J O I N T   S T O C K   C O M P A N Y

CASPIAN BANK

Consolidated Financial Statements
For The Year Ended 31 December 2004

And Independent Auditors' Report

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank Caspian:

We have audited the accompanying consolidated balance sheet of JSC Bank Caspian and its subsidiary (the "Group") as of 31 December 2004, the related consolidated statements of income, cash flows and changes in shareholders' equity ("the consolidated financial statements") for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of 31 December 2003 and the year then ended were audited by another auditor, whose report dated 9 February 2004 expressed an unqualified opinion with regard to those financial statements.

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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2004, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

11 February 2005
Almaty

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 KZT'000	2003 KZT'000
INTEREST INCOME			
Loans to customers	26	7,482,812	4,376,557
Investment securities		492,315	579,713
Amounts due from credit institutions		45,871	13,750
		8,020,998	4,970,020
INTEREST EXPENSE			
Amounts due to customers	26	(1,378,353)	(1,819,579)
Subordinated loan		(914,006)	(195,133)
Amounts due to credit institutions	26	(497,362)	(238,630)
Debt securities issued		(337,499)	(241,200)
		(3,127,220)	(2,494,542)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		4,893,778	2,475,478
Impairment of interest earning assets	4	(1,809,426)	(732,695)
NET INTEREST INCOME		3,084,352	1,742,783
FEES AND COMMISSIONS			
Fee and commission income	5,26	1,484,225	1,186,280
Fee and commission expense		(221,934)	(88,039)
		1,262,291	1,098,241
Gains less losses from trading securities	6	(45,041)	33,825
Gains less losses from foreign currencies			
- dealing		464,499	220,372
- translation differences		60,238	(92,873)
Underwriting income		38,484	31,849
Other income	26	230,998	54,225
NON INTEREST INCOME		749,178	247,398
Salaries and benefits	7	(1,564,866)	(1,050,970)
Depreciation	15	(173,501)	(108,765)
Administrative and operating expenses	7	(1,111,489)	(782,395)
Other impairment and provisions	4	(67,525)	(123,046)
NON INTEREST EXPENSE		(2,917,381)	(2,065,176)
INCOME BEFORE INCOME TAX EXPENSE		2,178,440	1,023,246
Income tax expense	8	(400,778)	(181,645)
NET INCOME		1,777,662	841,601
		KZT	KZT
Earnings per share			
Basic	9	191.72	122.87
Diluted	9	191.72	134.49

On behalf of the Board:

Iskakov S.K.
Chairman

11 February 2005
Almaty

Ualibekova N.A.
Chief Accountant

11 February 2005
Almaty

The notes on pages 7-32 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on page 1.

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2004

	Notes	2004 KZT'000	2003 KZT'000
ASSETS:			
Cash and cash equivalents	10,26	9,587,033	6,219,460
Obligatory reserves	11	1,011,728	680,970
Trading securities	12	13,746,056	8,383,241
Amounts due from credit institutions	13	2,674,516	1,779,223
Loans to customers	14,26	49,431,820	35,459,390
Property and equipment	15	2,539,425	1,888,070
Other assets	16	768,188	325,446
TOTAL ASSETS		79,758,766	54,735,800
LIABILITIES			
Amounts due to Government	17	73,260	243,394
Amounts due to credit institutions	18,26	20,314,228	8,729,317
Amounts due to customers	19,26	31,695,136	30,022,490
Debt securities issued:			
- subordinated debt securities issued	20	10,572,891	7,049,859
- unsubordinated debt securities issued	20	6,629,142	2,250,293
Deferred tax liabilities	8	-	93,759
Provisions	4	189,735	123,046
Other liabilities	21	686,464	500,489
Total liabilities		70,160,856	49,012,647
SHAREHOLDERS' EQUITY:			
Share capital	22	5,797,282	3,700,462
Additional paid-in capital		521,530	521,530
Treasury stock		(24,987)	(487)
Reserves		3,304,085	1,501,648
Total shareholders' equity		9,597,910	5,723,153
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		79,758,766	54,735,800
FINANCIAL COMMITMENTS AND CONTINGENCIES	23	15,903,307	13,221,373

On behalf of the Board:

Iskakov S.K.
Chairman

11 February 2005
Almaty

Ualibekova N.A.
Chief Accountant

11 February 2005
Almaty

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JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share Capital	Additional paid-in Capital	Treasury Stock	Convertible subordinated debt	Statutory reserve	Revaluation reserve	Retained earnings	Total shareholders' equity
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
31 December 2002	1,756,828	433,095	(6,796)	779,250	292,157	232,738	(55,621)	3,431,651
Share capital increase	1,305,360	88,435	-	-	-	-	-	1,393,795
Treasury stock purchase	-	-	(37,611)	-	-	-	-	(37,611)
Treasury stock sale	-		43,920	-	-		-	43,920
Revaluation of property and equipment, net of deferred tax	-	-	-	-	-	193,188	-	193,188
Dividends - preference shares		-	-	-	-	-	(2,415)	(2,415)
Conversion of subordinated debt to common shares	638,274	-	-	(638,274)	-			-
Purchase of convertible subordinated debt			-	(140,976)	-	-	-	(140,976)
Transfers		-	-	-	177,711	-	(177,711)	-
Net profit		-	-	-	-	-	841,601	841,601
31 December 2003	3,700,462	521,530	(487)	-	469,868	425,926	605,854	5,723,153
Share capital increase	2,096,820		-	-	-		-	2,096,820
Treasury stock purchase		-	(24,500)	-	-			(24,500)
Revaluation of property and equipment, net of deferred tax			-	-	-	27,141	-	27,141
Dividends - preference shares		-	-	-	-		(2,366)	(2,366)
Amortization of property and equipment revaluation reserve	-	-	-	-	-	(9,468)	9,468	-
Net profit	-	-	-	-	-	-	1,777,662	1,777,662
31 December 2004	5,797,282	521,530	(24,987)	-	469,868	443,599	2,390,618	9,597,910

