Tsesnabank JSC

Financial Statements

December 31, 2004
Together with Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of JSC Tsesnabank –

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Without qualifying our opinion, we draw attention to Note 21 with regard to the Bank's negative liquidity gap as at December 31, 2004 and management's plans to address that gap.

March 23, 2005

BALANCE SHEETS

(Thousands of Kazakh Tenge)

	Notes	*December 31, 2004*	*December 31, 2003*
Assets			
Cash and cash equivalents	4	**1,169,826**	1,132,286
Obligatory reserves	5	**542,722**	295,705
Amounts due from credit institutions	6	**1,817,211**	8,665
Trading securities	7	**388,324**	284,192
Investment securities:			
- available-for-sale	8	**1,974,238**	1,710,656
- held-to-maturity	8	**1,449,552**	512,223
Loans to customers	9	**12,022,151**	7,522,837
Premises and equipment		**686,748**	461,561
Intangible assets		**129,894**	134,597
Other assets		**119,739**	83,437
Total assets		**20,300,405**	12,146,159
Liabilities			
Amounts due to the Government	12	**13,480**	108,187
Amounts due to credit institutions	13	**1,808,312**	1,436,425
Amounts due to customers	14	**14,354,528**	8,936,524
Debt securities issued	15	**1,467,258**	–
Subordinated loans	16	**523,022**	299,132
Tax liabilities	11	**12,508**	–
Provisions	10	**57,776**	3,060
Other liabilities		**63,011**	28,992
Total liabilities		**18,299,895**	10,812,320
Shareholders' equity	17		
Share capital		**777,913**	531,067
Treasury stock		**(500)**	–
Reserves		**150,000**	150,000
Retained earnings		**1,073,097**	652,772
Total shareholders' equity		**2,000,510**	1,333,839
Total liabilities and shareholders' equity		**20,300,405**	12,146,159

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

Kozhakhmetov K.B. Chairman of the Board

Sabirzyanova S.S. Chief Accountant

March 4, 2005

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

STATEMENTS OF INCOME

(Thousands of Kazakh Tenge, except earnings per share)

	Notes	*Years ended December 31,* 2004	2003
Interest income			
Loans to customers		**1,594,168**	1,113,564
Securities		**208,907**	199,270
Credit institutions		**23,834**	7,421
		1,826,909	1,320,255
Interest expense			
Customers		**(572,097)**	(356,399)
Credit institutions		**(82,288)**	(75,762)
Debt securities issued		**(54,529)**	–
Subordinated loans		**(40,510)**	(37,244)
Government		**(774)**	(2,445)
		(750,198)	(471,850)
Net interest income		**1,076,711**	848,405
Reversal of/(charge for) impairment of interest earning assets	10	**40,471**	(168,635)
Net interest income after impairment		**1,117,182**	679,770
Fee and commission income	19	**457,807**	355,730
Fee and commission expense		**(33,850)**	(25,120)
Fees and commissions		**423,957**	330,610
Gains less losses from securities		**(2,246)**	15,623
Gains less losses from foreign currencies:			
- dealing		**139,480**	131,561
- translation differences		**(14,760)**	6,795
Other income		**4,649**	2,874
Non interest income		**127,123**	156,853
Salaries and benefits	20	**(503,234)**	(373,333)
Administrative and operating expenses	20	**(494,124)**	(285,371)
Depreciation and amortization		**(90,567)**	(59,082)
Taxes other than income taxes		**(58,367)**	(62,079)
Deposit insurance		**(18,991)**	(17,463)
Other impairment and provisions	10	**(55,199)**	(3,060)
Non interest expense		**(1,220,482)**	(800,388)
Income before income tax expense		**447,780**	366,845
Income tax expense	11	**(27,455)**	(47,807)
Net income		**420,325**	319,038
Basic and diluted earnings per share (in Kazakhstani Tenge)	22	**637**	601

The accompanying notes on pages 5 to 25 are an integral part of these financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

(Thousands of Kazakh Tenge)

	Share Capital	*Treasury Stock*	*Revaluation Reserve*	*Reserve Fund*	*Retained Earnings*	*Total shareholders' equity*
December 31, 2002	531,067	–	12,719	150,000	321,015	1,014,801
Net income	–	–	–	–	319,038	319,038
Transfers	–	–	(12,719)	–	12,719	–
December 31, 2003	**531,067**	–	**-**	**150,000**	**652,772**	**1,333,839**
Issue of ordinary shares	**522**	–	**-**	**-**	**-**	**522**
Issue of preferred shares	**246,324**	–	**-**	**-**	**-**	**246,324**
Purchased treasury shares	**-**	**(500)**	**-**	**-**	**-**	**(500)**
Net income	**-**	**-**	**-**	**-**	**420,325**	**420,325**
December 31, 2004	**777,913**	**(500)**	–	**150,000**	**1,073,097**	**2,000,510**

The accompanying notes on pages 5 to 25 are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

(Thousands of Kazakh Tenge)

