

Bank TuranAlem JSC
Consolidated Financial Statements

Years ended December 31, 2004, 2003 and 2002
Together with Report of Independent Auditors

CONTENTS**REPORT OF INDEPENDENT AUDITORS**

Consolidated Balance Sheets	1
Consolidated Statements of Income	2
Consolidated Statements of Changes in Shareholders' Equity	3
Consolidated Statements of Cash Flows	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities	5
2. Basis of Preparation	5
3. Summary of Accounting Policies	8
4. Cash and Cash Equivalents	15
5. Obligatory Reserves	15
6. Trading Securities	16
7. Amounts Due from Credit Institutions	16
8. Investment Securities	17
9. Loans to Customers	17
10. Allowances for Impairment and Provisions	19
11. Taxation	19
12. Amounts Due to the Government and the NBK	21
13. Amounts Due to Credit Institutions	21
14. Amounts Due to Customers	22
15. Debt Securities Issued	24
16. Shareholders' Equity	24
17. Commitments and Contingencies	26
18. Fees and Commissions	27
19. Gains Less Losses From Trading Securities	28
20. Other Income	28
21. Salaries and Administrative and Operating Expenses	28
22. Earnings per Share	28
23. Risk Management Policies	29
25. Fair Values of Financial Instruments	38
25. Related Party Transactions	39
26. Capital Adequacy	39
27. Segment Information	40

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank TuranAlem JSC –

We have audited the accompanying consolidated balance sheets of Bank TuranAlem JSC (the “Bank”) as of December 31, 2004, 2003 and 2002, and the related consolidated statements of income, changes in shareholders’ equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2004, 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Kazakhstan

February 23, 2005

CONSOLIDATED BALANCE SHEETS

(Millions of Kazakh Tenge)

		<i>December 31,</i>		
	<i>Notes</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Assets				
Cash and cash equivalents	4	51,740	21,691	20,557
Obligatory reserves	5	6,971	3,706	2,731
Trading securities	6	102,182	61,591	32,081
Amounts due from credit institutions	7	6,038	5,993	10,820
Investment securities:				
- available-for-sale securities	8	23,881	-	-
- held-to-maturity securities	8	-	26,288	19,634
Loans to customers	9	409,517	239,847	127,747
Property and equipment		9,396	6,745	6,523
Other assets		8,577	7,203	5,399
Total assets		618,302	373,064	225,492
Liabilities				
Amounts due to the Government and the NBK	12	4,424	5,190	2,683
Amounts due to credit institutions	13	143,256	117,051	56,493
Amounts due to customers	14	226,710	140,318	106,810
Debt securities issued	15	182,079	74,174	31,521
Other liabilities		9,838	4,318	7,220
Total liabilities		566,307	341,051	204,727
Minority interest		1,667	1,330	1,010
Shareholders' equity				
Share capital:	16			
- common shares		22,405	16,244	11,931
- preferred shares		5,915	4,735	4,160
Treasury stock		(516)	(628)	(195)
Additional paid-in-capital		5,996	1,413	28
Reserves		2,429	1,737	854
Retained earnings		14,099	7,182	2,977
Total shareholders' equity		50,328	30,683	19,755
Total liabilities, shareholders' equity and minority interest		618,302	373,064	225,492
Financial commitments and contingencies	17			

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

Saduakas H. Mameshtegi

Chairman of the Board

Akmaral N. Ablyazova

Chief Accountant

February 23, 2005

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Millions of Kazakh Tenge)

	Notes	Years ended December 31,		
		2004	2003	2002
Interest income				
Loans		45,444	26,263	19,178
Securities		3,682	4,257	2,818
Deposits with other banks		701	298	372
		<u>49,827</u>	<u>30,818</u>	<u>22,368</u>
Interest expense				
Debt securities issued		(10,395)	(5,711)	(5,274)
Deposits from customers		(8,730)	(6,177)	(2,717)
Deposits and loans from credit institutions		(5,742)	(3,875)	(2,536)
		<u>(24,867)</u>	<u>(15,763)</u>	<u>(10,527)</u>
Net interest income		<u>24,960</u>	<u>15,055</u>	<u>11,841</u>
Impairment charge	10	(19,251)	(10,391)	(7,184)
Net interest income after impairment charge		<u>5,709</u>	<u>4,664</u>	<u>4,657</u>
Fee and commission income	18	9,297	6,456	4,308
Fee and commission expense	18	(303)	(137)	(169)
Fees and commissions		<u>8,994</u>	<u>6,319</u>	<u>4,139</u>
Gains less losses from trading securities	19	38	589	2,745
Gains less losses from foreign currencies:				
- dealing		1,517	1,980	1,349
- translation differences		6,078	573	234
(Loss)/gain from insurance operations		(478)	(260)	613
Other income	20	567	1,002	1,151
Non interest income		<u>7,722</u>	<u>3,884</u>	<u>6,092</u>
Salaries and other employee benefits	21	(4,388)	(3,432)	(3,023)
Administrative and operating expenses	21	(4,537)	(3,919)	(3,647)
Depreciation and amortization		(1,029)	(926)	(786)
Taxes other than income tax		(1,604)	(955)	(815)
Other provisions	10	(2,293)	(338)	(246)
Other		(371)	(451)	(1,341)
Non interest expense		<u>(14,222)</u>	<u>(10,021)</u>	<u>(9,858)</u>
Income before income tax expense and minority interest		<u>8,203</u>	<u>4,846</u>	<u>5,030</u>
Income tax expense	11	(1,047)	(266)	-
Income before minority interest		<u>7,156</u>	<u>4,580</u>	<u>5,030</u>
Minority interest in net loss (income)		147	40	(132)
Net income		<u>7,303</u>	<u>4,620</u>	<u>4,898</u>
Basic earnings per share in Kazakh Tenge	22	3,862	3,246	3,450
Diluted earnings per share in Kazakh Tenge	22	3,222	2,714	2,883

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002**

(Millions of Kazakh Tenge)

	<i>Share Capital- Common Shares</i>	<i>Share Capital- Preferred Shares</i>	<i>Treasury Stock</i>	<i>Additional Paid-in Capital</i>	<i>Reserves</i>	<i>Retained Earnings (Accumulated Deficit)</i>	<i>Total Shareholders' Equity</i>
December 31, 2001	11,931	4,160	(49)	28	190	(1,418)	14,842
Purchase of treasury stock	-	-	(2,248)	-	-	-	(2,248)
Sale of treasury stock	-	-	2,102	-	-	-	2,102
Revaluation of property and equipment	-	-	-	-	669	-	669
Release of property and equipment revaluation reserve on disposal of previously revalued assets	-	-	-	-	(5)	5	-
Dividends – preferred shares	-	-	-	-	-	(508)	(508)
Net income	-	-	-	-	-	4,898	4,898
December 31, 2002	11,931	4,160	(195)	28	854	2,977	19,755
Sale of common shares	4,313	-	-	1,222	-	-	5,535
Sale of preferred shares	-	575	-	163	-	-	738
Purchase of treasury shares	-	-	(433)	-	-	-	(433)
Dividends – preferred shares	-	-	-	-	-	(487)	(487)
Revaluation of property and equipment	-	-	-	-	955	-	955
Release of property and equipment revaluation reserve on usage of previously revalued assets	-	-	-	-	(68)	68	-
Release of property and equipment revaluation reserve on disposal of previously revalued assets	-	-	-	-	(4)	4	-
Net income	-	-	-	-	-	4,620	4,620
December 31, 2003	16,244	4,735	(628)	1,413	1,737	7,182	30,683
Sale of common shares	6,161	-	-	4,087	-	-	10,248
Sale of preferred shares	-	1,180	-	457	-	-	1,637
Purchase of treasury shares	-	-	(28)	-	-	-	(28)
Sale of treasury shares	-	-	140	39	-	-	179
Dividends – preferred shares	-	-	-	-	-	(603)	(603)
Fair value change of available-for-sale securities, net of tax	-	-	-	-	375	-	375
Revaluation of property and equipment	-	-	-	-	534	-	534
Release of property and equipment revaluation reserve on usage of previously revalued assets	-	-	-	-	(173)	173	-
Release of property and equipment revaluation reserve on disposal of previously revalued assets	-	-	-	-	(44)	44	-
Net income	-	-	-	-	-	7,303	7,303
December 31, 2004	22,405	5,915	(516)	5,996	2,429	14,099	50,328

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Kazakh Tenge)

	<i>Years ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Cash flows from operating activities			
Income before income tax expense and minority interest	8,203	4,846	5,030
Adjustments for:			
Depreciation and amortization	1,029	926	786
Minority interest	147	40	(132)
Impairment charges and other provisions	21,544	10,729	7,430
Loss on sale of property and equipment	30	63	2
Reserve for insurance claims	1,493	983	733
Unrealized foreign exchange loss (gain)	(2,394)	723	(251)
Unrealized gain on securities	(519)	(2,879)	(1,193)
Operating cash flows before changes in net operating assets	29,533	15,431	12,405
(Increase) decrease in operating assets:			
Obligatory reserves	(3,265)	(975)	1,953
Amounts due from credit institutions	(976)	4,609	(10,643)
Trading securities	(44,347)	(29,327)	(12,194)
Loans to customers	(200,937)	(133,724)	(20,822)
Other assets	(2,184)	(1,915)	(3,685)
Increase (decrease) in operating liabilities:			
Amounts owed to the Government and the NBK	(754)	2,581	185
Amounts due to credit institutions	34,167	67,346	12,680
Amounts due to customers	93,885	38,601	22,868
Other liabilities	1,456	(3,962)	4,019
Net cash flows from operating activities before income tax	(93,422)	(41,335)	6,766
Income tax paid	(897)	(300)	-
Net cash flows from operating activities	(94,319)	(41,635)	6,766
Cash flows from investing activities			
Purchase of property and equipment	(2,758)	(1,914)	(1,402)
Proceeds from sale of property and equipment	385	1,698	269
Purchase of held-to-maturity securities	-	(8,505)	(19,278)
Net cash received (paid) on acquisition of subsidiaries	-	-	(171)
Net cash flows from investing activities	(2,373)	(8,721)	(20,582)
Cash flows from financing activities			
Sale of common shares	10,248	5,535	-
Sale of preferred shares	1,637	738	-
Purchase of treasury stock	(28)	(433)	(2,248)
Sale of treasury stock	179	-	2,102
Dividends paid	(528)	(475)	(503)
Debt securities issued	116,292	46,587	17,247
Net cash flows from financing activities	127,800	51,952	16,598
Effect of exchange rate changes on cash and cash equivalents	(1,059)	(462)	555
Net change in cash and cash equivalents	30,049	1,134	3,337
Cash and cash equivalents, beginning	21,691	20,557	17,220
Cash and cash equivalents, ending	51,740	21,691	20,557
Supplementary information:			
Interest paid	22,342	14,329	9,901
Interest received	42,728	26,854	21,685

