

JSC Bank TuranAlem and subsidiaries

Consolidated Financial Statements

*Year ended December 31, 2005 together
with Report of Independent Auditors*

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of JSC Bank TuranAlem (the “Bank”) and its subsidiaries (together the “Group”) as of December 31, 2005 and 2004, 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 Group’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 Group as of December 31, 2005 and 2004, 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 LLP

February 23, 2006

Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEETS

(Millions of Kazakhstani Tenge)

	Notes	December 31,		
		2005	2004	2003
Assets				
Cash and cash equivalents	5	119,131	51,740	21,691
Obligatory reserves	6	10,791	6,971	3,706
Financial assets at fair value through profit or loss	7	110,252	102,182	61,591
Amounts due from credit institutions	8	23,676	6,038	5,993
Investment securities:				
- available-for-sale securities	9	42,406	25,426	871
- held-to-maturity securities		-	-	26,288
Investments in associates	10	2,205	331	-
Loans to customers	11	680,385	409,517	239,847
Property and equipment		1,940	9,396	6,745
Other assets		7,019	6,701	6,332
Total assets		997,805	618,302	373,064
Liabilities				
Amounts due to the Government and the NBK	14	844	4,424	5,190
Amounts due to credit institutions	15	293,047	148,331	121,786
Amounts due to customers	16	306,714	226,710	140,318
Debt securities issued	17	300,009	182,079	74,174
Other liabilities		10,083	9,838	4,318
Total liabilities		910,697	571,382	345,786
Shareholders' equity				
Share capital:	18			
-common shares		33,276	22,405	16,244
-preferred shares		3,055	840	-
Treasury stock		(348)	(516)	(628)
Additional paid-in capital		19,184	5,996	1,413
Securities revaluation reserve		492	375	-
Property and equipment revaluation reserve		18	2,054	1,737
Retained earnings		30,213	14,099	7,182
		85,890	45,253	25,948
Minority interest		1,218	1,667	1,330
Total shareholders' equity		87,108	46,920	27,278
Total liabilities and shareholders' equity		997,805	618,302	373,064
Financial commitments and contingencies	19			

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

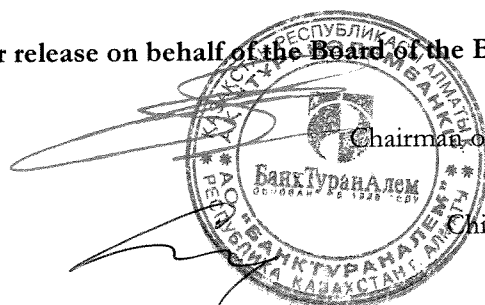
Saduakas K. Mameshtegi

Chairman of the Board

Saule S. Yusupova

Chief Accountant

February 23, 2006



The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Millions of Kazakhstani Tenge)

	Notes	Years ended December 31,		
		2005	2004	2003
Interest income				
Loans		69,789	45,444	26,263
Securities		6,524	3,682	4,257
Deposits with other banks		1,973	701	298
		78,286	49,827	30,818
Interest expense				
Debt securities issued		(20,969)	(11,059)	(6,052)
Deposits from customers		(13,575)	(8,730)	(6,177)
Deposits and loans from credit institutions		(11,155)	(6,317)	(4,362)
		(45,699)	(26,106)	(16,591)
Net interest income before impairment		32,587	23,721	14,227
Impairment charge	12	(15,359)	(19,251)	(10,391)
Net interest income		17,228	4,470	3,836
Fee and commission income	20	12,943	9,297	6,456
Fee and commission expense	20	(489)	(303)	(137)
Fees and commissions	20	12,454	8,994	6,319
Gains less losses from financial assets at fair value through profit or loss	21	3,015	38	589
Gains less losses from foreign currencies:				
- dealing		1,977	1,517	1,980
- translation differences		(1,183)	6,078	573
Income (loss) from insurance operations		539	(478)	(260)
Other income	22	1,139	567	1,002
Non interest income		5,487	7,722	3,884
Salaries and other employee benefits	23	(6,930)	(4,388)	(3,432)
Administrative and other operating expenses	23	(7,083)	(4,537)	(3,919)
Depreciation and amortisation		(892)	(1,029)	(926)
Taxes other than income tax		(1,051)	(940)	(614)
Loss on disposal of subsidiaries (Note 2)		(850)	-	-
Other provisions	12	(1,642)	(2,293)	(338)
Other		(446)	(371)	(451)
Non interest expense		(18,894)	(13,558)	(9,680)
Income before income tax expense		16,275	7,628	4,359
Income tax expense	13	(1,569)	(1,047)	(266)
Net income after income tax		14,706	6,581	4,093
Attributable to:				
Equity holder of the parent		14,307	6,728	4,133
Minority interest in net income (loss)		399	(147)	(40)
Net income		14,706	6,581	4,093
Basic earnings per share <i>(in Kazakhstani Tenge)</i>	24	5,638	3,862	3,246
Diluted earnings per share <i>(in Kazakhstani Tenge)</i>	24	5,297	3,807	3,246

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of *Kazakhstani Tenge*)

	Share Capital- Common Shares	Share Capital- Preferred Shares	Treasury Stock	Additional Paid-in Capital	Property and Equipment Revaluation Reserve	Securities Revaluation Reserve	Retained Earnings	Total	Minority Interest	Shareholders' Equity	Total
December 31, 2002	11,931	-	(195)	28	854	-	2,977	15,595	1,010	16,605	955
Revaluation of property and equipment	-	-	-	-	955	-	-	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	-	-	-	-
Total income for the year recognized directly in equity	-	-	-	-	883	-	72	955	-	955	-
Net income / (loss)	-	-	-	-	-	-	4,133	4,133	(40)	4,093	-
Total income	-	-	-	-	883	-	4,205	5,088	(40)	5,048	-
Sale of common shares	4,313	-	-	1,222	-	-	-	5,535	360	5,895	-
Sale of preferred shares	-	-	-	163	-	-	-	163	-	163	-
Purchase of treasury shares	-	-	(433)	-	-	-	-	(433)	-	(433)	-
December 31, 2003	16,244	-	(628)	1,413	1,737	-	7,182	25,948	1,330	27,278	375
Fair value change of available-for-sale securities, net of tax	-	-	-	-	-	375	-	375	-	375	-
Revaluation of property and equipment	-	-	-	-	534	-	-	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	-	-	-	-
Total income for the year recognized directly in equity	-	-	-	-	317	375	217	909	-	909	-
Net income / (loss)	-	-	-	-	-	-	6,728	6,728	(147)	6,581	-
Total income	-	-	-	-	317	375	6,945	7,637	(147)	7,490	-
Sale of common shares	6,161	-	-	4,087	-	-	-	10,248	484	10,732	-
Sale of preferred shares	-	840	-	457	-	-	-	1,297	-	1,297	-
Purchase of treasury shares	-	-	(28)	-	-	-	-	(28)	-	(28)	-
Sale of treasury shares	-	-	140	39	-	-	-	179	-	179	-
Dividends - preferred shares	-	-	-	-	-	-	(28)	(28)	-	(28)	-
December 31, 2004	22,405	840	(516)	5,996	2,054	375	14,099	45,253	1,667	46,920	375

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

(Millions of Kazakhstani Tenge)

	Share Capital- Common Shares	Share Capital- Preferred Shares	Treasury Stock	Additional Paid-in Capital	Property and Equipment Revaluation Reserve	Securities Revaluation Reserve	Retained Earnings	Total	Minority Interest	Total Shareholders' Equity
December 31, 2004	22,405	840	(516)	5,996	2,054	375	14,099	45,253	1,667	46,920
Fair value change of available-for-sale securities, net of tax	-	-	-	-	-	535	-	535	-	535
Realised fair value change of available-for-sale securities	-	-	-	-	-	(418)	-	(418)	-	(418)
Release of property and equipment revaluation reserve on usage of previously revalued assets	-	-	-	-	(133)	-	133	-	-	-
Release of property and equipment revaluation reserve on disposal of previously revalued assets	-	-	-	-	(1,903)	-	1,903	-	-	-
Total income recognized directly in equity	-	-	-	-	(2,036)	117	2,036	117	-	117
Net income	-	-	-	-	-	-	14,307	14,307	399	14,706
Total income	-	-	-	-	(2,036)	117	16,343	14,424	399	14,823
Sale of common shares	10,871	-	-	11,029	-	-	-	21,900	-	21,900
Sale of preferred shares	-	2,215	-	2,159	-	-	-	4,374	-	4,374
Purchase of treasury shares	-	-	466	-	-	-	-	466	-	466
Sale of treasury shares	-	-	(298)	-	-	-	-	(298)	-	(298)
Dividends – preferred shares	-	-	-	-	-	-	(229)	(229)	(20)	(249)
Minority interest on acquisition	-	-	-	-	-	-	-	-	762	762
Minority interest on disposal	-	-	-	-	-	-	-	-	(1,590)	(1,590)
December 31, 2005	33,276	3,055	(348)	19,184	18	492	30,213	85,890	1,218	87,108

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Kazakhstani Tenge)

