EURASIAN BANK JSC

Financial Statements

For the year ended 31 December 2006

Contents

Independent Auditors' Report
Income Statement 5
Balance Sheet 6
Statement of Cash Flows 7
Statement of Changes in Equity 8
Notes to the Financial Statements 9-40

KPMG Audit LLC
Dostyk Avenue 180
050051 Almaty
Republic of Kazakhstan

Telephone +7 (327) 298 08 98
Fax +7 (327) 298 07 08
E-mail company@kpmg.kz

Independent Auditors' Report

To the Board of Directors and Management Board of Eurasian Bank JSC

Report on the Financial Statements

We have audited the accompanying financial statements of Eurasian Bank JSC (the "Bank"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Berdalina J. K.
Certified Auditor
Managing Partner

Wilson Mitchell
Audit Partner

KPMG Audit LLC
State license #0000021 dated 06 December 2006
for provision of audit services

21 February 2007

	Notes	2006 KZT'000	2005 KZT'000
Interest income	4	10,416,198	6,877,091
Interest expense	4	(4,733,927)	(2,585,731)
Net interest income		**5,682,271**	**4,291,360**
Fee and commission income	5	1,839,419	1,452,923
Fee and commission expense	6	(206,176)	(147,945)
Net fee and commission income		**1,633,243**	**1,304,978**
Net foreign exchange income	7	1,422,274	1,261,298
Net realised gain on available-for-sale securities	8	38,473	64,344
Other income		195,133	141,882
Operating income		**8,971,394**	**7,063,862**
Impairment losses	9	(261,660)	(130,807)
General administrative expenses	10	(4,142,482)	(2,558,725)
Provisions for off-balance sheet credit risk	26	(18,799)	(44,137)
Operating expenses		**(4,422,941)**	**(2,733,669)**
Income before taxes		**4,548,453**	**4,330,193**
Income tax expense	11	(730,306)	(532,207)
Net income		**3,818,147**	**3,797,986**
Earnings per share (in KZT)	24	**60,668**	**60,513**

The financial statements as set out on pages 5 to 40 were approved on 21 February 2007.

Chairman of the Board

Konopasevich A.V.

Chief Accountant

Bichurina A.A.

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1
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The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	31 December 2006 KZT'000	31 December 2005 KZT'000
ASSETS			
Cash	29	3,541,164	3,315,469
Due from the National Bank of the Republic of Kazakhstan	29	6,214,200	4,286,799
Placements with banks and other financial institutions	12	22,667,968	7,902,770
Precious metals		46,737	-
Loans to customers	13	92,835,826	64,585,622
Available-for-sale securities			
- Unpledged	14	13,622,543	14,262,297
- Pledged	14	9,978,340	9,386,627
Income tax prepaid		377,877	10,083
Deferred tax assets	23	70,033	359,133
Other assets	15	423,002	266,784
Property and equipment	16	2,265,301	1,414,012
Intangible assets	17	277,935	72,677
Total assets		**152,320,926**	**105,862,273**
LIABILITIES AND EQUITY			
Deposits and balances from banks and other financial institutions	18	40,298,105	21,794,924
Amounts payable under repurchase agreements	19	77,064	3,560,563
Current accounts and deposits from customers	20	80,320,093	63,627,674
Debt securities issued	21	1,500,120	591,367
Subordinated debt securities issued	21	10,656,016	2,964,300
Provisions for off-balance sheet credit risk	26	64,330	45,531
Other liabilities	22	474,718	302,356
Total liabilities		**133,390,446**	**92,886,715**
Equity			
Share capital	24	7,999,927	6,000,017
Share premium		25,632	25,632
Reserve for general banking risks		649,315	650,346
Revaluation reserve for available-for-sale securities		461,987	325,122
Retained earnings		9,793,619	5,974,441
Total equity		**18,930,480**	**12,975,558**
Total liabilities and equity		**152,320,926**	**105,862,273**
Commitments and contingencies	26,27		

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The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2006 KZT'000	2005 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		4,548,453	4,330,193
Adjustments for non-cash items:			
Depreciation and amortization		235,339	89,593
Impairment losses and provisions for off-balance sheet credit risk		280,459	174,944
(Gain)/Loss on sale of property and equipment and intangible assets		(12,965)	29,962
Amortisation of discount and interest payable accrued on debt securities issued		192,860	13,667
Amortisation of premium on available-for-sale securities		714,125	519,366
Operating income before changes in net operating assets		**5,958,271**	**5,157,725**
(Increase)/ decrease in operating assets			
Obligatory reserve		(6,705,348)	(1,285,019)
Placements with banks and other financial institutions		(1,548,327)	1,102,193
Amounts receivable under reverse repurchase agreements		-	6,970,359
Loans to customers		(28,528,702)	(32,664,684)
Other assets		(147,893)	(54,106)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		18,503,181	16,274,213
Amounts payable under repurchase agreements		(3,483,499)	(3,151,843)
Current accounts and deposits from customers		16,692,419	11,646,629
Other liabilities		172,362	212,270
Net cash from operating activities before taxes paid		**912,464**	**4,207,737**
Taxes paid		(809,000)	(470,000)
Cash flows from operations		**103,464**	**3,737,737**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale securities		(15,267,857)	(70,145,883)
Proceeds from sale of available-for-sale securities		14,745,275	72,937,587
Purchase of precious metals		(46,737)	-
Purchases of property and equipment		(1,113,805)	(690,815)
Sales of property and equipment		72,527	11,060
Purchases of intangible assets		(237,643)	(72,311)
Cash flows (used in)/from investing activities		**(1,848,240)**	**2,039,638**
CASH FLOWS FROM FINANCING ACTIVITIES			
Share capital issued		1,999,910	-
Debt securities issued		898,162	-
Debt securities repurchased		-	(155,008)
Subordinated debt securities issued		7,509,447	7,689
Dividend paid		-	(1,563,879)
Cash flows from/(used in) financing activities		**10,407,519**	**(1,711,198)**
Net increase in cash and cash equivalents		**8,662,743**	**4,066,177**
Cash and cash equivalents at the beginning of the year		12,939,664	8,873,487
Cash and cash equivalents at the end of the year	29	**21,602,407**	**12,939,664**

