

**JOINT STOCK COMPANY
KAZKOMMERTSBANK**

Consolidated Financial Statements
For the Years Ended 31 December 2006 and 2005
and Independent Auditors' Report

JOINT STOCK COMPANY KAZKOMMERTSBANK

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

The following statement, which should be read in conjunction with independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Kazkommertsbank and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2006 and 2005, and the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:


- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.


The consolidated financial statements for the years ended 31 December 2006 and 2005 were authorised for issue on 15 March 2007 by the Management Board of JSC Kazkommertsbank.

On behalf of the Management Board:



Zhusupova N.A.
Chairman of the Board

15 March 2007
Almaty



Shoinbekova G.K.
Chief Accountant

15 March 2007
Almaty

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Kazkommertsbank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC Kazkommertsbank and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated income statements, statements of changes in equity and cash flows statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Andrew Weekes
Engagement Partner
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Deloitte, LLP

Deloitte, LLP
State license on auditing of the Republic of Kazakhstan Number
0000015, type MFU-2, given by the Ministry of Finance of the
Republic of Kazakhstan dated September 13, 2006



15 March 2007

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	Notes	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Interest income	6	147,250	86,407
Interest expense	6	<u>(83,115)</u>	<u>(45,855)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		64,135	40,552
Provisions for impairment losses on interest bearing assets	7	<u>(32,887)</u>	<u>(17,833)</u>
NET INTEREST INCOME		<u>31,248</u>	<u>22,719</u>
Net gain on financial assets at fair value though profit or loss	8	4,545	849
Net gain on foreign exchange operations	9	5,403	1,591
Fee and commission income	10	17,537	10,684
Fee and commission expense	10	(1,672)	(1,269)
Net realized gain on investments available-for-sale		29	12
Dividends received		83	10
Other income	11	<u>3,042</u>	<u>2,690</u>
NET NON-INTEREST INCOME		<u>28,967</u>	<u>14,567</u>
OPERATING INCOME		60,215	37,286
OPERATING EXPENSES	12	<u>(18,039)</u>	<u>(13,368)</u>
OPERATING PROFIT		42,176	23,918
Provision for impairment losses on other transactions	7	(383)	(880)
Provision for guarantees and other off-balance sheet contingencies	7	(1,548)	(1,059)
Share of results of associates	22	<u>1,130</u>	<u>174</u>
PROFIT BEFORE INCOME TAX		41,375	22,153
Income tax expense	13	<u>(11,789)</u>	<u>(2,338)</u>
NET PROFIT		<u>29,586</u>	<u>19,815</u>
Attributable to:			
Equity holders of the parent		27,810	18,392
Minority interest		1,776	1,423
EARNINGS PER SHARE			
Basic and diluted (KZT)	14	64.83	50.95

On behalf of the Management Board of the Bank:

Zhusupova N.A.
Chairman of the Board

15 March 2007
Almaty

Shoinbekova G.K.
Chief Accountant

15 March 2007
Almaty


The notes on pages 10-70 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2006 AND 2005


	Notes	31 December 2006 (KZT million)	31 December 2005 (KZT million)
ASSETS:			
Cash and balances with national (central) banks	15	209,005	37,229
Precious metals	16	807	-
Financial assets at fair value through profit or loss	17	322,618	140,375
Loans and advances to banks	18	197,191	254,287
Loans to customers	19	1,678,840	743,411
Investments available-for-sale	20	2,628	427
Investments held to maturity	21	357	562
Investments in associates	22	1,755	425
Goodwill	23	2,405	2,405
Property, equipment and intangible assets	24	15,681	8,662
Other assets	25	13,015	7,086
TOTAL ASSETS		2,444,302	1,194,869
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks	26	884,301	379,206
Customer accounts	27	687,806	303,437
Derivative financial instruments	17	3,554	189
Debt securities issued	28	424,162	303,133
Other borrowed funds	29	68,814	50,604
Provisions	7	6,758	4,934
Deferred income tax liabilities	13	17,471	8,290
Dividends payable		1	1
Other liabilities	30	8,587	4,591
		2,101,454	1,054,385
Subordinated debt	31	78,922	52,213
Total liabilities		2,180,376	1,106,598
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital	32	6,995	4,996
Share premium	32	152,534	15,902
Property and equipment revaluation reserve		2,436	1,520
Reserves		86,689	58,877
Total equity attributable to equity holders of the parent		248,654	81,295
Minority interest		15,272	6,976
Total equity		263,926	88,271
TOTAL LIABILITIES AND EQUITY		2,444,302	1,194,869

On behalf of the Management Board of the Bank:



Zhusupova N.A.
Chairman of the Board

15 March 2007
 Almaty



Shoinbekova G.K.
Chief Accountant

15 March 2007
 Almaty

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JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005


	Share capital	Share premium	Investments available-for-sale fair value reserve	Investments revaluation reserve	Property and equipment revaluation reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2004	4,197	7,864	11	(13)	1,313	40,456	53,828	5,468	59,296
Share capital increase of									
- ordinary shares	289	4,142	-	-	-	-	4,431	-	4,431
- preference shares	512	3,915	-	-	-	-	4,427	-	4,427
Repurchase of own shares	(2)	(19)	-	-	-	-	(21)	-	(21)
Property and equipment revaluation	-	-	-	-	232	-	232	-	232
Depreciation of property and equipment revaluation reserve	-	-	-	-	(25)	25	-	-	-
Unrealized gains on revaluation of available-for-sale investments	-	-	1	-	-	-	1	-	1
Gains transferred to income statement on sale of available-for-sale investments	-	-	(11)	-	-	-	(11)	-	(11)
Effect of purchase of interest in Accumulation Pension Fund JSC ABN AMRO KaspıyMunaiGaz	-	-	-	-	-	-	-	126	126
Exchange differences on translation of foreign operations	-	-	-	16	-	-	16	(41)	(25)
Net profit	-	-	-	-	-	18,392	18,392	1,423	19,815
31 December 2005	<u>4,996</u>	<u>15,902</u>	<u>1</u>	<u>3</u>	<u>1,520</u>	<u>58,873</u>	<u>81,295</u>	<u>6,976</u>	<u>88,271</u>

JOINT STOCK COMPANY KAZKOMMERTSBANK


CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	Share capital	Share premium	Investments available-for-sale fair value reserve	Investments revaluation reserve	Property and equipment revaluation reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
31 December 2005	4,996	15,902	1	3	1,520	58,873	81,295	6,976	88,271
Share capital increase of - ordinary shares	2,000	136,890	-	-	-	-	138,890	-	138,890
Repurchase of own shares	(1)	(258)	-	-	-	-	(259)	-	(259)
Property and equipment revaluation	-	-	-	-	948	-	948	-	948
Depreciation of property and equipment revaluation reserve	-	-	-	-	(32)	32	-	-	-
Unrealized gains on revaluation of available-for-sale investments	-	-	68	-	-	-	68	-	68
Gains transferred to income statement on sale of available-for-sale investments	-	-	(29)	-	-	-	(29)	-	(29)
Exchange differences on translation of foreign operations	-	-	-	73	-	(142)	(69)	6,520	6,451
Net profit	-	-	-	-	-	27,810	27,810	1,776	29,586
31 December 2006	6,995	152,534	40	76	2,436	86,573	248,654	15,272	263,926

On behalf of the Management Board of the Bank:


 Zhusupova N.A.
 Chairman of the Board

15 March 2007
 Almaty


 Shoimbekova G.K.
 Chief Accountant

15 March 2007
 Almaty

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JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	Notes	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		41,375	22,153
Adjustments for:			
Provision for impairment losses on interest bearing assets	7	32,887	17,833
Provision for reserves for impairment losses on other transactions	7	383	880
Provision for guarantees and other off-balance contingencies	7	1,548	1,059
Unrealised gain and amortisation of discounts on securities		(363)	(1,439)
Amortization of discount on issued securities		156	500
Depreciation and amortization	12, 24	1,833	1,564
Change in interest accruals, net		25,966	1,434
Unrealized exchange loss		2,855	276
Share of results of associates	22	(1,130)	(174)
Net gain on sale of property, equipment and intangible assets	11	(17)	(28)
Net change in fair value of financial assets at fair value though profit or loss		10,371	96
		<u>115,864</u>	<u>44,154</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with Central Bank of Russian Federation		(1,072)	142
Loans and advances to banks		(84,218)	(38,337)
Precious metals		(807)	-
Financial assets at fair value through profit or loss		(183,671)	(63,491)
Loans to customers		(928,684)	(254,007)
Other assets		(5,018)	3,475
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		401,197	149,542
Customer accounts		422,316	133,686
Other borrowed funds		18,200	45,971
Other liabilities		2,357	1,722
		<u>(243,536)</u>	<u>22,857</u>
Cash (outflow)/inflow from operating activities before taxation			
Income tax paid		(2,369)	(2,082)
		<u>(245,905)</u>	<u>20,775</u>
Net cash (outflow)/inflow from operating activities			

JOINT STOCK COMPANY KAZKOMMERTSBANK


CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	Notes	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	24	(7,715)	(2,566)
Proceeds on sale of property, equipment and intangible assets		193	135
Dividends received		-	10
Net proceeds on (purchase)/sale of investments available-for-sale		(2,394)	519
Net proceeds on redemption of investments held to maturity		211	4
Acquisition of investments in associates	22	(200)	(33)
Acquisition of subsidiaries, net of cash acquired of entities		-	(3,389)
Net cash outflow from investing activities		<u>(9,905)</u>	<u>(5,320)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		138,890	4,431
Issue of preference share capital		-	4,427
Proceeds from debt securities issued		113,157	95,731
Redemption of debt securities issued		-	(2,480)
Subordinated debt		25,680	28,751
Repurchase of own shares		(259)	(21)
Dividends paid		(636)	(669)
Net cash inflow from financing activities		<u>276,832</u>	<u>130,170</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		21,022	145,625
CASH AND CASH EQUIVALENTS, beginning of year	15	227,476	81,858
<i>Effect of changes in foreign exchange rate on cash and cash equivalents</i>		<u>718</u>	<u>(7)</u>
CASH AND CASH EQUIVALENTS, end of year	15	<u>249,216</u>	<u>227,476</u>

Interest paid and received by the Group in cash during the year ended 31 December 2006 amounted to KZT 75,112 million and KZT 127,355 million, respectively.


Interest paid and received by the Group in cash during the year ended 31 December 2005 amounted to KZT 40,709 million and KZT 81,440 million, respectively.

On behalf of the Management Board of the Bank:



 Zhusupova N.A.
 Chairman of the Board

15 March 2007
 Almaty



 Shoinbekova G.K.
 Chief Accountant

15 March 2007
 Almaty

The notes on pages 10-70 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JOINT STOCK COMPANY KAZKOMMERTSBANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

1. ORGANISATION

JSC Kazkommertsbank (the “Bank”, or “Kazkommertsbank”) is a joint stock bank and operates in the Republic of Kazakhstan since 1990. The Bank conducts its operations under the license № 48 issued by the National Bank of the Republic of Kazakhstan (“NBRK”). The Bank’s primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 135Zh, Gagarin str., Almaty, Republic of Kazakhstan.

The Bank has 22 branches in the Republic of Kazakhstan, and a representative office in London (Great Britain) and Dushanbe (Tajikistan).

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

Name	Country of operation	The Bank ownership interest		Type of operation
		2006	2005	
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
LLP Processing Company	Republic of Kazakhstan	100%	100%	Payment card and related services
Kazkommerts International B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Capital II B.V.	Kingdom of Netherlands	100%	100%	Raising funds for the Bank on international capital markets
JSC OCOPAIM Grantum Asset Management	Republic of Kazakhstan	100%	100%	Investment management of pension assets
JSC Kazkommerts Life	Republic of Kazakhstan	100%	-	Life insurance
JSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	93.58%	93.58%	Commercial bank
JSC Grantum APF	Republic of Kazakhstan	80.01%	80.01%	Pension fund
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	65%	65%	Insurance

Notwithstanding Kazkommertsbank had no ownership in the share capital of LLP Moskommertsbank (“MKB”), a commercial bank in the Russian Federation, MKB was included in the consolidated financial statements of the Group since the Bank was able to and exercised effective control over its activity. The control assumed a possibility for Kazkommertsbank to issue loans to customers of MKB and receive income from such activity. In 2003 shareholders of MKB and Kazkommertsbank entered into agreements of trust management of 60.04% interest in the share capital of MKB. At the same time between shareholders of MKB owning 39.96% interest in the share capital of MKB and Kazkommertsbank there is an agreement on segregation of responsibility regarding management of MKB providing for non-involvement of these shareholders in the policy of the activity of MKB determined by Kazkommertsbank. In September 2006 Kazkommertsbank and shareholders of MKB cancelled the agreements of trust management for 2.6% interest in the share capital of MKB, decreasing the trust management from 60.04% to 57.44%. In fourth quarter of 2006 MKB increased its charter capital by 750 million Russian roubles (KZT 3,608 million at average exchange rate effective in 4th quarter of 2006) and additional paid-in capital by 562.5 million Russian roubles (KZT 2,706 million at average exchange rate effective in 4th quarter of 2006). On 15 December 2006 the Board of Directors of Kazkommertsbank approved an informal agreement between Kazkommertsbank and the existing shareholders of MKB on the acquisition of 52.11% interest in the share capital of MKB and on obtaining remaining 47.89% interest in trust management. At present time permission on acquisition was received from the Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial organizations (“AFN”). Related documentation was sent to the regulatory bodies of the Russian Federation. Expected date of obtaining permission from the regulatory bodies of the Russian Federation is March of 2007, while acquisition of interest in share capital of MKB is expected to take place in April of 2007.