	<i>Years ended December 31,</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>
Cash flows from operating activities:			
Net income before income tax expense	16,275	7,628	4,359
Adjustments for:			
Depreciation and amortization	892	1,029	926
Impairment charge and other provisions	17,001	21,544	10,729
Unrealised foreign exchange loss / (gain)	1,587	(2,394)	723
Minority interest	(399)	147	40
Unrealised gain on financial assets held at fair value	(296)	(519)	(2,879)
Reserve for insurance claims	1,424	1,493	983
Loss from disposal of subsidiaries	850	-	-
Loss from disposal of property and equipment	182	30	63
Operating income before changes in net operating assets	37,516	28,958	14,944
(Increase) decrease in operating assets:			
Obligatory reserves	(3,820)	(3,265)	(975)
Financial assets at fair value through profit or loss	(6,421)	(44,347)	(29,327)
Amounts due from credit institutions	(17,939)	(589)	5,196
Loans to customers	(283,355)	(200,937)	(133,724)
Other assets	(3,475)	(308)	(1,044)
Increase (decrease) in operating liabilities:			
Amounts due to the Government and the NBK	(3,578)	(754)	2,581
Amounts due to credit institutions	154,043	34,167	67,346
Amounts due to customers	72,741	93,885	38,601
Other liabilities	(3,311)	1,456	(3,962)
Net cash flows used in operating activities before income taxes	(57,599)	(91,734)	(40,364)
Income tax paid	(1,300)	(897)	(300)
Net cash flows used in operating activities	(58,899)	(92,631)	(40,664)
Cash flows from investing activities			
Proceeds from sale of subsidiaries	1,944	-	-
Investments in associates	(1,874)	(331)	-
Net purchases of available-for-sale securities	(17,273)	(1,545)	(871)
Purchase of held-to-maturity securities	-	-	(8,505)
Purchase of property and equipment	(5,487)	(2,758)	(1,914)
Proceeds from sale of property and equipment	4,504	385	1,698
Net cash flows used in investing activities	(18,186)	(4,249)	(9,592)
Cash flows from financing activities:			
Sale of common shares	21,900	10,248	5,535
Sale of preferred shares	4,374	1,297	163
Purchase of treasury shares	(298)	(28)	(433)
Sale of treasury shares	466	179	-
Dividends paid on preferred shares	(229)	-	-
Debt securities issued	117,931	116,292	46,587
Net cash flows from financing activities	144,144	127,988	51,852
Effects of exchange rate changes on cash and cash equivalents	332	(1,059)	(462)
Net change in cash and cash equivalents	67,391	30,049	1,134
Cash and cash equivalents at the beginning of the period	51,740	21,691	20,557
Cash and cash equivalents at the end of the period	119,131	51,740	21,691
Supplementary information:			
Interest received	53,805	42,728	26,854
Interest paid	39,405	22,342	14,329

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

(Millions of Kazakhstani Tenge)

1. Principal Activities

JSC Bank TuranAlem (the "Bank") and its subsidiaries (together the "Group") provide retail and corporate banking services, insurance services, leasing and other financial services in Kazakhstan. The parent company of the Group is JSC Bank TuranAlem, 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 address of the Bank's registered office is: 97 Zholdasbekov Street, Samal-2, Almaty, 050051, Republic of Kazakhstan.

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, 2005, it had 22 regional branches and 197 cash settlement units (2004 - 22 regional branches and 189 cash settlement units, 2003 - 22 regional branches and 188 cash settlement units) located throughout Kazakhstan and representative offices in Yerevan, Armenia; Baku, Azerbaijan; Minsk, Belarus; Shanghai, China; Tbilisi, Georgia; Bishkek, Kyrgyz Republic; Moscow, Russia; Ekaterinburg, Russia; Dushanbe, Tajikistan; and Kiev, Ukraine.

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 London and Luxemburg Stock Exchanges with secondary listing on KASE.

As of December 31, 2005, members of the Board of Directors and Management Board owned 889 shares (0.03% of share capital) (2004 - 475,980 shares or 20.69%, 2003 - 475,213 shares or 28.33%). The Group had 4,793 employees as of December 31, 2005 (2004 - 3,817, 2003 - 3,221).

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 Group'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 Group. 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 Group's balance sheet. Transactions in other currencies are treated as transactions in foreign currencies.

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 financial assets at fair value through profit or loss 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 Kazakhstani Tenge)

2. Basis of Preparation (continued)*Reclassifications*

Where necessary, comparative information in respect of the balance sheet as at December 31, 2004 and 2003 have been reclassified, in order to comply with the current presentation requirements of IFRS. The following are the main reclassifications:

2004

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As reported herein</i>	<i>Comment</i>
Balance sheet:				
Investments in associates	–	331	331	Investments in associates are reclassified from other assets.
Available-for-sale investment securities	23,881	1,545	25,426	Equity investments are reclassified to available-for-sale investments.
Other assets	8,577	(1,876)	6,701	Investments in associates and available-for-sale investments reclassified to relevant categories.
Statements of Income:				
Interest expense on debt securities issued	10,395	664	11,059	Withholding tax paid to non-residents is reclassified to Interest expense on debt securities issued
Taxes other than income tax	1,604	(664)	940	from Taxes other than income tax.
Cash Flow Statement:				
Investments in associates	–	(331)	(331)	Investments in associates reclassified from other assets.
Purchase of available-for-sale securities	–	(1,545)	(1,545)	Equity investments are reclassified to available-for-sale investments.
Other assets	(2,184)	1,876	(308)	Investments in associates and available-for-sale investments reclassified to relevant categories.

2003

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As reported herein</i>	<i>Comment</i>
Balance sheet:				
Available-for-sale investment securities	–	871	871	Equity investments are reclassified to available-for-sale investments.
Other assets	7,203	(871)	6,332	Investments in associates and available-for-sale investments reclassified to relevant categories.
Statements of Income:				
Interest expense on debt securities issued	5,711	341	6,052	Withholding tax paid to non-residents is reclassified to Interest expense on debt securities issued
Taxes other than income tax	955	(341)	614	from Taxes other than income tax.
Cash Flow Statement:				
Purchase of available-for-sale securities	–	(871)	(871)	Equity investments are reclassified to available-for-sale investments.
Other assets	(1,915)	871	(1,044)	Investments in associates and available-for-sale investments reclassified to relevant categories.

Bank had no investments in associates as at December 31, 2003.

(Millions of Kazakhstani Tenge)

2. Basis of Preparation (continued)

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

2005						
	<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	TuranAlem Securities JSC	100.00%	Kazakhstan	13.12.97	Securities trading and asset management	13.12.97
	BTA Ipoteka JSC	100.00%	Kazakhstan	20.11.00	Consumer mortgage lending	20.11.00
	TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Issuance of debt securities	21.05.01
	TuranAlem Finance LLP	100.00%	Russia	22.06.04	Issuance of bills of exchange	28.09.04
	BTA Life Insurance JSC (formerly Life Insurance Company Dynasty JSC)	66.00%	Kazakhstan	22.07.99	Life insurance	30.03.01
	Pension Fund BTA Kurmet-Kazakhstan JSC	76.83%	Kazakhstan	16.09.98	Pension fund	16.09.98
	Insurance Company BTA Zabota JSC (formerly KBS Garant)	57.53%	Kazakhstan	12.01.99	Property and casualty insurance	04.04.01
	Force Technology LLP	–	Kazakhstan	09.04.02	IT services	–

Although the Bank did not own any shares in Force Technology, as at and for the years ended December 31, 2005, 2004 and 2003 it was treated, in accordance with SIC-12 “Consolidation – Special Purpose Entities”, as subsidiary because at those dates the Bank controlled and benefited directly from its operations.

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. The Group’s share in the paid-in share capital of JSC Pension Fund BTA Kurmet- Kazakhstan has become 76.83%

During 2005 the following subsidiaries and special purpose entities were deconsolidated from the Group’s consolidated financial statements:

JSC BTA ORIX Leasing (formerly JSC BTA Leasing)

On June 24, 2005, the Group’s share in the paid-in share capital of JSC BTA ORIX Leasing decreased from 100.00% to 45.00% as a result of disposal of the Group’s 55.00% shareholding to other shareholders.

JSC BTA Insurance

On July 7, 2004, the Group’s share in the paid-in share capital of JSC Insurance Company BTA decreased from 66.00% to 49.00% as the minority shareholders have contributed additional capital into BTA Insurance. However, as at and for the year ended December 31, 2004 the Group has retained control over the operations of BTA Insurance.

In 2005 the Bank ceased to exercise effective control over the operations of BTA Insurance through the loss of the Bank’s representatives in BTA Insurance’s Board of Directors. In addition, the Bank discontinued to benefit from more favourable terms of business.

LLP TuranAlem Capital

On October 22, 2005, the Group sold 25.00% of its share in the share capital of LLP TuranAlem Capital to “Kazinvestcapital” and on 10 November 2005, the Group sold additional 65.01% of the share capital of this entity to Solent Management Ltd.

Real Estate Commerce and Kazco Construction

Although the Bank did not own any shares in Kazco Construction, Samal Properties, Real Estate Commerce and Force Technology, as at and for the years ended December 31, 2004 and 2003 they were treated, in accordance with SIC-12 “Consolidation – Special Purpose Entities”, as subsidiaries because at those dates the Bank controlled and benefited directly from their operations.