	Years ended December 31,	
	2004	***2003***
Cash flows from operating activities:		
Net income before income taxes	**447,780**	366,845
Adjustments for:		
Depreciation and amortization	**90,567**	59,082
Net charge for impairment	**14,728**	168,635
Loss on sale of premises and equipment	**2,597**	360
Unrealised foreign exchange (gain) loss	**2,428**	(66,107)
Unrealised (gain) loss on securities	**(2,197)**	(21,960)
Operating income before changes in net operating assets	**555,903**	506,855
(Increase) decrease in operating assets:		
Obligatory reserves	**(247,017)**	(35,387)
Amounts due from credit institutions	**(1,808,546)**	(8,665)
Trading securities	**(104,132)**	(284,192)
Loans to customers	**(4,458,843)**	(2,442,451)
Other assets	**(25,766)**	(51,690)
Increase (decrease) in operating liabilities:		
Amounts due to the Government	**(94,707)**	(75,276)
Amounts due to credit institutions	**371,887**	884,886
Amounts due to customers	**5,417,995**	2,321,235
Other liabilities	**34,019**	10,369
Net cash flows from operating activities before income tax	**(359,207)**	825,684
Income tax paid	**(25,966)**	(71,432)
Net cash flows from operating activities	**(385,173)**	754,252
Cash flows from investing activities:		
Purchases of investment securities	**(1,198,714)**	(972,216)
Proceeds from redemption of investment securities	–	548,247
Purchases of premises and equipment	**(290,114)**	(221,632)
Proceeds from sale of premises and equipment	**55**	106
Purchases of intangible assets	**(23,589)**	(38,529)
Net cash flow from investing activities	**(1,512,362)**	(684,024)
Cash flows from financing activities:		
Subordinated loans received	**223,890**	104,271
Subordinated loans repaid	–	(94,020)
Debt securities issued	**1,464,212**	–
Share capital received	**246,846**	–
Purchase of treasury shares	**(500)**	–
Dividends paid	–	(10,659)
Net cash flows from financing activities	**1,934,448**	(408)
Effects of exchange rates' changes on cash and equivalents	**627**	20,882
Net change in cash and cash equivalents	**37,540**	90,702
Cash and cash equivalents at the beginning of year	**1,132,286**	1,041,584
Cash and cash equivalents at the end of year (Note 4)	**1,169,826**	1,132,286
Supplemental information:		
Interest received	**2,992,651**	1,302,145
Interest paid	**(932,495)**	(442,423)

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

(Thousands of Kazakh Tenge)

1. Principal Activities

Tsesnabank (the "Bank") was formed on January 17, 1992, as an open joint stock company under the laws of the Republic of Kazakhstan. The Bank possesses a general banking license (number 74) from Financial Markets and Financial Organizations of Kazakhstan (''FMSA''obtained on March 25, 2004 that also permits conducting banking operations in foreign currencies. The Bank also possesses a license for brokerage and dealing activities with the right to maintain the clients' accounts as the nominal holder of the State securities from the FMSA' #0001100742, granted on March 5, 2004. The Bank accepts deposits from the public, issues loans, transfers payments in Kazakhstan and abroad, exchanges currencies and provides investment-banking services for its customers. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on December 26, 2003.

The registered office of the Bank is located in Pobedy Avenue, 61, Astana, Republic of Kazakhstan. It also has six branches located in Almaty, Kostanai, Pavlodar, Stepnogorsk, Astana and Karaganda. The latter two were opened in 2004. During 2004 the Bank opened 10 cash settlement centers, 1 cash settlement unit was closed. As of December 31, 2004, it had nineteen cash settlement units (2003: ten cash settlement units).

As of December 31, 2004 and 2003, the Bank had 473 and 352 employees, respectively.

As of December 31, 2004, the following shareholders owned more than 5% of the outstanding shares.

Shareholder	***%***
Central Depository CJSC (nominee holder)	47.68
Astana Finance OJCS	6.70
Adite LLP	6.70
SKP Khleborob LLP	6.63
Tsesna Corporation CJSC	6.63
Corcern Nayza-Kurilis LLP	6.05
Other	19.61
Total	**100.00**

2. Basis of Preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Kazakh Tenge ("KZT") is utilized as measurement currency as the majority of the Bank's transactions are denominated, measured, or funded in KZT. Transactions in other currencies are treated as transactions in foreign currencies.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regard to those financial statements relate to the allowances for losses, income taxes, the carrying value of securities and intangible assets. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

The KZT is not a fully convertible currency outside the Republic of Kazakhstan. Transactions denominated in foreign currencies are recorded using the market exchange rates quoted by the Kazakhstani Stock exchange (KASE). The market exchange rates at December 31, 2004 and 2003 were KZT 130.00 = US Dollar 1 and KZT 144.22 = US Dollar 1, respectively.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies

Recognition of Financial Instruments

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. "Regular way" purchases and sales of financial assets are recognized using trade date accounting.

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

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand and amounts due from the National Bank of the Republic of Kazakhstan ("NBK"), excluding obligatory reserves.

Obligatory Reserves

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

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts due from credit institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method and carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. These agreements are treated as secured financing transactions.

Securities sold under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell ('reverse repos') are recorded as amounts due from credit institutions or as loans to customers as appropriate.