JSC Kazkommerts Securities is a joint stock company and operates under laws of the Republic of Kazakhstan since 1997. The company’s primary business consists of trading with securities, including broker and dealing operations, consulting in investments and corporate finances, organization of issues, allocation and underwriting of securities, and purchase and sale of securities in the capacity of the agent. The company has license № 0401200324 dated 27 November 2000 issued by the National Bank of the Republic of Kazakhstan. In 2005 the company received license for investment portfolio management № 0403200363 dated 30 September 2005 issued by the National Bank of the Republic of Kazakhstan.

JSC Insurance Company Kazkommerts-Policy is a joint stock company and operates under laws of the Republic of Kazakhstan since 1996. The company’s primary business consists of insurance of property, cargoes, auto insurance, civil liability insurance of vehicle owners, insurance of other civil liabilities and reinsurance. The company has licenses on voluntary insurance services №13-8/1 DOS dated 1 July 2005 and on obligatory insurance services №13-8/1 OS dated 1 July 2005 issued by the National Bank of the Republic of Kazakhstan.

JSC Kazkommertsbank Kyrgyzstan is a joint stock bank and operates under laws of the Kyrgyz Republic since 1991. The Bank’s operations are regulated by the National Bank of the Kyrgyz Republic according to license № 010. The Bank’s primary business consists of commercial banking activities, acceptance of deposits from individuals, transfer of payments, issue of loans, operations with foreign exchange and derivative instruments, originating loans and guarantees.

JSC Kazkommerts Life is a joint stock company and operates under laws of the Republic of Kazakhstan. The company’s primary business consists of life insurance. The company has a license on life insurance services №42-1/1 dated 28 December 2006 issued by the AFN and 28 December 2006 is determined to be the date of commencement of operations.

LLP Processing company is a limited liability partnership and operates under laws of the Republic of Kazakhstan since 9 July 2004. The company is registered with the Ministry of Justice of the Republic of Kazakhstan under № 64313-1910-TOO. The Company’s primary business is to provide payment card and related services.

Kazkommerts International BV is a limited liability partnership (B.V.) and operates under laws of the Kingdom of Netherlands since 1 October 1997. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license №24278506 dated 1 October 1997 for raising funds, including issuance of bonds and other securities, and entering into agreements regarding those activities issued by Chamber of Commerce of Netherlands.

Kazkommerts Finance II BV is a limited liability partnership (B.V.) and operates under laws of the Kingdom of Netherlands since 13 February 2001. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license №24317181 dated 13 February 2001 for conducting separate types of banking and other types of operations issued by Chamber of Commerce of Netherlands.

Kazkommerts Capital II BV is a limited liability partnership (B.V.) and operates under laws of the Kingdom of Netherlands since 11 April 2000. The Company was established for the primary purpose of raising funds for the Bank at foreign capital markets. The company has license №24305284 dated 11 April 2000 for conducting operations issued by Chamber of Commerce of Netherlands.

In October 2005, Kazkommertsbank acquired from JSC DB ABN AMRO Bank 100 % shares in a pension assets management company – JSC OCOPAİM ABN AMRO Asset Management Kazakhstan (the “ABN AM”) and 80.01% shares in the Accumulation Pension Fund JSC ABN AMRO KaspiyMunaiGaz (the “ABN APF”) (see Note 23). In the agreement with the seller, ABN APF and ABN AM received new names, JSC Grantum APF and JSC OCOPAİM Grantum Asset Management (“Grantum PAMC”), respectively.

Grantum PAMC is a joint stock company and operates under laws of the Republic of Kazakhstan since 1998. The company’s primary business consists of investment management of pension assets. The company has a license on investment management of pension assets №0412200149 dated 18 August 2004 issued by the AFN, license on investment portfolio management №0403200199 dated 18 August 2004 issued by the AFN, and license on broker/dealer activity at the stock market without the right to maintain customer accounts №0402200216 dated 18 August 2004.

Grantum APF is a joint stock company and operates since 1998 under laws of the Republic of Kazakhstan. The company’s primary business consists of attraction of pension contributions of depositors and making pension payments to recipients under laws of the Republic of Kazakhstan. The company operates based on the state license on attraction of pension contributions and making pension payments №0000019 dated 22 January 2004, issued by the AFN.

As at 31 December 2006, the following shareholders owned the issued shares of the Bank:

	Shares	(%) ⁽¹⁾
JSC Central-Asian Investment Company ⁽²⁾	184,679,013	32.1
European Bank of Reconstruction and Development	48,909,043	8.5
Bank of New York	260,934,622	45.4
Directors and Management Board members	199,213,086	34.6
Nurzhan Subkhanberdin	169,229,894	29.4
Direct	72,570,672	12.6
Indirect	96,659,222	16.8
Nina Zhussupova (indirect)	29,983,192	5.2
Other shareholders		
JSC Central-Asian Investment Company (excluding the interests in it of		
Mr. Subkhanberdin and Ms. Zhussupova)	78,377,681	13.7
other direct shareholders	8,055,350	1.4
	<hr/>	<hr/>
Total	574,837,398	100

⁽¹⁾ As at 31 December 2006 the number of issued common shares of Kazkommertsbank amounted to 574,837,398. JSC Central-Asian Investment Company, European Bank of Reconstruction and Development, N. Subkhanberdin and other direct shareholders constitute direct shareholders of Kazkommertsbank.

⁽²⁾ JSC Central-Asian Investment Company (“CAIC”) is one of the entities through which the Directors and Management Board members own shares of Kazkommertsbank. As at 31 December 2006 CAIC held 184,679,013 shares of Kazkommertsbank. At the same date N. Subkhanberdin held 44.8% of shares of CAIC, and N. Zhussupova held 12.8% of shares of CAIC. The table above also includes holdings in the form of GDR of N. Subkhanberdin and N. Zhussupova.

These consolidated financial statements were authorized for issue by the Bank’s Management Board on 15 March 2007.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements are presented in millions of Kazakhstan tenge (“KZT million” or “mln. tenge”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of land and buildings at revalued amounts according to International Accounting Standard (“IAS”) # 16 “Property, Plant and Equipment”.

Kazkommertsbank and its subsidiaries in the Republic of Kazakhstan maintain its accounting records in accordance with IFRS, while its foreign subsidiaries maintain accounting records in accordance with the requirements of their countries of residence where subsidiaries operate. These consolidated financial statements have been prepared based on the accounting records of Kazkommertsbank and its subsidiaries, and have been adjusted to conform to IFRS.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Kazkommertsbank and entities controlled by the Bank made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets (including identifiable intangible assets), liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively. For a business combination involving entities or business under common control all assets and liabilities of a subsidiary are measured at their carrying values recorded in the stand-alone financial statements of the subsidiary with the difference between the carrying value of the share in net assets of the subsidiary and the cost of acquisition recorded directly in equity attributable to the equity holders of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" and the following procedures are done:

- assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- income and expense items of the foreign entity are translated at the average exchange rate for the period;
- all resulting exchange differences are classified in equity until the disposal of the investment;
- on disposal of the investment in the foreign entity, related exchange differences are recognized in the income statement.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is recorded in the income statement in the period of acquisition.

Where a group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

As at 31 December 2006 fair value of investments, assets, liabilities, revenue and income of associated companies for the year then ended are presented as follows:

Name of associated company	Fair value of investments in associated company (KZT million)	Total assets of associated company (KZT million)	Total liabilities of associated company (KZT million)	Revenue of associated company (KZT million)	Profit (KZT million)
JSC APF Ular Umit	725	2,568	778	3,469	806
JSC OCOPAIM Zhetysu Asset Management Company	993	1,995	10	1,483	823

As at 31 December 2005 fair value of investments, assets, liabilities, revenue and income of associated companies for the year then ended are presented as follows:

Name of associated company	Fair value of investments in associated company (KZT million)	Total assets of associated company (KZT million)	Total liabilities of associated company (KZT million)	Revenue of associated company (KZT million)	Profit (KZT million)
JSC APF Ular Umit	388	1,136	195	2,189	422

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Bank's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

The Bank tests goodwill for impairment quarterly.

If the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Bank:

- reassesses the identification and measurement of the Bank's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- recognises immediately in profit or loss any excess of the value of identifiable assets, liabilities and contingencies over the acquisition value remaining after that reassessment on the date of acquisition.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in other subsidiaries and associates

Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Group as a whole, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as investments available-for-sale.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to 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.

Cash and balances with national (central) banks

Cash and balances with national (central) banks are basically cash and cash equivalents and include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation, and National Bank of Kyrgyz Republic with original maturity within 90 days, and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included in cash equivalents due to restrictions on its availability.

Precious metals

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

Loans and advances to banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Loans and advances to banks are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities acquired principally for the purpose of selling them in the near future, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or securities that upon initial recognition are designated by the Group at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The bank uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities is recognized in the consolidated income statement at Net gain on financial assets at fair value through profit or loss. The Group does not reclassify financial instruments in or out of this category while they are held.

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments include forwards on foreign currency, precious metals and securities, and swaps. The Group does not apply hedge accounting.

Repurchase and reverse repurchase agreements

The Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repurchase agreements are retained in the consolidated financial statements and consideration received under these agreements is recorded as loans and advances from banks and customer accounts.

Assets purchased under reverse repurchase agreements are recorded in the consolidated financial statements as loans and advances to banks and loans to customers which are collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

Loans to customers

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a syndicated loan.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus initial direct costs and fees that are integral to the interest rate. For loans issued at lower than market terms the difference between the nominal amount of consideration given and the present value of future cash flows discounted at market rate at inception is recognized in the consolidated income statement in the period the loan is issued as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances to banks and customers are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor’s funds.

Non-accrual loans

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

Allowance for impairment losses

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjustment of an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency, business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb probable losses incurred on the risk assets.

Finance leases

Financial leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value, which amounts to the purchase value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the management's valuation is used. Interest income on debt investments is recognized in the consolidated income statement as interest income on investments in securities. Dividends received on equity investments are included in dividend income in the consolidated income statement.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Property, equipment and intangible assets

Property and equipment, except for buildings and other real estate and construction, and intangible assets are carried at historical cost less accumulated depreciation. Buildings and other real estate and construction are carried at market value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and intangible assets is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1-5%
Furniture and equipment	8-33%
Intangible assets	15-33%

The carrying amounts of property, equipment and intangible assets 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 to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Buildings and other real estate and construction held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and other real estate or construction is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Deposits from banks and customers

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent promissory notes, eurobonds and bonds issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

Subordinated debt

Subordinated debt is initially recognized at fair value, which usually amounts to the net proceeds from the issue, less directly attributable transaction expenses incurred. Subsequently, these liabilities are measured at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

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.

Guarantees and letters of credit

Guarantees and letters of credit are initially recognized at fair value. Subsequently they are measured at the amortized cost taking into account commission received or paid equally during the effective period of the instrument. Guarantees issued are evaluated regularly and in case of excess of assessed loss over the carrying value, the provision is established for the difference. Such losses are evaluated based on the financial position of the customer, compliance with the changes of the contracts and business conditions.

Contingent assets

Contingent assets from received financial guarantees appear when the Group has indications of a loss as a result of a specific debtor's failure to make a timely payment on initial or amended terms of the debt instrument. The contingent asset arises where an economic profit can be received. If it is actually clear that the inflow of economic benefit increases, the asset and related income is reflected in the financial statements of the period, when changes take place.