(Millions of Kazakhstani Tenge)

2. Basis of Preparation (continued)

During 2005 Real Estate Commerce repaid its debt on notes payable to the Bank and Bank ceased to exercise effective control over the entity. Kazco Construction accumulated funds to repay its debt to the Bank. In addition, the Bank lost its seats in the Board of Directors of both companies.

The 2004 and 2003 consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Holding, %</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>2004</i>	<i>2003</i>				
TuranAlem Securities JSC	100.00%	100.00%	Kazakhstan	13.12.97	Securities trading and asset management	13.12.97
BTA Ipoteka JSC	100.00%	100.00%	Kazakhstan	20.11.00	Consumer mortgage lending	20.11.00
BTA ORIX Leasing JSC (formerly BTA Leasing JSC)	100.00%	100.00%	Kazakhstan	31.08.00	Leasing of debt securities	14.09.00
TuranAlem Finance B.V.	100.00%	100.00%	Netherlands	22.05.01	Issuance of bills of exchange	21.05.01
TuranAlem Finance LLP	100.00%	—	Russia	22.06.04	Commercial activities	28.09.04
TuranAlem Capital Dynasty JSC	100.00%	—	Russia	25.06.04	Life insurance	28.09.04
Kurmet Pension Fund	66.00%	66.00%	Kazakhstan	22.07.99	Pension fund	30.03.01
JSC Insurance Company BTA	66.00%	72.47%	Kazakhstan	16.09.98	Property and casualty insurance	16.09.98
Kazakhstan Pension Fund	49.00%	66.00%	Kazakhstan	08.09.98	Pension fund	08.09.98
	87.75%	65.97%	Kazakhstan	22.06.99	Property and casualty insurance	06.07.99
KBS Garant JSC	57.53%	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 Kazakhstani Tenge)

2. Basis of Preparation (continued)

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 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.

The following associates are accounted for under the equity method and included into other assets:

2005				Share in net income/ (loss)	Total assets	Total liabilities	Sharehold ers' equity
Associates	Holding, %	Country	Activities				
BTA Insurance JSC	49.00%	Kazakhstan	Insurance	26	2,438	1,554	884
BTA ORIX Leasing JSC (formerly BTA Leasing JSC)	45.00%	Kazakhstan	Leasing	26	5,153	3,703	1,450
Astanaeximbank CJSC	49.20%	Belorussia	Bank	45	3,599	2,536	1,063
Commercial Bank BTA Silk Road JSC (formerly Commercial Bank Silk Road JSC)	49.00%	Georgia	Bank	(53)	1,635	1,185	450
BTA Investbank CJSC (formerly Mezhinvestbank CJSC)	48.87%	Armenia	Bank	(37)	1,575	670	905
2004				Share in net income/ (loss)	Total assets	Total liabilities	Sharehold ers' equity
Associates	Holding, %	Country	Activities				
Astanaeximbank CJSC	49.00%	Belorussia	Bank	5	2,045	1,072	973

Changes in Accounting Policies

In 2005 the Group adopted new accounting standards that were mandatory for financial years beginning or after January 1, 2005. The amounts and disclosures for the years ended December 31, 2005 and 2004 have been prepared reflecting the impact of the adoption of these new standards. Where necessary, comparative information for all periods presented has been amended accordingly. The changes in accounting policies having effects on the consolidated financial statements of the Group are discussed below.

IFRS 3 "Business Combinations" and LAS 36 "Impairment of Assets" (revised in 2004)

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. Upon acquisition the Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority proportion of the net fair values of those items.

The goodwill acquired in a business combination is recognized as an asset and initially is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized in accordance with IFRS 3.

Goodwill relating to acquisitions from March 31, 2004 is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from March 31, 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

(Millions of Kazakhstani Tenge)

2. Basis of Preparation (continued)

Additionally, for business combinations for which the agreement date is before March 31, 2004, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing goodwill amortization and to test for impairment annually at the cash generating unit level from January 1, 2005 (unless an event occurs during the year, which requires the goodwill to be tested more frequently).

LAS 27 "Consolidated and Separate Financial Statements"

Minority interests in net assets of the Group's subsidiaries are presented within equity, separately from the parent shareholders' equity.

LAS 39 "Financial Instruments: Recognition and Measurement" (amended in 2004)

Financial Assets at Fair Value through Profit or Loss

A new category of financial instruments has been introduced, "Financial assets at fair value through profit or loss". This category includes trading financial assets designated into this category at initial recognition. These assets are measured at fair value with recognition of gains or losses on re-measurement to fair value in net profit or loss. Management of the Group decided to designate as "financial assets at fair value through profit or loss" all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, loans issued available-for-sale and held-to-maturity instruments. Such designation is performed at initial recognition of the respective assets. The financial assets at fair value through profit or loss are initially recognised at cost and subsequently re-measured at fair value based on their market value. In determining market value, all financial assets at fair value through profit or loss are valued at the last bid price.

3. Summary of Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the consolidated statements of income.

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 within equity.

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.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statements of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets are classified as "financial assets at fair value through profit or loss" if they are acquired for the purpose of selling in the near term. Derivatives are also classified as "financial assets at fair value through profit or loss" unless they are designated and effective hedging instruments. Gains or losses on "financial assets at fair value through profit or loss" are recognised in the consolidated statements of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statements of income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statements of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of income. However, interest calculated using the effective interest method is recognised in the consolidated statements of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Offsetting

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 National Bank of Kazakhstan (the "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.

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 financial assets at fair value through profit or loss 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.

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 financial assets through profit or loss. 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.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

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 financial assets through profit or loss.

Derivative instruments embedded in other financial instruments are treated as a separate derivative if 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, 2005, 2004 and 2003 embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the consolidated statements of income as gains less losses from financial assets through profit or loss.

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 included in the initial measurement of the lease receivables.

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 consolidated statements 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 consolidated statements 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.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

Taxation (continued)

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.

Allowances for Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the consolidated statements of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the consolidated statements of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statements of income, is transferred from equity to the consolidated statements of income. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statements of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statements of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statements of income.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statements 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 consolidated statements of income 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.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

Property and Equipment (continued)

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	50
Furniture and fixtures	4-10
Computers	4
Office equipment	7

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 consolidated statements 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 consolidated balance sheets 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.

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 statements of income. 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

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

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 recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

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 statements of income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are deferred and amortized over the period in which the related commissions are earned.

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.

(Millions of Kazakhstani Tenge)

3. Summary of Accounting Policies (continued)

Reserve for Insurance Losses and Loss Adjustment Expenses

The reserve for insurance losses and loss adjustment expenses are 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

The consolidated financial statements are presented in Kazakh Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated 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 recognised in the consolidated statements of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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, 2005, 2004 and 2003, were KZT 133.98, KZT 130.00 and KZT 144.22 to USD 1, respectively.

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Although the Bank did not own any direct share in the capital of a company Force Technology, as at and during the years ended December 31, 2005 and 2004, it was treated as a subsidiary, in accordance with SIC-12 "Consolidation - Special Purpose Entities", since during 2005 and 2004 the Bank controlled and benefited directly from this company's operations;
- Revised IAS 32 restricts the classification of a financial instrument with contingent settlement provisions as equity. Accordingly, liability element of Convertible Preferred Shares (the "CPS") was transferred to Amounts due to credit institutions.

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4. Significant accounting judgements and estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Time deposits with contractual maturity of 90 days or less	32,020	1,825	–
Current accounts with the National Bank of Kazakhstan (“NBK”)	21,906	13,500	632
Current accounts with other financial institutions	23,421	11,955	2,734
Cash on hand	17,657	12,542	9,784
Reverse repurchase agreements with contractual maturity of 90 days or less	14,345	11,814	8,405
Loans to other banks and credit institutions with contractual maturity of 90 days or less	9,782	104	136
Cash and cash equivalents	119,131	51,740	21,691

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>Interest rate</i>	<i>Interest rate</i>	<i>Interest rate</i>
Time deposits with contractual maturity of less than 90 days	1.0%-6.0%	8.0%-13.7%	–
Reverse repurchase agreements with contractual maturity of 90 days or less	3.0%-9.0%	0.8%-3.0%	2.0% - 8.0%
Loans to other Kazakh banks and credit institutions with contractual maturity of less than 90 days	7.0%-11.0%	10.0% - 12.0%	10.5%-13.0%

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

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5. Cash and Cash Equivalents (continued)

At December 31, 2005, balances with top ten banks accounted for 59.74% of total cash and cash equivalents and represented 81.70% of the Group's total shareholders' equity (2004 – ten banks accounted for 24.70% of total cash and cash equivalents and represented 25.40% of the Group's total shareholders' equity; 2003 – ten banks accounted for 16.37% of total cash and cash equivalents and represented 11.57% of the Group's total shareholders' equity).

6. Obligatory Reserves

Obligatory reserves comprise:

	2005	2004	2003
Due from the NBK	10,791	5,081	3,706
Cash on hand allocated to obligatory reserves	–	1,890	–
Obligatory reserves	10,791	6,971	3,706

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.