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

(Millions of Kazakh Tenge)

1. Principal Activities

Bank TuranAlem and subsidiaries (the “Group”) provide retail and corporate banking services, insurance services, leasing and other financial and non financial services in Kazakhstan. The parent company of the Group is Bank TuranAlem (the “Bank”), which was registered as a closed joint stock company in 1997 and was reregistered as an open joint stock company in 1998. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on September 26, 2003. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 2 lists the Bank’s subsidiaries.

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank is the second largest bank in Kazakhstan in terms of total assets. Its head office is located in Almaty, Kazakhstan. At December 31, 2004, it had 22 regional branches and 189 cash settlement units (2003 - 22 regional branches and 188 cash settlement units; 2002 – 24 regional branches and 211 cash settlement units) and representative offices in Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyz Republic; and Shanghai, China. In addition, as at 31 December 2004, pursuant to permits obtained from the FMSA, the Bank had opened additional representative offices in Ekaterinburg, Russia; Baku, Azerbaijan; and Dushanbe, Tajikistan. The Bank’s registered legal address is 97 Zholdasbekov Street, Samal-2, Almaty, 050051, Republic of Kazakhstan.

The Bank’s common shares and certain of its debt securities are listed on the Kazakhstan Stock Exchange (“KASE”). Certain of the Group’s debt securities are listed on the Luxemburg Stock Exchange with secondary listing on KASE.

As of December 31, 2004, members of the Shareholders’ Members’ Council and Management Board controlled 475,980 shares (20.69% of common share capital), (2003 – 475,213 shares or 28.33%, 2002 – 351,398 shares or 27.53%). The Group had 3,817, 3,221, and 3,642 employees as of December 31 2004, 2003, and 2002, respectively.

2. Basis of Preparation

General

These consolidated 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. These financial statements are presented in millions of Kazakh Tenge (“KZT”), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Bank’s performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Significant foreign currency positions are maintained as they are necessary to meet customers’ requirements, manage foreign currency risks and achieve a proper assets and liabilities structure for the Bank’s balance sheet. Transactions in other currencies are treated as transactions in foreign currencies.

Starting from January 1, 2003, the Group maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of trading securities and derivative contracts as required by IAS 39 “Financial Instruments: Recognition and Measurement” and estimated market value accounting for buildings, included in property and equipment as allowed by IAS 16 “Property, Plant and Equipment”.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regards to those financial statements relate to the allowances for impairment of assets, reserves for insurance claims, income taxes, fair values of securities and properties, and other provisions. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

*(Millions of Kazakh Tenge)***Consolidated Subsidiaries**

The consolidated financial statements include the following subsidiaries:

2004

<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities trading Consumer mortgage	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities trading Issuance of bills of	21.05.01
TuranAlem Finance	100.00%	Russia	22.06.04	exchange	28.09.04
TuranAlem Capital	100.00%	Russia	25.06.04	Commercial activities	28.09.04
Dynasty	66.00%	Kazakhstan	22.07.99	Life insurance	30.03.01
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Pension fund	16.09.98
JSC Insurance Company BTA	49.00%	Kazakhstan	08.09.98	Property and casualty insurance	08.09.98
Kazakhstan Pension Fund	87.75%	Kazakhstan	22.06.99	Pension fund Property and casualty	06.07.99
KBS Garant	57.53%	Kazakhstan	12.01.99	insurance	04.04.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property management	–
Force Technology	–	Kazakhstan	09.04.02	IT services	–

In 2004, the Group established two 100% owned subsidiaries in Russia: TuranAlem Finance on June 22, 2004, and TuranAlem Capital on June 25, 2004.

On July 7, 2004, the Group's share in the paid-in share capital of JSC Insurance Company BTA ("BTA Insurance") decreased from 66.00% to 49.00% as the minority shareholders have contributed additional capital into BTA Insurance. The Group retained control over the operations of BTA Insurance.

During 2004, the Group increased its share in the paid-in share capital of Kazakhstan Pension Fund ("KPF") from 65.97% to 87.75%. In accordance with the restructuring plan approved by the General Meeting of the Shareholders on September 24, 2004 JSC NOAPF "Kurmet" ("Kurmet") and JSC NGAPF "Kazakhstan" were combined into a new entity JSC "Accumulated Pension Fund BTA Kurmet-Kazakhstan" on January 25, 2005.

Although the Bank does not own any shares in Kazco Construction, Samal Properties, Real Estate Commerce and Force Technology, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries because the Bank controls and benefits directly from their operations.

2003

<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading Consumer Mortgage	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kurmet Pension Fund	72.47%	Kazakhstan	16.09.98	Pension Fund	16.09.98
JSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
Kazakhstan Pension Fund	65.97%	Kazakhstan	22.06.99	Pension Fund Property and Casualty	06.07.99
KBS Garant	57.53%	Kazakhstan	12.01.99	Insurance	04.04.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

(Millions of Kazakh Tenge)

On September 3, 2003, the Group increased its share from 66.00% to 72.47% in the paid-in share capital of Kurmet Pension Fund.

On November 25, 2003, the Group increased its share from 50.40% to 65.97% in the paid-in share capital of KPF.

2002

<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading Consumer Mortgage	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing Collateralised Retail	14.09.00
Altyn Orda TuranAlem Finance	100.00%	Kazakhstan	28.05.01	Consumer Lending	28.05.01
B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Pension Fund	16.09.98
OJSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
KBS Garant Kazakhstan Pension Fund	57.53% 50.40%	Kazakhstan Kazakhstan	22.06.99 12.01.99	Property and Casualty Insurance Pension Fund	04.04.01 06.07.99
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kazco Construction	-	Kazakhstan	14.01.99	Construction	-
Samal Properties	-	Kazakhstan	17.02.99	Property Management	-
Real Estate Commerce	-	Kazakhstan	16.04.02	Property Management	-
Force Technology	-	Kazakhstan	09.04.02	IT Services	-

On December 2, 2002, the Group increased its share from 40.00% to 66.00% in the share capital of OJSC Insurance Company BTA. OJSC Insurance Company BTA contributed operating income of KZT 28 million to the Group from December 2, 2002 to December 31, 2002.

On July 22, 2002, the Group increased its share from 23.70% to 66.00% in the share capital of Kurmet. Kurmet contributed operating loss of KZT 35 million to the Group from July 22, 2002 to December 31, 2002.

The details of the assets and liabilities acquired in 2002 are as follows:

	<i>Insurance Company BTA</i>	<i>Kurmet Pension Fund</i>	<i>Total</i>
Cash and cash equivalents	68	5	73
Trading securities	352	57	409
Property and equipment	22	10	32
Other assets	270	10	280
Other liabilities	(476)	(5)	(481)
Minority interest	(51)	(18)	(69)
Cost of acquisition (paid in cash)	185	59	244
Less: Cash and cash equivalents acquired on acquisition of subsidiaries	(68)	(5)	(73)
Cash outflow on acquisition	117	54	171

(Millions of Kazakh Tenge)

The following associate is accounted for under the equity method:

2004					
Associates	Holding, %	Country	Date of incorporation	Industry	Date of acquisition
Astanaeximbank	49.00%	Belorussia	25.07.02	Commercial Bank	14.10.04

In October 2004 the Bank acquired 49% of the shares of Astanaeximbank located in Belorussia.

Recently issued International Financial Reporting Standards

Effective April 1, 2004, the International Accounting Standards Board enacted IFRS 3 “Business Combinations”, which replaced IAS 22 “Business Combinations” and SIC-9, SIC-22 and SIC-28. Application of IFRS 3 Business Combinations had no material effect on the financial position of the Group.

Effective January 1, 2005, IFRS 2 “Share-based Payments”, IFRS 4 “Insurance Contracts”, IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” as well as fifteen revised IASs are enacted. The Group has not determined the effect of the application of the new standards on its financial statements. However, the impact of the application of the new standards on the Group’s consolidated financial statements is not expected to be material, except as discussed below with regards to the revised IAS 32 (amended 2004), “Financial Instruments: Disclosure and Presentation”, and 39 (amended 2004), “Financial Instruments: Recognition and Measurement”.

Revised IAS 32, 36, 38 and 39

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, “Financial Instruments: Disclosure and Presentation”, IAS 36 “Impairment of Assets”, IAS 38 “Intangible Assets” and IAS 39, “Financial Instruments: Recognition and Measurement”. All standards are effective for financial years beginning on or after January 1, 2005, with earlier application of IAS 32 and 39 together being permitted. Together, IAS 32 and 39 provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Bank decided to adopt the four revised standards as of January 1, 2005.