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The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Share capital	Share premium	Revaluation reserve for available-for-sale securities	Reserve for general banking risks	Retained earnings	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Balance at 1 January 2005	**6,000,017**	**25,632**	**314,531**	**651,476**	**3,739,204**	**10,730,860**
Net income for the year	-	-	-	-	3,797,986	3,797,986
Net unrealised gain on available-for-sale securities	-	-	10,591	-	-	10,591
Total recognised income for the year						3,808,577
Transfers	-	-	-	(1,130)	1,130	-
Dividend paid	-	-	-	-	(1,563,879)	(1,563,879)
Balance at 31 December 2005	**6,000,017**	**25,632**	**325,122**	**650,346**	**5,974,441**	**12,975,558**
Net income for the year	-	-	-	-	3,818,147	3,818,147
Net unrealised gain on available-for-sale securities	-	-	136,865	-	-	136,865
Total recognised income for the year						3,955,012
Share capital issued	1,999,910	-	-	-	-	1,999,910
Transfers	-	-	-	(1,031)	1,031	-
Balance at 31 December 2006	**7,999,927**	**25,632**	**461,987**	**649,315**	**9,793,619**	**18,930,480**

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The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Principal activities

Eurasian Bank JSC (the "Bank") was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking license number 237 granted on 26 December 1994. The Bank also possesses licenses number 0401100623 and number 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, custodian services, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Financial Markets and Organisations Supervisory and Regulatory Agency (the "FMSA") and the National Bank of the Republic of Kazakhstan ("the NBRK").

The Bank has 17 regional branches and 10 cash settlement centers from which it conducts business throughout Kazakhstan. The registered address of the Bank's head office is 56 Kunayeva, Almaty, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in Kazakhstan.

The average number of people employed by the Bank during the year was 1,070 (2005: 763).

(b) Shareholder

At 31 December 2006, Eurasian Financial Industrial Company JSC owned 100% of the outstanding shares of the Bank.

(c) Kazakhstan business environment

The economic environment of Kazakhstan was assessed in 2005 and 2006 by international rating agencies. In 2006 Standard & Poor's confirmed the long-term foreign currency rating at "BBB-", and the long-term rating of borrowings in the national currency at "BBB"; the short-term ratings of borrowings in the national and foreign currencies were also confirmed at "A-3" (2005: BBB- , BBB, and A-3, respectively). In 2006 Moody's Investors Service rated the long-term debts in foreign currency at "Baa2" and long-term debts in the national currency at "Baa1"(2005: "Baa3" and "Baa1", respectively). In 2006 Fitch confirmed the long-term borrowings in foreign currency at "BBB" and the long-term borrowings in the national currency at "BBB+" (2005: BBB and BBB+, respectively).

The Bank's operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale securities and financial instruments designated at fair value through profit and loss are stated at fair value.

(c) Functional and Presentation Currency

The national currency of the Kazakhstan is the Kazakhstan Tenge ("KZT"). Management have determined the Bank's functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank's presentation currency for the purposes of these financial statements. Financial information presented in KZT has been rounded to the nearest thousand.

(d) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in note 13 on loan impairment.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

3 Significant accounting policies, continued

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows at 31 December 2006 and 2005:

Currency	**2006**	**2005**
1 United States Dollar	127.00	133.77
1 Euro	167.12	158.54
1 Russian Rouble	4.82	4.65

(b) Cash and cash equivalents

The Bank considers cash and current accounts with the NBRK, nostro accounts and placements with banks with an original maturity up to 3 months to be cash and cash equivalents. The obligatory reserve is not considered to be a cash equivalent due to restrictions on its withdrawability.

3 Significant accounting policies, continued

(c) Financial instruments

i) Classification

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading, financial instruments designated at fair value through profit or loss at initial recognition, and derivative financial assets or liabilities.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative.