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprise:

	2005	2004	2003
Debt securities:			
Bonds of international financial organizations	52,095	26,404	37,473
Sovereign bonds of OECD countries	23,875	20,614	–
Bonds of public agencies	10,092	–	–
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	8,165	10,472	3,800
Notes of the NBK	6,772	29,854	6,683
Corporate bonds	3,237	6,059	3,555
Sovereign bonds of the Republic of Kazakhstan	2,891	5,358	9,605
Municipal bonds	708	1,037	33
	107,835	99,798	61,149
Equity securities	2,417	2,384	442
Financial assets at fair value through profit or loss	110,252	102,182	61,591
Subject to repurchase agreements	48,823	11,826	15,773

(Millions of Kazakhstani Tenge)

7. Financial Assets at Fair Value through Profit or Loss (continued)

Interest rates and maturity of debt securities follow:

	2005		2004		2003	
	%	Maturity	%	Maturity	%	Maturity
Bonds of international financial organizations	2.4%-6.1%	2006-2013	2.4%-7.1%	2005-2013	4.4% - 7.1%	2005 - 2013
Sovereign bonds of OECD countries	2.5%-6.0%	2006-2009	3.5%-4.1%	2008	-	-
Bonds of public agencies	3.9%-4.9%	2007-2009	-	-	-	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5.5%-8.3%	2006-2014	5.5%-8.3%	2005-2014	6.1% - 16.9%	2004 - 2008
Notes of the NBK	2.3%-3.1%	2006	0.3%-3.4%	2005	5.0%-5.5%	2004
Corporate bonds	2.4%-9.0%	2006-2020	3.5%-12.0%	2005-2014	7.4% - 13.0%	2004 - 2013
Sovereign bonds of the Republic of Kazakhstan	11.1%	2007	11.1%	2007	11.1%- 13.6%	2004 - 2007
Municipal bonds	8.5-8.6%	2006-2008	8.5%-8.6%	2005-2008	6.3% - 8.6%	2004 - 2006

8. Amounts Due from Credit Institutions

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

	2005	2004	2003
Loans	23,676	6,565	5,993
Less - Allowance for impairment (Note 12)	-	(527)	-
Amounts due from credit institutions	23,676	6,038	5,993

As of December 31, 2005, amounts due from top ten credit institutions comprised 94% of total amounts due from credit institutions (December 31, 2004 - ten comprised 94%, December 31, 2003 - nine comprised 100%).

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

	2005		2004		2003	
	%	Maturity	%	Maturity	%	Maturity
Loans	4.0%-12.8%	2006-2014	4.0%-20.0%	2005-2008	4.0% - 12.0%	2004-2008

9. Available-for-Sale Investment Securities

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

	2005	2004	2003
Bonds of international financial organizations	34,292	23,881	-
Bonds of public agencies	3,407	-	-
Sovereign bonds of OECD countries	1,316	-	-
Sovereign bonds of the Republic of Kazakhstan	734	-	-
Corporate bonds	549	-	-
Notes of the NBK	423	-	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	44	-	-
	40,765	23,881	-
Equity securities	1,641	1,545	871
Available-for-sale investment securities	42,406	25,426	871

*(Millions of Kazakhstani Tenge)***9. Available-for-Sale Investment Securities (continued)**

Interest rates and maturities of these securities are:

	2005		2004		2003	
	%	Maturity	%	Maturity	%	Maturity
Bonds of international financial organizations	3.8%-6.1%	2007-2013	4.4%-7.5%	2011-2013	-	-
Bonds of public agencies	4.9%	2007	-	-	-	-
Sovereign bonds of OECD countries	5.3%	2009	-	-	-	-
Sovereign bonds of the Republic of Kazakhstan	11.1%	2007	-	-	-	-
Corporate bonds	2.4%-4.9%	2007-2009	-	-	-	-
Notes of the NBK	2.3%-3.1%	2006	-	-	-	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5.5%-8.3%	2006-2014	-	-	-	-

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 comprised:

	2005		2004		2003	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
Bonds of international financial organizations	-	-	-	-	26,288	24,611

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

10. Investments in Associates

Movement in investments in associates was:

	2005	2004	2003
Balance, beginning of the period	331	-	-
Purchase cost	1,867	326	-
Share of net income (loss)	7	5	-
Investments in associates, end of the period	2,205	331	-

The following table illustrates summarised financial information of the associates:

Aggregated assets and liabilities of associates	2005	2004	2003
Total assets	14,400	2,045	-
Total liabilities	9,648	1,072	-
Net assets	4,752	973	-
Aggregated profit of associates	2005	2004	2003
Net profit/(loss)	103	117	-

For the general information, please refer to Note 2.

*(Millions of Kazakhstani Tenge)***11. Loans to Customers**

Loans to customers comprise:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Loans to customers	719,233	429,906	252,774
Overdrafts	588	593	293
Financial leasing	284	7,158	1,718
Promissory notes	577	739	55
Factoring	14	754	278
	720,696	439,150	255,118
Less – Allowance for loan impairment (Note 12)	(40,311)	(29,633)	(15,271)
Loans to customers	680,385	409,517	239,847

As of December 31, 2005, the annual interest rates charged by the Bank ranged from 10% to 20% per annum for KZT-denominated loans (2004 – from 12% to 30%; 2003 – from 20% to 33%) and from 10% to 18% per annum for US Dollar-denominated loans (2004 – from 12% to 24%; 2003 – from 12% to 26%).

Gross loans have been extended to the following types of customers:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Private companies	598,525	378,266	219,838
Individuals	120,162	57,405	27,222
State companies	1,908	2,829	7,506
State budget or local authorities	83	282	518
Other	18	368	34
Loans to customers, gross	720,696	439,150	255,118

As of December 31, 2005, the Group had a concentration of loans represented by KZT 110,893 due from the ten largest borrowers that comprised 15.39% of the total gross loan portfolio (2004 – KZT 72,196, 16.44%; 2003 – KZT 67,204, 26.34%) and represented 127% of the Group's total shareholders' equity (2004 – 154%; 2003 – 246%). Allowances amounting to KZT 9,197 were made against these loans as at December 31, 2005 (2004 – KZT 4,933; 2003 – KZT 2,657).

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11. Loans to Customers (continued)

Loans are made to the following sectors:

	2005	%	2004	%	2003	%
Wholesale trade	137,903	19.1%	86,582	19.7%	53,538	21.0%
Individuals	120,162	16.7%	57,405	13.0%	27,222	10.7%
Construction of roads and industrial buildings	74,410	10.3%	40,478	9.2%	10,759	4.2%
Oil & gas	72,645	10.1%	37,295	8.5%	29,841	11.7%
Agriculture	64,987	9.0%	45,271	10.3%	32,506	12.7%
Housing construction	40,158	5.6%	21,806	5.0%	7,104	2.8%
Food industry	36,256	5.0%	41,030	9.4%	30,350	11.9%
Mining	31,164	4.3%	20,924	4.8%	15,242	6.0%
Transport	27,869	3.9%	20,001	4.6%	3,541	1.4%
Chemical industry	25,025	3.5%	12,160	2.8%	9,254	3.6%
Energy	21,491	3.0%	8,874	2.0%	3,558	1.4%
Retail trade	11,005	1.5%	5,174	1.1%	1,480	0.6%
Production of machinery and equipment	7,690	1.1%	5,631	1.3%	1,991	0.8%
Financial services	7,066	1.0%				
Real estate activities	5,960	0.8%	4,678	1.0%	7,173	2.8%
Telecommunication	4,886	0.7%	3,857	0.9%	4,612	1.8%
Publishing	3,927	0.5%	3,860	0.9%	549	0.2%
Metallurgical industry	3,564	0.5%	1,865	0.5%	7,125	2.8%
Hospitality	1,776	0.2%	3,607	0.8%	362	0.1%
Production of rubber and plastic articles	1,750	0.2%	1,301	0.3%	1,243	0.5%
Research & development	1,466	0.2%	516	0.1%	—	—
Textile and leather industry	939	0.1%	4,675	1.0%	688	0.3%
Other	18,597	2.7%	12,160	2.8%	6,980	2.7%
	720,696	100.0%	439,150	100.0%	255,118	100.0%

12. Allowances for Impairment and Provisions

The movements in 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, 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
Impairment charge	—	15,359	15,359
Write-offs	(527)	(8,155)	(8,682)
Recoveries	—	3,474	3,474
December 31, 2005	—	40,311	40,311

(Millions of Kazakhstani Tenge)

12. Allowances for Impairment and Provisions (continued)

The movements in allowances for other losses and provisions were as follows:

	<i>Other assets</i>	<i>Other provisions</i>	<i>Total</i>
December 31, 2002	109	244	353
Provision	230	108	338
Write-offs	–	(33)	(33)
December 31, 2003	339	319	658
Provision	561	1,732	2,293
Write-offs	(496)	(20)	(516)
Recoveries	19	–	19
December 31, 2004	423	2,031	2,454
Provision	–	1,642	1,642
Write-offs	(459)	(195)	(654)
Recoveries	108	–	108
December 31, 2005	72	3,478	3,550