Securities purchased under reverse repurchase agreements are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

(Thousands of Kazakh Tenge)

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, accrued using the effective interest method, during the period that the related transactions are open.

Investment Securities

The Bank classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- Securities that are not classified by the Bank as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

- Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
- Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.
  Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in the statement of income as gains less losses from available-for-sale securities in the period that the change occurs.

Loans to Customers

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

Leases

The Bank recognises leased assets at value equal to the net investment in the lease. Finance income is based on pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognised as expenses when incurred.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

Deferred income tax liabilities are recognized in respect of taxable temporary differences, except were the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(Thousands of Kazakh Tenge)

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

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

Allowances for Losses and Impairment of Financial Assets

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

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

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment for diminution in value.

Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	10–50
Fixtures and equipment	10
Computers	5–7
Vehicles	7
Leasehold improvements	5

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

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

Amounts Due to the Government, Credit Institutions and to Customers

Amounts due to the government, credit institutions and to customers are initially recorded in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

(Thousands of Kazakh Tenge)

Intangible Assets

Intangible assets include licenses, computers software and internally generated intangible assets.

Computer Software

Computer software development costs are recognized as assets at restated cost and are amortized using the straight-line method over their useful lives, but not exceeding a period of 7 years. Acquired computer software is accounted for under the same policies.

Intangible assets under development are not amortised. Amortization of these assets will begin when the related assets are placed in service.

Debt securities issued

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

Provisions

Provisions are recognized when the Bank 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.

Retirement and Other Benefit Obligations

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

Share Capital

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

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

Related Parties

Related parties include the Bank's shareholders, key management personnel, investees and affiliated companies.

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(Thousands of Kazakh Tenge)

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Fees, commissions, and other income and expense items are generally recorded on an accrual basis when the services have been provided.

Foreign Currency Translation

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

4. Cash and Cash Equivalents

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

	2004	*2003*
Cash on hand	**628,596**	501,902
Current accounts with other banks	**403,632**	520,779
Current accounts with the NBK	**137,598**	109,605
	1,169,826	1,132,286

5. Obligatory Reserves

Obligatory reserves consisted of the balances of current accounts with the NBK allocated to obligatory reserves.

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

6. Amounts Due From Credit Institutions

Amounts due from credit institutions comprise:

	2004	*2004*
Reverse repurchase agreements	**1,000,096**	–
Loans to local credit institutions	**699,639**	–
Time deposits with local banks in KZT	**100,000**	–
Deposits with local banks in foreign currency	**17,476**	8,665
	1,817,211	8,665

Amounts due from credit institutions comprise a reverse repurchase agreement, which matures on January 5, 2005 and bears 0.7% interest rate per annum.

(Thousands of Kazakh Tenge)

Effective interest rates and maturity of these deposits were as follows:

	2004		2003	
	%	Maturity	%	Maturity
Reverse repurchase agreements	**0.70%**	**2005**	–	–
Loans to local credit institutions	**2.00% - 14.00%**	**2005**	–	–
Time deposits with local banks in foreign currency	**Monthly LIBOR**	**On demand**	Monthly LIBOR	On demand
Time deposits with local banks in KZT	**10.42% - 11.00%**	**2005**	–	–

7. Trading Securities

Trading securities owned comprise:

	2004	2003
Corporate shares	**212,396**	–
Treasury bills of the Ministry of Finance	**175,928**	284,192
	388,324	284,192

Interest rates and maturity of debt securities follow:

	2004		2003	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	**7.00% - 12.00%**	**2005**	7.00% - 12.00%	2004 - 2005

Corporate shares comprise 625,000 preferred shares of the local bank purchased at the nominal value with a dividend of KZT 6,875 thousand payable on a quarterly basis

8. Investment Securities

Available-for-sale securities comprise:

	2004	2003
Treasury bills of the Ministry of Finance	**1,866,646**	1,456,871
Local municipal bonds	**91,342**	97,407
Corporate shares	**16,250**	–
Corporate bonds	–	156,378
	1,974,238	1,710,656

Interest rates and maturity of available-for-sale debt securities follow:

	2004		2003	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	**5.50% - 9.00%**	**2005 - 2013**	6.0% - 16.3%	2004 - 2013
Local municipal bonds	**8.50%**	**2007**	8.50%	2007
Corporate bonds	–	–	6.9%	2013

Held-to-maturity securities comprise:

	2004		2003	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance	**798,550**	**785,000**	–	–
NBK notes	**651,002**	**660,000**	512,223	520,000
	1,449,552	**1,445,000**	512,223	520,000

Interest rates and maturity of held-to-maturity securities follow:

	2004		2003	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	**4.83% - 5.70%**	**2005 - 2011**	–	–
NBK notes	**1.60% - 4.82%**	**2005**	4.8% - 4.9%	2004

(Thousands of Kazakh Tenge)