On behalf of the Board:

Iskakov S.K.
Chairman

11 February 2005
Almaty

Ualibekova N.A.
Chief Accountant

11 February 2005
Almaty

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 KZT'000	2003 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		2,178,440	1,023,246
Adjustments for:			
Impairment of interest earning assets		1,809,426	732,695
Other impairment and provisions		67,525	123,046
Depreciation		173,501	108,765
Decrease in carrying amount of property and equipment arising from revaluation		-	43,878
(Gain)/loss on disposal of property and equipment		(26,420)	11,322
Unrealized loss/(gain) on trading securities		42,453	(57,944)
Unrealized foreign exchange loss		100,132	11,385
Cash flow from operating activity before changes in net operating assets and liabilities		4,345,057	1,996,393
Net (increase)/decrease in operating assets:			
Obligatory reserve		(330,758)	(369,463)
Trading securities		(5,405,268)	(3,250,191)
Amounts due from credit institutions		(895,293)	(1,779,223)
Loans to customers		(15,728,299)	(16,558,199)
Other assets		(359,001)	118,649
Net increase/(decrease) in operating liabilities			
Amounts due to Government		(170,134)	243,394
Amounts due to credit institutions		11,584,911	4,645,905
Amounts due to customers		1,672,646	11,555,699
Other liabilities		183,609	167,764
Cash used in operating activities before income taxes		(5,102,530)	(3,229,272)
Corporate income tax paid		(590,746)	(186,378)
Net cash used in operating activities		(5,693,276)	(3,415,650)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(801,696)	(469,373)
Proceeds from sale of property and equipment		42,033	57,714
Proceeds from sale of held-to-maturity investment securities		-	184,594
Net cash used in investing activities		(759,663)	(227,065)

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 KZT'000	2003 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions		2,096,820	1,393,795
Proceeds from debt securities issued		9,930,931	6,888,966
Redemption of debt securities issued		(2,029,050)	-
Treasury stock purchase		(24,500)	(37,611)
Treasury stock sale		-	43,920
Dividends on preference shares paid		-	(2,415)
Convertible subordinated debt		-	(140,976)
Net cash provided by financing activities		9,974,201	8,145,679
EXCHANGE RATES CHANGES EFFECT ON CASH AND CASH EQUIVALENTS		(153,689)	(45,508)
NET CHANGE IN CASH AND CASH EQUIVALENTS		3,367,573	4,457,456
CASH AND CASH EQUIVALENTS, beginning of the year	10	6,219,460	1,762,004
CASH AND CASH EQUIVALENTS, end of the year	10	9,587,033	6,219,460
Supplementary information:			
Interest paid		3,637,883	2,027,881
Interest received		8,239,729	4,284,301

On behalf of the Board:

Iskakov S.K.
Chairman

11 February 2005
Almaty

Ualibekova N.A.
Chief Accountant

11 February 2005
Almaty

The notes on pages 7-32 form an integral part of these consolidated financial statements.
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1. ORGANISATION

JSC Bank Caspian (the "Bank") is a joint-stock company, which was incorporated in the Republic of Kazakhstan in December 1997. The Bank is regulated by the National Bank of the Republic of Kazakhstan (NBRK) and the Agency of the Republic of Kazakhstan on the regulation and the supervision of financial market and financial organizations (AFS) and conducts its business under general license number No. 245 on 1 March 2004. The Bank's primary business consists of commercial activities, trading with securities and foreign currencies, originating loans and guarantees.

The registered address of the Bank is 90 Adi Sharipov Street, Almaty, 050012, Republic of Kazakhstan.

The Bank has 33 branches in the Republic of Kazakhstan.

The Bank is a parent company of the banking group (the "Group") which includes JSC Insurance Company Almaty International Insurance Group (AIIG) in the consolidated financial statements.

AIIG was formed as a joint stock company under the laws of the Republic of Kazakhstan in late 1994. The company's principal activity is provision of property and casualty insurance. The company possesses licenses No. DOS 5-2/1 and No. OS 5-2/1 for provision of non-life voluntary and obligatory insurance.

During 2004 and 2003 the Group had an average of 1344 and 966 employees, respectively.

As of 31 December 2004 the following shareholders individually owned more than 5% of the issued shares. As of 31 December 2004 4,785 shareholders owned 61.1% of the outstanding shares.

Shareholder	2004 %	2003 %
Iskakov S.K.	10.4	-
Leasing Center Astana	9.1	8.1
Blooming Market Estate Inc	8.0	-
Industryinveststroy	5.9	-
Fantasia	5.5	6.5
Kazakhstan Fuel Company	-	11.5
Caspian Investment Services Corporation	-	9.5
Madoc capital Limited Company	-	6.2
Nauryz Services Consultiing Company LLP	-	6.0
Kim V.K.	-	5.9
Kim V.E.	-	5.6
Total	38.9	59.0

These consolidated financial statements were authorized for issue by the Group's Management on 11 February 2005.

2. BASIS OF PREPARATION

Accounting basis

These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), unless otherwise indicated. These consolidated financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of financial assets held for trading and property and equipment and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

The Group maintains its records and prepares its consolidated financial statements in accordance with IFRS.

The preparation of the consolidated 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 consolidated 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 losses and impairment and the fair value of financial instruments.

Measurement currency

The measurement currency in these consolidated financial statements is the Kazakhstani Tenge.