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

13. Taxation

The corporate income tax expense comprises:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Current tax charge	1,569	796	266
Current tax of prior periods (Note 19)	–	251	–
Income tax expense	1,569	1,047	266

The Bank and its subsidiaries, other than TuranAlem Finance B.V. ("TAF BV") and TuranAlem Finance ("TAF") are subject to taxation in the Republic of Kazakhstan. TAF BV is subject to income tax in the Netherlands. TAF is subject to income tax in Russian Federation. 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:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Accounting profit before income tax	16,275	7,628	4,359
Income tax computed at the statutory tax rate of 30%	4,883	2,288	1,308
Non-deductible interest expenses	243	475	361
Non-deductible impairment charge	18	13	165
Non-deductible business expenses	351	414	580
Losses (income) of subsidiaries taxed at different rates	(329)	(384)	108
Income tax of prior years (Note 19)	–	251	–
Non taxable income on government securities	(1,431)	(507)	(897)
Non taxable income on long-term loans granted for the modernization of property and equipment	(2,700)	(2,130)	(1,230)
Other permanent differences	1,136	–	–
Change in unrecognised deferred tax assets	(602)	627	(129)
Income tax expense	1,569	1,047	266

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13. Taxation (continued)

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:

	2005	2004	2003
Tax effect of deductible temporary differences:			
Allowances for impairment and provisions for other losses	42	20	–
Tax losses carried forward	–	447	–
Property and equipment	195	109	–
Other	10	130	101
Gross deferred tax assets	247	706	101
Unrecognised deferred tax assets	(108)	(706)	(79)
Deferred tax asset	139	–	22
Tax effect of taxable temporary differences:			
Property and equipment	–	–	(22)
Other	(139)	–	–
Deferred tax liability	(139)	–	(22)
Deferred tax liability, net	–	–	–

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 single Tax Code that regulates main taxation matters. The main 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 authorities; 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.

14. Amounts Due to the Government and the NBK

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

	2005	2004	2003
Amounts due to the Government:			
Interest bearing – KZT denominated	427	826	1,192
Interest bearing – EUR denominated	317	424	504
Interest bearing – USD denominated	68	115	207
Non-interest bearing	4	17	29
Amounts due to the NBK:			
Deposits	–	3,000	3,000
Loans	28	42	258
Amounts due to the Government and the NBK	844	4,424	5,190

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14. Amounts Due to the Government and the NBK (continued)

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

	2005		2004		2003	
	Interest rate	Maturity	Interest rate	Maturity	Interest rate	Maturity
Amounts due to the Government:						
Non interest bearing	–	2006	–	2005-2006	–	2004-2006
Interest bearing:						
KZT denominated	0.5%-10.0%	2006-2010	up to 10.0%	2005-2010	up to 12.5%	2004-2010
USD denominated	2.9%	2011	4.6%	2011	1.3%	2011
EUR denominated	5.0%	2010	5.0%	2010	4.6%-5.0%	2010-2011
Amounts due to the NBK:						
Deposits	–	–	6.5%	2005	6.5%	2004
Loan	–	2006-2015	–	2005-2015	2.9%	2004

15. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2005	2004	2003
Syndicated bank loans	134,249	51,447	48,809
Loans from OECD based banks and financial institutions	126,371	61,774	46,845
Pass-through loans	7,939	7,206	4,011
Loans from Kazakh banks and financial institutions	6,744	12,359	3,637
Loans from other banks and financial institutions	6,265	5,163	3,369
Redeemable Convertible Preferred Shares	5,581	5,075	4,735
	287,149	143,024	111,406
Interest-bearing placements from non OECD banks	3,081	729	289
Interest-bearing placements from Kazakh banks	2,322	4,524	8,508
Loro accounts	495	54	1,583
	5,898	5,307	10,380
Amounts due to credit institutions	293,047	148,331	121,786

Interest rates and maturities of amounts due to credit institutions as of December 31, follow:

	2005		2004		2003	
	%	Maturity	%	Maturity	%	Maturity
Syndicated bank loans	4.3%-6.1%	2006-2008	3.5%-4.7%	2005-2007	3.3%-3.7%	2004-2005
Loans from OECD based banks and financial institutions	1.0%-6.9%	2006-2017	1.0%-6.0%	2005-2009	1.1%-9.7%	2004-2009
Pass-through loans	6.0%-7.3%	2006-2008	4.7%-8.1%	2005-2008	5.0%-10.2%	2004-2006
Loans from Kazakh banks and financial institutions	5.4%-7.0%	2006	4.6%-5.3%	2005	3.0%-5.2%	2004
Loans from other banks and financial institutions	2.0%-6.2%	2006	1.7%-4.7%	2005	1.9%-4.6%	2004-2005
Interest-bearing placements from non OECD based banks	1.0%-7.9%	2006	3.2%-7.9%	2005	4.5%	2004
Interest-bearing placements from Kazakh banks	1.0%-7.0%	2006	2.6%-7.0%	2005	2.1%-5.5%	2004
Loro accounts	up to 2.0%	–	up to 2.0%	–	up to 2.0%	–

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15. Amounts Due to Credit Institutions (continued)

At December 31, 2005, 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, 2005 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, 2005 (2004 – no undrawn balances, 2003 – USD 4 million).

Redeemable Convertible Preferred Shares

Holders of the redeemable convertible preferred shares have the right at any time, but not later than December 31, 2006, to convert all or any part of their redeemable convertible preferred shares into common shares of the Bank. At December 31, 2005, nominal value of the redeemable convertible preferred share was KZT 10,000 (equivalent of USD 74.64) (2004 – KZT 10,000 (equivalent of USD 76.92); 2003 – KZT 10,000 (equivalent of USD 69.34)), the quoted market price per common share was KZT 22,868 (equivalent of USD 170.68) (2004 – KZT 13,689 (equivalent of USD 105.30); 2003 – KZT 12,900 (equivalent of 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 23,476 (equivalent of USD 175.11) (2004 – KZT 19,673 (equivalent of USD 151.33); 2003 – KZT 16,672 (equivalent of USD 115.60)).

As of December 31, 2005, 2004 and 2003, the following holders owned the outstanding redeemable CPS:

	2005		2004		2003	
	Quantity	%	Quantity	%	Quantity	%
Preferred shares:						
Raiffeisen Zentralbank Osterreich ("RZB")	351,139	61.73	293,115	56.56	162,115	33.48
European Bank for Reconstruction and Development	73,500	12.92	73,500	14.18	73,500	15.18
International Finance Corporation	73,500	12.92	73,500	14.18	73,500	15.18
The Netherlands Development Finance Company	70,678	12.42	70,678	13.64	44,112	9.11
KIB Asset Management	53	0.01	53	0.01	–	–
Semey Mill Factory	–	–	7,407	1.43	–	–
DEG	–	–	–	–	130,988	27.05
	568,870	100.00	518,253	100.00	484,215	100.00

Conversion of redeemable convertible preferred shares is performed when a shareholder prior to May 1, 2006 files an application for conversion. The Convertibility Period is terminated on December 31, 2006.

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 holder of the redeemable convertible preferred share shall have the right to redeem all or any portion of the redeemable convertible preferred shares in cash.

The Bank is obligated to offer to redeem the redeemable convertible preferred shares ("Redemption offer") at the USD equivalent of the redeemable convertible preferred shares 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 redeemable convertible preferred share is less than the redeemable convertible preferred shares Purchase Price. If the holders of the redeemable convertible preferred shares accept the redemption offer, the Bank is then obligated to redeem the shares.

In accordance with revised International Accounting Standard 32 "Financial Instruments: Disclosure and Presentation" financial instruments with contingent settlement provision should be recorded as liabilities.

At December 31, 2005 redeemable convertible preferred shares accounted for as financial liability consisted of 568,870 shares (2004 – 518,253, 2003 – 484,215). All shares are KZT denominated and have a nominal value of KZT 10,000 each.

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15. Amounts Due to Credit Institutions (continued)

During the year ended December 31, 2005, the Bank issued 50,617 redeemable convertible preferred shares at a premium of KZT 6,639 per share. (2004 – 26,631 redeemable convertible preferred shares at a premium of KZT 2,833 per share, and 7,407 redeemable convertible preferred shares at a premium of KZT 6,639 per share, 2003 – 57,493 redeemable convertible preferred shares at a premium of KZT 2,833 per share) (Note 18).

Financial covenants

In accordance with the contractual terms of the foreign 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 the covenants of all debt agreements the Bank has with other banks and financial institutions.

16. Amounts Due to Customers

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Time deposits	218,626	155,593	96,018
Current accounts	81,454	65,095	40,388
Guarantee and restricted deposits	6,634	6,022	3,912
Amounts due to customers	306,714	226,710	140,318

Guarantee and restricted deposits represent customer's collateral under letters of credit and guarantees issued by the Bank on behalf of clients.