9. Loans to Customers

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

	2004	*%*	*2003*	*%*
Individuals	**3,489,069**	**28%**	2,616,455	33%
Trading enterprises	**2,736,300**	**22%**	1,741,695	22%
Agriculture and food processing	**2,208,121**	**18%**	1,553,638	20%
Services	**1,494,729**	**12%**	679,187	9%
Real estate construction	**669,733**	**6%**	251,996	3%
Manufacturing	**293,242**	**2%**	65,024	1%
Transport	**284,119**	**2%**	63,549	1%
Government and municipal bodies	**159,919**	**1%**	197,266	2%
Telecommunication	**121,000**	**1%**	25,600	0%
Fuel, gas and chemicals	**78,500**	**1%**	62,996	1%
Machine-building	**1,674**	**0%**	–	–
Other	**873,356**	**7%**	693,935	8%
	12,409,762	**100%**	7,951,341	100%
Less - Allowance for impairment	**(387,611)**		(428,504)	
	12,022,151		7,522,837	

At December 31, 2004, 10 customers accounted for 22% of the total loan portfolio or KZT 2,713,249 thousand (2003: 21% of the total loan portfolio or KZT 1,693,259 thousand).

At December 31, 2004, the Bank had non-performing loans totaling KZT 173,191 thousand (2003: KZT 223,816 thousand).

The Bank's loan portfolio has been extended to the following types of customers at December 31:

	2004	*2003*
Private companies	**8,760,774**	5,137,620
State companies	**159,919**	197,266
Individuals	**3,489,069**	2,616,455
	12,409,762	7,951,341

10. Allowance for Impairment and Provisions

The movements on the allowances for losses, were as follows:

	Loans to customers	*Other assets*	*Letters of credit and guarantees*	*Total*
December 31, 2002	295,679	12,000	–	307,679
Charge (reversal)	168,635		3,060	171,695
Write-offs	(36,587)	(12,000)	–	(48,587)
Recoveries	777	–	–	777
December 31, 2003	**428,504**	**-**	**3,060**	**431,564**
Charge (reversal)	**(40,471)**	**483**	**54,716**	**14,728**
Write-offs	**(422)**	**(345)**	**-**	**(767)**
December 31, 2004	**387,611**	**138**	**57,776**	**445,525**

Allowances for impairment of assets are deducted from the related assets and the provisions for letters of credit and guarantees are included in other liabilities.

(Thousands of Kazakh Tenge)

11. Income Taxes

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable. The components of income tax expense were as follows for the years ended December 31:

	2004	*2003*
Current tax	-	48,009
Income tax of prior periods	**14,947**	(202)
Deferred tax charge	**12,508**	–
Income tax	**27,455**	47,807

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

	2004	*2003*
IFRS income before tax	**447,780**	366,845
Statutory income tax	**30%**	30%
Income tax computed at the statutory tax rate	**134,334**	110,054
Permanent differences:		
Government securities	**(62,405)**	(61,339)
Income on long-term loans granted for modernization of property and equipment and leasing	**(99,957)**	(42,949)
Other permanent differences	**12,557**	45,891
Prior year income taxes	**14,947**	202
Allowance for impairment	**64,246**	–
Change in unrecognised deferred tax assets	**(36,267)**	(4,052)
Income tax expense	**27,455**	47,807

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprised the following at December 31:

	2004	*2003*
Deferred tax assets:		
Allowance for impairment	**21,240**	62,483
Vacation pay accrual	**6,821**	–
Other	**140**	–
	28,201	62,483
Unrecognized deferred tax assets	**-**	(36,267)
Deferred tax liabilities:		
Premises and equipment	**(40,709)**	(26,216)
Net deferred tax liabilities	**(12,508)**	–

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

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

(Thousands of Kazakh Tenge)

12. Amounts due to the Government

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

	2004	*2003*
Local municipal authorities	**8,681**	65,163
World Bank loans through the Ministry of Finance	**4,799**	43,024
	13,480	108,187

The Bank received loans from the World Bank (International Bank of Reconstruction and Development) through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. At December 31, 2004, the loans mature between 2005 and 2008 (2003: 2004 and 2008) and bear interest at 2.05% per annum (2003: 1.27% per annum).

At December 31, 2004 and 2003, the Bank had KZT denominated loans from local municipal authorities bearing interest at rates ranging from 0.5% to 5.78% per annum (2003: from 0.5% to 2% per annum) and maturing between 2005 and 2007 (2003: 2004) under a Government program of financing the agricultural sector.

13. Amounts due to Credit Institutions

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

	2004	*2003*
Repurchase agreement	**1,000,069**	350,047
Time deposits from local banks	**680,361**	900,606
Loans from the Small Business Development Fund of Kazakhstan	**126,207**	184,446
Correspondent accounts	**1,675**	1,326
	1,808,312	1,436,425

Included in amounts due to credit institutions at December 31, 2004, is a repurchase agreement of KZT 1,000,069 (2003: KZT 350,047) that is secured by a pledge over certain of the Bank's held-to-maturity and available-for-sale government securities whose fair value at December 31, 2004 amounted to KZT 1,052,526 (2003: KZT 368,324). That repurchase agreement matures on January 5, 2005 and bears interest at 0.5% per annum (2003: 1%).

At December 31, 2004 interest-bearing time deposits from local banks comprise KZT denominated deposits that bear interest at rates ranging from 8.5% to 9.2% per annum (2003: from 5.5% to 9.5% per annum) and mature in 2005 (2003: 2004).