3. SUMMARY OF THE ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements of the Group include Almaty International Insurance Group JSC. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting. Financial assets and liabilities are 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 remeasurement 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, amounts due from NBRK – excluding obligatory reserves, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves

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

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 estimated fair value, securities are valued at the quotes of the Kazakhstan Stock Exchange 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 Group'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 Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management. These agreements are accounted for as 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 loans to customers.

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

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.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, primarily forwards in the foreign exchange markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives, for which offsetting is performed are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Other derivative assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from trading securities.

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At 31 December 2004 and 2003, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

Loans to customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment.

Write off of loans and advances

Loans and advances are written off against allowance for loan 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 received all available collateral.

Non-accrual loans

Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowances for impairment of financial assets

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

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

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

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative and operating expenses.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and of the cities in which the Bank has offices and branches and its subsidiary is located. Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences except were the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss.

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

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

Property and equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Property is carried at revalued cost less accumulated depreciation and any accumulated impairment for diminution in value. Revaluations of property are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

Any revaluation increase arising on the revaluation of such property is credited to the 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 the carrying amount arising on the revaluation of such property is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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

	Years
Land	-
Buildings	50
Furniture and fixtures	3-10
Vehicles	4-8

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 to their recoverable amount. 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 Government, credit institutions and to customers

Amounts due to 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.

Debt securities issued

Debt securities issued represent bonds issued by the Group 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 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.

Retirement and other benefit obligations

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

Share capital

Share capital, additional paid-in capital and treasury stock are recognized at restated cost. Gains and losses on sales of treasury stock are charged 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. Preference 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 in shareholders' 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 IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated 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. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income and interest accrued in prior years and not received is charged off against the allowance for losses. Subsequent payments by borrowers are applied entirely to principal if the estimated collectibility of the loan is low and to either principal or delinquent interest, based on the estimated collectibility of the loan and delinquent interest at the time of payment, if the Group has objective evidence that the loan and delinquent interest are reasonably assured of repayment within a reasonable period. A non-accrual loan may be restored to accrual status when all the Group has objective evidence that all principal and interest amounts contractually due are reasonably assured of timely repayment.

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 liabilities in the accompanying consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated profit and loss account 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 other liabilities 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. Gains and losses arising from these translations are recognized in the statement of income as gains less losses from foreign currencies.

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 2004	31 December 2003
1 KZT / 1 US Dollar	130.00	144.22
1 KZT / 1 Euro	177.10	180.23

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated 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.

4. ALLOWANCES FOR LOSSES AND PROVISIONS

The movements in allowances for impairment of interest earning assets were as follows:

	Loans to customers KZT'000	**Total** KZT'000
31 December 2002	565,389	565,389
Provision	732,695	732,695
Write-offs	(32,294)	(32,294)
Recoveries	17,705	17,705
31 December 2003	1,283,495	1,283,495
Provision	1,809,426	1,809,426
Write-offs	(484,548)	(484,548)
Recoveries	3,251	3,251
Transfers	(97,860)	(97,860)
31 December 2004	2,513,764	2,513,764

The movements in allowances for provisions were as follows:

	Other assets KZT'000	**Guarantees and credit related commitments** KZT'000	**Total** KZT'000
31 December 2002	7,830	-	7,830
Provision	-	123,046	123,046
Write-offs	(3,925)	-	(3,925)
31 December 2003	3,905	123,046	126,951
Provision	836	66,689	67,525
Write-offs	(2,120)	-	(2,120)
Transfers	97,860	-	97,860
31 December 2004	100,481	189,735	290,216

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and letters of credit are recorded in liabilities.

5. FEE AND COMMISSION INCOME

Fee and commission income comprise:

	2004 KZT'000	**2003** KZT'000
Cash operations	465,169	320,797
Documentary operations	383,290	343,675
Settlements	340,976	290,747
Foreign exchange operations	152,871	141,665
Other operations	141,919	89,396
Total fee and commission income	1,484,225	1,186,280

6. GAINS LESS LOSSES FROM TRADING SECURITIES

Gains less losses from trading securities comprise:

	2004 KZT'000	2003 KZT'000
Change in fair value of trading securities	(51,664)	57,944
Sales and redemptions	6,623	(24,119)
Gains less losses from trading securities	(45,041)	33,825

7. PAYROLL, ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits comprise:

	2004 KZT'000	2003 KZT'000
Salaries and bonuses	1,401,107	891,376
Social security costs	163,759	159,594
Total salaries and benefits	1,564,866	1,050,970

Administrative and operating expenses comprise:

	2004 KZT'000	2003 KZT'000
Operating taxes	172,278	124,144
Administrative	194,070	87,314
Communications	104,388	79,480
Business travel	103,370	52,017
Marketing and advertising	102,388	112,927
Occupancy and rent	100,320	73,997
Loss on property and equipment disposals	60,052	11,322
Repair and maintenance of property and equipment	52,123	33,639
Transportation	46,987	31,882
Security	34,746	23,534
Fines and penalties	34,317	-
Entertainment	27,148	9,626
Office supplies	21,361	21,979
Legal and consultancy	16,578	16,978
Decrease in the carrying amount of property arising on revaluation	-	43,878
Other	41,363	59,678
Total administrative and operating expenses	1,111,489	782,395

8. TAXATION

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstani statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2004 and 2003, Kazakhstan's tax rates for corporate income tax were 30% for non-insurance activities and 4% for insurance activities.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of exchange losses and other expenses and the tax-free regime for certain income under local tax regulations.