Interest rates and maturities of amounts due to customers follow:

	<i>2005</i>		<i>2004</i>		<i>2003</i>	
	<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>
	%	%	%	%	%	%
Time deposits	1%-12%	2%-8.5%	1%-13%	2.5%-8.5%	1%-14.5%	3%-8.5%
Current accounts	up to 2%	up to 1%	up to 3%	up to 1%	up to 4%	up to 2%
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:

	<i>2005</i>		<i>2004</i>		<i>2003</i>	
	<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	2006-2010	2006-2007	2005 – 2006	2005 – 2009	2004 – 2005	2004 – 2005
Guarantee and other restricted deposits	2006	2006-2007	2005	2005	2004	2004

At December 31, 2005 the Bank's ten largest customers accounted for approximately 37.19% of the total amounts due to customers (2004 – 26.17%; 2003 – 22.26%).

*(Millions of Kazakhstani Tenge)***16. Amounts Due to Customers (continued)**

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Time deposits:			
Commercial entities	109,739	72,439	30,106
Individuals	101,000	76,266	58,905
Governmental entities	7,887	6,888	7,007
Current accounts:			
Commercial entities	59,926	48,499	28,153
Individuals	15,970	10,718	10,032
Governmental entities	5,558	5,878	2,203
Guarantee and other restricted deposits:			
Commercial entities	2,664	3,691	3,601
Individuals	3,931	2,113	249
Governmental entities	39	218	62
Amounts due to customers	306,714	226,710	140,318

An analysis of customer accounts by sector follows:

	<i>2005</i>	<i>%</i>	<i>2004</i>	<i>%</i>	<i>2003</i>	<i>%</i>
Individuals	120,901	39.4%	89,097	39.3%	69,186	49.3%
Oil and gas	55,154	18.0%	29,290	12.9%	6,852	4.9%
Metallurgy	49,524	16.1%	30,171	13.3%	15,070	10.7%
Non-credit financial organizations	13,069	4.3%	9,230	4.1%	1,907	1.4%
Construction	12,114	3.9%	7,161	3.2%	5,439	3.9%
Wholesale trading	10,387	3.4%	12,774	5.6%	12,479	8.9%
Mining	7,170	2.3%	360	0.2%	410	0.3%
Transportation	5,828	1.9%	7,904	3.5%	1,448	1.0%
Retail trade	2,356	0.8%	6,158	2.7%	2,042	1.5%
Machinery and equipment production	2,221	0.7%	2,074	0.9%	6,556	4.7%
Agriculture	2,045	0.7%	3,259	1.4%	2,738	2.0%
Chemical processing	1,949	0.6%	2,803	1.2%	347	0.2%
Energy industry	1,440	0.5%	7,605	3.4%	3,021	2.2%
Communication	790	0.3%	736	0.3%	432	0.3%
Textile and leather industry	703	0.2%	838	0.4%	41	-
Food industry	576	0.2%	952	0.4%	389	0.3%
Hotel and hospitality	326	0.1%	370	0.2%	102	0.1%
Entertainment	268	0.1%	281	0.1%	166	0.1%
Other	19,893	6.5%	15,647	6.9%	11,693	8.2%
	306,714	100.0%	226,710	100.0%	140,318	100.0%

*(Millions of Kazakhstani Tenge)***17. Debt Securities Issued**

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
USD notes with fixed rate	194,356	143,057	61,294
USD notes with floating rate	26,988	-	-
USD and KZT subordinated notes	42,369	29,250	13,528
KZT notes	18,979	-	-
RUR notes	13,980	-	-
RUR promissory notes	-	9,340	-
USD promissory notes	672	-	-
	297,344	181,647	74,822
Own USD notes held by the Group	(103)	(1,297)	(482)
Own KZT notes held by the Group	(77)	-	-
Own USD and KZT subordinated notes held by the Group	-	(337)	(8)
	297,164	180,013	74,332
Plus unamortized premium	1,616	1,928	-
Less unamortized discount	(2,179)	(1,166)	(485)
Less unamortized cost of issuance	(977)	(725)	(340)
	295,624	180,050	73,507
Interest accrued	4,385	2,029	667
Debt securities issued	300,009	182,079	74,174

The interest rates and maturities of these debt securities issued follow:

	<i>2005</i>		<i>2004</i>		<i>2003</i>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
USD notes with fixed interest rate	7.9%-10.0%	2007 – 2015	7.9%-10.0%	2007 – 2014	7.87%-11.5%	2004 – 2010
USD notes with floating interest rate	3 month LIBOR +1.65%	2008	-	-	-	-
USD and KZT subordinated notes	7.0%-12.0%	2009–2015	9.4%-12.0%	2009 – 2014	8.0%-12.0%	2009 – 2013
KZT notes	8.5%-10.0%	2010–2015	-	-	-	-
RUR notes	6.4%	2006-2009	-	-	-	-
USD promissory notes	6 month LIBOR +1.5%	2006	-	-	-	-
RUR promissory notes	-	-	10.0%	2005	-	-

The subordinated notes at December 31, 2005, 2004 and 2003, 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 maintains these ratios as of December 31, 2005.

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18. Shareholders' Equity (continued)

Dividends on CPS

The convertible preferred shares carry a dividend of 10.25% per annum on nominal value. These dividends are cumulative.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains(losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

19. Commitments and Contingencies

Legal actions and claims

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities mentioned above.

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 remained in dispute until end of 2004 and was resolved in 2005 in favour of the Bank by the decision of the Supreme court of Kazakhstan.

Tax Contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Group believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at December 31, 2005. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

Financial Commitments and Contingencies

*(Millions of Kazakhstani Tenge)***19. Commitments and Contingencies (continued)**

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Undrawn loan commitments	33,112	44,878	25,443
Commercial letters of credit	81,900	64,845	45,141
Guarantees	55,683	46,204	24,447
	170,695	155,927	95,031
Less: cash collateral	(6,634)	(6,022)	(1,882)
Less: provisions	(3,478)	(2,031)	(319)
Financial commitments and contingencies	160,583	147,874	92,830

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's and international prime financial organisations' securities, and other assets.

Trust Activities

The Group provides custody services for third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at December 31, 2005 such securities held in this capacity were KZT 73,721 (2004 – KZT 67,477; 2003 – KZT 40).

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.

The Group was a party to the following deliverable forward contracts:

	<i>2005</i>		<i>2004</i>		<i>2003</i>	
	<i>Notional Amount</i>	<i>Unrealized Gains</i>	<i>Notional Amount</i>	<i>Unrealized Gains</i>	<i>Notional Amount</i>	<i>Unrealized Gains</i>
Deliverable forward contracts:						
USD-KZT contracts with Kazakh counterpartents	–	–	845	–	11,474	359
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	–	–	–

All deliverable forward contracts were fulfilled during the period ended December 31, 2005.

*(Millions of Kazakhstani Tenge)***20. Fees and Commissions**

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Letters of credit and guarantees issued	4,566	3,448	2,519
Settlement and cash operations	2,729	2,100	1,543
Transfer operations	2,291	1,747	1,158
Foreign currency trading	1,107	849	606
Asset management fees	909	379	275
Brokerage services	338	161	27
Other	1,003	613	328
Fee and commission income	12,943	9,297	6,456
Brokerage services	(139)	(66)	(4)
Transfer operations	(129)	(64)	(48)
Foreign currency trading	(61)	(52)	(59)
Custodian services	(24)	(75)	(24)
Other	(136)	(46)	(2)
Fee and commission expense	(489)	(303)	(137)
Net fee and commission income	12,454	8,994	6,319

21. Gains Less Losses From Financial Assets at Fair Value Through Profit or Loss

Gains less losses from financial assets at fair value through profit or loss for the years ended December 31 comprised the following:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Dealing	2,718	(26)	(204)
Revaluation	297	64	793
	3,015	38	589

22. Other Income

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

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Rent	663	332	442
Penalties	123	112	446
Currency transportation	-	1	26
Other	353	122	88
	1,139	567	1,002

*(Millions of Kazakhstani Tenge)***23. Salaries and Administrative and Other Operating Expenses**

Salaries and other employee benefits and administrative and other operating expenses comprise:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Salaries and bonuses	6,022	3,888	2,845
Social security costs	758	431	545
Other payments	150	69	42
Salaries and other employee benefits	6,930	4,388	3,432
Occupancy and rent	1,141	794	312
Marketing and advertising	1,108	744	447
Security	827	361	279
Repair and maintenance of property and equipment	659	403	754
Business travel and related expenses	547	311	180
Data processing	510	355	157
Communications	480	343	292
Legal services and consultancy	390	358	388
Transportation expenses	306	155	158
Loss on disposals of property and equipment	182	30	63
Office supplies	159	71	75
Customs duties	7	3	53
Other	767	609	761
Administrative and other operating expenses	7,083	4,537	3,919

24. 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 2005, 2004 and 2003. During 2005 the Bank declared dividends to the CPS shareholders amounting to KZT 229 (2004 – 28, 2003 - nil).

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, net income is adjusted to the amount of dividends on CPS.