The Bank designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition. Financial instruments at fair value through profit or loss include trading securities, other financial instruments at fair value through profit or loss, and derivative financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

ii)Recognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

3 Significant accounting policies, continued

(c) Financial instruments, continued

iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or 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 liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;

- held to maturity investments which are measured at amortised cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;

3 Significant accounting policies, continued

(c) Financial instruments, continued

v) Gains and losses on subsequent measurement, continued

- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are treated as secured financing transactions and are classified in the balance sheet as securities pledged under sale and repurchase agreements and are accounted for at fair value; the counterparty liability is included in amounts payable under repurchase agreements. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the terms of the repurchase agreement.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repurchase agreements. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo agreement using the effective interest method.

iix) Offsetting

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

3 Significant accounting policies, continued

(d) Property and equipment

i) Owned assets

Items of property and equipment are stated at cost, less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25 to 50 years
Computer equipment	5 to 8 years
Vehicles	7 years
Other	4 to 20 years

(e) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the first day of the month subsequent to the date the asset is available for use. The estimated useful life of intangible assets is 5 to 7 years.

(f) Impairment

i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3 Significant accounting policies, continued

(f) Impairment, continued

i) Financial assets carried at amortised cost, continued

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the different between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

iii) Non-financial assets

Non-financial assets, except for deferred taxes, are assessed at each reporting date for any indication of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3 Significant accounting policies, continued

(f) Impairment, continued

iii) Non-financial assets, continued

All impairment losses in respect of non-financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Dividends

Subject to specific provisions contained with the Charter and Kazakhstan law, the shareholder may approve the payment of an annual or an interim dividend whenever the financial position of the Bank justifies such payment in the opinion of the shareholder.

Dividends are reflected as an appropriation of retained earnings in the period when they are declared.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 Significant accounting policies, continued

(j) Interest income and expense

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(k) Fee and commission income

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate. Other fee and commission income is recognised when the corresponding service is provided.

(l) Change in accounting policy

As at 31 December 2006, the Bank adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, the Bank may designate a financial instrument at fair value through profit or loss only if certain conditions are met. Application of this amendment did not have any impact on the financial statements of the Bank.

(m) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards on its financial statements.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's financial instruments.

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's capital.

- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received can not be specially identified. IFRIC 8 will become mandatory for the Bank's 2007 financial statements.

- IFRIC 9 *Reassessment of Embedded Derivative* requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Bank's 2007 financial statements.

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4 Net interest income and expense

	2006 KZT '000	2005 KZT '000
Interest income		
Loans to customers	8,205,797	4,950,186
Available-for-sale securities	1,238,398	1,408,445
Placements with banks and other financial institutions	947,776	508,753
Amounts receivable under reverse repurchase agreements	24,227	9,707
	10,416,198	**6,877,091**
Interest expense		
Current accounts and deposits from customers	(2,719,342)	(1,938,808)
Deposits and balances from banks and other financial institutions	(1,370,844)	(374,585)
Subordinated debt securities issued	(452,243)	(187,688)
Debt securities issued	(97,251)	(54,000)
Amounts payable under repurchase agreements	(94,247)	(30,650)
	(4,733,927)	**(2,585,731)**

5 Fee and commission income

	2006 KZT '000	2005 KZT '000
Foreign currency trading	751,206	711,994
Cash operations	520,159	303,267
Transfer operations	315,281	256,408
Guarantees issued	163,343	114,352
Other	89,430	66,902
	1,839,419	**1,452,923**

6 Fee and commission expense

	2006 KZT '000	2005 KZT '000
Cash operations	129,407	104,768
Payment transfer fees	37,484	33,732
Documentary settlements	29,789	3,973
Other fees	9,496	5,472
	206,176	**147,945**

7 Net foreign exchange income

	2006 KZT '000	2005 KZT '000
Gain on spot transactions	1,468,170	1,324,203
Loss from revaluation of financial assets and liabilities	(45,896)	(62,905)
	1,422,274	**1,261,298**

8 Net realised gain on available-for-sale securities

	2006 KZT '000	2005 KZT '000
Realised gain on available-for-sale securities	38,473	64,344

9 Impairment losses

	Loans to customers	Available-for-sale securities	Placements with banks and other financial institutions	Other assets	Total
As at 1 January 2005	1,457,443	6,440	44,200	775	1,508,858
Net charge/(reversal)	137,064	197	(42,324)	35,870	130,807
Write-off	(930)	-	-	(145)	(1,075)
As at 1 January 2006	**1,593,577**	**6,637**	**1,876**	**36,500**	**1,638,590**
Net charge/(reversal)	278,498	(6,637)	(1,876)	(8,325)	261,660
Write-off	(109,713)	-	-	(25,000)	(134,713)
As at 31 December 2006	**1,762,362**	-	-	**3,175**	**1,765,537**

10 General administrative expenses

	2006 KZT '000	2005 KZT '000
Employee compensation	2,048,134	1,424,563
Advertising and marketing	437,580	185,611
Administrative expenses	325,502	189,156
Rent	290,004	150,069
Depreciation and amortization	235,339	89,593
Payroll related taxes	209,950	157,279
Taxes other than on income	199,753	94,207
Communications and information services	104,344	73,843
Travel expenses	94,084	57,352
Security	61,102	35,751
Fines and penalties	1,920	900
Other expenses	134,770	100,401
	4,142,482	**2,558,725**

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11 Income tax expense

	2006 KZT '000	2005 KZT '000
Current tax expense		
Current year	441,206	500,000
Deferred tax expense		
Origination and reversal of temporary differences	289,100	32,207
Income tax expense	730,306	532,207

The Bank's applicable tax rate for current and deferred tax is 30% (2005: 30%).