Loans provided by the Small Business Development Fund of Kazakhstan comprised the following at December 31:

			%	*Date*	
	2004	*2003*	*rate*	*issue*	*maturity*
Project1	-	44,435	8.53	6/10/2002	11/28/2004
Project2	**66,595**	73,880	7.75	6/24/2002	11/28/2005
Project3	**59,612**	66,131	6.00	2/19/2003	7/19/2006
	126,207	184,446			

At December 31, 2004 and 2003 loans from the Small Business Development Fund of Kazakhstan represent pass through loans provided by the European Bank of Reconstruction and Development for use by authorized banks in extending loans to small and medium size enterprises. Interest on the loans is payable semi-annually.

(Thousands of Kazakh Tenge)

14. Amounts due to Customers

Amounts due to customers comprised the following at December 31:

	2004	*2003*
Customer current accounts:		
Commercial	**5,538,521**	3,348,324
State	**500,853**	584,448
Individuals	**282,618**	158,436
	6,321,992	4,091,208
Term deposits:		
Individuals	**4,218,760**	3,364,786
Commercial	**3,718,793**	1,442,033
State	**94,983**	38,497
	8,032,536	4,845,316
	14,354,528	8,936,524

At December 31, 2004 term deposits bear interest at rates ranging from 3% to 13% per annum (2003: from 6.0% to 12.5%) for KZT denominated balances and from 1% to 9.5% per annum (2003: from 3.5% to 9.0%) for foreign currency denominated balances.

At December 31, 2004, the ten largest customers accounted for 14% (2003: 19%) of total amounts due to customers.

An analysis of amounts due to customers by sector follows:

	2004	*%*	*2003*	*%*
Individuals	**4,501,378**	**31%**	3,523,222	39%
Real estate constructions	**2,860,531**	**20%**	1,665,114	19%
Insurance	**2,121,466**	**15%**	667,373	7%
Services	**1,983,837**	**14%**	1,220,577	14%
Trade	**1,158,561**	**8%**	443,147	5%
Agriculture and food processing	**511,871**	**4%**	582,405	7%
Manufacturing	**318,819**	**2%**	257,023	3%
Transport and communication	**113,000**	**1%**	145,732	2%
Machine building	**48,222**	**0%**	3,368	0%
Chemical	**12,141**	**0%**	1,368	0%
Metallurgy	**7,221**	**0%**	5,903	0%
Fuel	**4,623**	**0%**	2,691	0%
Other	**712,858**	**5%**	418,601	4%
	14,354,528	**100%**	8,936,524	100%

15. Debt Securities Issued

At December 31, 2004, debt securities issued comprised KZT denominated bonds with par value of KZT 1,500,000 issued by the Bank. The bonds bear interest at 9% per annum and were sold at a discount. The bonds mature in 2007.

16. Subordinated Loans

Subordinated loans comprised the following at December 31:

	2004	*2003*
Subordinated loan 1	**225,445**	200,269
Subordinated loan 2	**89,115**	98,863
Subordinated loan 3	**208,462**	–
	523,022	299,132

On April 14, 2000, the Bank received subordinated loan 1, denominated in US Dollars, from Mansfield Sales Limited, a foreign company, bearing interest at 2% per annum and maturing on April 14, 2006. In April 2003 the Bank amended the agreement with the foreign company. As per the addendum to the agreement the subordinated debt bears interest at 14% per annum, accrued and capitalized monthly, and matures on April 12, 2010.

(Thousands of Kazakh Tenge)

On October 28, 2002, the Bank signed an agreement for subordinated loan 2, denominated in US Dollars, with a local financial institution, bearing interest at 11% per annum and maturing in April 2010.

On December 21, 2004, a foreign company provided subordinated loan 3, denominated in US Dollars, which bears interest at 8% per annum and matures in December 2010.

These subordinated loans are unsecured obligations of the Bank and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Bank.

17. Shareholders' Equity

At December 31, 2004 the authorized share capital of the Bank comprised 750,000 ordinary shares and 250,000 preferred shares. Each share has a nominal value of KZT 1,000 each. As of December 31, 2004, 531,570 ordinary shares and 246,324 preferred shares were issued and fully paid. As of December 31, 2003, 531,067 ordinary shares were issued and fully paid.

Each ordinary share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of 10 % per annum and do not have any voting rights.

18. Commitments and Contingencies

Operating Environment

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

Legal

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

Financial commitments and contingencies

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

	2004	*2003*
Undrawn loan commitments	**1,029,625**	827,694
Guarantees	**1,814,463**	574,132
Letters of credit	**65,311**	29,941
	2,909,399	1,431,767
Less – Provisions	**(57,776)**	(3,060)
Less cash collateral	**(140,722)**	(132,994)
Financial commitments and contingencies	**2,710,901**	1,295,713

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

The Bank applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under a guarantee. Commercial letters of credit represent a financing transaction by the Bank to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

(Thousands of Kazakh Tenge)

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in bank, government securities, and other.

At December 31, 2004, the top ten guarantees accounted for 84% (2003: 50%) of total financial guarantees and represented 78% (2003: 22%) of the Bank's total shareholders' equity.