Except for the reduction in shareholders’ equity and increase in liabilities resulting from the transfer of convertible preferred shares amounting to KZT 5,239 from equity to liabilities and reduction of net income by KZT 545 (see Note 16), the impact of the newly issued accounting guidance is currently not expected to have a material impact on the financial statements of the Bank.

3. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Group include Bank TuranAlem and the companies that it controls (subsidiaries). This 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 unrealised profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The equity and net income attributable to minority shareholders’ interests are shown separately in the balance sheets and statements of income, respectively.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances, and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders’ portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities’ portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders’ equity.

(Millions of Kazakh Tenge)

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

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 the fair value of consideration given or received, respectively, including 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.

Related Parties

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from NBK – excluding obligatory reserves, and due from other financial 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 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 unrealised 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 quoted bid prices. When quoted prices on an active market are not available, 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 Other Financial 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 other financial 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 other financial 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 by the Bank under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to other financial institutions or amounts due to customers. Securities purchased under agreements to resell ('reverse repos') are recorded as amounts due from other financial institutions or as loans to customers.

(Millions of Kazakh Tenge)

Securities purchased under reverse repurchase agreements are not recognized in the financial statements, unless they 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.

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 December 31, 2004, 2003 and 2002 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.

Investment Securities

The Bank classifies its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity. The Group does not classify any financial assets as held-to-maturity if the group had during the current financial year or during the preceding two financial years sold, transferred or exercised a put option on more than an insignificant portion of held-to-maturity investments before their 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. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
2. 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 impairment 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 shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

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 financial instruments recognition policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment.

(Millions of Kazakh Tenge)

Leases

I. Finance – Group as Lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

II. Operating – Group as Lessee

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 in administrative and operating expenses.

III. Operating – Group as Lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the statement of income in the period in which they are incurred.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax authorities, and of the cities in which the Group has offices, branches or subsidiaries. Deferred income tax is provided, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for taxable temporary differences:

except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred 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 utilised:

except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Investments in Associates

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

Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost.

(Millions of Kazakh Tenge)

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.

Property and Equipment

Property and equipment, except buildings, are stated at the lower of cost less accumulated depreciation and any accumulated impairment for diminution in value. Buildings are stated in the consolidated balance sheets at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any accumulated depreciation and subsequent accumulated impairment losses. Revaluations of buildings are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset. 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 of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	12.5-50
Furniture and fixtures	4-10
Computers and office equipment	4

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 other administrative and operating expenses.

Expenses 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 NBK, Other Financial Institutions and to Customers

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

Debt Securities Issued

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

(Millions of Kazakh Tenge)

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 Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and benefits in consolidated income statements. The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. 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 the fair value of consideration received or paid. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Purchases of treasury stock are recorded at cost. 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 in shareholders' equity as a reduction in the period in which they are declared or accumulate. 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.

Net profit or loss allocated to common and preferred shares, that have a right to participate in distribution of earnings, is determined by adding together the amount allocated for dividends and the amount allocated for participation feature.

Contingencies

Contingent liabilities are not recognized in the financial statements but disclosed. Contingent liabilities are not recognized nor disclosed if the probability of an outflow of resources embodying economic benefits is remote. . A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Trust Activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Interest income includes coupon income earned on investment and trading securities. Commissions and other income are credited to income 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.

Underwriting Income (Loss)

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance 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 prorata 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 sheets.

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

(Millions of Kazakh Tenge)

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 sheets 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 insurance. 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

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 the market exchange rate quoted by KASE 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.

Differences between the contractual exchange rate of a certain transaction and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at December 31, 2004, 2003 and 2002, were KZT 130.00, KZT 144.22, and KZT 155.85 to USD 1, respectively.

Reclassifications

Certain of the 2003 amounts were reclassified to conform with the presentation of the 2004 financial statements. None of these reclassifications impacted net income or shareholders' equity. These reclassifications are summarized below:

	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Previously reported</u>		<u>As reclassified</u>	
<i>Consolidated balance sheet:</i>				
Certain reverse repurchase agreements were reclassified from due from credit institutions to cash and cash equivalents	13,286	–	21,691	–

(Millions of Kazakh Tenge)

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash on hand	12,542	9,784	7,077
Current accounts with the NBK	13,500	632	674
Current accounts with other financial institutions	11,955	2,734	11,845
Reverse repurchase agreements	11,814	8,405	507
Time deposits with contractual maturity of less than 90 days	1,825	–	454
Loans to other Kazakh banks and credit institutions with contractual maturity of less than 90 days	104	136	–
Cash and cash equivalents	51,740	21,691	20,557

Interest rates and maturities of the reverse repurchase agreements, time deposits and loans are as follows:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<i>Interest rate</i>	<i>Maturity</i>	<i>Interest rate</i>	<i>Maturity</i>	<i>Interest rate</i>	<i>Maturity</i>
Reverse repurchase agreements	0.8%-3.0%	2005	2.0% - 8.0%	2004	3.0% - 6.2%	2003
Time deposits with contractual maturity of less than 90 days	8.0%-13.7%	2005	–	–	9.8%-16.0%	2003
Loans to other Kazakh banks and credit institutions with contractual maturity of less than 90 days	10.0% - 12.0%	2005	10.5%- 13.0%	2004	–	–

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements were treasury bills of the Ministry of Finance and sovereign bonds of the Republic of Kazakhstan.

At December 31, 2004, 10 banks accounted for 24.70% of total cash and cash equivalents and represented 25.40% of the Group's total shareholders' equity at that date (2003 – 10 banks accounted for 16.37% of total cash and cash equivalents and represented 11.57% of the Group's total shareholders' equity; 2002 – 10 banks accounted for 58.29% of total cash and cash equivalents and represented 60.66% of the Group's total shareholders' equity).

5. Obligatory Reserves

Obligatory reserves comprise:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Due from NBK	5,081	3,706	2,731
Cash on hand allocated to obligatory reserves	1,890	–	–
	6,971	3,706	2,731

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 NBK and physical cash. The use of such funds is, therefore subject to certain restrictions.

(Millions of Kazakh Tenge)

6. Trading Securities

Trading securities owned as of December 31, comprise:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Debt securities:			
Bonds of international financial organizations	47,018	37,473	8,536
Notes of the NBK	29,854	6,683	3,028
Treasury bills of the Ministry of Finance	10,472	3,800	9,842
Corporate bonds	6,059	3,555	1,114
Sovereign bonds of the Republic of Kazakhstan	5,358	9,605	9,516
Municipal bonds	1,037	33	45
	99,798	61,149	32,081
Equity securities	2,384	442	–
Trading securities	102,182	61,591	32,081
Subject to repurchase agreements	11,826	15,773	11,186

Interest rates and maturity of debt securities follow:

	<i>2004</i>		<i>2003</i>		<i>2002</i>	
	%	Maturity	%	Maturity	%	Maturity
Bonds of international financial organizations	2.4%-7.1%	2005-2013	4.4% - 7.1%	2005 – 2013	4.4% - 6.1%	2011 - 2013
Notes of NBK	0.32%-3.39%	2005	5.0%-5.5%	2004	–	2003
Treasury bills of the Ministry of Finance	5.5%-8.3%	2005-2014	6.1% - 16.9%	2004 – 2008	7.9% - 17.5%	2003 - 2007
Corporate bonds	3.5%-12.0%	2005-2014	7.4% - 13.0%	2004 – 2013	10.5%	2005
Sovereign bonds of the Republic of Kazakhstan	11.1%	2007	11.1% - 13.6%	2004 – 2007	11.1% - 13.7%	2004 - 2007
Municipal bonds	8.5%-8.6%	2005-2008	6.3% - 8.6%	2004 – 2006	8.0%	2006

7. Amounts Due from Credit Institutions

Amounts due from credit institutions as of December 31, comprise:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Loans	6,565	5,993	–
Reverse repurchase agreements	–	–	9,445
Time deposits of more than 90 days	–	–	1,375
	6,565	5,993	10,820
Less – Allowance for impairment (Note 10)	(527)	–	–
Amounts due from credit institutions	6,038	5,993	10,820

As of December 31, 2004, amounts due from 10 credit institutions comprised 94% of total amounts due from credit institutions (December 31, 2003 – nine comprised 100% ; December 31, 2002 – nil).

Interest rates and maturities of amounts due to credit institutions follow:

	<i>2004</i>		<i>2003</i>		<i>2002</i>	
	%	Maturity	%	Maturity	%	Maturity
Loans	4.0%-20.0%	2005–2008	4.0% - 12.0%	2004-2008	–	–
Reverse repurchase agreements	–	–	–	–	3.0%-7.0%	2003
Time deposits of more than 90 days	–	–	–	–	6.0%-12.0%	2003

(Millions of Kazakh Tenge)

8. Investment Securities

Available-for-sale securities as of December 31, comprise:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Debt securities:			
Bonds of international financial organizations	23,881	–	–
Available-for-sale securities	23,881	–	–

Interest rates and maturity of these securities follow:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
Bonds of international financial organizations	4.4%-7.5%	2011-2013	–	–	–	–

As of December 31, 2004, the Group had a concentration of investments in available-for-sale securities represented by KZT 23,881 comprising debt securities of 5 International Financial Organisations.

Available-for-sale investment securities were transferred from held-to-maturity securities on September 29, 2004, following a change in management's intent with regard to the underlying securities.

Held-to-maturity investment securities comprise:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Bonds of international financial organizations	–	–	26,288	24,611	19,634	17,912

Bonds of international financial organisations carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

As of December 31, 2002, bonds of international financial organizations amounting to KZT 5,938 were pledged as security for borrowings under repurchase agreements with other banks. In 2003, these bonds were free from any encumbrances.