Reconciliation of effective tax rate:

	2006 KZT '000	%	2005 KZT '000	%
Income before tax	4,548,453	100%	4,330,193	100%
Income tax at the applicable tax rate	1,364,536	30%	1,299,058	30%
Non-taxable income, net	(634,230)	(14%)	(766,851)	(18%)
	730,306	16%	532,207	12%

12 Placements with banks and other financial institutions

	2006 KZT '000	2005 KZT '000
Nostro accounts	19,840,647	7,142,454
Loans and deposits	2,691,038	742,204
Accrued interest	136,283	19,988
	22,667,968	7,904,646
Provision for impairment	-	(1,876)
	22,667,968	7,902,770

Concentration of placements with banks and other financial institutions

As at 31 December 2006 and 31 December 2005, there were two banks whose aggregate balances exceeded 10% of total placements with banks and other financial institutions. The gross amount of these balances as at 31 December 2006 and 31 December 2005 was KZT 18,492,415 thousand and KZT 5,708,038 thousand, respectively.

13 Loans to customers

(a) Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers operating in the Republic of Kazakhstan, in the following economic sectors:

	2006 KZT '000	2005 KZT '000
Retail		
Mortgage loans	18,176,161	7,332,216
Consumer loans	9,388,433	5,136,828
Automobile purchase loans	1,267,477	482,702
Other	5,484,546	4,733,322
	34,316,617	17,685,068
Corporate		
Real estate construction	26,550,566	4,223,742
Wholesale and retail	14,730,498	13,668,145
Entertainment	6,261,963	3,483,886
Transport	4,274,842	9,118,287
Services	3,643,387	4,509,259
Metallurgy	1,067,483	3,954,353
Machinery production	675,596	5,412,916
Energy production and supply	620,130	1,905,550
Other	955,100	1,459,854
Accrued interest	1,502,006	758,139
	94,598,188	66,179,199
Provision for impairment	(1,762,362)	(1,593,577)
	92,835,826	**64,585,622**

(b) Significant credit exposures

As at 31 December 2006 loan balances of the ten largest borrowers totaled 27% of loans to customers (2005: 36%). The gross amount of these loans as at 31 December 2006 and 31 December 2005 was KZT 25,335,348 thousand and KZT 23,603,470 thousand, respectively.

13 Loans to customers, continued

(c) Contractually overdue loans

Information in relation to loans with contractually overdue principal or interest as at 31 December 2006 and 31 December 2005 is summarised as follows:

	2006 KZT '000	2005 KZT '000
Gross loans with contractually overdue principal or interest	1,922,718	3,100,878
Provision for impairment	(1,259,730)	(710,700)
Net contractually overdue loans recorded in the balance sheet	**662,988**	**2,390,178**

As described in Note 2, the Bank uses its experience and judgement to estimate the amount of impairment losses for loans and advances to customers. The Bank has reviewed its current commercial loan portfolio and has identified loans of KZT 3,478,023 thousand (2005: KZT 8,919,764 thousand) which display indicators of impairment. The Bank has created a provision for impairment on these loans amounting KZT 1,305,384 thousand (2005: KZT 1,480,742 thousand). Changes in estimates could affect the provision for impairment. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment on commercial loans as at 31 December 2006 would be KZT 589,762 thousand lower or higher.

As for retail loans, the Bank has identified loans of KZT 863,319 thousand (2005: KZT 446,396 thousand) which display indicators of impairment. The Bank estimates potential loan impairment based on its past historical loss experience on these types of loans. As retail lending is relatively new to Kazakhstan, the Bank and the industry have limited historical experience in this type of lending on which to base a provision for impairment. The Bank has created a provision for impairment on these loans amounting KZT 456,978 thousand (2005: KZT 112,835 thousand). Changes in estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment on retail loans as at 31 December 2006 would be KZT 338,596 thousand lower or higher.

(d) Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 32, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

14 Available-for-sale securities

	2006 KZT '000	2005 KZT '000
Unpledged		
Debt instruments – Quoted		
Treasury notes of the Ministry of Finance of RK	4,654,727	933,211
Eurobonds of the Ministry of Finance of RK	3,400,574	7,703,255
Bonds of Development Bank of Kazakhstan	1,047,907	1,100,201
Kazakhstan Mortgage Company bonds	781,866	848,668
Municipal bonds of Astana city	743,344	795,699
Halyk Savings Bank of Kazakhstan bonds	302,505	303,963
Eurobonds of Bank of Development of Kazakhstan	287,058	1,808,246
Kazatomprom bonds	245,695	253,681
ATF bank bonds	155,899	154,537
Municipal bonds of Atyrau city	126,438	134,235
Kaztransoil eurobonds	-	223,238
Equity instruments - Quoted		
Shares of ATF Bank	1,866,530	-
Equity instruments - Unquoted		
Shares of Processing Centre	10,000	10,000
	13,622,543	**14,268,934**
Provision for impairment	-	(6,637)
	13,622,543	**14,262,297**
Pledged under sale and repurchase agreements		
Debt instruments – Quoted		
Treasury notes of the Ministry of Finance of RK	85,642	3,791,709
	85,642	**3,791,709**
Pledged under loans from other banks		
Debt instruments – Quoted		
Eurobonds of the Ministry Finance of RK	8,497,637	5,594,918
Eurobonds of Bank of Development of Kazakhstan	1,395,061	-
	9,892,698	**5,594,918**
	9,978,340	**9,386,627**

At 31 December 2006 and 31 December 2005 the ordinary shares of Processing Centre JSC are unquoted and carried at cost.