Share capital and share premium

Share capital is recognized at historic cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

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.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Preference shares

Preference shares having a prescribed dividend amount are considered to be compound financial instruments in accordance with the substance of the contractual arrangement and accordingly the liability and equity components are presented separately in the balance sheet. On initial recognition the equity component is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. The fair value of the liability component on initial recognition is estimated by discounting expected future cash flows at a market interest rate for a comparable debt instrument. Subsequently the liability component is measured according to the same principles used for subordinated debt, and the equity component is measured according to the same principles used for share capital.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the countries in which the Bank and its subsidiaries operate, the Group withholds pension contributions from employee wages and transfers them to pension funds. The existing state pension systems provide for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Group does not have any pension arrangements separate from the state pension system of the countries in which the Group operates. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. 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 other assets in the accompanying consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated profit and loss accounts as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

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

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in the accompanying consolidated balance sheets within reserves 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. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal 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 reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is 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, are transferred by the Group to the reinsurer.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2006	31 December 2005
KZT/1 US Dollar	127.00	133.98
KZT/1 Euro	167.12	158.99
KZT /1 Kyrgyz Som	3.36	3.24
KZT /1 Russian Rouble	4.82	4.66

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have not been reported separately within these consolidated financial statements since the management of the Group believes that the main segment is the Commonwealth of Independent States, including the Republic of Kazakhstan, (CIS), which is characterized by similar risks and profitability. In addition, over 90% of the Group's operations are conducted within the CIS.

Adoption of new and revised International Financial Reporting Standards

In 2006 the following interpretations and amendments applicable to the Bank became effective:

- IFRIC 4 "Determining Whether an Arrangement Contains a Lease" (effective 1 January 2006);
- IFRIC 8 "Scope of IFRS 2" (effective 1 May 2006);
- IFRIC 9 "Reassessment of Embedded Derivatives" (effective 1 June 2006);
- Amendment to IAS 39 regarding the financial guarantee contracts (effective 1 January 2006);
- Amendment to IAS 39 regarding the fair value option (effective 1 January 2006).

The effect of these changes on the financial statements of the Group is not significant.

At the date of authorization of these financial statements, the following Standards and Interpretations applicable to the Group were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures” (effective 1 January 2007);
- Amendments to IAS 1 regarding disclosure on the objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

4. RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at 31 December 2005 and for the year then ended to conform to the presentation as at 31 December 2006 and for the year then ended as current year presentation provides a better view of the financial position of the Group.

In particular, securities purchased under reverse repurchase agreement have been included as loans and advances to banks and loans to customers and securities sold under repurchase agreements have been included as loans and advances from banks and customer accounts.

5. ACQUISITION

On 01 November 2006 the Group acquired 50% share in JSC OCOPAIM Zhetysu Asset Management Company.

As of 31 December 2006 the Group has not consolidated JSC OCOPAIM Zhetysu Asset Management Company as Kazkommertsbank does not have the power to govern the financial and operating policies of the company so as to obtain benefits from its activities.

6. NET INTEREST INCOME

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Interest income		
Interest income on loans to customers and on reverse repurchase agreements:		
- loans to customers	129,117	75,648
- reverse repurchase agreements	1,351	608
Interest on debt securities	7,183	4,087
Interest income on loans and advances to banks and on reverse repurchase agreements:		
- loans and advances to banks	6,532	3,923
- reverse repurchase agreements	462	38
Amortization of discount on loans	2,605	2,103
	<u>147,250</u>	<u>86,407</u>
Interest expense		
Interest on debt securities issued	36,610	22,136
Interest expense on customer accounts and repurchase agreements:		
- customer accounts	20,034	11,649
- repurchase agreements	98	40
Interest expense on loans and advances from banks and repurchase agreements:		
- loans and advances from banks	19,514	10,475
- repurchase agreements	1,773	97
Dividends	636	669
Interest expense on securitization program	3,744	-
Other interest expense	706	789
	<u>83,115</u>	<u>45,855</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>64,135</u>	<u>40,552</u>

7. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks (KZT million)	Loans to customers (KZT million)	Total (KZT million)
31 December 2004	533	29,879	30,412
Provision	712	17,121	17,833
Write-off of assets	-	(5,359)	(5,359)
Recoveries of assets previously written off	-	531	531
Exchange rate difference	-	(10)	(10)
	<u>1,245</u>	<u>42,162</u>	<u>43,407</u>
31 December 2005	1,245	42,162	43,407
(Recovery)/provision	(390)	33,277	32,887
Write-off of assets	-	(909)	(909)
Recoveries of assets previously written off	-	121	121
Exchange rate difference	2	(715)	(713)
	<u>857</u>	<u>73,936</u>	<u>74,793</u>
31 December 2006	857	73,936	74,793

The movements in insurance provisions and allowances for impairment losses on other transactions were as follows:

	Insurance provisions (KZT million)	Other assets (KZT million)	Total (KZT million)
31 December 2004	1,557	111	1,668
Provision	788	92	880
Write-off of assets	-	(81)	(81)
Recoveries of assets previously written off	-	6	6
Exchange difference	-	3	3
	<hr/>	<hr/>	<hr/>
31 December 2005	2,345	131	2,476
Provision	358	25	383
Write-off of assets	-	(39)	(39)
Recoveries of assets previously written off	-	4	4
Exchange difference	-	(4)	(4)
	<hr/>	<hr/>	<hr/>
31 December 2006	<u>2,703</u>	<u>117</u>	<u>2,820</u>

Insurance provisions comprised:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Property	997	894
Vehicles	664	708
Civil liability for owners of vehicles	215	282
Civil liability for damage	63	64
Other	764	397
	<hr/>	<hr/>
Total insurance provisions	<u>2,703</u>	<u>2,345</u>

The movements in provision for guarantees and other off-balance sheet contingencies were as follows:

	2006 (KZT million)	2005 (KZT million)
1 January	2,589	1,530
Provision for the period	1,548	1,059
Exchange rate difference	(82)	-
	<hr/>	<hr/>
31 December	<u>4,055</u>	<u>2,589</u>
	<hr/>	<hr/>
Total provisions	<u>6,758</u>	<u>4,934</u>

8. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Trading (loss)/gain on operations with financial assets at fair value through profit or loss, net		
- Bonds	(496)	(87)
- Ordinary shares	17	68
- Derivative financial instruments on bonds	(149)	-
- Derivative financial instruments on foreign currency	6,553	(11)
Fair value adjustment on financial assets at fair value through profit or loss, net		
- Bonds	581	(260)
- Ordinary shares	919	1,247
- Derivative financial instruments on foreign currency	(2,879)	(108)
- Derivative financial instruments on precious metals	(1)	-
Total net gain on financial assets at fair value through profit or loss	<u>4,545</u>	<u>849</u>

9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Dealing, net	4,435	1,869
Translation differences, net	<u>968</u>	<u>(278)</u>
Total net gain on foreign exchange operations	<u>5,403</u>	<u>1,591</u>

10. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Fee and commission income:		
Cash operations	4,896	3,446
Documentary operations	3,393	2,144
Foreign exchange and securities operations	2,492	1,334
Settlements	2,018	1,801
Plastic cards operations	1,890	1,227
Encashment operations	170	140
Other	2,678	592
	<hr/>	<hr/>
Total fee and commission income	17,537	10,684
	<hr/>	<hr/>
Fee and commission expense:		
Plastic cards services	692	468
Insurance activity	474	368
Foreign exchange and securities operations	131	105
Correspondent bank services	107	77
NBRK computation center services	81	82
Documentary operations	48	28
Other	139	141
	<hr/>	<hr/>
Total fee and commission expense	1,672	1,269
	<hr/>	<hr/>

11. OTHER INCOME

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Insurance income	2,451	2,394
Fines and penalties received	89	109
Income from sale of property, equipment and intangible assets	28	28
Other	474	159
	<hr/>	<hr/>
Total other income	3,042	2,690
	<hr/>	<hr/>

12. OPERATING EXPENSES

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Staff costs	9,154	6,517
Depreciation and amortization	1,833	1,564
Lease	1,134	514
Advertising costs	1,038	587
Value added tax	640	456
Property and equipment maintenance	635	666
Communications	476	367
Payments to the Individuals' Deposit Insurance Fund	402	311
Business trip expenses	323	256
Vehicle maintenance	210	150
Bank cards services	207	130
Security services	204	145
Taxes, other than income tax	177	144
Consulting and audit services	136	257
Charity and sponsorship expenses	98	70
Training and information services	96	95
Stationery and blanks	92	72
Representative expenses	49	45
Mail and courier expenses	43	40
Other inventories	41	37
Legal services	20	27
Cash collection expenses	15	82
Penalties and fines	14	212
Other expenses	1,002	624
Total operating expenses	<u>18,039</u>	<u>13,368</u>

13. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax effect of temporary differences as at 31 December 2006 and 2005 comprise:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Deferred assets:		
Unamortized commission for loan issue	191	-
Unrealized revaluation of investments	10	-
Other assets	482	459
Total deferred assets	683	459
Deferred liabilities:		
Loans to banks and customers	13,662	7,440
Property, equipment and intangible assets	1,583	650
Provisions under guarantees and letters of credit	1,167	372
Unrealized revaluation of investments	1,530	183
Investments in associates	201	94
Other liabilities	11	10
Total deferred liabilities	18,154	8,749
Net deferred tax liabilities	17,471	8,290

The increase of the deferred income tax is caused by the increase in deferred tax liabilities on the asset impairment provisions by 83.6%, increase in revaluation amount of securities and derivative financial instruments by 736.1% and increase in deferred tax liabilities on property, equipment and intangible assets by 143.5%. The increase in deferred tax liability on the asset impairment provisions was affected by a significant increase in the loan portfolio of the Bank in 2006 of 122.5%. The increase in deferred tax liability on revaluation of derivative financial instruments was affected by an acute fluctuation in the exchange rate of USD to KZT and Euro. The increase in deferred tax liability on property, equipment and intangible assets was affected by an increase in initial and revalued cost of fixed and intangible assets in 2006 of 62.5%.

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Profit before income tax	41,375	22,153
Tax at the statutory tax rate (30%)	12,413	6,646
Tax effect of permanent differences	(624)	(2,713)
Adjustment of prior periods	-	(1,595)
Income tax expense	11,789	2,338
Current income tax expense	3,015	1,096
Deferred income tax expense	8,774	1,242
Income tax expense	11,789	2,338
	2006 (KZT million)	2005 (KZT million)
Deferred income tax liabilities		
1 January	8,290	6,976
Decrease in property and equipment revaluation reserve	407	72
Deferred income tax expense	8,774	1,242
31 December	17,471	8,290

14. EARNINGS PER SHARE

	Year ended 31 December 2006 (KZT million)	Year ended 31 December 2005 (KZT million)
Net profit for the year attributable to equity holders of the parent	<u>27,810</u>	<u>18,392</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>428,947,990</u>	<u>360,965,715</u>
Earnings per share – basic and diluted (KZT)	<u>64.83</u>	<u>50.95</u>

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Cash on hand	31,100	17,425
Balances with the national (central) banks	<u>177,905</u>	<u>19,804</u>
Total cash and balances with the national (central) banks	<u>209,005</u>	<u>37,229</u>

The balances with Central Bank of Russian Federation (“CBR”) as at 31 December 2006 and 2005 include KZT 1,712 million and KZT 641 million, respectively, which represents the permanent minimum reserve deposits required by the Central Bank of Russian Federation. The Group is required to maintain the reserve balance at the Central Bank of Russian Federation at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Cash and balances with the national (central) banks	209,005	37,229
Loans and advances to banks in OECD countries	41,923	190,888
Less minimum reserve deposit with CBR	<u>(1,712)</u>	<u>(641)</u>
Total cash and cash equivalents	<u>249,216</u>	<u>227,476</u>

16. PRECIOUS METALS

Precious metals comprise:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Refined precious metals	<u>807</u>	<u>-</u>
Total precious metals	<u><u>807</u></u>	<u><u>-</u></u>

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Debt securities	309,405	138,568
Equity investments	6,126	1,726
Derivative financial instruments	<u>7,087</u>	<u>81</u>
Total financial assets at fair value through profit or loss	<u><u>322,618</u></u>	<u><u>140,375</u></u>