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 of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 comprise:

	2004 KZT'000	2003 KZT'000
Deferred assets:		
Allowances for losses and provisions	2,319	217,850
Loans to customer	970,771	-
Other	-	169,963
Total deferred assets	973,090	387,813
Deferred liabilities:		
Fixed assets	(892,751)	(693,980)
Other	(8,048)	(6,363)
Total deferred liabilities	(900,799)	(700,343)
Net deferred assets/(liabilities)	72,291	(312,530)
Deferred tax assets/(liabilities) at the statutory rate (30%)	21,687	(93,759)
Less: valuation allowance	(21,687)	-
Net deferred tax liabilities	-	(93,759)

Relationships between tax expenses and accounting profit for the year ended 31 December 2004 and 2003 are explained as follows:

	2004 KZT'000	2003 KZT'000
Income before income tax expense	2,178,440	1,023,246
Tax at the statutory rate (30%)	653,532	306,974
State securities non-taxable income	(140,083)	(317,612)
Mortgage loans non-taxable income	(45,815)	-
Income of the insurance subsidiary taxed at different rates	(35,860)	(21,052)
Non deductible expenditures:		
- interest expense over deductible limits	-	226,766
- losses on disposal of property and equipment	492	3,397
Other permanent differences	(9,801)	(16,828)
Change in valuation allowance	(21,687)	-
Income tax expense	400,778	181,645

	2004 KZT'000	2003 KZT'000
Current income tax expense	506,169	186,378
Deferred tax benefit	(105,391)	(4,733)
Income tax expense	400,778	181,645

Deferred income tax liabilities	2004 KZT'000	2003 KZT'000
1 January	(93,759)	(15,697)
Increase of revaluation reserve	(11,632)	(82,795)
Deferred tax benefit	105,391	4,733
31 December	-	(93,759)

9. 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.

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had one type of dilutive shares, convertible debt. The convertible debt is assumed to have been converted into shares and the net profit is adjusted to eliminate the applicable interest expense less the tax effect.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2004 KZT'000	2003 KZT'000
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on preference shares	1,775,296	839,186
Interest on convertible debt	-	195,133
Net income attributable to common shareholders for diluted earnings per share	1,775,296	1,034,319

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at 31 December is as follows:

	2004	2003
Weighted average number of common shares for basic earnings per share	9,260,001	6,829,673
Effect of dilution: Convertible debt	-	860,758
Adjusted weighted average number of common shares for diluted earnings per share	9,260,001	7,690,431

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2004 KZT'000	2003 KZT'000
Current accounts with NBRK	6,530,312	3,767,636
Cash on hand	1,780,653	1,269,625
Current accounts with credit institutions	1,276,068	1,182,199
Total cash and cash equivalents	9,587,033	6,219,460

At 31 December 2004 and 2003, current accounts with OECD based banks were KZT 1,097,829 thousand and KZT 631,933 thousand, respectively.

At 31 December 2004 and 2003, 5 banks accounted for 83% and 82%, respectively, of total current accounts with credit institutions and represented 11% and 17%, respectively, of the Group's total shareholders' equity.

11. OBLIGATORY RESERVES

Under Kazakh legislation, the Group 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 NBRK or in physical cash and maintained based on average monthly balances of the aggregate of deposits with NBRK and physical cash. The use of such funds is, therefore, subject to certain usage restrictions.

12. TRADING SECURITIES

Trading securities comprise:

	Interest to nominal %	2004 KZT'000	Interest to nominal %	2003 KZT'000
Debt securities				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	5.5-8.3	8,625,310	6.0-17.1	5,055,979
Notes of NBRK	0.0	2,892,929		-
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.1	2,128,030	11.1-13.6	3,068,303
Corporate bonds	8.0	96,158	10.0	146,420
Promissory notes of Kazakh corporations	10.0	3,629	10.0	112,539
Total trading securities		13,746,056		8,383,241
Subject to repurchase agreements		-		4,482,323

13. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	2004 KZT'000	2003 KZT'000
Reverse repurchase agreements	1,250,055	1,080,182
Time deposits and loans	1,424,461	699,041
Total amounts due from credit institutions	2,674,516	1,779,223

At 31 December 2004 and 2003, 5 credit institutions accounted for 93% and 86%, respectively, of time deposits and loans and represented 14% and 11%, respectively, of the Group's total shareholders' equity.

At 31 December 2004 and 2003, time deposits in the amount of KZT nil and KZT 582,217 thousand, respectively, were pledged to the counterparty banks as security for open letters of credit.

The Group had entered into reverse repurchase agreements with various undisclosed counterparties through KASE and directly with one credit institution. As of 31 December 2004 the subject of these agreements is bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 1,250,055 thousand. At 31 December 2003, the subject of these agreements is notes of NBRK of KZT 480,181 thousand and bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 600,001 thousand.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	2004 KZT'000	2003 KZT'000
Loans to customers	51,944,098	36,682,045
Overdrafts	1,486	60,840
	51,945,584	36,742,885
Allowance for loan losses	(2,513,764)	(1,283,495)
Total loans to customers	49,431,820	35,459,390

As of 31 December 2004 and 2003 included in loans to customers are non-accrual loans which amounted to KZT 819,717 thousand and KZT 434,664 thousand, respectively.

As of 31 December 2004 and 2003, the Group had a concentration of loans represented by KZT 13,704,018 thousand due from ten borrowers (26.38% of total gross loan portfolio) and KZT 13,888,421 thousand due from ten borrowers (37.95% of total gross loan portfolio), respectively. An allowance of KZT 139,711 thousand and KZT 43,201 thousand, respectively, was made against these loans.

As of 31 December 2004 and 2003, loans of KZT 2,654,462 thousand and KZT 7,625,548 thousand, respectively, were secured by 100% cash collateral.

