency banknote transactions	(41,977)	(20,426)
Securities	(36,215)	(29,640)
Guarantees	(678)	(1,739)
Custodian services	(617)	(22,198)
Other	(26,622)	(40,699)
Fee and commission expense	(463,393)	(428,114)

23. Underwriting income

Underwriting income, for the year ended December 31 comprise the following:

	2005	2004
Premiums written, gross	5,261,030	1,245,081
Ceded reinsurance share	(3,999,170)	(240,709)
Change in unearned premiums, net	(251,896)	(194,090)
	1,009,964	810,282

24. Salaries and Administrative and Other Operating Expenses

Salaries and administrative and other operating expenses comprise:

	2005	2004
Salaries and bonuses	(2,618,989)	(2,220,820)
Social costs	(339,090)	(208,898)
Other payments	(88,924)	(51,707)
Salaries and benefits	(3,047,003)	(2,481,425)
Advertising	(535,795)	(231,593)
Leasing expenses	(311,765)	(236,931)
Communications	(267,188)	(241,777)
Maintenance and repairs	(233,251)	(163,354)
Business trip expenses	(222,809)	(145,950)
Stationery, publications and training	(180,030)	(92,815)
Audit and consulting services	(95,049)	(25,301)
Transport expenses	(71,960)	(45,586)
Entertainment	(54,074)	(34,388)
Security systems and guards	(43,462)	(29,900)
Charity	(41,766)	(23,421)
Insurance expenses	(11,017)	(12,006)
Loss from sale of premises and equipment	(6,177)	(9,333)
Penalties	(2,183)	(41,437)
Other	(289,249)	(368,383)
Administrative and other operating expenses	(2,365,775)	(1,702,175)

The Group does not have pension arrangements separate from the State pension system of the Republic of Kazakhstan. This system requires current contributions by the employer calculated as a percentage of current gross salary payments and a contribution withheld from employees; such expense is charged to the consolidated statement of income in the period the related compensation is earned by the employee.

The remuneration, including related social costs, and bonuses paid to members of the Shareholders' Council and Management Boards for 2005 were KZT 150,880 and KZT 15,804 respectively (2004 – KZT 146,185 and KZT 110,045; 2003 – KZT 139,359 and KZT 66,923).

The Group's lease agreements are subject to the annual renewal.

(Thousands of Kazakh Tenge)

25. Basic and Diluted Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year. The Bank does not have any options or convertible debt or equity instruments.

The following reflects the income attributable to equity holders of the parent and share data used in the basic and diluted earnings per share computations:

	<i>2005</i>	<i>2004</i>
Net income attributable to equity holders of the parent	4,045,552	2,319,842
Less dividends on preferred shares	–	(319,000)
Net income attributable to common shareholders	4,045,552	2,000,842
Weighted average number of common shares (common and preferred)	17,236,682	10,337,468
Basic and diluted earnings per share (Tenge)	235	194

Common shares comprise common shares and preferred shares that have the right to participate equally with common shares in net income distribution.

26. Risk Management Policies

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

Credit risk

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry and geographical 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 borrower and by industry sector are approved monthly 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 which are set by the Credit Committee which is called once a week. 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 capital 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.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group 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 Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Concentration**

The geographical concentration of Group's monetary assets and liabilities were as follows at December 31:

2005

	<i>Kazakhstan</i>	<i>OECD</i>	<i>Other non-OECD</i>	<i>Total</i>
Cash and cash equivalents	28,781,748	3,311,618	956,583	33,049,949
Obligatory reserves	4,260,089	—	4,166	4,264,255
Amounts due from credit institutions	641,388	670,165	2,079,825	3,391,378
Financial assets at fair value through profit or loss	23,397,717	2,981,902	—	26,379,619
Investment securities:				
- available-for-sale	15,128,356	17,626,930	260,155	33,015,441
Commercial loans and advances	249,875,037	—	2,648,159	252,523,196
Insurance reserves, reinsurance share	3,537,255	—	—	3,537,255
Current tax assets	385,626	—	—	385,626
Other assets	2,482,712	1,308,666	47,194	3,838,572
	328,489,928	25,899,281	5,996,082	360,385,291
Amounts due to the Government and the NBK	2,910,588	6,349,854	—	9,260,442
Amounts due to credit institutions	29,078,895	54,474,451	90,029	83,643,375
Amounts due to customers	114,331,162	—	2,350,693	116,681,855
Debt securities issued	4,531,640	93,898,205	—	98,429,845
Subordinated debt	17,777,377	—	2,097	17,779,474
Insurance reserves	4,217,523	—	—	4,217,523
Other liabilities	799,883	383,326	45,398	1,228,607
	173,647,068	155,105,836	2,488,217	331,241,121
	154,842,860	(129,206,555)	3,507,865	29,144,170

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Concentration (continued)***2004*

	<i>Kazakhstan</i>	<i>OECD</i>	<i>Other non-OECD</i>	<i>Total</i>
Cash and cash equivalents	4,404,706	9,314,205	328,969	14,047,880
Obligatory reserves	2,389,710	—	—	2,389,710
Amounts due from credit institutions	1,939,181	—	1,573,107	3,512,288
Financial assets at fair value through profit or loss	8,650,301	—	—	8,650,301
Investment securities:				
- available-for-sale	—	707,475	—	707,475
- held-to-maturity	22,999,732	3,008,388	—	26,008,120
Commercial loans and advances	117,593,555	—	—	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	156,257
Current tax assets	180,294	—	—	180,294
Other assets	1,449,118	162,282	141,312	1,752,712
	159,762,854	13,192,350	2,043,388	174,998,592
Amounts due to the Government and the NBK	3,340,948	—	—	3,340,948
Amounts due to credit institutions	8,290,062	30,396,448	76,196	38,762,706
Amounts due to customers	68,746,828	—	—	68,746,828
Debt securities issued	4,533,136	38,774,001	—	43,307,137
Subordinated debt	259,695	—	—	259,695
Insurance reserves	515,510	—	—	515,510
Other liabilities	535,404	—	—	535,404
	86,221,583	69,170,449	76,196	155,468,228
	73,541,271	(55,978,099)	1,967,192	19,530,364

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 7,811,255 and KZT 5,574,255 as of December 31, 2005 and 2004 respectively.

Currency risk

The Group is exposed to effects of fluctuation 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 currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of the NBK. The Group's exposure to foreign currency exchange rate risk is as follows.

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Currency risk (continued)**

The Group's monetary assets and liabilities were denominated as follows at December 31:

2005

	<i>KZT</i>	<i>Freely convertible currencies</i>	<i>Other foreign currencies</i>	<i>Total</i>
Cash and cash equivalents	17,920,130	14,285,973	843,846	33,049,949
Obligatory reserves	4,260,089	—	4,166	4,264,255
Amounts due from credit institutions	1,141,388	2,092,634	157,356	3,391,378
Financial assets at fair value through profit or loss	21,128,026	5,251,593	—	26,379,619
Investment securities:				
-available-for-sale	13,708,312	19,046,974	260,155	33,015,441
Commercial loans and advances	78,360,518	173,231,096	931,582	252,523,196
Insurance reserves, reinsurance share	3,537,255	—	—	3,537,255
Current tax assets	385,626	—	—	385,626
Other assets	2,408,674	1,429,898	—	3,838,572
	142,850,018	215,338,168	2,197,105	360,385,291
Amounts due to the Government and the NBK	2,202,978	7,057,464	—	9,260,442
Amounts due to credit institutions	9,244,443	74,394,490	4,442	83,643,375
Amounts due to customers	77,047,937	37,958,192	1,675,726	116,681,855
Debt securities issued	4,531,640	93,898,205	—	98,429,845
Subordinated debt	17,502,223	277,251	—	17,779,474
Insurance reserves	4,217,523	—	—	4,217,523
Other liabilities	662,323	523,089	43,195	1,228,607
	115,409,067	214,108,691	1,723,363	331,241,121
Net position	27,440,951	1,229,477	473,742	29,144,170