9. Loans to Customers

Loans to customers comprise:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Loans to customers	429,906	252,774	136,075
Financial leasing	7,158	1,718	883
Overdrafts	593	293	181
Factoring	754	278	580
Promissory notes	739	55	194
	439,150	255,118	137,913
Less – Allowance for impairment (Note 10)	(29,633)	(15,271)	(10,166)
Loans to customers	409,517	239,847	127,747

As of December 31, 2004, the interest rates charged by the Bank ranged from 12% to 30% per annum for KZT-denominated loans (2003 – from 20% to 33%, 2002 - from 11% to 25%) and from 12% to 24% per annum for US Dollar-denominated loans (2003 – from 12% to 26%, 2002 - from 9% to 22%).

(Millions of Kazakh Tenge)

Loans have been extended to the following types of customers:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Private companies	378,266	219,838	121,186
Individuals	57,405	27,222	12,765
State companies	2,829	7,506	801
State budget or local authorities	282	518	706
Other	368	34	2,455
	439,150	255,118	137,913
Less – Allowance for impairment (Note 10)	(29,633)	(15,271)	(10,166)
Loans to customers	409,517	239,847	127,747

As of December 31, 2004, the Group had a concentration of loans represented by KZT 72,196 due from the largest 10 borrowers that comprised 16.44% of the total gross loan portfolio (2003 – KZT 67,204, 26.34%, 2002 – KZT 22,871, 16.58%). Allowances of KZT 4,933 were made against these loans (2003 - KZT 2,657, 2002 - KZT 302).

Loans are made to the following industry sectors:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Wholesale trade	86,582	53,538	27,583
Individuals	57,405	27,222	12,765
Agriculture	45,271	32,506	14,547
Food industry	41,030	30,350	11,661
Construction of road and industrial buildings	40,478	10,759	8,495
Oil & gas production	37,295	29,841	11,710
Housing construction	21,806	7,104	177
Mining	20,924	15,242	6,124
Transport	20,001	3,541	10,400
Chemical industry	12,160	9,254	10,161
Energy	8,874	3,558	3,061
Automobile production	5,631	1,991	2,319
Retail trade	5,174	1,480	6,303
Real estate activities	4,678	7,173	3,291
Textile and leather industry	4,675	688	45
Publishing	3,860	549	994
Telecommunication	3,857	4,612	335
Hospitality	3,607	362	595
Metallurgical industry	1,865	7,125	1,134
Production of rubber and plastics articles	1,301	1,243	1,195
Research & development	516	–	1,413
Paper industry	8	–	1,546
Other	12,152	6,980	2,059
Total	439,150	255,118	137,913

(Millions of Kazakh Tenge)

10. Allowances for Impairment and Provisions

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

	<i>Due from credit institutions</i>	<i>Loans to customers</i>	<i>Total</i>
At December 31, 2001	–	6,474	6,474
Impairment charge	–	7,184	7,184
Write-offs	–	(3,763)	(3,763)
Recoveries	–	271	271
At December 31, 2002	–	10,166	10,166
Impairment charge	–	10,391	10,391
Write-offs	–	(6,762)	(6,762)
Recoveries	–	1,476	1,476
At December 31, 2003	–	15,271	15,271
Impairment charge	527	18,724	19,251
Write-offs	–	(8,129)	(8,129)
Recoveries	–	3,767	3,767
At December 31, 2004	527	29,633	30,160

The movements on the allowances for impairment of other assets and provisions were as follows:

	<i>Other assets</i>	<i>Letters of credit and guarantees</i>	<i>Total</i>
At December 31, 2001	181	49	230
Impairment charge	19	227	246
Write-offs	(91)	(32)	(123)
At December 31, 2002	109	244	353
Impairment charge	230	108	338
Write-offs	–	(33)	(33)
At December 31, 2003	339	319	658
Impairment charge	561	1,732	2,293
Write-offs	(496)	(20)	(516)
Recoveries	19	–	19
At December 31, 2004	423	2,031	2,454

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

11. Taxation

The corporate income tax expense comprises:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Current tax charge	796	266	–
Current tax of prior periods (Note 17)	251	–	–
	1,047	266	–

(Millions of Kazakh Tenge)

The Bank and its subsidiaries, other than TuranAlem Finance B.V. ("TAF BV"), TuranAlem Finance ("TAF") and TuranAlem Capital ("TAC") are subject to taxation in the Republic of Kazakhstan. TAF BV is subject to income tax in the Netherlands. TAF and TAC are subject to income tax in Russia. A reconciliation between income tax expense in the accompanying consolidated financial statements and income before taxes multiplied by the statutory tax rate for the years ended December 31 is as follows:

	2004	2003	2002
Income tax computed at the statutory tax rate of 30%	2,461	1,454	1,509
Non-deductible interest expenses	302	215	198
Non-deductible impairment charge	13	165	–
Non-deductible business expenses	414	580	67
Losses (income) of subsidiaries taxed at different rates	(384)	108	(38)
Income tax of prior years (Note 17)	251	–	–
Non taxable income on government securities	(507)	(897)	(778)
Non taxable income on long-term loans granted for the modernization of property and equipment	(2,130)	(1,230)	(883)
Change in unrecognised deferred tax assets	627	(129)	(75)
Income tax expense	1,047	266	–

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	2002
Deferred tax assets:			
Tax loss carry forward	447	–	–
Property and equipment	109	–	4
Allowance for impairment	20	–	204
Other	130	101	–
	706	101	208
Deferred tax liabilities:			
Property and equipment	–	(22)	–
Net deferred tax assets	706	79	208
Unrecognised deferred tax assets	(706)	(79)	(208)
	–	–	–

Tax loss carry-forward represents losses which arose from changes in the fair market value of certain securities. Losses from such securities are deductible only to the extent that they can be offset against gains from similar securities. In accordance with the tax legislation, such losses can be carried forward and offset against gains from similar securities during a period of 3 years from the year a loss occurs.

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take different positions with regard to interpretive issues.

Deferred tax assets have not been recognised due to the uncertainties surrounding their realisation in the future.

(Millions of Kazakh Tenge)

12. Amounts Due to the Government and the NBK

Amounts due to the Government and the NBK consist of the following:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Amounts due to the Government:			
Non interest bearing	17	29	5
Interest bearing – KZT denominated	826	1,192	1,622
Interest bearing – USD denominated	115	207	199
Interest bearing – EUR denominated	424	504	454
Amounts due to the NBK:			
Deposits	3,000	3,000	–
Loan	42	258	403
Amounts due to the Government and the NBK	4,424	5,190	2,683

Interest rates and maturity of the amounts due to the Government and the NBK follow:

	<i>2004</i>		<i>2003</i>		<i>2002</i>	
	<i>Interest Rate</i>	<i>Maturity</i>	<i>Interest rate</i>	<i>Maturity</i>	<i>Interest rate</i>	<i>Maturity</i>
Amounts due to the Government:						
Non interest bearing	–	2005-2006	–	2004-2006	–	2004
Interest bearing:						
KZT denominated	up to 10.0%	2005-2010	up to 12.5%	2004-2010	5.0%-10.0%	2003-2004
USD denominated	4.6%	2011	1.3%	2011	7.2%	2011
EUR denominated	5.0%	2010	4.55%-5.00%	2010-1011	4.55%-5.00%	2010-1011
Amounts due to the NBK:						
Deposits	6.5%	2005	6.5%	2004	–	–
Loan	–	–	2.87%	2004	4.20%	2003

13. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Interest-bearing placements from Kazakh banks	4,524	8,508	857
Interest-bearing placements from non OECD based banks	729	289	78
Correspondent loro accounts	54	1,583	694
	5,307	10,380	1,629
Loans from OECD based banks and financial institutions	61,774	46,845	31,844
Loans from non-OECD based banks and financial institutions	5,163	3,369	2,179
Syndicated bank loans	51,447	48,809	11,455
Loans from Kazakh banks and financial institutions	12,359	3,637	2,340
Pass-through loans	7,206	4,011	7,046
Amounts due to credit institutions	143,256	117,051	56,493

(Millions of Kazakh Tenge)

Interest rates and maturity of amounts due to credit institutions follow:

	2004		2003		2002	
	%	Maturity	%	Maturity	%	Maturity
Interest-bearing placements from Kazakh banks	2.6%-7.0%	2005	2.1% - 5.5%	2004	3.5%	2003
Interest-bearing placements from non OECD based banks	3.2%-7.9%	2005	4.5%	2004	4.0%	2003
Correspondent loro accounts	up to 2.0%	–	up to 2.0%	–	up to 2.0%	–
Loans from OECD based banks and financial institutions	1.0%-6.0%	2005-2009	1.1%-9.7%	2004-2009	up to 9.7%	2003-2009
Loans from non-OECD based banks and financial institutions	1.7%-4.7%	2005	1.9%-4.6%	2004-2005	up to 5.1%	2003-2007
Syndicated bank loans	3.5%-4.7%	2005-2007	3.3% - 3.7%	2004 - 2005	4.0%	2003
Loans from Kazakh banks and financial institutions	4.6%-5.3%	2005	3.0% - 5.2%	2004	5.7%-6.5%	2003
Pass-through loans	4.7%-8.1%	2005-2008	5.0% - 10.2%	2004 - 2006	5.0% -10.5%	2003 – 2006

At December 31, 2004, pass-through loans represent credit lines provided to the Bank, through the Government of the Republic of Kazakhstan, by international financial organizations. Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. At December 31, 2004 amounts received under pass-through loans had been advanced to borrowers and included within loans to customers in the accompanying consolidated balance sheets. There were no undrawn balances of credit lines at December 31, 2004 (2003 – USD 4 million, 2002 – nil).