15 Other assets

	2006 KZT '000	2005 KZT '000
Documentary settlements	170,251	40,018
Accrued commission income	71,125	18,247
Advances on capital expenditures	36,069	143,602
Prepayments	35,272	9,494
Materials and supplies	33,246	34,607
Taxes prepaid, other than income tax	31,286	14,385
Other assets	48,928	42,931
	426,177	303,284
Provision for impairment	(3,175)	(36,500)
	423,002	**266,784**

16 Property and equipment

KZT'000	Land and buildings	Computer equipment	Vehicles	Construction in progress	Other	Total
Cost						
At 1 January 2005	367,141	368,008	110,751	-	126,041	971,941
Additions	168,112	272,263	80,846	152,361	17,233	690,815
Disposals	-	(10,790)	(13,268)	-	(9,248)	(33,306)
Transfers	-	14,036	-	(14,036)	-	-
At 31 December 2005	535,253	643,517	178,329	138,325	134,026	1,629,450
At 1 January 2006	535,253	643,517	178,329	138,325	134,026	1,629,450
Additions	120,160	312,888	86,960	497,416	96,381	1,113,805
Disposals	-	(2,616)	(6,147)	-	(60,343)	(69,106)
Transfers	74,519	106,713	-	(181,232)	-	-
At 31 December 2006	729,932	1,060,502	259,142	454,509	170,064	2,674,149
Depreciation						
At 1 January 2005	8,682	97,994	40,153	-	7,480	154,309
Depreciation charge	11,398	47,329	16,472	-	3,214	78,413
Disposals	-	(5,668)	(10,793)	-	(823)	(17,284)
At 31 December 2005	20,080	139,655	45,832	-	9,871	215,438
At 1 January 2006	20,080	139,655	45,832	-	9,871	215,438
Depreciation charge	14,245	144,540	29,373	-	16,446	204,604
Disposals	-	(1,116)	(2,888)	-	(7,190)	(11,194)
At 31 December 2006	34,325	283,079	72,317	-	19,127	408,848
Carrying amounts						
At 1 January 2005	**358,459**	**270,014**	**70,598**	**-**	**118,561**	**817,632**
At 31 December 2005	**515,173**	**503,862**	**132,497**	**138,325**	**124,155**	**1,414,012**
At 31 December 2006	**695,607**	**777,423**	**186,825**	**454,509**	**150,937**	**2,265,301**

17 Intangible assets

KZT'000	Computer software	Other	Total
Cost			
At 1 January 2005	54,598	4,477	59,075
Additions	70,553	1,758	72,311
Disposals	(25,000)		(25,000)
At 31 December 2005	100,151	6,235	106,386
At 1 January 2006	100,151	6,235	106,386
Additions	171,648	65,995	237,643
Disposals	-	(1,650)	(1,650)
At 31 December 2006	271,799	70,580	342,379
Amortisation			
At 1 January 2005	22,081	448	22,529
Amortisation charge	10,497	683	11,180
At 31 December 2005	32,578	1,131	33,709
At 1 January 2006	32,578	1,131	33,709
Amortisation charge	24,475	6,260	30,735
At 31 December 2006	57,053	7,391	64,444
Carrying amounts			
At 1 January 2005	**32,517**	**4,029**	**36,546**
At 31 December 2005	**67,573**	**5,104**	**72,677**
At 31 December 2006	**214,746**	**63,189**	**277,935**

18 Deposits and balances from banks and other financial institutions

	2006 KZT '000	2005 KZT '000
Term deposits	25,149,719	15,020,601
Syndicated bank loans	13,721,760	6,611,834
Vostro accounts	1,092,618	30,477
Accrued interest	334,008	132,012
	40,298,105	21,794,924

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2006 and 31 December 2005, there were three banks whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross amount of these balances as at 31 December 2006 and 31 December 2005 were KZT 33,259,388 thousand and KZT 17,484,084 thousand, respectively.

19 Amounts payable under repurchase agreements

	2006 KZT '000	2005 KZT '000
Amounts due to banks and other financial institutions	77,064	3,560,563

Securities pledged

As at 31 December 2006 and 31 December 2005, the Bank had pledged certain securities as collateral under repurchase agreements (refer to Note 14).

20 Current accounts and deposits from customers

	2006 KZT '000	2005 KZT '000
Current accounts and demand deposits		
- Retail	3,182,281	2,121,333
- Corporate	17,549,570	21,538,871
Term deposits		
- Retail	8,486,878	8,055,980
- Corporate	50,110,707	31,120,261
Accrued interest	990,657	791,229
	80,320,093	63,627,674

20 Current accounts and deposits from customers, continued

(a) Blocked accounts

As at 31 December 2006, the Bank maintained customer deposit balances of KZT 7,880,735 thousand (2005: KZT 8,206,495 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentration of current accounts and customer deposits

As at 31 December 2006 the balances of the ten largest customers totaled 65% (31 December 2005: 62%). These balances as at 31 December 2006 and 31 December 2005 were KZT 51,952,695 thousand and KZT 39,332,714 thousand, respectively.