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Currency risk (continued)****2004**

	<i>KZT</i>	<i>Freely convertible currencies</i>	<i>Other foreign currencies</i>	<i>Total</i>
Cash and cash equivalents	2,720,697	10,984,261	342,922	14,047,880
Obligatory reserves	2,389,710	—	—	2,389,710
Amounts due from credit institutions	324,304	3,177,631	10,353	3,512,288
Financial assets at fair value through profit or loss	5,480,615	3,169,686	—	8,650,301
Investment securities:				
- available-for-sale	—	707,475	—	707,475
- held-to-maturity	22,999,732	3,008,388	—	26,008,120
Commercial loans and advances	36,562,232	81,031,323	—	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	156,257
Current tax assets	180,294	—	—	180,294
Other assets	1,628,885	6,844	116,983	1,752,712
	72,442,726	102,085,608	470,258	174,998,592
Amounts due to the Government and the NBK	2,370,628	970,320	—	3,340,948
Amounts due to credit institutions	3,928,834	34,785,689	48,183	38,762,706
Amounts due to customers	39,130,658	29,320,286	295,884	68,746,828
Debt securities issued	4,533,136	38,774,001	—	43,307,137
Subordinated debt		259,695	—	259,695
Insurance reserves	515,510	—	—	515,510
Other liabilities	532,524	2,880	—	535,404
	51,011,290	104,112,871	344,067	155,468,228
Net position	21,431,436	(2,027,263)	126,191	19,530,364

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 7,811,255 and KZT 5,574,255 as of December 31, 2005 and 2004, respectively.

A substantial portion of the Group's net position in freely convertible currencies is held in USD.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments.

The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The interest rates earned and incurred by the Group on its assets and liabilities are disclosed in the relevant notes to the financial statements.

A significant portion of the Group's assets and liabilities reprice within one year. In addition, in accordance with the contractual terms with its customers, the Group is entitled to reprice a significant portion of its assets and liabilities that mature after more than one year. Accordingly there is a limited exposure to interest rate risk. As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Interest Rate Risk (continued)**

	<i>2005</i>		<i>2004</i>	
	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>
Amounts due from credit institutions	5.1%	4.8%	4.3%	5.1%
Financial assets at fair value through profit or loss	3.1%	4.7%	5.1%	6.3%
Available-for-sale investment securities	3.5%	4.3%	—	4.1%
Held-to-maturity investment securities	—	—	3.7%	3.2%
Commercial loans and advances	13.3%	12.2%	13.1%	13.9%
Amounts due to the Government and the NBK	3.3%	4.8%	3.1%	4.3%
Amounts due to credit institutions	2.9%	4.2%	3.9%	4.0%
Amounts due to customers	4.8%	6.1%	3.4%	5.1%
Debt securities issued	8.5%	9.1%	8.4%	5.7%
Subordinated debt	8.5%	8.5%	—	7.1%

The Group monitors its interest rate margins on a regular basis and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Liquidity risk**

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

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date, except for trading and available-for-sale securities which are included in column "On demand" as they are available to meet the Bank's short-term liquidity needs.