Insurance

The Bank has not currently obtained insurance coverage related to property, except for vehicles as motor insurance is obligatory in accordance with the legislation of the Republic of Kazakhstan, and insurance for transportation of cash funds and other valuables. Also, the Bank has no insurance against liabilities arising from errors or omissions. Errors or omissions insurance is generally not available in Kazakhstan at present.

19. Fee and Commission Income

Fee and commission income for the years ended December 31 was made from the following sources:

	2004	*2003*
Cash operations	**185,272**	162,840
Transfer operations	**134,073**	103,914
Guarantees issued	**68,413**	26,683
Foreign currency trading	**31,847**	25,524
Settlements operations	**9,895**	10,281
Other	**28,307**	26,488
Fee and commission income	**457,807**	355,730

20. Salaries and Administrative and Operating Expenses

Salaries and administrative and operating expenses comprise:

	2004	*2003*
Salaries and bonuses	**423,634**	299,920
Social costs	**56,094**	57,782
Other payments	**23,506**	15,631
Salaries and benefits	**503,234**	373,333
Advertising	**139,397**	48,977
Rent	**118,928**	77,430
Communication	**49,964**	44,098
Security	**23,198**	17,440
Business trip expenses	**15,884**	11,657
Penalties and fines	**13,137**	10,907
Repairs and maintenance	**12,707**	17,215
Stationery and supplies	**12,205**	11,862
Audit and consulting services	**11,018**	8,280
Transportation	**9,149**	5,073
Charity	**5,567**	4,701
Training	**3,452**	2,847
Cash collection services	**3,005**	2,814
Other	**76,513**	22,070
Administrative and operating expenses	**494,124**	285,371

The aggregate remuneration and other benefits paid to members of the Management Board for 2004 was KZT 27,094 thousand (2003: KZT 32,281 thousand).

(Thousands of Kazakh Tenge)

21. Risk Management Policies

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

Credit risk

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee, Assets and Liabilities Management Committee, which is called once a week.

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

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

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

(Thousands of Kazakh Tenge)

Concentration

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

2004

	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Cash and cash equivalents	**581,353**	**481,159**	**107,314**	**1,169,826**
Obligatory reserves	**542,722**	**-**	**-**	**542,722**
Amounts due from credit institutions	**1,817,211**	**-**	**-**	**1,817,211**
Trading securities	**388,324**	**-**	**-**	**388,324**
Investment securities:				
- available-for-sale	**1,974,238**	**-**	**-**	**1,974,238**
- held-to-maturity	**1,449,552**	**-**	**-**	**1,449,552**
Loans to customers	**11,963,297**	**-**	**446,465**	**12,409,762**
Other assets	**104,429**	**2,039**	**3,595**	**110,063**
	18,821,126	**483,198**	**557,374**	**19,861,698**
Amounts due to the Government	**13,480**	**-**	**-**	**13,480**
Amounts due to credit institutions	**1,806,637**	**-**	**1,675**	**1,808,312**
Amounts due to customers	**14,315,313**	**4,431**	**34,784**	**14,354,528**
Debt securities issued	**1,467,258**	**-**	**-**	**1,467,258**
Subordinated loans	**89,115**	**433,907**	**-**	**523,022**
Tax liabilities	**12,508**	**-**	**-**	**12,508**
Provisions	**57,776**	**-**	**-**	**57,776**
Other liabilities	**55,925**	**1,040**	**6,046**	**63,011**
	17,818,012	**439,378**	**42,505**	**18,299,895**
	1,003,114	**43,820**	**514,869**	**1,561,803**

2003

	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Cash and cash equivalents	1,041,625	68,488	22,173	1,132,286
Obligatory reserves	295,705	–	–	295,705
Amounts due from credit institutions	8,665	–	–	8,665
Trading securities	284,192	–	–	284,192
Investment securities:				
- available-for-sale	1,710,656	–	–	1,710,656
- held-to-maturity	512,223	–	–	512,223
Loans to customers	7,951,341	–	–	7,951,341
Other assets	62,457	–	–	62,457
	11,866,864	68,488	22,173	11,957,525
Amounts due to the Government	108,187	–	–	108,187
Amounts due to credit institutions	1,436,425	–	–	1,436,425
Amounts due to customers	8,936,524	–	–	8,936,524
Subordinated loans	98,863	–	200,269	299,132
Provisions	3,060	–	–	3,060
Other liabilities	28,992	–	–	28,992
	10,612,051	–	200,269	10,812,320
	1,254,813	68,488	(178,096)	1,145,205

The above tables do not include the effect of allowances for losses totaling KZT 387,611 and KZT 428,504 as of December 31, 2004 and 2003, respectively.

(Thousands of Kazakh Tenge)

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Assets and Liabilities Management Committee sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the NBK. The Bank's exposure to foreign currency exchange rate risk follows.