At December 31, 2004, amounts due to credit institutions include EUR and USD denominated subordinated loans of KZT 2,073, that rank behind the claims from the Group's depositors and other unsecured, unsubordinated creditors. In accordance with the Convertible Subordinated Loan Agreement between Deutsche Investitions und Entwicklungsgesellschaft mbH ("DEG") and the Bank dated December 11, 2000, DEG had the right to convert any part or all of its subordinated loan into Convertible Preferred Shares ("CPS"), or preferred, or common shares. Provided that DEG exercised this right before December 31, 2002.

In accordance with the contractual terms of the syndicated bank loans, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. In addition, and in accordance with the terms of certain of those loans, the Bank is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares. Management believes that the Bank is in compliance with covenants of the various debt agreements the Bank has with other banks and financial institutions.

14. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and include the following:

	2004	2003	2002
Current accounts	65,095	40,388	39,747
Time deposits	155,593	96,018	60,027
Guarantee and other restricted deposits	6,022	3,912	7,036
Amounts due to customers	226,710	140,318	106,810

(Millions of Kazakh Tenge)

Interest rates of amounts due to customers follow:

	2004		2003		2002	
	<i>KZT</i>	<i>USD/EURO</i>	<i>KZT</i>	<i>USD/EURO</i>	<i>KZT</i>	<i>USD/EURO</i>
	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>
	%	%	%	%	%	%
Current accounts	up to 3%	up to 1%	up to 4%	up to 2%	up to 4%	up to 3%
Time deposits	1%-13%	2.5%-8.5%	1%-14.5%	3%-8.5%	2%-15%	4%-10.6%
Guarantee and other restricted deposits	-	up to 9%	-	up to 9%	-	-

Current accounts are due on demand. Maturities of other amounts due to customers follow:

	2004		2003		2002	
	<i>KZT</i>	<i>USD/EURO</i>	<i>KZT</i>	<i>USD/EURO</i>	<i>KZT</i>	<i>USD/EURO</i>
	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>	<i>denominated</i>
	<i>Maturity</i>	<i>Maturity</i>	<i>Maturity</i>	<i>Maturity</i>	<i>Maturity</i>	<i>Maturity</i>
Time deposits	2005 - 2006	2005 - 2009	2004 - 2005	2004 - 2005	2003 - 2004	2004
Guarantee and other restricted deposits	2005	2005	2004	2004	2003	2003

At December 31, 2004, 2003 and 2002, the Bank's ten largest customers accounted for approximately 26.17%, 22.26% and 14.63% respectively, of the total amounts due to customers.

The amounts due to customers included balances in customer current accounts, term deposits and guarantee and other restricted deposits, and were analysed as follows:

	2004	2003	2002
Current accounts:			
Commercial entities	48,499	28,153	29,762
Individuals	10,718	10,032	7,180
Governmental entities	5,878	2,203	2,805
Term deposits:			
Individuals	76,266	58,905	46,040
Commercial entities	72,439	30,106	4,031
Governmental entities	6,888	7,007	9,956
Guarantee and other restricted deposits:			
Commercial entities	3,691	3,601	6,754
Individuals	2,113	249	223
Governmental entities	218	62	59
Amounts due to customers	226,710	140,318	106,810

An analysis of customer accounts by sector follows:

	2004	%	2003	%	2002	%
Individuals	89,097	39.3%	69,186	49.3%	53,443	50.0%
Metallurgy	30,171	13.3%	15,070	10.7%	5,481	5.1%
Oil and gas	29,290	12.9%	6,852	4.9%	7,939	7.4%
Wholesale trading	12,774	5.6%	12,479	8.9%	10,446	9.8%
Non-credit financial organizations	9,230	4.1%	1,907	1.4%	4,601	4.3%
Transportation	7,904	3.5%	1,448	1.0%	1,035	1.0%
Energy industry	7,605	3.4%	3,021	2.2%	816	0.8%
Construction	7,161	3.2%	5,439	3.9%	4,272	4.0%
Retail trade	6,158	2.7%	2,042	1.5%	1,395	1.3%
Agriculture	3,259	1.4%	2,738	2.0%	1,359	1.3%
Chemical processing	2,803	1.2%	347	0.2%	664	0.6%
Machinery and equipment production	2,074	0.9%	6,556	4.7%	5,380	5.0%
Food industry	952	0.4%	389	0.3%	340	0.3%
Textile and leather industry	838	0.4%	41	-	599	0.6%
Communication	736	0.3%	432	0.3%	431	0.4%
Hotel and hospitality	370	0.2%	102	0.1%	118	0.1%
Mining	360	0.2%	410	0.3%	139	0.1%
Entertainment	281	0.1%	166	0.1%	423	0.4%
Other	15,647	6.9%	11,693	8.2%	7,929	7.5%
	226,710	100.0%	140,318	100.0%	106,810	100.0%

(Millions of Kazakh Tenge)

15. Debt Securities Issued

Debt securities issued as of December 31, consisted of the following:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
USD notes	143,057	61,294	31,170
USD and KZT subordinated notes	29,250	13,528	6,612
RUR promissory notes	9,340	—	—
	181,647	74,822	37,782
Own USD notes held by the Group	(1,297)	(482)	(6,118)
Own USD and KZT subordinated notes held by the Group	(337)	(8)	(52)
	180,013	74,332	31,612
Plus unamortized premium and discount and unamortized cost of issuance	37	(825)	(326)
	180,050	73,507	31,286
Interest accrued	2,029	667	235
Debt securities issued	182,079	74,174	31,521

The interest rates and maturities of debt securities issued follow:

	<i>2004</i>		<i>2003</i>		<i>2002</i>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
USD notes	7.875%-10%	2007 - 2014	7.875%-11.5%	2004 - 2010	10.0%-11.5%	2004 - 2007
USD and KZT subordinated notes	9.4%-12.0%	2009 - 2014	8.0%-12.0%	2009 - 2013	9.0%-12.0%	2009 - 2010
RUR promissory notes	10.0%	2005	—	—	—	—

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

In accordance with the terms of the USD Notes, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures. Management believes that the Bank is in compliance with the covenants of the agreements the Bank has with the notes' trustee and holders.

16. Shareholders' Equity

Authorized share capital at December 31, 2004, consisted of 2,334,435 common shares and 774,001 Preferred Shares ("PS") (December 31, 2003 – 1,719,148 common and 569,997 PS, December 31, 2002 – 1,287,023 common and 426,722 PS). Issued and paid share capital at December 31, 2004 consisted of 2,334,435 common shares, 510,793 Convertible Preferred Shares ("CPS") and 91,481 preferred shares convertible into common shares (December 31, 2003 – 1,677,269 common shares and 484,215 CPS, December 31, 2002 – 1,276,635 common shares and 426,722 CPS). All shares are KZT denominated and have a nominal value of KZT 10 thousand each. Share capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of Bank TuranAlem following the combination of Turan Bank and Alem Bank.

At December 31, 2004, the Group held 33,450 of the Bank's shares as treasury stock (December 31, 2003 – 41,104, December 31, 2002 – 10,388).

During 2004, the Bank issued 26,578 CPS and 59,204 preferred shares convertible into common shares and 775 common shares at a premium of KZT 2.833 thousand per share, and 32,277 preferred shares convertible into common shares and 615,287 common shares at a premium of KZT 6.639 thousand per share. (During 2003, the Bank issued 57,493 CPS and 431,350 common shares at a premium of KZT 2.833 thousand per share).

(Millions of Kazakh Tenge)

As of December 31, 2004, the following shareholders held the outstanding shares.

Shareholders:	2004	2003	2002
	%	%	%
Common shares:			
Central Securities Depository CJSC (nominee holder)	22.32	11.73	–
Management	20.69	28.33	27.53
Bank of New York (nominee holder)	16.23	26.48	25.71
HAWSBROK	10.02	10.12	3.26
SP-CreditPriveSA	10.00	10.10	–
VALAXIS Asset Management SA	9.51	9.61	–
InvestCapital Company LLP	4.79	–	–
RESMI COMMERCE	3.92	–	–
Finance Company Progress OJSC	2.52	3.46	4.54
Individuals	–	–	9.12
Makta-Aral-2 LLP	–	–	9.07
Koblan CJSC	–	–	4.99
RECURSE LTD	–	–	2.70
Bordero LTD	–	–	2.61
PEGAS LLP	–	–	2.52
Royalty-Trade LLP	–	–	2.09
Limean Ltd	–	–	1.83
Others	–	0.17	4.03
	100.00	100.00	100.00
	2004	2003	2002
Preferred shares:			
Raiffeisen Zentralbank Osterreich (“RZB”)	48.67	33.48	38.00
Central Securities Depository CJSC (nominee holder)	15.19	–	–
EBRD	12.20	15.18	17.22
IFC	12.20	15.18	17.22
FMO	11.74	9.11	10.34
DEG	–	27.05	17.22
	100.00	100.00	100.00

Preferred Shares

The Preferred Shares (“PS”) are not redeemable and are entitled to a dividend of 10.25%. The PS Shareholders have the right at any time, but not later than May 1, 2006 to convert all their PS’s into common shares of the Bank.

Convertible Preferred Shares

The CPS Shareholders have the right at any time but not later than December 31, 2006 to convert all or any part of their CPS’s into common shares of the Bank.

Upon the expiration of the Convertibility Period, i.e. on December 31, 2006, and only in the event the Bank fails to sell 55% of the aggregate of the Bank’s issued common shares to an OECD based bank with total assets of not less than USD 60 billion and a financial strength rating of not less than D+ (“Strategic Investor”), each CPS Shareholder shall have the right to redeem all or any portion of the Convertible Preferred Shares in cash. Management believes that the likelihood of those shares being redeemed is remote.