The contractual maturities of monetary assets and liabilities at December 31 were as follows:

2005

	<i>On demand</i>	<i>Up to 1 Month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Cash and cash equivalents	29,149,169	3,900,780					33,049,949
Obligatory reserves	—	—	—	—	—	4,264,255	4,264,255
Amounts due from credit institutions	—	65,982	625,135	2,030,096	670,165	—	3,391,378
Financial assets at fair value through profit or loss	26,379,619	—	—	—	—	—	26,379,619
Investment securities: - available-for-sale	33,015,441	—	—	—	—	—	33,015,441
Commercial loans and advances	—	5,465,005	7,182,429	92,010,943	117,124,487	30,740,332	252,523,196
Insurance reserves, reinsurance share	3,537,255	—	—	—	—	—	3,537,255
Current tax assets	—	—	385,626	—	—	—	385,626
Other assets	1,042,144	2,412,921	3,962	24,113	355,432	—	3,838,572
	93,123,628	11,844,688	8,197,152	94,065,152	118,150,084	35,004,587	360,385,291
Amounts due to the Government and the NBK	—	581	—	6,667,688	2,592,173	—	9,260,442
Amounts due to credit institutions	1,316,776	28,904,750	716,640	43,631,100	9,074,109	—	83,643,375
Amounts due to customers	50,080,310	15,149,153	8,433,242	28,881,387	11,437,315	2,700,448	116,681,855
Debt securities issued	—	204,142	—	—	71,469,231	26,756,472	98,429,845
Subordinated debt	—	—	—	—	277,251	17,502,223	17,779,474
Insurance reserves	4,217,523	—	—	—	—	—	4,217,523
Other liabilities	659,130	490,817	1,817	58,986	17,857	—	1,228,607
	56,273,739	44,749,443	9,151,699	79,239,161	94,867,936	46,959,143	331,241,121
Net position	36,849,889	(32,904,755)	(954,547)	14,825,991	23,282,148	(11,954,556)	29,144,170
Accumulated gap	36,849,889	3,945,134	2,990,587	17,816,578	41,098,726	29,144,170	

(Thousands of Kazakh Tenge)

26. Risk Management Policies (continued)**Liquidity risk (continued)***2004*

	<i>On demand</i>	<i>Up to 1 Month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Cash and cash equivalents	13,547,255	500,625	—	—	—	—	14,047,880
Obligatory reserves	—	—	—	—	—	2,389,710	2,389,710
Amounts due from credit institutions	—	71,855	1,268,769	2,151,664	20,000	—	3,512,288
Financial assets at fair value through profit or loss	8,650,301	—	—	—	—	—	8,650,301
Investment securities:							
- available-for-sale	707,475	—	—	—	—	—	707,475
- held-to-maturity	—	319,223	7,271,303	14,084,069	1,021,389	3,312,136	26,008,120
Commercial loans and advances	—	6,416,233	7,479,362	32,655,260	62,341,415	8,701,285	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	—	—	—	156,257
Current tax assets	—	—	180,294	—	—	—	180,294
Other assets	197,456	1,390,483	6,382	59,251	33,549	65,591	1,752,712
	23,258,744	8,698,419	16,206,110	48,950,244	63,416,353	14,468,722	174,998,592
Amounts due to the Government and the NBK	—	22,501	4,390	2,181,045	1,133,012	—	3,340,948
Amounts due to credit institutions	1,329,573	3,752,643	406,184	22,978,695	9,396,154	899,457	38,762,706
Amounts due to customers	21,132,548	19,346,902	3,907,468	11,763,174	10,979,395	1,617,341	68,746,828
Debt securities issued	—	—	—	—	43,307,137	—	43,307,137
Subordinated debt	—	—	—	—	259,695	—	259,695
Insurance reserves	515,510	—	—	—	—	—	515,510
Other liabilities	370,339	139,314	789	9,001	15,961	—	535,404
	23,347,970	23,261,360	4,318,831	36,931,915	65,091,354	2,516,798	155,468,228
Net position	(89,226)	(14,562,941)	11,887,279	12,018,329	(1,675,001)	11,951,924	19,530,364
Accumulated gap	(89,226)	(14,652,167)	(2,764,888)	9,253,441	7,578,440	19,530,364	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totaling KZT 7,811,255 and KZT 5,574,255 as of December 31, 2005 and 2004 respectively.