As of 31 December, loans are made principally within Kazakhstan to the following sectors:

	2004 KZT'000	2003 KZT'000
Trade	22,167,594	15,043,824
Individuals	12,676,684	3,471,849
Construction	5,893,845	3,340,336
Manufacturing	4,824,297	8,169,289
Services	2,874,051	3,075,482
Oil & Gaz	1,247,044	-
Agriculture and food processing	989,912	1,576,178
Transport	596,893	1,711,764
Other	675,264	354,163
	51,945,584	36,742,885
Allowance for loan losses	(2,513,764)	(1,283,495)
Total loans to customers	49,431,820	35,459,390

15. FIXED ASSETS, LESS ACCUMULATED DEPRECIATION

The movements of fixed assets were as follows:

	Land and buildings KZT'000	Furniture and fixtures KZT'000	Vehicles KZT'000	Assets under construction KZT'000	Total KZT'000
Cost or revaluation					
31 December 2003	1,683,972	469,591	189,734	82,837	2,426,134
Additions	493,410	204,606	63,513	40,167	801,696
Disposals	(12,953)	(29,001)	(26,785)	-	(68,739)
Revaluation	40,085	-	-	-	40,085
31 December 2004	2,204,514	645,196	226,462	123,004	3,199,176
Accumulated depreciation					
31 December 2003	280,679	202,931	54,454	-	538,064
Charge	35,864	110,843	26,794	-	173,501
Disposals	(4,613)	(23,406)	(25,107)	-	(53,126)
Revaluation	1,312	-	-	-	1,312
31 December 2004	313,242	290,368	56,141	-	659,751
Net book value:					
31 December 2004	1,891,272	354,828	170,321	123,004	2,539,425
31 December 2003	1,403,293	266,660	135,280	82,837	1,888,070

During 2002, the Group commenced the process of revaluing its buildings. The revaluation process for all buildings was completed in 2004. The valuation of certain buildings was performed by an independent appraisal firm as of 26 November 2004, 23 December 2003 and 12 November 2002. The basis used for the appraisal was fair market value under the open market premise of value. As of 31 December 2004 the revalued buildings are included above at the revalued net carrying amount of KZT 802,059 thousand. Had the revalued property been included at cost at 31 December 2004 and 2003, their net carrying amount would have amounted to KZT 358,496 thousand and KZT 429,995 thousand, respectively.

16. OTHER ASSETS

Other assets comprise:

	2004 KZT'000	2003 KZT'000
Prepaid interest and commission expense	148,902	31,638
Prepayments and receivables on capital expenditures	138,164	20,774
Taxes receivable, other than income tax	133,755	41,818
Collateral obtained from defaulted borrowers	97,860	-
Insurance assets	93,922	39,125
Advances paid	85,525	37,748
Income tax prepaid	84,577	-
Inventory	28,074	34,821
Intangible assets	20,681	28,981
Due from employees	3,234	33,517
Other	33,975	60,929
	868,669	329,351
Allowance for losses	(100,481)	(3,905)
Total other assets	768,188	325,446

17. AMOUNTS DUE TO GOVERNMENT

Amounts due to Government comprise:

	2004 KZT'000	2003 KZT'000
Amounts due to local government bodies	73,260	76,394
Amounts due to the Ministry of Agriculture of the Republic of Kazakhstan	-	167,000
Total amounts due to Government	73,260	243,394

At 31 December 2003, the amounts due to the Ministry of Agriculture of the Republic of Kazakhstan represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans. The Group's margin on pass-through loans ranges from 2.0% to 4.3% per annum.

18. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2004 KZT'000	2003 KZT'000
Time deposits and loans	20,175,005	4,332,771
Loans from the Small Business Development Fund	136,551	227,266
Current accounts	2,672	121,216
Repurchase agreements	-	4,048,064
Total amounts due to credit institutions	20,314,228	8,729,317

At 31 December 2004 and 2003, amounts due to the Small Business Development Fund CJSC represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans.

At 31 December 2004 and 2003, 10 major credit institutions accounted for 74% and 90% of time deposits and loans, respectively.

19. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers comprise:

	2004 KZT'000	2003 KZT'000
Time deposits	19,611,254	23,232,407
Current accounts	12,083,882	6,790,083
Total amounts due to customers	31,695,136	30,022,490
Held as security against letters of credit and guarantees	36,375	803,572
Held as security against loans to customers	2,654,462	7,625,548

At 31 December, analysis of customer accounts by sector follows:

	2004 KZT'000	2003 KZT'000
Individuals	11,903,737	6,585,938
Trade	3,736,127	8,804,949
Insurance	3,023,994	3,103,656
Transport	2,854,664	2,393,952
Fuel, gaz and chemicals	2,580,850	416,678
Construction	1,830,145	1,299,423
Service	1,796,736	1,124,271
Manufacturing	1,300,865	2,701,973
Agriculture and food processing	528,443	923,968
Other	2,139,575	2,667,682
Total amounts due to customers	31,695,136	30,022,490

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date Month/year	Interest rate %	2004 KZT'000	2003 KZT'000
Subordinated debt securities issued				
Third issue	Dec 2010	8.75%	7,489,015	3,975,744
Second issue	May 2010	9.50%	3,083,876	3,074,115
			10,572,891	7,049,859
Non-subordinated debt securities issued				
Fourth issue	Jun 2011	8.40%	6,629,142	-
First issue	Jul 2004	9.50%	-	2,250,293
			6,629,142	2,250,293
Total debt securities issued			17,202,033	9,300,152

21. OTHER LIABILITIES

Other liabilities comprise:

	2004 KZT'000	2003 KZT'000
Taxes payable, other than income tax	242,462	151,516
Insurance liabilities	220,480	211,316
Due to employees	41,284	36,127
Interest and commission expenses prepaid	25,145	2,239
Accrued expenses	45,449	29,742
Other	111,644	69,549
Total other liabilities	686,464	500,489

22. SHAREHOLDERS' EQUITY

Movement of shares authorized, fully paid and outstanding follows:

	Number of shares		Amount			
	Preference	Common	Preference KZT'000	Common KZT'000	Inflation KZT'000	Total KZT'000
31 December 2002	115,000	6,216,000	24,150	1,305,360	427,318	1,756,828
Contributed in KZT	-	2,072,000	-	1,305,360	-	1,305,360
Capitalized convertible subordinated debt	-	877,588	-	638,274	-	638,274
31 December 2003	115,000	9,165,588	24,150	3,248,994	427,318	3,700,462
Contributed in KZT	-	1,820,000	-	2,096,820	-	2,096,820
31 December 2004	115,000	10,985,588	24,150	5,345,814	427,318	5,797,282

As of 31 December 2003, 10,985,588 common shares and 115,000 preference shares were issued, fully paid and registered.