21 Debt securities issued

	2006 KZT '000	2005 KZT '000
Debt securities issued		
Bonds	1,500,000	601,700
Discount	(9,359)	(14,135)
Accrued interest	9,479	3,802
	1,500,120	**591,367**
Subordinated debt securities issued		
Subordinated Bonds	11,004,120	3,000,000
Discount	(509,293)	(45,700)
Accrued interest	161,189	10,000
	10,656,016	**2,964,300**

As at 31 December 2006, debt securities issued comprised KZT denominated subordinated and non-subordinated bonds issued by the Bank with a par value of KZT 11,004,120 thousand and 1,500,000 thousand, respectively. In January 2006 the Bank conducted the third issue of subordinated bonds for the amount of KZT 8,004,120 thousand. As at 31 December 2006 the subordinated bonds of the second and third issues bear interest fixed at 6% and 8% per annum and mature in 2011 and 2013, respectively; the non-subordinated bonds of the first issue bear interest fixed at 6.5% per annum and mature in 2008. All three issues were placed at a discount.

22 Other liabilities

	2006 KZT '000	2005 KZT '000
Taxes payable, other than income taxes	150,335	49,902
Vacation accrued	128,487	85,941
Sundry creditors	107,986	127,507
Amounts payable to employees	17,273	26,253
Other liabilities	70,637	12,753
	474,718	**302,356**

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23 Deferred tax assets

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2006 and 31 December 2005. These deferred tax assets have been recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
KZT'000	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Investment securities	-	1,991	-	-	-	1,991
Loans to customers	232,986	444,459	-	-	232,986	444,459
Property and equipment	-	-	(221,414)	(126,759)	(221,414)	(126,759)
Other liabilities	58,461	39,442	-	-	58,461	39,442
Total deferred tax assets/(liabilities)	**291,447**	**485,892**	**(221,414)**	**(126,759)**	**70,033**	**359,133**

The rate of tax applicable for deferred taxes was 30% (2005: 30%). The above deductible temporary differences do not expire under current tax legislation. The net deferred tax asset as at 31 December 2006 and 31 December 2005 has been reflected in these financial statements.

Movement in temporary differences during the year:

KZT'000	**Balance 1 January 2006**	**Recognised in income statement**	**Balance 31 December 2006**
Available-for-sale securities	1,991	(1,991)	-
Loans to customers	444,459	(211,473)	232,986
Property and equipment	(126,759)	(94,655)	(221,414)
Other liabilities	39,442	19,019	58,461
	359,133	**(289,100)**	**70,033**

24 Share capital

(a) Issued capital and share premium

The issued and outstanding share capital comprises 83,683 fully paid ordinary shares, (2005: 62,763). The authorised share capital comprises 109,998 ordinary shares (2005: 109,998). The shares have a par value of KZT 95,598. The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at annual and general meetings of the Bank.

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24 Share capital, continued

(b) Dividends

Dividends payable are restricted to the maximum of the retained earnings of the Bank, which are determined according to legislation in Kazakhstan. In 2006 the Bank neither declared nor paid a dividend for 2005 (2005: KZT 1,563,879 thousand).

(c) Earnings per share

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

	2006	2005
Net income attributable to common shares, in thousand of KZT	3,818,147	3,797,986
Weighted average number of shares	62,935	62,763
Basic earnings per share, in KZT	**60,668**	**60,513**

25 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

(a) Market risk

i) Price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

ii) Fair value interest rate risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank's exposure to fair value interest rate risk at year end refer to notes 30 and 31.

iii) Currency risk
The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to note 33.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Board of Directors.

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Board of Directors. For further information on the Bank's exposure to liquidity risk at year end refer to note 32.

26 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2006 KZT '000	2005 KZT '000
Contracted amount		
Loan and credit line commitments	26,828,136	14,522,202
Letters of credit	3,737,674	1,211,258
Guarantees	2,634,491	1,441,064
Deposit placement commitments	-	983,775
Provisions	(64,330)	(45,531)
	33,135,971	18,112,768

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

(a) Analysis of movements in the provision for impairment

	2006 KZT '000	2005 KZT '000
Balance at the beginning of the year	45,531	1,394
Net charge for the period	18,799	44,137
Balance at the end of the year	64,330	45,531

(b) Operating leases

The Bank leases premises under operating leases. The leases expire in 2007. The remaining lease commitments amount to KZT 258,694 thousand. The lease contracts do not include contingent rentals.

During the current year KZT 279,395 thousand was recognised as an expense in the income statement in respect of these operating leases (2005: KZT 137,296 thousand).