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

2004

	KZT and other currencies	*Freely convertible currencies*	*Total*
Cash and cash equivalents	**670,551**	**499,275**	**1,169,826**
Obligatory reserves	**542,722**	**-**	**542,722**
Amounts due from credit institutions	**1,294,263**	**522,948**	**1,817,211**
Trading securities	**388,324**	**-**	**388,324**
Investment securities:			
- available-for-sale	**1,974,238**	**-**	**1,974,238**
- held-to-maturity	**1,449,552**	**-**	**1,449,552**
Loans to customers	**11,147,235**	**1,262,527**	**12,409,762**
Other assets	**94,644**	**15,419**	**110,063**
	17,561,529	**2,300,169**	**19,861,698**
Amounts due to the Government	**8,681**	**4,799**	**13,480**
Amounts due to credit institutions	**1,682,105**	**126,207**	**1,808,312**
Amounts due to customers	**12,543,295**	**1,811,233**	**14,354,528**
Debt securities issued	**1,467,258**	**-**	**1,467,258**
Subordinated loans	**225,445**	**297,577**	**523,022**
Tax liabilities	**12,508**	**-**	**12,508**
Provisions	**5,256**	**52,520**	**57,776**
Other liabilities	**60,170**	**2,841**	**63,011**
	16,004,718	**2,295,177**	**18,299,895**
Net position	**1,556,811**	**4,992**	**1,561,803**

(Thousands of Kazakh Tenge)

2003

	KZT and other currencies	***Freely convertible currencies***	***Total***
Cash and cash equivalents	565,640	566,646	1,132,286
Obligatory reserves	295,705	–	295,705
Amounts due from credit institutions	–	8,665	8,665
Trading securities	284,192	–	284,192
Investment securities:			
- available-for-sale	1,710,656	–	1,710,656
- held-to-maturity	512,223	–	512,223
Loans to customers	4,995,753	2,955,588	7,951,341
Other assets	48,013	14,444	62,457
	8,412,182	3,545,343	11,957,525
Amounts due to the Government	65,163	43,024	108,187
Amounts due to credit institutions	661,927	774,498	1,436,425
Amounts due to customers	6,326,959	2,609,565	8,936,524
Subordinated loans	200,269	98,863	299,132
Provisions	3,060	–	3,060
Other liabilities	27,245	1,747	28,992
	7,284,623	3,527,697	10,812,320
Net position	1,127,559	17,646	1,145,205

The above tables do not include the effect of allowances for losses totaling KZT 387,611 and KZT 428,504 as of December 31, 2004 and 2003, respectively.

A substantial portion of the Bank's net position in freely convertible currencies is held in US Dollars.

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan drawdowns and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Thousands of Kazakh Tenge)

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

2004

	On demand	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	1,169,826	-	-	-	-	-	1,169,826
Obligatory reserves	542,722	-	-	-	-	-	542,722
Amounts due from credit institutions	-	1,520,487	109	294,229	2,386	-	1,817,211
Trading securities	388,324	-	-	-	-	-	388,324
Investment securities:							
- available-for-sale	1,974,238	-	-	-	-	-	1,974,238
- held-to-maturity	-	49,971		880,655	309,644	209,282	1,449,552
Loans to customers	-	565,861	739,324	3,020,375	6,261,787	1,822,415	12,409,762
Other assets	110,063	-	-	-	-	-	110,063
	4,185,173	2,136,319	739,433	4,195,259	6,573,817	2,031,697	19,861,698
Amounts due to the Government	-	-	56	8,683	4,741	-	13,480
Amounts due to credit institutions	1,675	1,368,892	155,827	223,418	58,500	-	1,808,312
Amounts due to customers	6,328,974	837,124	1,684,248	4,567,071	929,341	7,770	14,354,528
Debt securities issued	-	-	-	-	1,467,258	-	1,467,258
Subordinated loans	-	-	-	-	-	523,022	523,022
Tax liabilities	12,508	-	-	-	-	-	12,508
Provisions	57,776	-	-	-	-	-	57,776
Other liabilities	63,011	-	-	-	-	-	63,011
	6,463,944	2,206,016	1,840,131	4,799,172	2,459,840	530,792	18,299,895
Net position	(2,278,771)	(69,697)	(1,100,698)	(603,913)	4,113,977	1,500,905	1,561,803
Accumulated gap	(2,278,771)	(2,348,468)	(3,449,166)	(4,053,079)	60,898	1,561,803	

2003

	On demand	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	1,132,286	–	–	–	–	–	1,132,286
Obligatory reserves	–	–	–	–	295,705	–	295,705
Amounts due from credit institutions	8,665	–	–	–	–	–	8,665
Trading securities	284,192	–	–	–	–	–	284,192
Investment securities:							
- available-for-sale	1,710,656	–	–	–	–	–	1,710,656
- held-to-maturity	–	–	348,045	164,178	–	–	512,223
Loans to customers	–	320,517	70,364	1,270,970	4,252,468	2,037,022	7,951,341
Other assets	62,457	–	–	–	–	–	62,457
	3,198,256	320,517	418,409	1,435,148	4,548,173	2,037,022	11,957,525
Amounts due to the Government	–	9,849	602	32,577	65,159	–	108,187
Amounts due to credit institutions	1,326	511,694	441,629	344,767	137,009	–	1,436,425
Amounts due to customers	4,028,477	85,019	1,122,468	2,371,319	1,329,057	184	8,936,524
Subordinated loans	–	–	–	–	–	299,132	299,132
Provisions	3,060	–	–	–	–	–	3,060
Other liabilities	28,992	–	–	–	–	–	28,992
	4,061,855	606,562	1,564,699	2,748,663	1,531,225	299,316	10,812,320
Net position	(863,599)	(286,045)	(1,146,290)	(1,313,515)	3,016,948	1,737,706	1,145,205
Accumulated gap	(863,599)	(1,149,644)	(2,295,934)	(3,609,449)	(592,501)	1,145,205	

(Thousands of Kazakh Tenge)

The above tables do not include the effect of allowances for losses totaling KZT 387,611 and KZT 428,504 as of December 31, 2004 and 2003, respectively.