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>2005</i>	<i>2004</i>	<i>2003</i>
Net income attributable to common shareholders for basic earnings per share, being net income less dividends declared on convertible preferred shares (in KZT millions)	14,077	6,700	4,133
Net income attributable to common and potential common shareholders for diluted earnings per share (in KZT millions)	14,307	6,728	4,133
Weighted average number of common shares for basic earnings per share	2,496,801	1,734,692	1,273,425
Weighted average number of common and potential common shares for diluted earnings per share	2,700,877	1,767,127	1,273,425

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24. Earnings per Share (continued)

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

	2005	2004	2003
Weighted average number of common shares for basic earnings per share	2,496,801	1,734,692	1,273,425
Weighted average number of common shares resulting from the potential conversion of the convertible preferred shares into common shares	204,076	32,435	-
Weighted average number of common and potential common shares	<u>2,700,877</u>	<u>1,767,127</u>	<u>1,273,425</u>

25. Risk Management Policies

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

Credit Risk

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

The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures which are 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 Kazakhstani Tenge)***25. Risk Management Policies (continued)***Concentration of financial assets and liabilities*

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

	<i>2005</i>			<i>Total</i>
	<i>Kazakhstan</i>	<i>OECD</i>	<i>CIS and other non OECD countries</i>	
Assets:				
Cash and cash equivalents	68,909	45,358	4,864	119,131
Obligatory reserves	10,791	–	–	10,791
Financial assets at fair value through profit or loss	23,495	86,757	–	110,252
Amounts due from credit institutions	12,296	28	11,352	23,676
Available for sale securities	2,133	39,015	1,258	42,406
Loans to customers	580,272	10,765	129,659	720,696
Investments in associates	1,017	–	1,188	2,205
Other assets	6,094	9	988	7,091
	705,007	181,932	149,309	1,036,248
Liabilities:				
Amounts due to the Government and the NBK	844	–	–	844
Amounts due to credit institutions	73,480	212,178	7,389	293,047
Amounts due to customers	301,947	3,745	1,022	306,714
Debt securities issued	61,884	223,947	14,178	300,009
Other liabilities	6,191	237	3,655	10,083
	444,346	440,107	26,244	910,697
Net balance sheet position	260,661	(258,175)	123,065	125,551

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25. Risk Management Policies (continued)

	2004				2003			
	Kazakhstan	OECD	CIS and other non OECD countries	Total	Kazakhstan	OECD	CIS and other non OECD countries	Total
Assets:								
Cash and cash equivalents	41,791	7,832	2,117	51,740	18,178	2,742	771	21,691
Obligatory reserves	6,971	–	–	6,971	3,706	–	–	3,706
Financial assets at fair value through profit or loss	52,829	49,353	–	102,182	23,486	38,105	–	61,591
Amounts due from credit institutions	2,889	–	3,676	6,565	5,729	–	264	5,993
Available for sale securities	1,913	22,188	1,325	25,426	202	3	666	871
Held-to-maturity securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	330,961	9,607	98,582	439,150	222,904	–	32,214	255,118
Investments in associates	–	–	331	331	–	–	–	–
Other assets	7,072	–	52	7,124	6,671	–	–	6,671
	444,426	88,980	106,083	639,489	280,876	67,138	33,915	381,929
Liabilities:								
Amounts due to the Government and the NBK	4,424	–	–	4,424	5,190	–	–	5,190
Amounts due to credit institutions	21,356	119,725	7,250	148,331	12,131	107,622	2,033	121,786
Amounts due to customers	221,168	3,148	2,394	226,710	140,318	–	–	140,318
Debt securities issued	29,247	143,492	9,340	182,079	13,849	60,325	–	74,174
Other liabilities	9,838	–	–	9,838	4,318	–	–	4,318
	286,033	266,365	18,984	571,382	175,806	167,947	2,033	345,786
Net balance sheet position	158,393	(177,385)	87,099	68,107	105,070	(100,809)	31,882	36,143

The above tables do not include the effect of allowances for loans' impairment and other assets, which amounted to KZT 40,383, KZT 30,583 and KZT 15,610 as of December 31, 2005, 2004 and 2003, respectively.

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

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

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25. Risk Management Policies (continued)*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 Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "FMSA"). The Group's exposure to foreign currency exchange rate risk follows:

	2005				2004				2003			
	Freely KZT	Non conver- tible	conver- tible	Total	Freely KZT	Non conver- tible	conver- tible	Total	Freely KZT	Non conver- tible	conver- tible	Total
Assets:												
Cash and cash equivalents	57,134	58,798	3,199	119,131	34,225	15,608	1,907	51,740	15,093	5,723	875	21,691
Obligatory reserves	10,791	–	–	10,791	6,971	–	–	6,971	3,706	–	–	3,706
Financial assets at fair value through profit or loss	18,852	91,400	–	110,252	46,125	56,057	–	102,182	11,648	49,943	–	61,591
Amounts due from credit institutions	4,059	10,642	8,975	23,676	425	3,560	2,580	6,565	78	5,915	–	5,993
Available for sale securities	2,462	39,751	193	42,406	1,283	24,143	–	25,426	868	3	–	871
Held-to-maturity securities	–	–	–	–	–	–	–	–	3	26,285	–	26,288
Loans to customers	163,450	548,852	8,394	720,696	109,992	320,903	8,255	439,150	78,426	176,665	27	255,118
Investments in associates	1,288	138	779	2,205	–	–	331	331	–	–	–	–
Other assets	5,749	1,233	109	7,091	6,633	354	137	7,124	6,307	343	21	6,671
	263,785	750,814	21,649	1,036,248	205,654	420,625	13,210	639,489	116,129	264,877	923	381,929
Liabilities:												
Amounts due to the Government and the NBK	458	386	–	844	3,885	539	–	4,424	4,263	927	–	5,190
Amounts due to credit institutions	12,859	280,079	109	293,047	20,252	128,062	17	148,331	9,125	112,618	43	121,786
Amounts due to customers	144,122	161,736	856	306,714	122,789	102,447	1,474	226,710	69,043	70,596	679	140,318
Debt securities issued	55,769	230,061	14,179	300,009	23,925	148,814	9,340	182,079	7,598	66,576	–	74,174
Other liabilities	9,423	560	100	10,083	9,276	552	10	9,838	3,982	324	12	4,318
	222,631	672,822	15,244	910,697	180,127	380,414	10,841	571,382	94,011	251,041	734	345,786
Net balance sheet position	41,154	77,992	6,405	125,551	25,527	40,211	2,369	68,107	22,118	13,836	189	36,143

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 40,383, KZT 30,583 and KZT 15,610 as of December 31, 2005, 2004 and 2003, respectively.

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

The 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 and EUR denominated monetary assets and liabilities.

*(Millions of Kazakhstani Tenge)***25. Risk Management Policies (continued)***Interest Rate Risk*

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

The Group 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 these consolidated 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:

	2005		2004		2003	
	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>
Financial assets at fair value through profit or loss	3.9%	4.5%	3.2%	3.4%	6.9%	7.7%
Amounts due from credit institutions	2.7%	4.0%	2.0%	10.5%	2.5%	2.0%
Investment securities:						
- available-for-sale securities	6.3%	3.3%	—	3.8%	—	—
- held-to-maturity securities	—	—	—	—	—	4.4%
Loans to customers	19.7%	11.3%	18.0%	11.7%	16.7%	12.5%
Amounts due to the Government and the NBK	4.9%	4.9%	5.9%	5.1%	6.5%	4.4%
Amounts due to credit institutions	9.1%	5.7%	6.2%	4.3%	8.5%	4.2%
Amounts due to customers	7.5%	5.4%	6.3%	6.0%	9.4%	5.1%
Debt securities issued	9.9%	8.7%	8.0%	9.0%	1.6%	12.3%

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, 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 Kazakhstani Tenge)

25. Risk Management Policies (continued)

2005	<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	109,442	9,689	–	–	–	–	119,131
Obligatory reserves	–	–	–	10,791	–	–	10,791
Financial assets at fair value through profit or loss	13,285	–	14,944	47,604	34,419	–	110,252
Amounts due from credit institutions	801	3,296	7,405	2,022	10,152	–	23,676
Available-for-sale Securities	444	2,867	206	9,926	28,963	–	42,406
Loans to customers	33,378	66,522	216,953	99,412	295,508	8,923	720,696
Investments in associates	–	–	–	–	2,205	–	2,205
Other assets	271	3,740	451	58	2,571	–	7,091
	157,621	86,114	239,959	169,813	373,818	8,923	1,036,248
Liabilities:							
Amounts due to the Government and NBK	35	–	101	203	505	–	844
Amounts due to credit institutions	62,221	10,270	170,411	36,280	13,865	–	293,047
Amounts due to customers	114,886	59,379	99,086	27,852	5,511	–	306,714
Debt securities issued	–	26,967	672	38,375	233,995	–	300,009
Other liabilities	1,944	3,562	2,821	1,095	661	–	10,083
	179,086	100,178	273,091	103,805	254,537	–	910,697
Net interest sensitivity gap	(21,465)	(14,064)	(33,132)	66,008	119,281	8,923	125,551
Cumulative interest sensitivity gap	(21,465)	(35,529)	(68,661)	(2,653)	116,628	125,551	