The maturity gap analysis does not reflect the historical stability of customers' current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand. Financial assets at fair value through profit and loss and available-for-sale investment securities are shown on demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security position may not be liquidated in a short period of time without adverse price effect.

(Thousands of Kazakh Tenge)

27. Fair Values of Monetary Assets and Liabilities

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

Amounts Due to Credit Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates.

Commercial Loans and Advances

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

Amounts Due to Customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	<i>Carrying Amount</i>		<i>Fair Value</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Financial assets				
Amounts due from credit institutions	3,391,378	3,511,038	3,576,137	3,840,559
Commercial loans and advances	244,874,389	112,090,157	241,097,912	112,096,500
Financial liabilities				
Amounts due to the Government and the NBK	9,260,442	3,340,948	8,865,167	3,155,581
Amounts due to credit institutions	83,643,375	38,762,706	82,449,740	37,038,416
Amounts due to customers	116,681,855	68,746,828	114,188,856	67,055,508
Debt securities	98,429,845	43,307,137	100,366,640	44,842,806
Subordinated debt	17,779,474	259,695	17,781,741	260,023

28. Capital Adequacy

The NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2005 and 2004, the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratios computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments excluding the amendment to incorporate market risks at December 31, 2005 and 2004, were 12.4% and 11.1%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

(Thousands of Kazakh Tenge)

29. Related Party Transactions

At December 31, 2005 and 2004 the Group had balances with related parties, which comprised the following:

	<i>2005</i>		<i>2004</i>	
	<i>Related party balances</i>	<i>Total asset or liability category</i>	<i>Related party balances</i>	<i>Total asset or liability category</i>
Loans and advances	1,407,117	244,874,389	1,994,205	112,090,157
Shareholders	270,035		290,035	
Management	362,140		194,946	
Associates	774,942		1,509,224	
Amounts owed to customers	693,085	116,681,855	548,556	68,746,828
Shareholders	131,937		16,797	
Management	254,820		245,853	
Associates	306,328		285,906	
Commitments and guarantees	262,518	51,936,346	1,998	39,075,029
Shareholders	761		466	
Management	12,791		—	
Associates	248,966		1,532	

Transactions with related parties for the period ended December 31:

	<i>2005</i>		<i>2004</i>	
	<i>Related party transaction</i>	<i>Total category</i>	<i>Related party transaction</i>	<i>Total category</i>
Interest income – loans	225,147	21,690,614	213,139	10,992,017
Shareholders	27,613		31,879	
Management	31,435		23,985	
Associates	166,099		157,275	
Fees and commission income	83	3,190,309	—	2,349,227
Shareholders	—		—	
Management	—		—	
Associates	83		—	
Interest expense – deposits	30,353	5,146,252	21,039	2,794,551
Shareholders	361		486	
Management	16,476		6,872	
Associates	13,516		13,681	
Salaries and benefits				

Included in the table above are the following transactions with related parties outstanding as of December 31:

- Operations with associates such as: loans - including provisioning matters, interest free financial assistance, deposits placed with the Bank and guarantees and letters of credit to investees, and mutual investments.
- Shareholders, including: loans - including provisioning matters, deposits placed with the Bank, and guarantees and letters of credit.
- Members of Board of Directors, including: loans - including provisioning matters, deposits placed with the Bank, total remuneration paid during the year.

All transactions with related parties were on the arms-length conditions.

(Thousands of Kazakh Tenge)

29. Related Party Transactions (continued)

As of December 31, 2005, 2004 and 2003, loans and deposits to and from the related parties were issued / accepted at the following interest rates:

<i>Loans:</i>	<i>%</i>
Management	10.0-14.0
Shareholders	10.0-15.0
Associates	10.0-23.0
 <i>Deposits:</i>	
Management	2.82-11.2
Shareholders	2.86-8.72
Associates	3-10

30. Subsequent Events

Subsequently, the Bank decided to increase share capital of Sibirbank CJSC by KZT 1,427,995,240.