The share capital of the Group was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in Kazakhstani tenge. Preference shares are non-voting and guarantee annual cumulative dividends of not less than 21 tenge per share.

During 2003, the Group repurchased KZT 140,976 of the convertible subordinated debt in accordance with the agreement with the holder of the convertible subordinated debt on the conversion of the debt.

During the years ended 31 December 2004 and 2003, the Group declared dividends on preference shares in the amount of KZT 2,366 thousand and KZT 2,415 thousand.

23. 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's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

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

	2004 KZT'000	2003 KZT'000
Credit related commitments		
Undrawn loan commitments	10,455,734	7,170,125
Guarantees	4,201,724	4,777,821
Letters of credit	1,471,959	2,126,048
	16,129,417	14,073,994
Lease commitments		
Not later than 1 year	-	73,997
	16,129,417	14,147,991
Less – cash collateral	(36,375)	(803,572)
Less – provisions	(189,735)	(123,046)
Financial commitments and contingencies	15,903,307	13,221,373

As of 31 December 2004 and 2003, guarantees and letters of credit of KZT 36,375 thousand and KZT 803,572 thousand, respectively, were secured by the client's funds, and the bank did not create any provisions against these commitments.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as of 31 December 2004.

Operating environment

The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting 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.

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

Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the consolidated 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 laws and regulations of the Republic of Kazakhstan. As of 31 December 2004 and 2003, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

24. RISK MANAGEMENT POLICIES

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product, by industry sector, by region are approved quarterly by the Board of Directors. In the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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. The maximum credit risk exposure in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying consolidated financial statements and the disclosed financial commitments.

Concentration

At 31 December the geographical concentration of financial assets and liabilities is set out below:

				2004
	Kazakhstan KZT'000	OECD KZT'000	CIS and other foreign Countries KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	8,325,087	1,097,829	164,117	9,587,033
Obligatory reserves	1,011,728	-	-	1,011,728
Trading securities	13,746,056	-	-	13,746,056
Amounts due from credit institutions	2,598,593	75,923	-	2,674,516
Loans to customers	44,149,287	2,382,821	5,413,476	51,945,584
Other assets	647,310	90,038	5,387	742,735
TOTAL ASSETS	70,478,061	3,646,611	5,582,980	79,707,652
LIABILITIES				
Amounts due to the Government	73,260	-	-	73,260
Amounts due to credit institutions	6,724,329	12,824,876	765,023	20,314,228
Amounts due to customers	29,024,415	823,429	1,847,292	31,695,136
Debt securities issued subordinated	10,572,891	-	-	10,572,891
Debt securities issued non-subordinated	6,629,142	-	-	6,629,142
Other liabilities	666,357	16,902	3,205	686,464
TOTAL LIABILITIES	53,690,394	13,665,207	2,615,520	69,971,121
NET BALANCE SHEET POSITION	16,787,667	(10,018,596)	2,967,460	9,736,531

				2003
	Kazakhstan	OECD	CIS and other foreign Countries	Total
	KZT'000	KZT'000	KZT'000	KZT'000
ASSETS				
Cash and cash equivalents	4,527,996	1,119,961	571,503	6,219,460
Obligatory reserves	680,970	-	-	680,970
Trading securities	8,383,241	-	-	8,383,241
Amounts due from credit institutions	1,293,680	485,543	-	1,779,223
Loans to customers	33,562,436	626,406	2,554,043	36,742,885
Other assets	243,079	21,438	1,031	265,548
TOTAL ASSETS	48,691,402	2,253,348	3,126,577	54,071,327
LIABILITIES				
Amounts due to government	243,394	-	-	243,394
Amounts due to credit institutions	4,874,017	3,380,999	474,301	8,729,317
Amounts due to customers	20,837,480	1,065,246	8,119,764	30,022,490
Debt securities issued subordinated	7,049,859	-	-	7,049,859
Debt securities issued unsubordinated	2,250,293	-	-	2,250,293
Deferred tax liabilities	93,759	-	-	93,759
Other liabilities	480,866	16,119	3,504	500,489
TOTAL LIABILITIES	35,829,668	4,462,364	8,597,569	48,889,601
NET BALANCE SHEET POSITION	12,861,734	(2,209,016)	(5,470,992)	5,181,726

The above tables do not include the effect of allowances for losses of KZT 2,513,764 thousand and KZT 1,283,495 thousand, provisions for other assets of KZT 100,481 thousand and KZT 3,905 thousand, property and equipment net of accumulated depreciation of KZT 2,539,425 thousand and KZT 1,888,070 thousand, other non-monetary assets of KZT 125,934 thousand and KZT 63,803 thousand, and provisions for guarantees and credit related commitments of KZT 189,735 thousand and KZT 123,046 thousand as of 31 December 2004 and 2003, respectively.

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market 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 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.