27 Contingencies

(a) Insurance

The insurance industry in the Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(b) Litigation

In the ordinary course of business, the Bank 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 conditions of the results of future operations of the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

28 Related party transactions

(a) Control relationships

The parent of the Bank is Eurasian Financial Industrial Company JSC, an entity equally owned by three individuals, Mr. Mashkevich A., Shodiev P. and Ibragimov A. No publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration to the Board of Directors and Management Board includes only short term employee benefits and is included in employee compensation (refer note 10) is as follows:

	2006 KZT '000	2005 KZT '000
Members of the Board of Directors	112,852	119,554
Members of the Management Board	208,653	211,157
	321,505	330,711

The outstanding balances and average interest rates as at 31 December 2006 and 31 December 2005 with members of the Board of Directors and Management Board are as follows:

Balance Sheet	2006 KZT '000	Average Interest Rate	2005 KZT '000	Average Interest Rate
Assets				
Loans to members of the Board of Directors and the Management Board	1,759,121	4.2%	1,565,346	3.3%
Liabilities				
Deposits of members of the Board of Directors and the Management Board	1,797,479	9.4%	4,830,429	10.7%

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2006 KZT '000	2005 KZT '000
Income statement		
Interest income	46,837	24,291
Interest expense	286,081	428,869

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28 Related party transactions, continued

Transactions with other entities

The outstanding balances as at 31 December 2006 and 2005 and the related average interest rates and the results of transactions for the years ended 31 December 2006 and 2005 with other related entities are summarised in the table below.

	Parent company				Fellow subsidiaries				Others				Total	
	As at 31 December 2006 in KZT' 000	Average Interest Rate in 2006	As at 31 December 2005 in KZT' 000	Average Interest Rate in 2005	As at 31 December 2006 in KZT' 000	Average Interest Rate in 2006	As at 31 December 2005 in KZT' 000	Average Interest Rate in 2005	As at 31 December 2006 in KZT' 000	Average Interest Rate in 2006	As at 31 Decembe r 2005 in KZT' 000	Average Interest Rate in 2005	As at 31 December 2006 in KZT' 000	As at 31 December 2005 in KZT' 000
Balance sheet														
Assets														
Loans to customers	-	-	-	-	5,006,735	10.6%	8,323,067	11.2%	534,349	10%	182,725	10.1%	5,541,084	8,505,792
Liabilities														
Current accounts and deposits from customers	1,104,655	3%	1,346,163	3%	33,775,327	4.9%	22,914,131	2.5%	180,122	9.5%	148,768	7.8%	35,060,104	24,409,062
Commitments														
Loan and credit line commitments	-	-	-	-	865,753	-	588,271	-	33,497	-	-	-	899,250	588,271
Guarantees issued	342,265	-	-	-	224,596	-	1,119,761	-	-	-	-	-	566,861	1,119,761
Income statement														
Interest income	-	-	-	-	559,043	-	318,643	-	39,194	-	4,532	-	598,237	323,175
Interest expense	19,356	-	43,260	-	962,430	-	965,655	-	31,276	-	342	-	1,013,062	1,009,257
Fee and commission income	2,172	-	19,658	-	929,307	-	492,213	-	-	-	-	-	931,479	511,871
General and administrative expenses	196,163	-	116,713	-	4,441	-	2,043	-	153,139	-	112,059	-	353,743	230,815

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1
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30 Fair value of financial instruments

The estimated fair value of the Bank's financial assets and liabilities, as required to be disclosed by IAS 32 "Financial Instruments: Disclosure and Presentation", are as follows:

	31 December 2006 Fair Value KZT'000	31 December 2006 Carrying Value KZT'000	31 December 2005 Fair Value KZT'000	31 December 2005 Carrying Value KZT'000
ASSETS				
Cash	3,541,164	3,541,164	3,315,469	3,315,469
Due from the National Bank of the Republic of Kazakhstan	6,214,200	6,214,200	4,286,799	4,286,799
Placements with banks and other financial institutions	22,667,968	22,667,968	7,902,770	7,902,770
Loans to customers	93,993,080	92,835,826	65,568,226	64,585,622
Available-for-sale securities	23,600,883	23,600,883	23,648,924	23,648,924
Income tax prepaid	377,877	377,877	10,083	10,083
Other assets	423,002	423,002	266,784	266,784
LIABILITIES				
Deposits and balances from banks and other financial Institutions	40,298,105	40,298,105	21,794,924	21,794,924
Amounts payable under repurchase agreements	77,064	77,064	3,560,563	3,560,563
Current accounts and deposits from customers	80,320,093	80,320,093	63,627,674	63,627,674
Debt securities issued	1,427,453	1,500,120	579,443	591,367
Subordinated debt securities issued	10,319,545	10,656,016	2,643,615	2,964,300
Other liabilities	474,718	474,718	302,356	302,356

The estimated fair values of quoted available-for-sale assets are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