	Effective interest rate %	31 December 2006 (KZT million)	Effective interest rate %	31 December 2005 (KZT million)
Debt securities:				
Bonds of Depfa Investment Bank LTD	5.19%	50,873	-	-
Bonds of Freddie Mac	1.10227-6.8%	45,314	4.60%	12,965
Eurobonds of Dexia Banque Luxemburg	-	44,313	-	-
Eurobonds of Fannie MAE International Housing	-	37,861	-	-
Short-term notes of NBRK	5.035%	34,895	2.22%	1,002
Eurobonds of Fortis Banque Luxemburg	-	18,992	-	-
Bonds of Alliance Bank	8.5%	9,154	-	-
Eurobonds of Hellenic Republic, Greece	3.6%	8,233	-	-
Eurobonds of KFW Intl Finance	4.7%	6,478	5.25%	6,722
Eurobonds of Caisse D'Amortissement Delta France	5.00%	6,384	4.60%	6,732
Eurobonds of JP Morgan Chase Bank London	8.73-17.50%	5,359	-	-
Corporate bonds of issuers of the Russian Federation	7.95-13.30%	5,321	7.5-15.5%	5,371
Bonds of Batys Transit	8.00%	5,277	-	-
Bonds of KAZEXPORTASTYK Holding	9.9-10.2%	4,621	-	-
Bonds of ATF Bank	8.125-10.9%	4,272	8.50-10%	4,466
Bonds of Food Contract Corporation	8.00%	3,647	-	-
Bonds of Small Business Development Fund	9.00%	2,134	-	-
Bonds of Halyk Bank	6.8-8.125%	1,843	7.5-7.75%	556
Bonds of CenterCredit Bank	8-10.00%	1,536	8.5-10.4%	680
Bonds of local executive bodies of the Russian Federation	7.20-10.90%	1,496	8.20-13.30%	1,080
Bonds of federal loan of the Ministry of Finance of the Russian Federation	6.30-10.00%	1,392	10%	210
Bonds of JP Morgan Chase Bank London	11.25%	1,092	-	-
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125%	1,052	11.13%	2,159
State treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	3.78-6.68%	998	2.75-5.5%	6,783
Eurobonds of TuranAlemFinance B.V.	7.875-8%	905	7.875-8%	334
Eurobonds of CALYON	-	696	-	-
Bonds of KazStroyService	9.00%	662	-	-
Eurobonds of ALB Finance B.V.	9%	645	9%	280
Eurobonds of Centerdit International B.V.	8.00%	590	-	-
Bonds of Karazhanbasmunai	10.9%	561	9.1-9.9%	668
Bonds of BTA Ipoteka	8.5%	527	-	-
Bonds of Nurbank	9.00%	521	-	-
Bonds of Development Bank of Kazakhstan	6.5-7.125%	476	9.1-13%	964
Bonds of Kazakhaltyn	10.5%	456	9.90%	579
Bonds of Atyrau local executive bodies	8.5%	240	8.5-8.6%	292
Eurobonds of Temir Capital B.V.	9.00%	192	-	-
Bonds of Kazakhstan kagazy	11.30%	133	10.40%	132
Bonds of Glotur	10%	104	10%	102
Bonds of Kazatomprom	8.50%	86	8.50%	88
Bonds of Bank TuranAlem	10.5%	52	8-9.90%	272
Bonds of KazTransCom	8%	12	8%	135
Bonds of Kazakhstani Mortgage Company	8.89-9.50%	10	6.9-12.25%	191
US exchequer bonds	-	-	2.7306-10.7225%	21,403
Eurobonds of European Investment Bank	-	-	3-5.625%	13,577
Bonds of Federal Home Loan Bank	-	-	4.06%	13,529
Eurobonds of InraAmerican Development Bank	-	-	5.375-6.125%	8,916
Eurobonds of International Bank of Reconstruction and Development	-	-	5%	8,153
Eurobonds of Nordic Investment Bank	-	-	2.75%	6,781
Bonds of the Government of Finland	-	-	5.88%	4,794
Eurobonds of Bank Nederlandse Gemeenten	-	-	2.50%	5,432
Bonds of KazTransOil	-	-	8.50%	2,379
Eurobonds of Federal Farm Credit Bank	-	-	3.38%	263
Bonds of Astana city administration	-	-	8.50%	267
Bonds of Astana-Finance	-	-	9.40%	126
Bonds of Khimfarm	-	-	10%	120
Bonds of Mangistau REK	-	-	13%	65
Total debt securities		<u>309,405</u>		<u>138,568</u>

	Ownership share %	31 December 2006 (KZT million)	Ownership share %	31 December 2005 (KZT million)
Equity investments:				
ADR Kazakhtelecom	5.11%	2,342	5.11%	1,673
EP Kazmunaigaz	0.164%	2,077	-	-
GDR EP Kazmunaigaz	3.247%	1,148	-	-
Ust-Kamenogorsk Titanium-Magnesium Plant	0.391%	213	-	-
Kazzinc	0.09%	141	0.04%	34
Halyk Bank	0.013%	54	-	-
Rosneft	0.12%	36	-	-
Lukoil	0.0003%	34	-	-
CenterCredit Bank	0.003%	7	-	-
Surgutneftegaz	0.0001%	4	-	-
TuranAlem Bank	0.0003%	2	-	-
ATF Bank	0.0003%	1	-	-
Kazakhtelecom				
- ordinary	0.016%	56	0.009%	4
- preference	0.113%	11	0.075%	6
Aktobemunaigaz	-	-	0.004%	9
Total equity securities		<u>6,126</u>		<u>1,726</u>

As at 31 December 2006 and 2005 included in financial assets at fair value through profit or loss is accrued interest income on debt securities amounting to KZT 1,816 million and KZT 1,649 million, respectively.

As at 31 December 2006 and 2005 financial assets at fair value through profit or loss included short-term notes of the National Bank of the Republic of Kazakhstan, bonds of the federal loan of the Ministry of Finance of the Russian Federation, and bonds of Kazakh and Russian companies pledged under repurchase agreements with other banks/customers with fair value amounting to KZT 262,008 million and KZT 60,380 million, respectively. As at 31 December 2006 and 2005 all the agreements mature in January 2007 and January 2006, respectively (Note 26, 27).

	Nominal value	31 December 2006 Net fair value (KZT million)		Nominal value	31 December 2005 Net fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments:						
<i>Foreign exchange contracts</i>						
Foreign exchange swap	29,704	4,075	(876)	16,865	2	(95)
Interest swap	128,055	2,284	(2,544)	14,108	77	(94)
Forward contracts	72,480	728	(130)	2,634	2	-
<i>Securities purchase/sale contracts</i>						
Forward contracts	610	-	(4)	-	-	-
		<u>7,087</u>	<u>(3,554)</u>		<u>81</u>	<u>(189)</u>

18. LOANS AND ADVANCES TO BANKS

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Loans and advances to banks	122,266	236,671
Correspondent accounts with other banks	30,277	18,478
Loans under reverse repurchase agreements	45,505	383
Less allowance for impairment losses	<u>(857)</u>	<u>(1,245)</u>
Total loans and advances to banks	<u>197,191</u>	<u>254,287</u>

Movements in allowances for impairment losses on loans and advances to banks for the years ended 31 December 2006 and 2005 are disclosed in Note 7

Loans and advances to banks included accrued interest of KZT 860 million and KZT 148 million as of 31 December 2006 and 2005, respectively.

As at 31 December 2006 and 2005 the Group had loans and advances to the following banks, which individually exceeded 10% of the Bank's equity, calculated according to the principles employed by the Basle Committee (Note 37).

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Bank Austria AG Wien	-	26,812
Zurcher Kantonalbank	-	26,812
Dexia Bank SA	-	26,802
Fortis Bank NV/SA Brussels	-	26,802
Depfa Investment Bank LTD, Ireland	-	26,802
Societe Generale Paris France	-	26,802
Moscow Business World Bank	<u>-</u>	<u>19,809</u>
	<u>-</u>	<u>180,641</u>

The fair value of pledged assets and carrying value of loans under reverse repurchase agreements as at 31 December 2006 and 2005 comprised:

	31 December 2006 (KZT million)		31 December 2005 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Notes of the National Bank of the Republic of Kazakhstan	26,318	25,010	-	-
Bonds of Kazakhstan companies	6,127	5,042	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4,763	4,339	27	35
Shares of Kazakhstan Companies	4,940	3,254	-	-
Bonds of TuranAlem Bank	3,965	3,184	-	-
Bonds of CenterCredit Bank	1,566	1,251	-	-
Bonds of ATF Bank	838	821	52	45
Bonds of Nurbank	1,004	811	-	-
Bonds of Caspian Bank	535	438	-	-
Shares of ATF Bank	430	360	-	-
Shares of TuranAlem Bank	329	351	-	-
Bonds of Texakabank	395	300	-	-
Bonds of Alliance Bank	364	295	-	-
Shares of Kazkommertsbank	58	49	300	303
	<u>51,632</u>	<u>45,505</u>	<u>379</u>	<u>383</u>
Total securities purchased under reverse repurchase agreements				

As at 31 December 2006 the guarantee deposit included in loans and advances to banks was placed with JP Morgan Chase Bank London as security for a reserve letter of credit in the amount of KZT 2,540 million.

19. LOANS TO CUSTOMERS

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Originated loans	1,713,183	768,808
Net investments in finance lease	4,573	3,198
Loans under reverse repurchase agreements	<u>35,020</u>	<u>13,567</u>
	1,752,776	785,573
Less allowance for impairment losses	<u>(73,936)</u>	<u>(42,162)</u>
Total loans to customers	<u>1,678,840</u>	<u>743,411</u>

As at 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to KZT 33,106 million and KZT 14,948 million, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Analysis by type of collateral:		
Loans collateralized by real estate	429,701	193,975
Loans collateralized by guarantees of enterprises	219,410	97,787
Loans collateralized by shares of the banks and other companies	199,680	42,038
Loans collateralized by mixed types of collateral	168,269	96,385
Loans collateralized by equipment	127,966	71,370
Loans collateralized by accounts receivable	106,318	121,838
Loans collateralized by inventories	69,070	28,136
Loans collateralized by cash or Kazakh Government guarantees	51,414	14,195
Loans collateralized by guarantees of financial institutions	46,104	3,075
Loans collateralized by securities	6,183	3,884
Unsecured loans	<u>254,725</u>	<u>70,728</u>
Total loans to customers	<u>1,678,840</u>	<u>743,411</u>

As at 31 December 2006 unsecured loans included loans of KZT 160,300 million, collateral of which was under the process of registration (real estate, land, shares, guarantees, and other).

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Analysis by sector:		
Trade	296,022	142,294
Individuals	261,708	97,424
Housing construction	225,622	84,830
Commercial real estate construction	163,481	79,743
Real estate	138,179	15,129
Investments and finance	87,724	42,720
Industrial and other construction	64,131	26,304
Food industry	52,802	29,115
Energy	44,877	30,156
Hotel business	41,079	16,271
Agriculture	38,931	23,738
Transport and communication	38,675	39,222
Production of construction materials	33,760	10,639
Machinery construction	21,778	12,988
Mining and metallurgy	20,309	23,968
Medicine	2,467	3,559
Culture and art	568	702
Other	<u>146,727</u>	<u>64,609</u>
Total loans to customers	<u>1,678,840</u>	<u>743,411</u>

Loans to individuals comprise the following products:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Mortgage loans	148,346	63,039
Consumer loans	74,987	24,375
Car loans	15,672	8,585
Other	<u>22,703</u>	<u>1,425</u>
Total loans to individuals	<u>261,708</u>	<u>97,424</u>

As at 31 December 2006 and 2005 the Group granted loans to the following borrowers, respectively, which individually exceeded 10% of the Bank's equity, calculated according to the principles employed by the Basle Committee (Note 37).

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Alibi Holding	36,715	-
Jeilan Limited Holding	36,423	15,625
KUAT Holding	35,229	20,615
Mayberry Financial Services S.A.	34,942	20,645
Ordabasy Corporation	34,492	-
LLP SAT&Co Holding	-	16,259
IKAN Holding	<u>-</u>	<u>14,780</u>
	<u>177,801</u>	<u>87,924</u>

As at 31 December 2006 and 2005 a significant part of loans (70.34% and 76.58% of the total portfolio) is granted to companies operating on the territory of the Republic of Kazakhstan, which represents significant geographical concentration.