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD) by branches and in total. These limits also comply with the minimum requirements of NBK. At December 31, the Group's exposure to foreign currency exchange rate risk follows:

				2004
	KZT KZT'000	Freely convertible currencies KZT'000	Non-convertible currencies KZT'000	Total KZT'000
ASSETS				
Cash and cash equivalents	7,843,838	1,631,821	111,374	9,587,033
Trading securities	1,011,728	-	-	1,011,728
Amounts due from credit institutions	11,618,026	2,128,030	-	13,746,056
Loans to customers	2,598,593	75,923	-	2,674,516
Deferred tax assets	37,850,166	14,095,418	-	51,945,584
Other assets	637,311	101,675	3,749	742,735
TOTAL ASSETS	61,559,662	18,032,867	115,123	79,707,652
LIABILITIES				
Amounts due to government	73,260	-	-	73,260
Amounts due to credit institutions	2,711,393	17,599,527	3,308	20,314,228
Amounts due to customers	22,794,357	8,868,213	32,566	31,695,136
Debt securities issued subordinated	10,572,891	-	-	10,572,891
Debt securities issued unsubordinated	6,629,142	-	-	6,629,142
Other liabilities	617,504	68,186	774	686,464
TOTAL LIABILITIES	43,398,547	26,535,926	36,648	69,971,121
NET BALANCE SHEET POSITION	18,161,115	(8,503,059)	78,475	9,736,531

				2003
	KZT	Freely convertible currencies	Non-convertible currencies	Total
	KZT'000	KZT'000	KZT'000	KZT'000
ASSETS				
Cash and cash equivalents	4,523,398	1,485,623	210,439	6,219,460
Obligatory reserves	680,970	-	-	680,970
Trading securities	5,168,518	3,214,723	-	8,383,241
Amounts due from credit institutions	1,369,948	409,275	-	1,779,223
Loans to customers	22,099,863	14,643,022	-	36,742,885
Other assets	234,295	30,988	265	265,548
TOTAL ASSETS	34,076,992	19,783,631	210,704	54,071,327
LIABILITIES				
Amounts due to government	243,394	-	-	243,394
Amounts due to credit institutions	4,272,988	4,352,565	103,764	8,729,317
Amounts due to customers	17,089,705	12,910,860	21,925	30,022,490
Debt securities issued subordinated	7,049,859	-	-	7,049,859
Debt securities issued unsubordinated	-	2,250,293	-	2,250,293
Deferred tax liabilities	93,759	-	-	93,759
Other liabilities	426,308	73,761	420	500,489
TOTAL LIABILITIES	29,176,013	19,587,479	126,109	48,889,601
NET BALANCE SHEET POSITION	4,900,979	196,152	84,595	5,181,726

The above tables do not include the effect of allowances for losses of KZT 2,513,764 thousand and KZT 1,283,495 thousand, provisions for other assets of KZT 100,481 thousand and KZT 3,905 thousand, property and equipment net of accumulated depreciation of KZT 2,539,425 thousand and KZT 1,888,070 thousand, other non-monetary assets of KZT 125,934 thousand and KZT 63,803 thousand, and provisions for guarantees and credit related commitments of KZT 189,735 thousand and KZT 123,046 thousand as of 31 December 2004 and 2003, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Kazakhstan.

The above KZT denominated assets include assets, which are indexed to the USD and revalued, based on the changes of market exchange rate as of 31 December 2004 and 2003, to reflect the effect of any devaluation in the KZT against the USD. As of 31 December 2004 and 2003, such assets amounted to KZT 44,362 thousand and KZT 3,452,153 thousand, respectively.

The above KZT denominated liabilities include liabilities, which are indexed to the USD and revalued, based on the changes of market exchange rate as of 31 December 2004 and 2003, to reflect the effect of any devaluation in the KZT against the USD. As of 31 December 2004 and 2003, such liabilities amounted to KZT 10,572,891 thousand and KZT 7,049,859 thousand, respectively.

The Group's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realize investments in non-monetary assets as measured in USD in these consolidated financial statements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee.

At 31 December 2004, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	KZT	USD	Other foreign currencies
	%	%	%
ASSETS			
Cash and cash equivalents	-	0.1-2.0	0.1-2.0
Securities held-for-trading	2.9-8.3	1.7-5.2	-
Amounts due from credit institutions	7.5	2.0	-
Loans to customers	5.0-30.0	5.0-26.0	-
LIABILITIES			
Amounts due to government	2.0-4.3	-	-
Amounts due to credit institutions	6.0-7.5	1.0-11.8	2.2-6.4
Amounts due to customers	2.0-13.0	1.5-14.0	1.5-8.6
Debt securities issued	8.7-10.1	-	-

At 31 December 2003, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	KZT	USD	Other foreign currencies
	%	%	%
ASSETS			
Cash and cash equivalents	-	0.2-2.0	0.5-4.0
Trading securities	6.0-17.1	10.0-13.6	-
Amounts due from credit institutions	2.3-18.0	-	-
Loans to customers	5.0-26.0	5.0-26.0	-
LIABILITIES			
Amounts due to government	0.0-7. 7	-	-
Amounts due to credit institutions	11.5	1.0-9.0	1.7-9.0
Amounts due to customers	2.0-17.8	2.0-14.0	1.8-8.5
Debt securities issued	8.8-9.5	-	-

The Group continuously monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

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

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date at 31 December:

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	31 December 2004 Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
ASSETS								
Cash and cash	9,587,033	-	-	-	-	-	-	9,587,033
Obligatory reserves	1,011,728	-	-	-	-	-	-	1,011,728
Securities held-for-trading	13,746,056	-	-	-	-	-	-	13,746,056
Amounts due from credit institutions	-	1,652,319	534,575	487,622	-	-	-	2,674,516
Loans to customers	-	2,621,231	5,664,066	20,865,622	20,165,115	825,236	1,804,314	51,945,584
Other assets	-	208,800	49,601	467,113	-	17,221	-	742,735
	24,344,817	4,482,350	6,248,242	21,820,357	20,165,115	842,457	1,804,314	79,707,652
LIABILITIES								
Amounts due to government	-	-	246	7,557	65,457	-	-	73,260
Amounts due to credit institutions	2,673	4,565,797	7,194,787	6,260,807	2,289,918	246	-	20,314,228
Amounts due to customers	12,083,882	1,939,608	5,199,843	8,150,875	4,320,928	-	-	31,695,136
Debt securities issued subordinated	-	-	-	71,564	-	10,501,327	-	10,572,891
Debt securities issued unsubordinated	-	-	-	44,100	-	6,585,042	-	6,629,142
Other liabilities	110,750	220,568	-	355,146	-	-	-	686,464
	12,197,305	6,725,973	12,394,876	14,890,049	6,676,303	17,086,615	-	69,971,121
Net position	12,147,512	(2,243,623)	(6,146,634)	6,930,308	13,488,812	(16,244,158)	1,804,314	
Accumulated gap	12,147,512	9,903,889	3,757,255	10,687,563	24,176,375	7,932,217	9,736,531	

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	31 December 2003 Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
ASSETS								
Cash and cash	6,219,460	-	-	-	-	-	-	6,219,460
Obligatory reserves	680,970	-	-	-	-	-	-	680,970
Trading securities	8,383,241	-	-	-	-	-	-	8,383,241
Amounts due from credit institutions	-	1,080,495	-	696,709	2,019	-	-	1,779,223
Loans to customers	-	1,056,667	5,107,840	17,961,440	11,712,353	38,346	866,239	36,742,885
Other assets	-	49,541	31,036	135,378	32,372	17,221	-	265,548
	15,283,671	2,186,703	5,138,876	18,793,527	11,746,744	55,567	866,239	54,071,327
LIABILITIES								
Amounts due to government	-	-	283	2,344	73,767	167,000	-	243,394
Amounts due to credit institutions	331,006	4,206,181	628,384	2,823,650	739,926	170	-	8,729,317
Amounts due to customers	6,580,293	2,195,605	7,130,143	11,650,738	2,465,711	-	-	30,022,490
Debt securities issued subordinated	-	-	-	49,357	-	7,000,502	-	7,049,859
Debt securities issued unsubordinated	-	95,335		2,154,958	-	-	-	2,250,293
Deferred tax liabilities	-		-	-	93,759	-	-	93,759
Other liabilities	53,530	170,550	53,976	221,724	709	-	-	500,489
	6,964,829	6,667,671	7,812,786	16,902,771	3,373,872	7,167,672	-	48,889,601
Net position	8,318,842	(4,480,968)	(2,673,910)	1,890,756	8,372,872	(7,112,105)	866,239	5,181,726
Accumulated gap	8,318,842	3,837,874	1,163,964	3,054,720	11,427,592	4,315,487	5,181,726	

The above tables do not include the effect of allowances for losses of KZT 2,513,764 thousand and KZT 1,283,495 thousand, provisions for other assets of KZT 100,481 thousand and KZT 3,905 thousand, property and equipment net of accumulated depreciation of KZT 2,539,425 thousand and KZT 1,888,070 thousand, other non-monetary assets of KZT 125,934 thousand and KZT 63,803 thousand, and provisions for guarantees and credit related commitments of KZT 189,735 thousand and KZT 123,046 thousand as of 31 December 2004 and 2003, respectively.

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international credit institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

25. FAIR VALUES 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 market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, 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.

As of 31 December 2004 and 2003 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents

For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Amounts due to and from banks

As of 31 December 2004 and 2003, the carrying amount of amounts due to and from banks is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trading securities

As of 31 December 2004 and 2003 securities available-for-sale are stated at fair value. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. If such quotes do not exist, management estimation is used.

Customer accounts

As of 31 December 2004 and 2003 the carrying amount of short-term and long-term deposits and current accounts of the Group's customers is a reasonable estimate of their fair value.

Debt securities issued

Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates fair value.

26. RELATED PARTY TRANSACTION

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.

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

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

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

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

	2004		2003	
	Related party transactions KZT'000	Total asset or liability category KZT'000	Related party transactions KZT'000	Total asset or liability category KZT'000
Balance sheet				
Cash and cash equivalents	-	9,587,033	431,282	6,219,460
Loans to customers	169,225	51,945,584	247,000	36,742,885
Allowance for loan impairment	(1,699)	(2,513,764)	(73,210)	(1,283,495)
Amounts due to credit institutions	-	20,314,228	72,972	8,729,317
Amounts due to customers	410,639	31,695,136	279,587	30,022,490
Off-balance sheet				
Guarantees issued	-	4,201,724	10,962	4,777,821
Guarantees received	31,267	3,217,267	43,027	2,680,052
Income statement				
Interest income on loans to customers	5,745	7,482,812	28,917	4,376,557
Fee and commission income	482	1,484,225	369	1,186,280
Other income	-	230,998	19	54,225
Interest expense on amounts due to customers	(21,872)	(1,378,353)	(7,241)	(1,819,579)
Interest expense on amounts due to credit institutions	-	(497,362)	(430)	(238,630)

Cash and cash equivalents are represented by current accounts with two Russian commercial banks, affiliated to the Group.

27. CAPITAL ADEQUACY

The Group's international risk based capital adequacy ratio for tier one, computed in accordance with the Basle Accord guidelines issued in 1988, as of 31 December 2004 and 2003 was 17% and 15%, respectively. These ratios exceeded the minimum ratio of 4% recommended by the Basle Accord.

28. SEGMENT INFORMATION

The Group's operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 "Segment Reporting". As shown in Note 24, the Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.