The Bank is obligated to offer to redeem the Convertible Preferred Shares (“Redemption offer”) at the USD equivalent of the CPS Purchase Price at the offer date (the “Purchase Price”) if any person makes a Shareholder Protection Tender Offer (“Tender Offer”), i.e. an offer to purchase 30% or more of the Bank’s common share capital, and the respective Tender Offer Price for each CPS is less than the CPS Purchase Price. If the CPS Shareholders accept the redemption offer, the Bank is then obligated to redeem the shares. Management believes, that the likelihood of a Tender Offer being made is remote.

At December 31, 2004, the CPS nominal value was KZT 10 thousand (USD 76.92) (December 31, 2003 – KZT 10 thousand (USD 69.34), and December 31, 2002 – KZT 10 thousand (USD 64.27)), the quoted market price per common share was KZT 13.689 thousand (USD 105.30) (December 31, 2003 – KZT 12.900 thousand (USD 89.45)), and the net assets value per share (as measured by the underlying net asset value of the Group divided by the number of shares outstanding) was KZT 20.246 thousand (USD 155.74) (December 31, 2003 – KZT 13.997 thousand (USD 97.05)).

(Millions of Kazakh Tenge)

Based on the above, the likelihood of the CPS being redeemed is considered remote and, in accordance with International Accounting Standard No 32 "Financial Instruments: Disclosure and Presentation" that is currently in effect, the Convertible Preferred Shares are accounted for as equity.

The Convertible Preferred Shares are entitled to a dividend of 10.25% per annum. These dividends are cumulative.

In December 2003, the IASB issued revised IAS 32 and IAS 39. Both standards are effective for financial years beginning on or after January 1, 2005. The revised Standards will restrict the classification of a financial instrument with contingent settlement provisions as equity thus increasing the likelihood of such instruments having to be classified as liabilities. The new standard will require the Bank to reclassify the CPS from equity to liabilities, resulting in a reduction in equity and an increase in liabilities by KZT 5,239. This may result in a reduction in the Bank's Capital adequacy ratios. Had the Bank applied the revised IAS 39 and IAS 32 from January 1, 2004, the Bank's key financial figures as of December 31, 2004, and for the year then ended would have been as follows:

Total liabilities	KZT 571,546
Shareholders' equity	KZT 45,089
Net income	KZT 6,758

17. 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 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.

The Group could be affected, in the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets and the ability of the Group to maintain or pay its debts as they mature.

Legal

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

Following an inspection by the Kazakhstan tax authorities with respect to years ended December 31, 2002 and 2003, the tax authorities claimed KZT 275 million in unpaid taxes from the Bank. The claim arose primarily due to the introduction of changes in Kazakhstan tax laws with respect to which there was no satisfactory authoritative interpretation. Whilst the Bank has admitted liability for KZT 251 million in unpaid taxes, part of the tax claim in the amount of KZT 24 million remains in dispute and the Bank intends to vigorously defend this portion of the claim and, if necessary, will take the matter to the Kazakhstan courts. In December 2004 by the decision of the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan issued a verdict in favour of the Bank rejecting the claims of the tax inspection. Based on the information available to it, and after consultation with the Bank's lawyers, the management believes that it is unlikely that the verdict would be overturned and that the Bank has adequate reserves to cover any potential liabilities that may eventually arise from this dispute.

Financial Commitments and Contingencies

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

	2004	2003	2002
Credit related commitments			
Undrawn loan commitments	44,878	25,443	11,155
Letters of credit	64,845	45,141	26,507
Guarantees	46,204	24,447	21,825
	155,927	95,031	59,487
Less: cash collateral	(6,022)	(1,882)	(1,691)
	149,905	93,149	57,796
Less: provisions	(2,031)	(319)	(244)
Financial commitments and contingencies	147,874	92,830	57,552

(Millions of Kazakh Tenge)

At December 31, 2004, ten guarantees accounted for 27% (2003 – 28%, 2002 – 28%) of total financial guarantees and represented 82% (2003 – 87%, 2002 – 68%) of the Group's total shareholders' equity at that date.

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

Trust Activities

The Group provides custody services to third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that held in a fiduciary capacity are not included in these consolidated financial statements. As at December 31, 2004 such securities not reported in the balance sheet amounted to KZT 67,477 (2003 – KZT 40, 2002 – KZT 55).

Deliverable Forward Contracts

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

At December 31, 2004 the Group was a party to the following deliverable forward contracts, all of which mature in 2005 (2003 - 2004, 2002 – 2003)

	2004		2003		2002	
	Notional Amount	Unrealized Gains	Notional Amount	Unrealized Gains	Notional Amount	Unrealized Gains
Deliverable forward contracts:						
USD-KZT contracts with Kazakh counterpartents	845	–	11,474	359	334	–
USD-EUR contracts with Kazakh counterpartents	35	–	1,004	5	–	–
EUR-KZT contracts with Kazakh counterpartents	35	–	–	–	–	–
RUR-KZT contracts with Kazakh counterpartents	2,000	132	–	–	–	–
USD-RUR contracts with Kazakh counterpartents	130	–	–	–	–	–

18. Fees and Commissions

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

	2004	2003	2002
Letters of credit and guarantees issued	3,448	2,519	1,458
Settlement and cash operations	2,100	1,543	996
Transfer operations	1,747	1,158	667
Foreign currency trading	849	606	499
Brokerage services	161	27	14
Custodian activity	15	28	14
Other	977	575	660
Fee and commission income	9,297	6,456	4,308
Custodian activity	(75)	(24)	(36)
Broker services	(66)	(4)	(2)
Transfer operations	(64)	(48)	(41)
Foreign currency trading	(52)	(59)	(67)
Letters of credit and guarantees issued	–	–	–
Other	(46)	(2)	(23)
Fee and commission expense	(303)	(137)	(169)
Net fee and commission income	8,994	6,319	4,139

*(Millions of Kazakh Tenge)***19. Gains Less Losses From Trading Securities**

Gains less losses from trading securities for the years ended December 31 comprised the following:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Dealing	(26)	(204)	1,552
Revaluation	64	793	1,193
	<u>38</u>	<u>589</u>	<u>2,745</u>

20. Other Income

Other income for the years ended December 31 comprised the following:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Rent	332	442	450
Penalties	112	446	399
Currency transportation	1	26	99
Other	122	88	203
	<u>567</u>	<u>1,002</u>	<u>1,151</u>

21. Salaries and Administrative and Operating Expenses

Salaries and benefits and administrative and operating expenses comprise:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Salaries and bonuses	(3,888)	(2,845)	(2,505)
Social security costs	(431)	(545)	(489)
Other payments	(69)	(42)	(29)
Salaries and benefits	<u>(4,388)</u>	<u>(3,432)</u>	<u>(3,023)</u>
Occupancy and rent	(794)	(312)	(137)
Marketing and advertising	(744)	(447)	(453)
Repair and maintenance of property and equipment	(403)	(754)	(646)
Security	(361)	(279)	(183)
Legal and consultancy	(358)	(388)	(209)
Data processing	(355)	(157)	(180)
Communications	(343)	(292)	(207)
Business travel and related expenses	(311)	(180)	(194)
Transportation expenses	(155)	(158)	(146)
Office supplies	(71)	(75)	(100)
Loss on property and equipment disposals	(30)	(63)	(2)
Custom duties	(3)	(53)	(253)
Charity	-	(54)	(26)
Other	(609)	(707)	(911)
Administrative and operating expenses	<u>(4,537)</u>	<u>(3,919)</u>	<u>(3,647)</u>

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2004 was KZT 335 (2003 - KZT 290, 2002 - KZT 248).

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 shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2004, 2003 or 2002. During 2004, 2003 and 2002, the Bank declared dividends to the CPS and PS shareholders amounting to KZT 603, KZT 487 million, and KZT 508 million, respectively, and paid dividends to the CPS and PS shareholders amounting to KZT 528 million, KZT 475 million, and KZT 503 million, respectively.

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 preferred shares. For the convertible preferred shares, the number of shares that could have been converted at the contractual conversion price is added to the shares outstanding, but no adjustment is made to net income.

(Millions of Kazakh Tenge)

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

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Net income attributable to common shareholders for basic earnings per share, being net income less dividends declared on CPS's (in KZT millions)	6,700	4,133	4,390
Net income attributable to common and potential common shareholders for diluted earnings per share (in KZT millions)	7,303	4,620	4,898
Weighted average number of common shares for basic earnings per share	1,734,692	1,273,425	1,272,373
Weighted average number of common and potential common shares for diluted earnings per share	2,266,229	1,702,195	1,699,095

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

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Weighted average number of common shares at December 31 for basic earnings per share	1,734,692	1,273,425	1,272,373
Weighted average number of common shares resulting from the potential conversion of the preferred shares into common shares	531,537	428,770	426,722
Weighted average number of common and potential common shares at December 31	2,266,229	1,702,195	1,699,095

23. 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 is as 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. Where appropriate, and in the case of most loans, the Bank 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 established by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, 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 financial statements and the disclosed financial commitments.

The Group maintains strict control limits on net open derivative positions, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure 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, except where the Group requires margin deposits from counter parties.