The fair value of pledged assets and carrying value of loans under reverse repurchase agreements as at 31 December 2006 and 2005 comprised:

	31 December 2006 (KZT million)		31 December 2005 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Shares of Kazakh companies	30,640	21,574	3,473	1,281
Shares of Russian companies	6,686	5,803	8,880	8,342
Bonds of Kazakh companies	3,000	3,112	1,441	1,509
Bonds of Russian companies	1,318	1,157	830	808
Bonds of ATF Bank	1,017	1,033	1,030	1,065
Bonds of Halyk Bank	345	881	299	330
Shares of Savings Bank of the Russian Federation	958	875	-	-
Shares of Halyk Bank	337	357	-	-
Shares of Kazkommertsbank	183	227	-	-
Shares of CenterCredit Bank	1	1	-	-
Bonds of local executive bodies of the Russian Federation	-	-	200	172
Shares of Neftebank	-	-	60	60
	<u>44,485</u>	<u>35,020</u>	<u>16,213</u>	<u>13,567</u>
Total securities purchased under reverse repurchase agreements				

The components of net investment in finance lease as at 31 December 2006 and 2005 are as follows:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Minimum lease payments	5,606	3,843
Less: unearned finance income	<u>(1,033)</u>	<u>(645)</u>
Net investment in finance lease	<u>4,573</u>	<u>3,198</u>
Current portion	2,004	1,675
Long-term portion	<u>2,569</u>	<u>1,523</u>
Net investment in finance lease	<u>4,573</u>	<u>3,198</u>

The value of future minimum lease payments received from the customer under finance lease as of 31 December 2006 and 2005 comprised:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Not later than one year	2,368	1,975
From one year to five years	3,176	1,848
More than 5 years	<u>62</u>	<u>20</u>
Total value of future minimum lease payments	<u>5,606</u>	<u>3,843</u>

20. INVESTMENTS AVAILABLE-FOR-SALE

	Effective interest rate %	31 December 2006 (KZT million)	Effective interest rate %	31 December 2005 (KZT million)
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	3.75-6.68%	442	2.75-6.99%	340
Short-term notes of NBRK	0.002%	355	-	-
Bonds of Small Business Development Fund	9%	334	-	-
Bonds of KAZEXPORTASTYK Holding	9.9-10.2%	304	-	-
Bonds of Kazakhstan Mortgage Company	6.90-8.89%	271	6.9-8.29%	87
Bonds of TuranAlem Bank	10.5%	198	-	-
Bonds of KazTransCom	8%	124	-	-
Bonds of Karazhanbasmunai	10.5%	124	-	-
Bonds of Astana-Finance	11.20%	121	-	-
Bonds of Kazakhaltyn	10.5%	120	-	-
Bonds of Khimfarm	10%	120	-	-
Bonds of ATF Bank	8.5-9%	106	-	-
Bonds of CenterCredit Bank	9%	7	-	-
		<u>2,626</u>		<u>427</u>
	Ownership share %		Ownership share %	
Equity securities:				
Kazakhstan Stock Exchange	1.33%	2	-	-
		<u>2</u>		<u>-</u>
Total investments available-for-sale		<u>2,628</u>		<u>427</u>

As at 31 December 2006 and 2005 interest income on debt securities amounting to KZT 39 million and KZT 7 million, respectively, was accrued and included in investments available-for-sale.

21. INVESTMENTS HELD TO MATURITY

	Effective interest rate %	31 December 2006 (KZT million)	Effective interest rate %	31 December 2005 (KZT million)
Bonds of Bank CenterCredit	8.5-9%	117	8.5%	94
Bonds of Halyk Bank	7.75%	109	7.75%	99
Bonds of ATF Bank	8.5%	92	8.5%	92
Bonds of the Ministry of Finance of the Kyrgyz Republic	6.95%	39	4.52-8.15%	40
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	4-4.3%	234
Bonds of the National Bank of the Kyrgyz Republic	-	-	4.9%	3
Total investments held to maturity		<u>357</u>		<u>562</u>

As at 31 December 2006 and 2005 interest income on debt securities amounting to KZT 6 million and KZT 6 million, respectively, was accrued and included in investments held to maturity.

22. INVESTMENTS IN ASSOCIATES

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

	31 December 2006		31 December 2005	
	Held %	Amount (KZT million)	Held %	Amount (KZT million)
Ular Umit Pension Fund	41.18%	725	41.18%	388
JSC OCOPAIM Zhetysu Asset Management Company	50.00%	993	-	-
First Credit Bureau LLP	18.40%	37	18.40%	37
		<u>1,755</u>		<u>425</u>

In 2006 the Bank purchased 50% of shares of JSC OCOPAIM Zhetysu Asset Management Company (see Note 5).

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

The movements of investments are accounted for in the consolidated financial statements using the equity method:

	2006 (KZT million)	2005 (KZT million)
1 January	425	218
Purchase cost	200	33
Share of results of associates	<u>1,130</u>	<u>174</u>
31 December	<u>1,755</u>	<u>425</u>

23. GOODWILL

In October 2005 Kazkommertsbank purchased 100% shares in JSC OCOPAIM ABN Amro Asset Management (“ABN AM”) and 80.01% in JSC ABN Amro CaspiyMunaiGaz Accumulation Pension Fund (“ABN APF”) from JSC ABN AMRO Bank Kazakhstan. In the agreement with the seller, ABN APF and ABN AM received new names – JSC OCOPAIM Grantum Asset Management (“Grantum PAMC”) and JSC Grantum APF (“Grantum APF”) (see Note 1).

The net assets and the goodwill acquired are as follows:

	Grantum PAMC (KZT million)	Grantum APF (KZT million)	Total (KZT million)
Property, equipment and intangible assets	1	18	19
Investments held to maturities	259	184	443
Investments available-for-sale	151	244	395
Comission receivable	22	47	69
Securities purchased under reverse repurchase agreements	81	60	141
Other assets	2	4	6
Tax payables	(16)	(43)	(59)
Other liabilities	(3)	(27)	(30)
	<u>497</u>	<u>487</u>	<u>984</u>
Goodwill	<u>1,124</u>	<u>1,281</u>	<u>2,405</u>
Total consideration, satisfied by cash	<u>1,621</u>	<u>1,768</u>	<u>3,389</u>
Net cash outflow on acquisition:			
Cash consideration paid	(1,635)	(1,787)	(3,422)
Cash acquired	<u>14</u>	<u>19</u>	<u>33</u>
Total	<u>(1,621)</u>	<u>(1,768)</u>	<u>(3,389)</u>

The Goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group’s products in the new markets, long-term funds attraction and the anticipated future synergies from the combination.

Goodwill acquired in a business combination is allocated, at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. These cash generating units do not carry on their balance sheets any intangible assets with indefinite useful lives, other than goodwill.

Cash generating companies	31 December 2006 (KZT million)	31 December 2005 (KZT million)
JSC Grantum APF	1,281	1,281
Grantum PAMC	<u>1,124</u>	<u>1,124</u>
	<u>2,405</u>	<u>2,405</u>

Grantum APF contributed KZT 165 million of revenue and KZT 35 million to the Group’s profit before tax for the period between the date of acquisition and 31 December 2005.

Grantum PAMC contributed KZT 72 million of revenue and KZT 50 million to the Group’s profit before tax for the period between the date of acquisition and 31 December 2005.

If the acquisition of Grantum APF and Grantum PAMC Asset Management had been completed on 1 January 2005, total group revenue for the year 2005 would have been KZT 86,051 million, and profit for the year 2005 would have been KZT 20,823 million.

As at 31 December 2006 no objective evidence of goodwill impairment, such as deterioration of the companies' liquidity, solvency, business and financial risk exposures, national and local economic trends and conditions, was identified.

Goodwill impairment is usually determined by discounted future cash inflows. For the forecast cash inflows the period of 5 years is used based on financial budgets using discounting rate of 14%. The management uses the following main assumptions as the basis for forecast cash inflows:

- Economic growth of the Republic of Kazakhstan;
- Stable legislation on obligatory pension contributions and therefore growth of the pension system;
- Stable structure of the customer base (customers with relatively high wages);
- Favorable demographic indexes (more of young population); and
- Possible sales of several complimentary products.

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate (KZT million)	Furniture and equipment (KZT million)	Intangible Assets (KZT million)	Construction in progress (KZT million)	Other (KZT million)	Total (KZT million)
At primary/revalued cost						
31 December 2004	3,549	6,540	898	9	512	11,508
Additions	452	1,478	299	29	308	2,566
Revaluation increase	346	-	-	-	-	346
Acquisition of subsidiaries	-	31	5	-	4	40
Subsidiaries adjustments for 2004	-	13	-	-	-	13
Disposals	(364)	(235)	(18)	-	(118)	(735)
Exchange differences	-	-	-	-	6	6
31 December 2005	<u>3,983</u>	<u>7,827</u>	<u>1,184</u>	<u>38</u>	<u>712</u>	<u>13,744</u>
Additions	1,564	3,220	345	2,081	505	7,715
Revaluation increase	1,315	-	-	-	-	1,315
Disposals	(44)	(271)	(1)	-	(144)	(460)
Exchange differences	-	(15)	1	-	28	14
31 December 2006	<u>6,818</u>	<u>10,761</u>	<u>1,529</u>	<u>2,119</u>	<u>1,101</u>	<u>22,328</u>
Accumulated depreciation						
31 December 2004	355	3,115	512	-	140	4,122
Charge for the year	58	1,048	205	-	253	1,564
Acquisition of subsidiaries	-	12	2	-	3	17
Subsidiaries adjustments for 2004	-	8	-	-	-	8
Written off upon disposal	(354)	(157)	(13)	-	(107)	(631)
Exchange differences	-	-	-	-	2	2
31 December 2005	<u>59</u>	<u>4,026</u>	<u>706</u>	<u>-</u>	<u>291</u>	<u>5,082</u>
Charge for the year	70	1,432	224	-	107	1,833
Written off upon revaluation	-	1	-	-	-	1
Written off upon disposal	(33)	(145)	(1)	-	(103)	(282)
Exchange differences	1	4	1	-	7	13
31 December 2006	<u>97</u>	<u>5,318</u>	<u>930</u>	<u>-</u>	<u>302</u>	<u>6,647</u>
Net book value						
31 December 2006	<u>6,721</u>	<u>5,443</u>	<u>599</u>	<u>2,119</u>	<u>799</u>	<u>15,681</u>
31 December 2005	<u>3,924</u>	<u>3,801</u>	<u>478</u>	<u>38</u>	<u>421</u>	<u>8,662</u>

As at 31 December 2006 and 2005 property, equipment and intangible assets included completely depreciated and amortized assets with initial cost in the amount of KZT 1,947 million and KZT 1,435 million, respectively.

The effective date of the revaluation of buildings and other real estate is 16 June 2006. The buildings and real estate was revalued based on an independent expert's appraisal LLP "Laboratory of independent appraisal "Optima", registration number UL-00525, legal address: office 513, 58 Dzhandosov St., Almaty, the Republic of Kazakhstan. Methods of valuation used are cost approach, benchmark (comparative) approach, and profit method. Additionally the method of determining fair value directly by reference to observable prices in an active market has been applied. The source for obtaining information by this method is publications placing announcements on purchase-and-sale of real estate objects, and internet sites on commercial realty, helping in selecting analogues maximally approximated by their characteristics to evaluated objects.

Intangible assets include software, patents and licenses.

25. OTHER ASSETS

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Prepayments and other debtors	4,968	2,927
Prepaid expenses	3,232	978
Income tax receivable	2,611	1,685
Insurance agreement accounts receivable	1,220	1,040
Tax settlements, other than income tax	<u>1,101</u>	<u>587</u>
	13,132	7,217
Less allowance for impairment losses	<u>(117)</u>	<u>(131)</u>
Total other assets	<u><u>13,015</u></u>	<u><u>7,086</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

26. LOANS AND ADVANCES FROM BANKS

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Correspondent accounts of other banks	46,273	29,121
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks (<i>Bank of Tokyo Mitsubishi</i>) (maturity – December 2006, interest rate - 4.819%)	-	109,201
Syndicated loan from a group of banks (<i>Bank of Tokyo Mitsubishi</i>) (maturity – December 2008, interest rate - 6.22%)	61,044	63,950
Syndicated loan from a group of banks (<i>Citibank International Plc</i>) (maturity – August 2006, interest rate - 4.87%)	-	53,377
Syndicated loan from a group of banks (<i>ING Bank N.V.</i>) (maturity – February 2008, interest rate - 5.67%)	107,377	-
Syndicated loan from a group of banks (<i>Bank of Tokyo Mitsubishi/ ING UniCredit/Standard Chartered Bank</i>) (maturity – December 2009, interest rate - 5.95%)	37,809	-
Syndicated loan from a group of banks (<i>Bank of Tokyo Mitsubishi/ ING UniCredit/Standard Chartered Bank</i>) (maturity – December 2007, interest rate – 5.625%)	88,481	-
Loan from EBRD (maturity on 21 December 2009, interest rate - 4.376% – 6.403% annually)	2,371	10,611
Loan from EBRD (maturity on 14 September 2007, interest rate - 5.69%-6.25% annually)	4,933	-
Due to NBRK	-	3,617
Loans with othe banks and financial establishments	276,779	41,770
Deposits with banks	8,382	8,448
Loans under repurchase agreements	250,852	59,111
	<u>884,301</u>	<u>379,206</u>
Total loans and advances from banks	<u>884,301</u>	<u>379,206</u>

As of 31 December 2006 and 2005 loans and advances from banks included accrued interest expenses in the amounts of KZT 3,391 million and KZT 1,156 million, respectively.

As at 31 December 2006 and 2005 the loans and advances from banks in the amounts of KZT 294,711 million (33.33%) and KZT 226,528 million (59.74%), respectively, were due to 4 and 3 banks, which represents significant concentration.

As at 31 December 2006 loans with othe banks and financial institutions for KZT 262,938 million (95.00% of total loans with othe banks and financial establishments) consisted of 34 banks and financial institutions of such countries as Russia, Great Britain, the Netherlands, Czech Republic, Canada, the USA, Switzerland, Kuwait, Austria, Luxemburg, Korea, Kazakhstan, Germany, Belgium, and Singapore. Maturities of these loans are from 1 month upto 67 months.