31 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2006 and 31 December 2005 and their corresponding average effective interest rates for the years then ended. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2006 Value KZT '000	2006 Average Effective Interest Rate	31 December 2005 Value KZT '000	2005 Average Effective Interest Rate
ASSETS				
Placements with banks and other financial institutions				
- KZT	15,655	1.61%	2,198,656	3.69%
- USD	21,184,157	5.60%	5,384,357	4.85%
- other	1,468,156	4.04%	319,757	1.00%
Loans to customers				
- KZT	56,837,690	13.53%	34,203,039	13.37%
- USD	34,734,079	12.03%	30,182,502	11.93%
-other	1,264,057	9.79%	200,081	9.70%
Available-for-sale securities				
- KZT	10,020,554	4.87%	6,069,564	6.47%
- USD	13,580,329	5.53%	17,579,360	4.80%
LIABILITIES				
Deposits and balances from banks and other financial institutions				
- KZT	7,951,684	7.95%	3,558,890	3.78%
- USD	31,263,857	7.75%	18,076,859	6.28%
-other	1,082,564	5.85%	159,175	2.40%
Amounts payable under reverse repurchase agreements				
- KZT	77,064	5%	3,560,563	2.36%
Current accounts and deposits from customers				
- KZT	32,263,545	5.96%	23,805,121	3.27%
- USD	46,154,804	4.71%	39,164,947	4.15%
-other	1,901,744	0.86%	657,606	1.00%
Debt securities issued				
KZT	1,500,120	6.52%	591,367	7.49%
Subordinated debt securities issued				
- KZT	10,656,016	7.91%	2,964,300	6.00%

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1
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32 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2006.

	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Assets	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**
Cash	1,167,273	-	-	-	-	2,373,891	3,541,164
Due from the NBRK	-	-	-	-	-	6,214,200	6,214,200
Placements with banks and other financial institutions	20,819,892	15,534	353,170	1,479,372	-	-	22,667,968
Precious metals	-	-	-	-	-	46,737	46,737
Loans to customers	1,832,762	402,505	11,427,756	51,077,523	28,095,280	-	92,835,826
Available-for-sale securities	322,937	1,015,488	13,460,457	4,562,699	2,362,773	1,876,529	23,600,883
Income tax prepaid	377,877	-	-	-	-	-	377,877
Deferred tax assets	-	-	-	-	-	70,033	70,033
Other assets	389,756	-	-	-	-	33,246	423,002
Property and equipment	-	-	-	-	-	2,265,301	2,265,301
Intangible assets	-	-	-	-	-	277,935	277,935
Total assets	**24,910,497**	**1,433,527**	**25,241,383**	**57,119,594**	**30,458,053**	**13,157,872**	**152,320,926**
Liabilities							
Deposits and balances from banks and other financial institutions	4,722,944	6,540,344	18,465,070	10,569,747	-	-	40,298,105
Amounts payable under repurchase agreements	77,064	-	-	-	-	-	77,064
Current accounts and deposits from customers	24,363,936	2,790,530	10,684,794	40,983,036	1,497,797	-	80,320,093
Debt securities issued	-	-	9,479	1,490,641	-	-	1,500,120
Subordinated debt securities issued	-	-	161,189	2,961,966	7,532,861	-	10,656,016
Provisions for off-balance sheet credit risk	64,330	-	-	-	-	-	64,330
Other liabilities	474,718	-	-	-	-	-	474,718
Total liabilities	**29,702,992**	**9,330,874**	**29,320,532**	**56,005,390**	**9,030,658**	**-**	**133,390,446**
Net position as at 31 December 2006	**(4,792,495)**	**(7,897,347)**	**(4,079,149)**	**1,114,204**	**21,427,395**	**13,157,872**	**18,930,480**
Net position as at 31 December 2005	(23,968,228)	(180,935)	(21,664,998)	43,864,520	11,186,634	3,738,565	12,975,558

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1
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33 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2006:

	KZT	USD	Other currencies	Total
	KZT '000	KZT '000	KZT '000	KZT '000
Assets				
Cash	1,358,785	1,776,904	405,475	3,541,164
Due from the NBRK	4,309,197	1,905,003	-	6,214,200
Placements with banks and other financial institutions	15,655	21,184,157	1,468,156	22,667,968
Precious metals	-	46,737	-	46,737
Loans to customers	56,837,690	34,734,079	1,264,057	92,835,826
Available-for-sale securities	10,020,554	13,580,329	-	23,600,883
Income tax prepaid	377,877	-	-	377,877
Deferred tax assets	70,033	-	-	70,033
Other assets	216,250	98,919	107,833	423,002
Property and equipment	2,265,301	-	-	2,265,301
Intangible assets	277,935	-	-	277,935
Total assets	**75,749,277**	**73,326,128**	**3,245,521**	**152,320,926**
Liabilities				
Deposits and balances from banks and other financial institutions	7,951,684	31,263,857	1,082,564	40,298,105
Amounts payable under repurchase agreements	77,064	-	-	77,064
Current accounts and deposits from customers	32,263,545	46,154,804	1,901,744	80,320,093
Debt securities issued	1,500,120	-	-	1,500,120
Subordinated debt securities issued	10,656,016	-	-	10,656,016
Provisions for off-balance sheet credit risk	64,330	-	-	64,330
Other liabilities	369,649	74,945	30,124	474,718
Total liabilities	**52,882,408**	**77,493,606**	**3,014,432**	**133,390,446**
Net balance sheet position as at 31 December 2006	**22,866,869**	**(4,167,478)**	**231,089**	**18,930,480**
Net balance sheet position as at 31 December 2005	14,580,542	(1,941,629)	336,645	12,975,558

34 Segment information

The Bank's operations are highly integrated and constitute a single industry segment for the purposes of IAS 14 "Segment reporting". The Bank's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Bank's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

35 Subsequent event

In January 2007 the Bank acquired 100% of the shares of Senim Pension Fund for KZT 377,315 thousand.

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1
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