(Millions of Kazakh Tenge)

Concentration

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

	2004				2003				2002			
	Kazakh- stan	OECD	CIS and other foreign countries	Total	Kazakh- stan	OECD	CIS and other foreign countries	Total	Kazakh- stan	OECD	CIS and other foreign countries	Total
Assets:												
Cash and cash equivalents	41,791	7,832	2,117	51,740	18,178	2,742	771	21,691	8,951	10,492	1,114	20,557
Obligatory reserves	6,971	–	–	6,971	3,706	–	–	3,706	2,731	–	–	2,731
Trading securities	52,829	49,353	–	102,182	23,486	38,105	–	61,591	21,942	10,139	–	32,081
Amounts due from credit institutions	2,889	–	3,676	6,565	5,729	–	264	5,993	10,820	–	–	10,820
Available for sale securities	1,696	22,185	–	23,881	–	–	–	–	–	–	–	–
Held-to-maturity securities	–	–	–	–	–	26,288	–	26,288	–	19,634	–	19,634
Loans to customers	330,961	9,607	98,582	439,150	222,904	–	32,214	255,118	137,913	–	–	137,913
Other assets	7,289	3	1,708	9,000	7,542	–	–	7,542	5,508	–	–	5,508
	444,426	88,980	106,083	639,489	281,545	67,135	33,249	381,929	187,865	40,265	1,114	229,244
Liabilities:												
Amounts due to the Government and the NBK	4,424	–	–	4,424	5,190	–	–	5,190	2,683	–	–	2,683
Amounts due to credit institutions	21,356	114,650	7,250	143,256	12,131	102,887	2,033	117,051	4,868	50,293	1,332	56,493
Amounts due to customers	221,168	3,148	2,394	226,710	140,318	–	–	140,318	106,810	–	–	106,810
Debt securities issued	29,247	143,492	9,340	182,079	74,174	–	–	74,174	31,521	–	–	31,521
Other liabilities	9,838	–	–	9,838	4,318	–	–	4,318	7,220	–	–	7,220
	286,033	261,290	18,984	566,307	236,131	102,887	2,033	341,051	153,102	50,293	1,332	204,727
Net balance sheet position	158,393	(172,310)	87,099	73,182	45,414	(35,752)	31,216	40,878	34,763	(10,028)	(218)	24,517

The above tables do not include the effect of allowances for loans' impairment and other assets, which amounted to KZT 30,583, KZT 15,610 and KZT 10,275 as of December 31, 2004, 2003 and 2002, 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.

*(Millions of Kazakh Tenge)***Currency Risk**

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

	2004				2003				2002			
	<i>KZT</i>	<i>Freely convertible</i>	<i>Non convertible</i>	<i>Total</i>	<i>KZT</i>	<i>Freely convertible</i>	<i>Non convertible</i>	<i>Total</i>	<i>KZT</i>	<i>Freely convertible</i>	<i>Non convertible</i>	<i>Total</i>
Assets:												
Cash and cash equivalents	34,225	15,608	1,907	51,740	15,093	5,723	875	21,691	5,053	15,309	195	20,557
Obligatory reserves	6,971	–	–	6,971	3,706	–	–	3,706	2,731	–	–	2,731
Trading securities	46,125	56,057	–	102,182	11,648	49,943	–	61,591	12,925	19,156	–	32,081
Amounts due from credit institutions	425	3,560	2,580	6,565	78	5,915	–	5,993	9,830	990	–	10,820
Available for sale securities	–	23,881	–	23,881	–	–	–	–	–	–	–	–
Held-to-maturity securities	–	–	–	–	3	26,285	–	26,288	–	19,634	–	19,634
Loans to customers	109,992	320,903	8,255	439,150	78,426	176,665	27	255,118	35,936	101,946	31	137,913
Other assets	8,247	616	137	9,000	7,175	346	21	7,542	4,981	506	21	5,508
	205,985	420,625	12,879	639,489	116,129	264,877	923	381,929	71,456	157,541	247	229,244
Liabilities:												
Amounts due to the Government and the NBK	3,885	539	–	4,424	4,263	927	–	5,190	972	1,711	–	2,683
Amounts due to credit institutions	15,177	128,062	17	143,256	4,390	112,618	43	117,051	2,185	54,308	–	56,493
Amounts due to customers	122,789	102,447	1,474	226,710	69,043	70,596	679	140,318	50,077	56,456	277	106,810
Debt securities issued	23,925	148,814	9,340	182,079	7,598	66,576	–	74,174	–	31,521	–	31,521
Other liabilities	9,276	552	10	9,838	3,982	324	12	4,318	5,041	2,179	–	7,220
	175,052	380,414	10,841	566,307	89,276	251,041	734	341,051	58,275	146,175	277	204,727
Net balance sheet position	30,933	40,211	2,038	73,182	26,853	13,836	189	40,878	13,181	11,366	(30)	24,517

The above tables do not include the effect of allowances for loans' impairment and other assets, which amounted to KZT 30,583, KZT 15,610 and KZT 10,275 as of December 31, 2004, 2003 and 2002, 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 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 or EUR will affect the carrying value of the Group's USD denominated monetary assets and liabilities.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

(Millions of Kazakh Tenge)

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

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

A significant portion of the Group's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

	2004		2003		2002	
	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>
Trading securities	3.2%	3.4%	6.9%	7.7%	10.6%	9.9%
Amounts due from credit institutions	2.0%	10.5%	2.7%	2.4%	4.4%	2.8%
Investment securities:						
- available for sale securities	–	3.8%	–	–	–	–
- held-to-maturity securities	–	–	–	4.4%	–	2.3%
Loans to customers	18.0%	11.7%	16.7%	12.5%	18.8%	14.4%
Amounts due to the Government and the NBK	5.9%	5.1%	6.5%	4.4%	9.0%	4.3%
Amounts due credit institutions	3.4%	4.3%	5.1%	4.2%	6.0%	4.5%
Amounts due to customers	6.3%	6.0%	9.4%	5.1%	12.5%	6.1%
Debt securities issued	8.0%	9.0%	1.6%	11.6%	–	12.2%

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

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual repricing date, except for trading and available-for-sale securities, which are shown as if they can be repriced within one month as management is able to liquidate those securities within a short period of time.

(Millions of Kazakh Tenge)

2004	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Past due	Total
Assets:							
Cash and cash equivalents	51,175	565	–	–	–	–	51,740
Obligatory reserves	–	–	–	6,971	–	–	6,971
Trading securities	102,182	–	–	–	–	–	102,182
Amounts due from credit institutions	2,125	617	823	1,188	1,682	130	6,565
Securities available for sale	23,881	–	–	–	–	–	23,881
Loans to customers	25,776	26,666	120,075	93,352	169,468	3,813	439,150
Other assets	6,004	1,819	119	131	927	–	9,000
	211,143	29,667	121,017	101,642	172,077	3,943	639,489
Liabilities:							
Amounts due to the Government and the NBK	83	3,006	168	488	679	–	4,424
Amounts due to credit institutions	14,252	19,976	102,093	2,508	4,427	–	143,256
Amounts due to customers	114,079	30,888	49,786	26,380	5,577	–	226,710
Debt securities issued	13,536	112	2,145	25,600	140,686	–	182,079
Other liabilities	7,161	1,704	567	318	88	–	9,838
	149,111	55,686	154,759	55,294	151,457	–	566,307
Net position	62,032	(26,019)	(33,742)	46,348	20,620	3,943	73,182
Accumulated gap	62,032	36,013	2,271	48,619	69,239	73,182	

(Millions of Kazakh Tenge)

2003	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Past due	Total
Assets:							
Cash and cash equivalents	21,567	124	–	–	–	–	21,691
Obligatory reserves	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	61,591
Amounts due from credit institutions	1,926	144	1,129	1,829	965	–	5,993
Securities held-to- maturity	–	–	–	–	26,288	–	26,288
Loans to customers	21,918	25,454	106,059	36,795	60,056	4,836	255,118
Other assets	4,691	294	295	2,262	–	–	7,542
	<u>111,693</u>	<u>26,016</u>	<u>107,483</u>	<u>44,592</u>	<u>87,309</u>	<u>4,836</u>	<u>381,929</u>
Liabilities:							
Amounts due to the Government and NBK	3,071	1	604	614	900	–	5,190
Amounts due to credit institutions	22,927	10,023	63,799	16,189	4,113	–	117,051
Amounts due to customers	59,009	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	4,143	33	25	65	52	–	4,318
	<u>89,150</u>	<u>29,309</u>	<u>130,074</u>	<u>39,968</u>	<u>52,550</u>	<u>–</u>	<u>341,051</u>
Net position	<u>22,543</u>	<u>(3,293)</u>	<u>(22,591)</u>	<u>4,624</u>	<u>34,759</u>	<u>4,836</u>	<u>40,878</u>
Accumulated gap	<u>22,543</u>	<u>19,250</u>	<u>(3,341)</u>	<u>1,283</u>	<u>36,042</u>	<u>40,878</u>	

(Millions of Kazakh Tenge)

2002	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Past due	Total
Assets:							
Cash and cash equivalents	20,557	–	–	–	–	–	20,557
Obligatory reserves	–	–	–	2,731	–	–	2,731
Trading securities	32,081	–	–	–	–	–	32,081
Amounts due from credit institutions	–	–	10,805	15	–	–	10,820
Securities held-to-maturity	–	–	–	–	19,634	–	19,634
Loans to customers	26,496	13,416	67,173	16,492	11,743	2,593	137,913
Other assets	1,965	169	169	3,205	–	–	5,508
	<u>81,099</u>	<u>13,585</u>	<u>78,147</u>	<u>22,443</u>	<u>31,377</u>	<u>2,593</u>	<u>229,244</u>
Liabilities:							
Amounts due to the Government and the NBK	173	21	1,099	1,130	260	–	2,683
Amounts due to credit institutions	15,723	1,904	20,048	9,445	9,373	–	56,493
Amounts due to customers	52,446	17,040	26,195	11,129	–	–	106,810
Debt securities issued	235	–	–	9,141	22,145	–	31,521
Other liabilities	6,665	434	21	100	–	–	7,220
	<u>75,242</u>	<u>19,399</u>	<u>47,363</u>	<u>30,945</u>	<u>31,778</u>	<u>–</u>	<u>204,727</u>
Net position	5,857	(5,814)	30,784	(8,502)	(401)	2,593	24,517
Accumulated gap	<u>5,857</u>	<u>43</u>	<u>30,827</u>	<u>22,325</u>	<u>21,924</u>	<u>24,517</u>	

The above tables do not include the effect of allowances for loans' impairment and other assets, which amounted to KZT 30,583, KZT 15,610 and KZT 10,275 as of December 31, 2004, 2003 and 2002, respectively.