As at 31 December 2006 and 2005 included in loans and advances from banks are loans under repurchase agreements amounting to KZT 250,852 million and KZT 59,111 million, respectively with maturity in January 2007 and January 2006, respectively.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	31 December 2006 (KZT million)		31 December 2005 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Eurobonds from Depfa Bank PLC	50,800	49,878	-	-
Eurobonds from Dexia Banque Intl A Luxembourg	44,313	43,439	-	-
Eurobonds of Freddie MAC	44,171	42,915	-	-
Eurobonds of Fannie MAE	37,861	37,116	-	-
Notes of the National Bank of the Republic of Kazakhstan	24,944	24,942	-	-
Eurobonds of Fortis Banque Generale A Luxembourg	18,992	18,617	-	-
Bonds of companies of the Republic of Kazakhstan	13,151	10,952	-	-
Eurobonds of Hellenic Republic	7,946	8,408	-	-
Eurobonds of KFW Intl Finance	6,350	6,324	6,720	6,726
Eurobonds of Caisse D'Amortissement Dela France	6,350	6,260	6,700	6,732
Bonds of ATF Bank	1,485	1,200	-	-
Bonds of CenterCredit Bank	1,000	801	-	-
Bonds of Federal Home Loan Bank	-	-	13,341	13,533
Eurononds of the International Bank for Development and Reconstruction	-	-	8,050	8,158
Eurobonds of European Investment Bank	-	-	6,635	6,719
Eurobonds of Bank Nederlandse Gemeenten	-	-	5,331	5,434
Eurobonds of the Government of Finland	-	-	4,699	4,795
Bonds of the Ministry of finance the Republic of Kazakhstan	-	-	4,474	4,041
Eurobonds of the Ministry of finance the Republic of Kazakhstan	-	-	1,324	1,701
Shares of Kazakhstan companies	-	-	2,809	1,040
Bonds of the Russian Federation companies	-	-	94	85
Bonds of local executive bodies of the Russian Federation	-	-	154	147
Total securities under repurchase agreements	257,363	250,852	60,331	59,111

27. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Loans and time deposits	425,822	189,201
Demand deposits	257,600	114,204
Loans under repurchase agreements	4,384	32
Total customer accounts	687,806	303,437

As at 31 December 2006 and 2005 customer accounts included accrued interest expense in the amounts of KZT 7,466 million and KZT 4,596 million, respectively.

As at 31 December 2006 and 2005 customer accounts were deducted as a guarantee for issued letters of credit and other transactions relating to contingent liabilities in the amounts of KZT 2,542 million and KZT 15,744 million, respectively.

As at 31 December 2006 and 2005 the customer accounts in the amounts of KZT 250,184 million (36.37%) and KZT 47,847 million (15.77%), respectively, were due to 10 customers, which represents significant concentration.

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Analysis by sector:		
Individuals	196,072	110,041
Chemical and petrochemical industry	167,466	21,770
Construction	75,750	29,492
Trade	52,364	26,409
Investments and Finance	52,076	75,587
Individual services	36,608	25
Transport and communication	30,209	6,865
Agriculture	20,232	4,224
Real estate	11,266	213
Mining and metallurgy	7,724	1,864
Hotel business	4,972	220
Light industry	3,592	50
Distribution of electricity, gas and water	3,352	658
Education	2,170	1,134
Food industry	1,568	1,475
Culture and art	1,031	154
Health care	965	206
Machinery construction	689	380
Public organizations and unions	680	717
Energy	1	14,377
Other	19,019	7,576
	<u>687,806</u>	<u>303,437</u>
Total customer accounts	<u>687,806</u>	<u>303,437</u>

As at 31 December 2006 and 2005 customer accounts included loans under repurchase agreements amounting to KZT 4,384 million and KZT 32 million, respectively, with the maturity of six months.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	31 December 2006 (KZT million)		31 December 2005 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of Russian companies	2,477	2,304	-	-
Shares of Russian companies	1,551	1,515	49	32
Bonds of local executive bodies of the Russian Federation	617	565	-	-
	<u>4,645</u>	<u>4,384</u>	<u>49</u>	<u>32</u>
Total securities sold under repurchase agreements	<u>4,645</u>	<u>4,384</u>	<u>49</u>	<u>32</u>

28. DEBT SECURITIES ISSUED

	Maturity date	Annual coupon rate %	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Eurobonds of Kazkommerts International B.V. due				
In May 2007:				
Tranche A, issued in May 2002 and placed at the price of 99.043%	8 May 2007	10.125%	17,594	18,561
Tranche B, issued in November 2002 and placed at the price of 107.00%	8 May 2007	10.125%	6,350	6,699
In April 2013:				
Tranche A, issued in April 2003 at the price of 97.548%	16 April 2013	8.5%	43,729	45,730
Tranche B issued in April 2003 and placed in May 2003 at the price of 99.00%	16 April 2013	8.5%	19,050	20,097
In April 2014:				
Issued in April 2004 at the price of 99.15%	7 April 2014	7.875%	50,165	52,386
In November 2009:				
Tranche A issued in November 2004 at the price of 98.967%	3 November 2009	7%	42,786	46,880
Tranche B issued in February 2005 at the price of 98.967%	3 November 2009	7%	19,050	20,097
In November 2015:				
Issued in November 2005 at the price of 98.32%	3 November 2015	8%	63,246	66,990
Issued in February, 2006 at the price of 100%	24 February 2009	4.25%	8,288	-
Issued in March, 2006 at the price of 99.993%	24 March 2011	5.125%	48,465	-
Issued in November, 2006 at the price of 98.282%	29 November 2016	7.5%	63,500	-
			<u>382,223</u>	<u>277,440</u>
Including /(less):				
Discount on debt securities issued			(5,023)	(4,098)
Amounts of accrued interest on debt securities issued			<u>6,385</u>	<u>4,125</u>
Total issued Eurobonds of Kazkommerts International B.V.			383,585	277,467
Issued bonds of Kazkommertsbank			3,036	3,957
Amounts of accrued expenses on issued bonds of Kazkommertsbank			97	127
Issued promissory notes of MKB			36,982	21,040
Accrued interest expense on issued promissory notes of MKB			<u>462</u>	<u>542</u>
Total debt securities issued			<u>424,162</u>	<u>303,133</u>

As at 31 December 2006 and 2005 accrued interest expense is included in debt securities issued amounting to KZT 6,944 million and KZT 4,794 million, respectively.

Eurobonds were issued by Kazkommerts International B.V., a subsidiary of the Bank, and were guaranteed by the Bank. For Eurobonds with a maturity of May 2007, coupon is paid semi-annually on 8 May and 8 November, while for those having a maturity of April 2013, interest is paid on 16 April and 16 October, for Eurobonds with maturity of April 2014, interest is paid on 7 April and 7 October, for Eurobonds with maturity of November 2009, interest is paid 3 May and 3 November, for Eurobonds having a maturity of November 2015 interest is paid on 3 May and 3 November, for Eurobonds with maturity of March 2011 interest is paid on 23 March, for Eurobonds with maturity of November 2016 interest is paid on 29 May and 29 November.

29. OTHER BORROWED FUNDS

	Currency	Maturity date	Interest rate %	31 December 2006 (KZT million)	Interest rate %	31 December 2005 (KZT million)
Kazkommerts DPR Company	USD	15 June 2013	6.59 – 7.95%	56,792	6.84 – 6.91%	39,806
DEG-Deutsche Investitions MBH	USD	15 January 2014	7.88 – 8.86%	6,559	7.05 – 7.32%	6,884
Private Export Funding Corporation	USD	25 March 2011	5.65 – 5.97%	1,160	4.54 – 4.64%	1,148
DEERE Credit	USD	15 June 2011	5.75 – 5.8%	480	4.74 – 4.91%	872
Funding of agricultural equipment purchasing	USD	31 March 2011	5.64 – 9.53%	1,016	8.04 – 8.83%	747
Intesa Soditic Trade Finance Ltd	USD	27 December 2007	6.86%	2,545	6%	646
Funding by the Ministry of finance of Republic of Kazakhstan and regional centers	KZT	30 September 2011	0.5 – 5.81%	156	0.5 – 5%	210
Funding by the Ministry of finance of Republic of Kazakhstan	EURO	20 December 2009	5%	104	5%	211
Funding by the Ministry of finance of Kyrgyz republic	USD	01 July 2015	1.5%	2	1.5%	3
Hungarian International Finance Ltd	-	-	-	-	8.04%	56
Funding by the Small Business Development Support Fund	-	-	-	-	7.3%	21
Total other borrowed funds				68,814		50,604

As at 31 December 2006 and 2005 accrued interest expense included in other borrowed funds in the amount of 255 million tenge and 245 million tenge, respectively.

On 8 December 2005 Kazkommertsbank launched the inaugural future flow securitization of diversified payment rights for 300 million USD. The transaction is a true-sale securitization of the Bank's dollar-denominated present and future diversified payment rights (SWIFT USD MT100 series) to Kazkommerts DPR Company (special purpose vehicle created on Cayman Islands). Kazkommerts DPR Company is operated by Maples Finance Limited, which is incorporated in the Cayman Islands. Allocation was made in three series 2005A in the amount of USD 200 million, 2005B and 2005C in the amount of USD 50 million each. Two latter tranches were allocated by private offering, and Series 2005A was insured by the specialized financial company Ambak, the rate of which amounted to 3-month LIBOR plus 0.29%.

On June 7, 2006 Kazkommertsbank in the framework of the Future payment inflow securitization Program allocated additional series of bonds 2006A and 2006B, insured by the specialized financial companies Ambak and FGIC. The sum of the given bonds amounted to USD 100 million each, with maturity of 7 years with 3-year grace period of the principal debt and rate of 3-month LIBOR plus 0.25 %.

30. OTHER LIABILITIES

	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Taxes payable, other than income tax	2,992	1,760
Payable to employees	1,576	1,033
Accounts payable on re-insurers	616	611
Advances received	144	412
Other	3,259	775
	8,587	4,591

31. SUBORDINATED DEBT

	Currency	Maturity date (year)	Interest rate %	31 December 2006 (KZT million)	31 December 2005 (KZT million)
Subordinated debt of Kazkommerts Finance II B.V.	USD	2016	9.6417%	26,239	-
Subordinated debt of Citigroup GMD AG & CO	USD	2014	8.194%	12,943	13,654
Perpetual debt of Kazkommerts Finance II B.V.	USD	-	9.2531%	12,715	13,485
Subordinated bonds	KZT	2015	7.5%	12,639	12,582
Debt component of preference shares	KZT	-	-	5,758	6,074
Indexed subordinated bonds	KZT	2007	7.0%	3,479	3,699
Subordinated bonds MKB	USD	2016	10%	2,570	-
International subordinated debt	USD	2007	11%	2,537	2,668
Subordinated bonds	USD	2007	5.5%	42	51
				<u>78,922</u>	<u>52,213</u>

As at 31 December 2006 and 2005 accrued interest expenses included in subordinated debt amounted to KZT 1,677 million and KZT 707 million, respectively.

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

32. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2006 the Bank's share capital comprised the following:

	Authorized share capital (KZT million)	Unpaid share capital (KZT million)	Repurchased share capital (KZT million)	Total share capital (KZT million)
Ordinary shares	5,748	(1)		5,747
Preference shares	<u>1,248</u>	<u>-</u>	<u>-</u>	<u>1,248</u>
	<u>6,996</u>	<u>(1)</u>	<u>-</u>	<u>6,995</u>

As at 31 December 2005 the Bank's share capital comprised the following:

	Authorized share capital (KZT million)	Unpaid share capital (KZT million)	Repurchased share capital (KZT million)	Total share capital (KZT million)
Ordinary shares	3,750	-	-	3,750
Preference shares	<u>1,250</u>	<u>-</u>	<u>(4)</u>	<u>1,246</u>
	<u>5,000</u>	<u>-</u>	<u>(4)</u>	<u>4,996</u>

The preference shares have a nominal value of KZT 10 and carry no voting rights, unless dividends are not paid, but rank ahead of the ordinary shares in the event of liquidation of the Bank. Annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. These shares are not redeemable.

Dividend declared on preference shares amounted to KZT 635 million and KZT 669 million in 2006 and 2005, respectively. In 2006 and 2005 dividends on ordinary shares have not been declared.

In 2006 shareholders of the Group increased its nominal value of its share capital by KZT 2,000 million, including:

- a) on 21 July 2006 Kazkommertsbank completed placement of 96,500,000 ordinary shares of JSC Kazkommertsbank at the price of KZT 200 per share on the local market;
- b) in November 2006 the shareholders of the Bank (JSC Central-Asian Investment Company, Mr. Subhanberdin and EBRD) conducted placement of 45,714,706 global depository receipts (“GDR”), each representing two shares at the price of USD 18.50 per one GDR;
- c) in December 2006 Kazkommertsbank started placement of issued shares for existing shareholders of the Bank in the amount of 103,500,000 ordinary shares at the price of USD 9.25 per share in tenge equivalent through initial public offering on the local market.

33. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

The Group uses the same policy of credit control and management upon accepting off-balance commitments that it uses relating to balance commitments.

As at 31 December 2006 and 2005 accrued provision on letters of credit and guarantees amounted to KZT 4,055 million and KZT 2,589 million, respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal amount (KZT million)	Risk weighted amount (KZT million)	Nominal Amount (KZT million)	Risk weighted amount (KZT million)
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	91,683	91,683	39,928	39,928
Letters of credit and other transaction related to contingent obligations	92,413	17,982	59,951	11,680
Commitments on loans and unused credit lines	10,921	10,921	2,670	2,670
Total contingent liabilities and credit commitments	<u>195,017</u>	<u>120,586</u>	<u>102,549</u>	<u>54,278</u>

Capital commitments

As at 31 December 2006 and 2005 the capital commitments sum amounted to KZT 5,866 million and KZT 110 million, respectively.

Operating lease commitments

No material rental commitments were outstanding as at 31 December 2006 and 2005.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position.

The Group also provides depositary services to its customers. As at 31 December 2006 and 2005 the Group had customer securities in its nominal holder accounts totaling:

- on broker-dealer operations 41,579,877 items and 13,175,579 items, respectively.
- on custodial operations 726,520,526 items and 333,537,909 items, respectively.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes

Due to the presence in commercial legislation of the countries where the Group operates, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Group believes that it has already made all tax accruals, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for five years.

Pensions and retirement plans

Employees receive pension benefits in accordance with the requirements of the legislation of the countries in which the Bank and its subsidiaries operate. As at 31 December 2006 and 2005 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment

The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting the business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

34. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Bank; and that have joint control over the Group;
- (b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Group is a venturer;
- (d) Members of key management personnel of the Group or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

The Group had the following transactions outstanding with related parties:

	31 December 2006 (KZT million)		31 December 2005 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	2,052	1,752,776	1,400	785,573
- entities with joint control or significant influence over the entity	114		342	
- key management personnel of the entity or its parent	1,938		1022	
- other related parties	-		36	
Allowance for impairment losses	50	73,936	43	42,162
- entities with joint control or significant influence over the entity	15		20	
- key management personnel of the entity or its parent	35		21	
- other related parties	-		2	
Investments in associates	1,718	1,755	388	425
- to associates	1,718		388	
Customer accounts	8,326	687,806	2,272	303,437
- entities with joint control or significant influence over the entity	92		15	
- associates	1,050		1,093	
- key management personnel of the entity or its parent	7,062		1,157	
- other related parties	122		7	
Provision for guarantees and other off-balance sheet contingencies	356	4,055	-	2,589
- key management personnel of the entity or its parent	1		-	
- other related parties	355		-	
Commitments on loans and unused credit lines	651	10,921	869	2,670
- entities with joint control or significant influence over the entity	215		335	
- key management personnel of the entity or its parent	431		531	
- other related parties	5		3	
Guarantees issued and similar commitments	7,142	91,683	19	39,928
- key management personnel of the entity or its parent	30		19	
- other related parties	7,112		-	

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006 (KZT million)		Year ended 31 December 2005 (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	130	147,250	251	86,407
Interest expense	(258)	(83,115)	(250)	(45,855)
Operating expense	(500)	(18,039)	(662)	(13,368)
Short-term employee benefits	500	9,154	662	6,517

Key management personnel compensation for the years ended 31 December 2006 and 2005 is represented by short-term employee benefits.

35. SEGMENT REPORTING

Business segments

The Group is organized on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency products, guarantees and letters of credit and derivative products.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice.

Transactions between the business segments are conducted on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of funds attracted. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise of operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	Retail Banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	Year ended 31 December 2006 (KZT million)
External interest income	19,119	112,603	14,594	309	625	-	147,250
Internal interest income	10,879	14,777	61,125	13	40,026	(126,820)	-
External interest expenses	(8,038)	(10,033)	(64,442)	13	(615)	-	(83,115)
Internal interest expenses	<u>(10,236)</u>	<u>(60,338)</u>	<u>(16,203)</u>	<u>(13)</u>	<u>(39,393)</u>	<u>126,183</u>	<u>-</u>
Net interest income before provision for impairment losses on interest bearing assets	11,724	57,009	(4,926)	322	643	(637)	64,135
Provisions for impairment losses on interest bearing assets	(4,224)	(28,282)	(388)	7	-	-	(32,887)
Net non-interest income	<u>5,353</u>	<u>10,437</u>	<u>11,270</u>	<u>2,037</u>	<u>(58)</u>	<u>(72)</u>	<u>28,967</u>
Operating income	12,853	39,164	5,956	2,366	585	(709)	60,215
Operating expenses	<u>(6,782)</u>	<u>(9,893)</u>	<u>(1,159)</u>	<u>(852)</u>	<u>(62)</u>	<u>709</u>	<u>(18,039)</u>
Operating profit	6,071	29,271	4,797	1,514	523	-	42,176
Share of results of associates	-	-	1,130	-	-	-	1,130
Provision for guarantees and other off-balance sheet contingencies and for impairment losses on other transactions	<u>-</u>	<u>(2,022)</u>	<u>422</u>	<u>(331)</u>	<u>-</u>	<u>-</u>	<u>(1,931)</u>
Profit before income tax	6,071	27,249	6,349	1,183	523	-	41,375
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,789)</u>	<u>-</u>	<u>(11,789)</u>
Net profit	<u>6,071</u>	<u>27,249</u>	<u>6,349</u>	<u>1,183</u>	<u>(11,266)</u>	<u>-</u>	<u>29,586</u>
Total assets	<u>261,708</u>	<u>1,417,132</u>	<u>765,391</u>	<u>8,244</u>	<u>767,055</u>	<u>(775,228)</u>	<u>2,444,302</u>
Total liabilities	<u>196,072</u>	<u>491,734</u>	<u>1,514,514</u>	<u>3,351</u>	<u>733,774</u>	<u>(759,069)</u>	<u>2,180,376</u>

	Retail Banking	Corporate banking	Investment banking	Other	Unallocated	Eliminations	Year ended 31 December 2005 (KZT million)
External interest income	11,825	65,926	8,449	194	13	-	86,407
Internal interest income	6,324	1,525	35,947	9	26,434	(70,239)	-
External interest expenses	(5,009)	(5,357)	(35,174)	-	(315)	-	(45,855)
Internal interest expenses	<u>(4,912)</u>	<u>(31,035)</u>	<u>(7,849)</u>	<u>-</u>	<u>(25,704)</u>	<u>69,500</u>	<u>-</u>
Net interest income before provision for impairment losses on interest bearing assets	8,228	31,059	1,373	203	428	(739)	40,552
Provisions for impairment losses on interest bearing assets	(2,104)	(15,017)	(707)	(5)	-	-	(17,833)
Net non-interest income	<u>3,604</u>	<u>6,459</u>	<u>1,602</u>	<u>2,249</u>	<u>(9)</u>	<u>662</u>	<u>14,567</u>
Operating income	9,728	22,501	2,268	2,447	419	(77)	37,286
Operating expenses	<u>(4,634)</u>	<u>(7,534)</u>	<u>(577)</u>	<u>(678)</u>	<u>(22)</u>	<u>77</u>	<u>(13,368)</u>
Operating profit	5,094	14,967	1,691	1,769	397	-	23,918
Share of results of associates	-	-	174	-	-	-	174
Provision for guarantees and other off-balance sheet contingencies and for impairment losses on other transactions	<u>-</u>	<u>(731)</u>	<u>(396)</u>	<u>(812)</u>	<u>-</u>	<u>-</u>	<u>(1,939)</u>
Profit before income tax	5,094	14,236	1,469	957	397	-	22,153
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,338)</u>	<u>-</u>	<u>(2,338)</u>
Net profit	<u>5,094</u>	<u>14,236</u>	<u>1,469</u>	<u>957</u>	<u>(1,941)</u>	<u>-</u>	<u>19,815</u>
Total assets	<u>97,424</u>	<u>645,987</u>	<u>447,514</u>	<u>5,086</u>	<u>543,930</u>	<u>(545,072)</u>	<u>1,194,869</u>
Total liabilities	<u>110,041</u>	<u>193,396</u>	<u>750,833</u>	<u>2,888</u>	<u>529,906</u>	<u>(480,466)</u>	<u>1,106,598</u>

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and 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.

	31 December 2006		31 December 2005	
	Current value (KZT million)	Fair value (KZT million)	Current value (KZT million)	Fair value (KZT million)
Cash and balances with national (central) banks	209,005	209,005	37,229	37,229
Precious metals	807	807	-	-
Financial assets at fair value through profit or loss	322,618	322,618	140,375	140,375
Loans and advances to banks	197,191	197,191	254,287	254,287
Investment available-for-sale	2,628	2,628	427	427
Investment held to maturity	357	357	562	564
Investments in associates	1,755	1,755	425	425
Other assets	13,015	13,015	7,086	7,086
Loans and advances from banks	884,301	884,301	379,206	379,206
Customer accounts	687,806	687,806	303,437	303,437
Derivative financial instruments	3,554	3,554	189	189
Debt securities issued	424,162	434,851	303,133	323,204
Other borrowed funds	68,814	68,814	50,604	50,604
Dividends payable	1	1	1	1
Other liabilities	8,587	8,587	4,591	4,591
Subordinated debt	78,922	79,928	52,213	51,747

The fair value of loans to customers cannot be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such financial instruments.

37. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimation	Description of position
0%	Cash and balances with national (central) banks
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2006 the Group's total capital amount for capital adequacy purposes was KZT 327,063 million and tier 1 capital amount was KZT 270,384 million with ratios of 15.05% and 12.45%, respectively.

As at 31 December 2005 the Group's total capital amount for capital adequacy purposes was KZT 133,721 million and tier 1 capital amount was KZT 102,459 million with ratios of 14.38% and 11.02%, respectively.

As at 31 December 2006 and 2005 the Group included in the computation of total capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

38. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's 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 exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

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.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

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

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2006			31 December 2005		
	% in KZT	% in USD	% in other currencies	% in KZT	% in USD	% in other currencies
ASSETS:						
Financial assets at fair value through profit or loss	6.54	4.95	11.00	2.90	4.62	10.00
Loans and advances to banks	1.97	8.26	2.51	2.44	4.43	2.07
Loans to customers	13.56	12.20	12.89	13.25	12.32	10.72
Investments available-for-sale and held to maturity	8.13	9.21	7.05	3.60	-	4.10
LIABILITIES:						
Loans and advances from banks	3.01	6.44	4.65	2.07	5.39	2.91
Customer accounts	5.44	4.20	4.41	4.61	3.74	4.39
Debt securities issued	7.00	8.13	11.47	7.00	9.02	9.88
Other borrowed funds	1.95	6.90	5.00	2.38	6.81	5.00
Subordinated debt	7.50	8.32	-	7.50	9.47	-