The entire portfolio of available-for-sale securities is classified on demand as the portfolio is of a dealing nature and the Bank believes this is the proper presentation of its liquidity position. The Bank believes that in spite of a substantial portion of deposits from individuals being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank.

Liquidity Gap

At December 31, 2004, the Bank had an accumulated negative liquidity gap extending to 1 year. Management monitors the Bank's liquidity needs and positions and has plans to reduce the liquidity gap extending to one year in 2005 and improve all other liquidity gap categories. These plans include controlling the growth in long term loans, extending the maturity of customer deposits, placement of debt securities in the amount of KZT 3 billion during 2005, renewal or replacement of amounts due to credit institutions maturing in 2005 to extend their maturities and increase of the Bank's capital by KZT 2 Billion in 2005.

Management believes that the Bank's access to domestic and international funding as well as the anticipated share capital increase will continue to allow it to meet its liquidity needs in 2005 and beyond. In addition, Management believes that the majority of its customer accounts will be extended over their initial contractual maturity as their withdrawal has historically taken place over a period longer than their contractual maturity. Liquidity management also requires Management to extend the maturity of its customer deposits, which is subject to prevailing market conditions, including market liquidity, pricing and competitive pressure, and to secure additional long-term funding.

Failure to extend the maturity of its customer deposits or to effectively implement any of the plans described above could have a negative impact on the ability of the Bank to meet its obligations, including debt servicing, and, therefore, the Bank's results of operations and financial condition.

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's Assets and Liabilities Management Committee. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed by the Bank's Assets and Liabilities Management Committee and approved by the Board of Directors.

As of December 31, the effective average interest rates by currencies for interest earning generating/ bearing monetary financial instruments were as follows:

	2004		***2003***	
	KZT	***USD***	***KZT***	***USD***
Trading securities	**9.50%**	–	10.89%	–
Investment securities:				
- available-for-sale	**6.72%**	–	6.99%	–
- held-to-maturity	**4.72%**	–	10.00%	–
Loans to customers	**15.34%**	**15.24%**	17.10%	15.9%
Due to the Government	**1.25%**	**2.05%**	0.38%	1.27%
Due to credit institutions	**8.98%**	**6.88%**	5.50%	8.15%
Customer deposits	**6.72%**	**8.88%**	9.01%	6.64%
Subordinated debt	**14%**	**9.50%**	12.32%	10.8%

(Thousands of Kazakh Tenge)

22. Earnings per Share

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

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31:

	2004	***2003***
Net income	**420,325**	319,038
Weighted average number of ordinary shares (common and preferred)	**660,048**	531,067

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

23. Fair Values of Monetary Assets and Liabilities

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

Amounts Due from and to Credit Institutions

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

Loans to Customers

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

Investment Securities

Investment securities held-to-maturity include only securities with fixed interest rates which reflect market interest rates and, consequently, the fair value approximates the carrying amounts. Non-marketable available-for-sale securities are represented by corporate shares and shares of associates and subsidiaries held for disposal. The total carrying amount of these securities approximates their fair values.

Amounts Due to Customers

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

(Thousands of Kazakh Tenge)

Debt Securities Issued

Debt securities are issued at interest rates approximate to market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

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

	2004		*2003*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets				
Loans to customers	**12,022,151**	**12,531,966**	7,522,837	8,532,177
Financial liabilities				
Amounts due to credit institutions	**1,808,312**	**1,808,312**	1,436,425	1,436,425
Amounts due to customers	**14,354,528**	**14,498,073**	8,936,524	9,951,972
Subordinated debt	**523,022**	**616,238**	299,132	358,757

24. Related Party Transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. At December 31, the Bank had the following balances with related parties:

	2004			*2003*
	Related Party	*Percentage on normal conditions*	*Total items category*	*Related Party*
Loans to customers	**534,283**	**100%**	**12,022,151**	282,161
Amounts due to customers	**602,667**	**100%**	**14,354,528**	591,788
Subordinated loans	**-**	**100%**	**523,022**	98,863
Commitments and guarantees issued	**75,213**	**100%**	**1,814,463**	–
Commitments and guarantees received	**563,735**	**100%**	**3,635,289**	–
Interest income on loans to customers	**31,740**	**100%**	**1,594,168**	33,869
Interest expense on amount owed to customers	**47,252**	**100%**	**572,097**	11,417
Interest on subordinated loans	**-**	**100%**	**40,510**	10,511
Rent	**96,774**	**100%**	**118,928**	60,119