(Millions of Kazakh Tenge)

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The 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, except for trading and available-for-sale securities which are shown on demand based on management's intentions.

2004

	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	24,366	26,809	565	-	-	-	-	51,740
Obligatory reserves	-	-	-	-	6,971	-	-	6,971
Trading securities	102,182	-	-	-	-	-	-	102,182
Amounts due from credit institutions	57	2,068	617	823	1,188	1,682	130	6,565
Available-for-sale securities	23,881	-	-	-	-	-	-	23,881
Loans to customers	3,488	22,288	26,666	110,320	96,876	175,699	3,813	439,150
Other assets	5,924	80	1,819	119	131	927	-	9,000
	159,898	51,245	29,667	111,262	105,166	178,308	3,943	639,489
Liabilities:								
Amounts due to the Government and the NBK	-	83	3,006	168	488	679	-	4,424
Amounts due to credit institutions	54	14,198	19,976	77,821	16,976	14,231	-	143,256
Amounts due to customers	63,186	50,893	30,888	49,786	26,380	5,577	-	226,710
Debt securities issued	4,196	9,340	112	2,145	25,600	140,686	-	182,079
Other liabilities	7,109	52	1,704	567	318	88	-	9,838
	74,545	74,566	55,686	130,487	69,762	161,261	-	566,307
Net position	85,353	(23,321)	(26,019)	(19,225)	35,404	17,047	3,943	73,182
Accumulated gap	85,353	62,032	36,013	16,788	52,192	69,239	73,182	

(Millions of Kazakh Tenge)

2003

	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	13,162	8,405	124	–	–	–	–	21,691
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from credit institutions	50	1,876	144	1,129	1,829	965	–	5,993
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	21,918	25,454	76,059	51,795	75,056	4,836	255,118
Other assets	4,539	152	294	295	2,262	–	–	7,542
	<u>79,342</u>	<u>32,351</u>	<u>26,016</u>	<u>77,483</u>	<u>59,592</u>	<u>102,309</u>	<u>4,836</u>	<u>381,929</u>
Liabilities:								
Amounts due to the Government and the NBK	–	3,071	1	604	614	900	–	5,190
Amounts due to credit institutions	1,533	21,394	10,023	47,591	22,648	13,862	–	117,051
Amounts due to customers	41,286	17,723	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	3,900	243	33	25	65	52	–	4,318
	<u>46,719</u>	<u>42,431</u>	<u>29,309</u>	<u>113,866</u>	<u>46,427</u>	<u>62,299</u>	<u>–</u>	<u>341,051</u>
Net position	<u>32,623</u>	<u>(10,080)</u>	<u>(3,293)</u>	<u>(36,383)</u>	<u>13,165</u>	<u>40,010</u>	<u>4,836</u>	<u>40,878</u>
Accumulated gap	<u>32,623</u>	<u>22,543</u>	<u>19,250</u>	<u>(17,133)</u>	<u>(3,968)</u>	<u>36,042</u>	<u>40,878</u>	

2002

	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	19,596	961	–	–	–	–	–	20,557
Obligatory reserves	–	–	–	–	2,731	–	–	2,731
Trading securities	32,081	–	–	–	–	–	–	32,081
Amounts due from credit institutions	–	–	–	10,805	15	–	–	10,820
Held-to-maturity investment securities	–	–	–	–	–	19,634	–	19,634
Loans to customers	–	26,496	13,416	44,173	31,492	19,743	2,593	137,913
Other assets	1,866	99	169	169	3,205	–	–	5,508
	<u>53,543</u>	<u>27,556</u>	<u>13,585</u>	<u>55,147</u>	<u>37,443</u>	<u>39,377</u>	<u>2,593</u>	<u>229,244</u>
Liabilities:								
Amounts due to the Government and the NBK	–	173	21	1,099	1,130	260	–	2,683
Amounts due to credit institutions	694	15,029	1,904	15,642	10,804	12,420	–	56,493
Amounts due to customers	39,725	12,721	17,040	26,195	11,129	–	–	106,810
Debt securities issued	–	235	–	–	9,141	22,145	–	31,521
Other liabilities	2,164	4,501	434	21	100	–	–	7,220
	<u>42,583</u>	<u>32,659</u>	<u>19,399</u>	<u>42,957</u>	<u>32,304</u>	<u>34,825</u>	<u>–</u>	<u>204,727</u>
Net position	<u>10,960</u>	<u>(5,103)</u>	<u>(5,814)</u>	<u>12,190</u>	<u>5,139</u>	<u>4,552</u>	<u>2,593</u>	<u>24,517</u>
Accumulated gap	<u>10,960</u>	<u>5,857</u>	<u>43</u>	<u>12,233</u>	<u>17,372</u>	<u>21,924</u>	<u>24,517</u>	

The above tables do not include the effect of allowances for loans' impairment and other assets, which amounted to KZT 30,583, KZT 15,610 and KZT 10,275 as of December 31, 2004, 2003 and 2002, respectively.

(Millions of Kazakh Tenge)

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. 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 trade and available-for-sale 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

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 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 Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

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, applicable interest rates reflect market rates and, consequently, the fair value approximates the carrying amounts.

Loans to Customers

The estimate was made by discounting the 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

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt Securities Issued

The estimate was based on the quoted market prices of the securities at the balance sheet date.

The following table sets out the carrying amount and fair values of monetary assets and liabilities not carried at their fair values:

	2004		2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets</i>						
Loans to customers, gross	439,150	443,423	255,118	256,986	137,913	135,140
<i>Financial liabilities</i>						
Amounts due to credit institutions	143,256	146,882	117,051	113,161	56,493	55,574
Debt securities issued	182,079	192,838	74,174	78,456	31,521	32,937

(Millions of Kazakh Tenge)

25. 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. As of December 31, the Group had the following transactions with related parties:

	2004			2003		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Loans to customers, gross	1,445	100.0%	439,150	276	99.9%	255,118
Amounts due to credit institutions, gross	14,956	100.0%	143,256	1,508	100.0%	117,051
Amounts due to customers	266	100.0%	226,710	128	99.9%	140,318
Commitments and guarantees issued	2,444	100.0%	155,927	748	100.0%	95,031
Interest income	371	100.0%	49,827	71	99.9%	30,818
Interest expense	(639)	100.0%	(24,867)	(113)	100.0%	(15,763)
Insurance expense	-	-	-	(100)	100.0%	(145)

	2002		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Loans to customers, gross	143	100.0%	137,913
Amounts due to credit institutions, gross	708	100.0%	56,493
Amounts due to customers	129	99.9%	106,810
Commitments and guarantees issued	919	100.0%	59,487
Interest income	36	100.0%	22,368
Interest expense	(33)	100.0%	(10,527)
Insurance expense	(1,079)	100.0%	(1,079)

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

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

26. Capital Adequacy

NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. In 2004 and 2003, risk-weighted assets calculated in accordance with the NBK requirements were derived from the Bank's consolidated financial statements prepared in accordance with IFRS while in 2002 risk weighted assets were derived from the Bank's stand-alone financial statements prepared in accordance with Kazakhstan Accounting Standards (KAS). As of December 31, 2004, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

(Millions of Kazakh Tenge)

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2004, 2003 and 2002, exceeded the minimum ratio of 8% recommended by the Basle Accord for Tier 1 and Tier 2 capital adequacy ratio.

	<i>Balance Sheet</i>			<i>Risk Weighted</i>		
	<i>Notional Amount</i>			<i>Amount</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Total assets	802,390	482,835	295,204	518,322	308,124	182,869
	<i>Capital</i>			<i>BIS%</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Tier 1 capital	41,984	25,948	15,595	8.10%	8.42%	8.53%
Tier 2 capital	35,609	21,561	13,573			
Gross available capital	77,593	47,509	29,168			
Less investments	(1,876)	(870)	(50)			
Tier 1 + Tier 2 capital	75,717	46,639	29,118	14.61%	15.14%	15.92%

27. Segment Information

The geographic analysis of total assets is based on customer domicile whereas operating income and capital expenditure is based on the location of the office in which the transactions and assets are recorded. Segment reporting is presented in the following table. Segmentation is based on the structure as of December 31.

<i>2004</i>	<i>Total operating income</i>		<i>Total assets</i>		<i>Capital expenditure</i>	
	<i>million</i>	<i>Share %</i>	<i>million</i>	<i>Share %</i>	<i>million</i>	<i>Share %</i>
Kazakhstan	17,370	104%	555,844	90%	-	-
Russia	(655)	(4%)	62,458	10%	-	-
Total	16,715	100%	618,302	100%	-	-

<i>2003</i>	<i>Total operating income</i>		<i>Total assets</i>		<i>Capital expenditure</i>	
	<i>million</i>	<i>Share %</i>	<i>million</i>	<i>Share %</i>	<i>million</i>	<i>Share %</i>
Kazakhstan	10,203	100%	348,677	93%	-	-
Russia	-	-	24,387	7%	-	-
Total	10,203	100%	373,064	100%	-	-

<i>2002</i>	<i>Total operating income</i>		<i>Total assets</i>		<i>Capital expenditure</i>	
	<i>million</i>	<i>Share %</i>	<i>million</i>	<i>Share %</i>	<i>million</i>	<i>Share %</i>
Kazakhstan	10,231	100%	225,457	100%	-	-
Russia	-	-	35	0%	-	-
Total	10,231	100%	225,492	100%	-	-