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (including allowance for impairment losses)	31 December 2006 Total (KZT million)
ASSETS:							
Loans and advances to banks	152,190	21,099	21,722	27	1,293	-	196,331
Financial assets at fair value through profit or loss	38,297	217,265	64,627	613	-	-	320,802
Investments available-for-sale	475	-	557	1,207	350	-	2,589
Investments held to maturity	-	-	39	22	290	-	351
Loans to customers	108,530	136,764	317,916	619,350	463,174	-	1,645,734
Total interest bearing assets	299,492	375,128	404,861	621,219	465,107	-	2,165,807
Cash and balances with national (central) banks	209,812	-	-	-	-	-	209,812
Investments in associates	-	-	-	-	-	1,755	1,755
Goodwill	-	-	-	-	-	2,405	2,405
Property, equipment and intangible assets	-	-	-	-	-	15,681	15,681
Accrued interest income on interest-bearing assets	29,322	5,013	1,427	59	6	-	35,827
Other assets	4,142	2,319	6,439	115	-	-	13,015
TOTAL ASSETS	542,768	382,460	412,727	621,393	465,113	19,841	2,444,302
LIABILITIES:							
Loans and advances from banks	336,544	111,831	51,564	379,901	1,070	-	880,910
Customer accounts	355,322	116,990	105,051	78,489	24,488	-	680,340
Debt securities issued	4,288	661	33,589	142,960	235,720	-	417,218
Other borrowed funds	-	-	262	6,804	61,493	-	68,559
Subordinated debt	-	-	41	5,988	71,216	-	77,245
Total interest bearing liabilities	696,154	229,482	190,507	614,142	393,987	-	2,124,272
Derivative financial instruments	73	2,554	927	-	-	-	3,554
Provisions	712	378	1,306	1,640	18	2,704	6,758
Dividends payable	1	-	-	-	-	-	1
Deferred income tax liability	11,624	5,831	16	-	-	-	17,471
Accrued interest expense on interest-bearing liabilities	5,962	5,738	7,266	735	32	-	19,733
Other liabilities	2,518	3,395	2,654	20	-	-	8,587
TOTAL LIABILITIES	717,044	247,378	202,676	616,537	394,037	2,704	2,180,376
Liquidity gap	(174,276)	135,082	210,051	4,856	71,076		
Interest sensitivity gap	(396,662)	145,646	214,354	7,077	71,120		
Cumulative interest sensitivity gap	(396,662)	(251,016)	(36,662)	(29,585)	41,535		
Cumulative interest sensitivity gap as a percentage of total assets	(16.23)%	(10.27)%	(1.50)%	(1.21)%	1.70%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (including allowance for impairment losses)	31 December 2005 Total (KZT million)
ASSETS:							
Loans and advances to banks	227,816	18,267	6,716	-	1,340	-	254,139
Financial assets at fair value through profit or loss	43,054	22,057	73,538	77	-	-	138,726
Investments available-for-sale	-	-	36	287	97	-	420
Investments held to maturity	13	5	133	125	280	-	556
Loans to customers	38,910	43,222	164,218	285,621	196,492	-	728,463
Total interest bearing assets	309,793	83,551	244,641	286,110	198,209	-	1,122,304
Cash and balances with national (central) banks	37,229	-	-	-	-	-	37,229
Investments in associates	-	-	-	-	-	425	425
Goodwill	-	-	-	-	-	2,405	2,405
Property, equipment and intangible assets	-	-	-	-	-	8,662	8,662
Accrued interest income on interest-bearing assets	6,020	4,132	5,036	1,560	10	-	16,758
Other assets	2,475	361	3,707	334	209	-	7,086
TOTAL ASSETS	355,517	88,044	253,384	288,004	198,428	11,492	1,194,869
LIABILITIES:							
Loans and advances from banks	95,500	10,200	192,422	75,590	4,338	-	378,050
Customer accounts	167,159	24,658	62,131	43,704	1,189	-	298,841
Debt securities issued	74	1,586	2,152	113,331	181,197	-	298,340
Other borrowed funds	-	-	23	3,632	46,704	-	50,359
Subordinated debt	-	-	-	6,377	45,129	-	51,506
Total interest bearing liabilities	262,733	36,444	256,728	242,634	278,557	-	1,077,096
Derivative financial instruments	188	-	1	-	-	-	189
Provisions	625	265	1,219	416	64	2,345	4,934
Dividends payable	1	-	-	-	-	-	1
Deferred tincome ax liability	-	-	-	8,290	-	-	8,290
Accrued interest expenses on interest-bearing liabilities	2,188	1,268	6,593	1,448	-	-	11,497
Other liabilities	1,330	2,075	746	440	-	-	4,591
TOTAL LIABILITIES	267,065	40,052	265,287	253,228	278,621	2,345	1,106,598
Liquidity gap	88,452	47,992	(11,903)	34,776	(80,193)		
Interest sensitivity gap	47,060	47,107	(12,087)	43,476	(80,348)		
Cumulative interest sensitivity gap	47,060	94,167	82,080	125,556	45,208		
Cumulative interest sensitivity gap as a percentage of total assets	3.94%	7.88%	6.87%	10.51%	3.78%		

Currency risk

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

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of national (central) banks.

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

	KZT	USD	EURO	RUR	Other currency	31 December 2006 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
ASSETS :						
Cash and balances with the national (central) banks	189,718	10,548	2,707	5,198	834	209,005
Precious metals	-	-	-	-	807	807
Financial assets at fair value through profit or loss	76,500	228,059	9,621	8,290	148	322,618
Loans and advances to banks	76,647	90,338	15,061	14,154	991	197,191
Loans to customers	525,052	1,117,469	13,683	22,014	622	1,678,840
Investments available-for-sale	2,625	3	-	-	-	2,628
Investments held to maturity	318	-	-	-	39	357
Investments in associates	1,755	-	-	-	-	1,755
Goodwill	2,405	-	-	-	-	2,405
Property, equipment and intangible assets	14,706	-	-	847	128	15,681
Other assets	8,964	2,540	399	1,074	38	13,015
TOTAL ASSETS	898,690	1,448,957	41,471	51,577	3,607	2,444,302
LIABILITIES :						
Loans and advances from banks	171,762	669,690	24,801	17,574	474	884,301
Customer accounts	387,384	262,057	20,855	16,487	1,023	687,806
Derivative financial instruments	1,310	2,239	-	5	-	3,554
Debt securities issued	3,133	354,654	50,149	7,823	8,403	424,162
Other borrowed funds	156	68,554	104	-	-	68,814
Provisions	3,691	1,954	1,108	1	4	6,758
Deferred income tax liabilities	17,370	-	-	85	16	17,471
Dividends payable	1	-	-	-	-	1
Other liabilities	6,677	1,396	48	423	43	8,587
Subordinated debt	21,770	57,152	-	-	-	78,922
TOTAL LIABILITIES	613,254	1,417,696	97,065	42,398	9,963	2,180,376
OPEN BALANCE SHEET POSITION	285,436	31,261	(55,594)	9,179	(6,356)	

Derivative financial instruments

Fair value of derivative financial instruments is included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2006:

	KZT	USD	EURO	RUR	Other currency	31 December 2006
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	Total (KZT million)
Accounts payable on forwards	(66,282)	(102,482)	(3,482)	(1,263)	-	(173,509)
Accounts receivable on forwards	41,725	61,288	61,333	3,046	9,920	177,312
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(24,557)	(41,194)	57,851	1,783	9,920	
TOTAL OPEN POSITION	260,879	(9,933)	(2,257)	10,962	3,564	
	KZT	USD	EURO	RUR	Other currency	31 December 2005
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	Total (KZT million)
ASSETS:						
Cash and balances with the national (central) banks	16,405	16,731	1,168	1,826	1,099	37,229
Financial assets at fair value through profit or loss	13,340	120,375	-	6,660	-	140,375
Loans and advances to banks	4,040	235,826	10,647	2,789	985	254,287
Loans to customers	220,086	501,876	6,487	14,811	151	743,411
Investments available-for-sale	427	-	-	-	-	427
Investments held to maturity	519	-	-	-	43	562
Investments in associates	425	-	-	-	-	425
Goodwill	2,405	-	-	-	-	2,405
Property, equipment and intangible assets	8,417	-	-	146	99	8,662
Other assets	5,057	1,453	93	477	6	7,086
TOTAL ASSETS	271,121	876,261	18,395	26,709	2,383	1,194,869
LIABILITIES:						
Loans and advances from banks	16,033	344,891	11,409	5,504	1,369	379,206
Customer accounts	135,747	153,156	7,491	6,230	813	303,437
Derivative financial instruments	94	95	-	-	-	189
Debt securities issued	4,084	293,888	-	5,161	-	303,133
Other borrowed funds	210	50,183	211	-	-	50,604
Provision	2,601	1,966	337	4	26	4,934
Deferred tax liabilities	8,014	-	-	257	19	8,290
Dividends payable	1	-	-	-	-	1
Other liabilities	3,418	1,101	34	32	6	4,591
Subordinated debt	16,282	35,930	1	-	-	52,213
TOTAL LIABILITIES	186,484	881,210	19,483	17,188	2,233	1,106,598
OPEN BALANCE SHEET POSITION	84,637	(4,949)	(1,088)	9,521	150	

Derivative financial instruments

Fair value of derivative financial instruments is included in the currency analysis presented above, The following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2005:

	KZT	USD	EURO	RUR	Other currency	31 December 2005 Total
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)
Accounts payable on forwards	(9,657)	(9,080)	(795)	-	(155)	(19,687)
Accounts receivable on forwards	6,895	11,277	1,192	15	200	19,579
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	<u>(2,762)</u>	<u>2,197</u>	<u>397</u>	<u>15</u>	<u>45</u>	
TOTAL OPEN POSITION	<u>81,875</u>	<u>(2,752)</u>	<u>(691)</u>	<u>9,536</u>	<u>195</u>	

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 security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

Credit risk

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Heads of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or a group of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Off-balance sheet credit liabilities represent unused credit lines, guarantees or letters of credit. The credit risk on financial instruments on off-balance accounts is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e, the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses. The Bank's Management Board sets up country limits, which are mainly applied by banks of the Commonwealth of Independent States (further – "CIS") and Baltic countries.

The Management of the Group considers the main segment to be the Commonwealth of Independent States, including the Republic of Kazakhstan, (CIS), in which similar risks and profitability are inherent.

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

	Kazakhstan	CIS	OECD countries	Non-OECD countries	31 December 2006 Total (KZT million)
ASSETS:					
Cash and balances with the national (central) banks	189,711	6,814	12,480	-	209,005
Precious metals	-	-	807	-	807
Financial assets at fair value through profit or loss	84,385	8,295	229,938	-	322,618
Loans and advances to banks	63,575	91,693	41,923	-	197,191
Loans to customers	1,180,864	228,282	64,396	205,298	1,678,840
Investments available-for-sale	2,628	-	-	-	2,628
Investments held to maturity	318	39	-	-	357
Investments in associates	1,755	-	-	-	1,755
Goodwill	2,405	-	-	-	2,405
Property, equipment and intangibles assets	14,706	975	-	-	15,681
Other assets	9,889	1,355	1,742	29	13,015
TOTAL ASSETS	1,550,236	337,453	351,286	205,327	2,444,302
LIABILITIES:					
Loans and advances from banks	63,345	70,923	722,778	27,255	884,301
Customer accounts	642,492	22,603	20,321	2,390	687,806
Derivative financial instruments	983	4	2,565	2	3,554
Debt securities issued	3,322	37,216	383,396	228	424,162
Other borrowed funds	260	2	68,552	-	68,814
Provisions	6,393	149	1	215	6,758
Deferred income tax liabilities	17,370	101	-	-	17,471
Dividends payable	1	-	-	-	1
Other liabilities	6,766	595	1,174	52	8,587
Subordinated debt	21,909	2,570	54,443	-	78,922
TOTAL LIABILITIES	762,841	134,163	1,253,230	30,142	2,180,376
NET POSITION	787,395	203,290	(901,944)	175,185	

	Kazakhstan	CIS	OECD countries	Non-OECD countries	31 December 2005 Total (mln. tenge)
ASSETS:					
Cash and balances with national (central) banks	27,124	2,915	7,190	-	37,229
Financial assets at fair value through profit or loss	23,819	6,661	109,895	-	140,375
Loans and advances to banks	18,105	38,728	190,888	6,566	254,287
Loans to customers	569,317	83,918	18,900	71,276	743,411
Investments available-for-sale	427	-	-	-	427
Investments held to maturity	519	43	-	-	562
Investments in associates	291	-	134	-	425
Goodwill	2,405	-	-	-	2,405
Property, equipment and intangible assets	8,417	245	-	-	8,662
Other assets	4,929	635	1,053	469	7,086
TOTAL ASSETS	655,353	133,145	328,060	78,311	1,194,869
LIABILITIES:					
Loans and advances from banks	29,607	23,138	319,685	6,776	379,206
Customer accounts	257,275	9,264	18,669	18,229	303,437
Derivative financial instruments	95	1	93	-	189
Debt securities issued	4,135	20,129	277,416	1,453	303,133
Other borrowed funds	433	3	50,168	-	50,604
Provisions	4,100	685	4	145	4,934
Deferred income tax liability	8,014	276	-	-	8,290
Dividends payable	1	-	-	-	1
Other liabilities	3,167	230	1,110	84	4,591
Subordinated debt	22,408	-	29,805	-	52,213
TOTAL LIABILITIES	329,235	53,726	696,950	26,687	1,106,598
OPEN BALANCE SHEET POSITION	326,118	79,419	(368,890)	51,624	

39. SUBSEQUENT EVENTS TRANSACTIONS

In January 2007 Kazkommertsbank completed placement of 103,500,000 ordinary shares of JSC Kazkommertsbank at the price of USD 9.25 per share in tenge equivalent through initial public offering.

The life insurance subsidiary, JSC Kazkommerts Life, commenced its operations on 3 January 2007.

On 2 February 2007 the subsidiary, Kazkommerts International B.V., placed two-tranche bonds for Euro 750 million and 350 million English Pound Sterling at the rates of 6.785% and 7.625% with maturity in 2017 and 2012, respectively.

Kazkommertsbank received a permission from the AFN and was registered with the Agency of the Republic of Kazakhstan on regulation of the Almaty regional financial center to create a subsidiary LLP Kazkommerts Almaty Regional Financial Center whose main activity is provision of services on dealing with financial instruments at the expense and in the interests of its customers (as a broker), services of a nominal holder, underwriter services, information, analytical and consulting services, services on constant announcement and support of securities quotation.

In February 2007 Kazkommertsbank opened 2 branches in Kapchagai and Kaskelen cities.