*(Millions of Kazakhstani Tenge)***25. Risk Management Policies (continued)**

<i>2004</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	51,175	565	–	–	–	–	51,740
Obligatory reserves	–	–	–	6,971	–	–	6,971
Financial assets at fair value through profit or loss	3,851	12,305	27,373	32,472	26,181	–	102,182
Amounts due from credit institutions	2,125	617	823	1,188	1,682	130	6,565
Available for sale securities	–	382	111	30	24,903	–	25,426
Loans to customers	25,776	26,666	120,075	93,352	169,468	3,813	439,150
Investments in associates	–	–	–	–	331	–	331
Other assets	4,128	1,819	119	131	927	–	7,124
	<u>87,055</u>	<u>42,354</u>	<u>148,501</u>	<u>134,144</u>	<u>223,492</u>	<u>3,943</u>	<u>639,489</u>
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	7,583	4,427	–	148,331
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
	<u>149,111</u>	<u>55,686</u>	<u>154,759</u>	<u>60,369</u>	<u>151,457</u>	<u>–</u>	<u>571,382</u>
Net interest sensitivity gap	<u>(62,056)</u>	<u>(13,332)</u>	<u>(6,258)</u>	<u>73,775</u>	<u>72,035</u>	<u>3,943</u>	<u>68,107</u>
Cumulative interest sensitivity gap	<u>(62,056)</u>	<u>(75,388)</u>	<u>(81,646)</u>	<u>(7,871)</u>	<u>64,164</u>	<u>68,107</u>	

(Millions of Kazakhstani Tenge)

25. Risk Management Policies (continued)

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
Financial assets at fair value through profit or loss	521	2,778	8,803	21,305	28,184	–	61,591
Amounts due from credit institutions	1,926	144	1,129	1,829	965	–	5,993
Available for sale securities	–	–	–	–	871	–	871
Held-to-maturity securities	–	–	–	–	26,288	–	26,288
Loans to customers	21,918	25,454	106,059	36,795	60,056	4,836	255,118
Other assets	3,820	294	295	2,262	–	–	6,671
	49,752	28,794	116,286	65,897	116,364	4,836	381,929
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	20,924	4,113	–	121,786
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
	89,150	29,309	130,074	44,703	52,550	–	345,786
Net interest sensitivity gap	(39,398)	(515)	(13,788)	21,194	63,814	4,836	36,143
Cumulative interest sensitivity gap	(39,398)	(39,913)	(53,701)	(32,507)	31,307	36,143	

The above tables do not include the effect of allowances for loans' impairment and other assets, which amounted to KZT 40,383, KZT 30,583 and KZT 15,610 as of December 31, 2005, 2004 and 2003, respectively.

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.

*(Millions of Kazakhstani Tenge)***25. Risk Management Policies (continued)**

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 maturity date, except financial assets at fair value through profit or loss.

2005	On demand	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	76,004	33,438	9,689	–	–	–	–	119,131
Obligatory reserves	–	–	–	–	10,791	–	–	10,791
Financial assets at fair value through profit or loss	110,252	–	–	–	–	–	–	110,252
Amounts due from credit institutions	47	754	3,296	7,405	2,022	10,152	–	23,676
Available-for-sale Securities	–	444	2,867	206	9,926	28,963	–	42,406
Loans to customers	746	32,632	65,986	207,423	106,060	298,926	8,923	720,696
Investments in associates	–	–	–	–	–	2,205	–	2,205
Other assets	248	23	3,740	451	58	2,571	–	7,091
	187,297	67,291	85,578	215,485	128,857	342,817	8,923	1,036,248
Liabilities:								
Amounts due to the Government and NBK	–	35	–	101	203	505	–	844
Amounts due to credit institutions	279	61,942	6,175	148,213	48,435	28,003	–	293,047
Amounts due to customers	81,869	33,017	59,379	99,086	27,852	5,511	–	306,714
Debt securities issued	–	–	–	672	38,375	260,962	–	300,009
Other liabilities	1,860	84	3,562	2,821	1,095	661	–	10,083
	84,008	95,078	69,116	250,893	115,960	295,642	–	910,697
Net position	103,289	(27,787)	16,462	(35,408)	12,897	47,175	8,923	125,551
Accumulated gap	103,289	75,502	91,964	56,556	69,453	116,628	125,551	

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25. Risk Management Policies (continued)

2004	On demand	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	24,366	26,809	565	–	–	–	–	51,740
Obligatory reserves	–	–	–	–	6,971	–	–	6,971
Financial assets at fair value through profit or loss	102,182	–	–	–	–	–	–	102,182
Amounts due from credit institutions	57	2,068	617	823	1,188	1,682	130	6,565
Available- for- sale investment securities	–	–	382	111	30	24,903	–	25,426
Loans to customers	3,488	22,288	26,666	110,320	96,876	175,699	3,813	439,150
Investments in associates	–	–	–	–	–	331	–	331
Other assets	4,379	80	1,819	119	131	596	–	7,124
	134,472	51,245	30,049	111,373	105,196	203,211	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	22,051	14,231	–	148,331
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	74,837	161,261	–	571,382
Net position	59,927	(23,321)	(25,637)	(19,114)	30,359	41,950	3,943	68,107
Accumulated gap	59,927	36,606	10,969	(8,145)	22,214	64,164	68,107	

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25. Risk Management Policies (continued)

2003	On demand	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	13,162	8,405	124	—	—	—	—	21,691
Obligatory reserves	—	—	—	—	3,706	—	—	3,706
Financial assets at fair value through profit or loss	61,591	—	—	—	—	—	—	61,591
Amounts due from credit institutions	50	1,876	144	1,129	1,829	965	—	5,993
Available-for-sale investment securities	—	—	—	—	—	871	—	871
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	3,668	152	294	295	2,262	—	—	6,671
	78,471	32,351	26,016	77,483	59,592	103,180	4,836	381,929
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	27,383	13,862	—	121,786
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
	46,719	42,431	29,309	113,866	51,162	62,299	—	345,786
Net position	31,752	(10,080)	(3,293)	(36,383)	8,430	40,881	4,836	36,143
Accumulated gap	31,752	21,672	18,379	(18,004)	(9,574)	31,307	36,143	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 40,383, KZT 30,583 and KZT 15,610 as of December 31, 2005, 2004 and 2003, respectively.

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

26. 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 Group'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.

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26. Fair Values of Financial Instruments (continued)

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 the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

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

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

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

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

	2005		2004		2003	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
<i>Financial assets</i>						
Loans to customers, gross	720,696	720,738	439,150	443,423	255,118	256,986
<i>Financial liabilities</i>						
Amounts due to credit institutions	293,047	302,262	148,331	151,957	121,786	117,896
Debt securities issued	300,009	314,860	182,079	192,838	74,174	78,456

27. Related Party Transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Group's related parties include shareholders and entities which exercise significant influence over the Group's key management personnel.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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27. Related Party Transactions (continued)

As of December 31, 2005, 2004 and 2003, the Group had the following transactions with related parties:

	2005		2004		2003	
	<i>Related party transactions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Total category</i>
Loans to customers, gross	12,000	720,696	1,445	439,150	276	255,118
Amounts due to credit institutions	7,353	293,047	14,956	148,331	1,508	121,786
Amounts due to customers	321	306,714	266	226,710	128	140,318
Commitments and guarantees	8,485	170,695	2,444	155,927	748	95,031
Allowance on impairment of loans	(355)	(40,311)	–	(29,633)	–	(15,271)

For the years ended December 31, the Group had the following transactions with related parties:

	2005		2004		2003	
	<i>Related party transactions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Total category</i>
Interest income	1,241	78,286	371	49,827	71	30,818
Interest expense	(312)	(45,699)	(639)	(26,106)	(113)	(16,591)
Fee and commission	117	12,454	45	8,994	10	6,319
Impairment charge on loans	(355)	(15,359)	–	(18,724)	–	(10,391)

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2005 was KZT 389 (2004 - KZT 335; 2003 - KZT 290).

Included in the table above are the following transactions with related parties outstanding as of December 31, 2005, 2004 and 2003:

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

28. Capital Adequacy

FMSA requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. In 2005, 2004 and 2003, risk-weighted assets calculated in accordance with the FMSA requirements were derived from the Group's consolidated financial statements prepared in accordance with IFRS. As of December 31, 2005, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

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28. Capital Adequacy (continued)

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2005, 2004 and 2003, exceeded the minimum ratio of 8% recommended by the Basle Accord for Tier 1 and Tier 2 capital adequacy ratio and assessed based on credit risks approach.

	<i>Balance Sheet Notional Amount</i>			<i>Risk Weighted Amount</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Total assets	1,172,002	764,300	465,024	782,534	481,182	290,652
	<i>Capital</i>			<i>BIS%</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Tier 1 capital	85,380	41,984	25,948	10.91%	8.73%	8.93%
Tier 2 capital	42,929	30,070	16,607			
Gross available capital	128,309	72,054	42,555	–	–	–
Less investments	(2,205)	(1,876)	(870)	–	–	–
Tier 1 + Tier 2 capital	126,104	70,178	41,685	16.11%	14.58%	14.34%

29. Segment Information

The Group does not have separately identifiable business segments. 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. Geographic segment reporting is presented in the following table. Segmentation is based on the structure as of December 31.

<i>2005</i>	<i>Total operating income</i>		<i>Total assets</i>		<i>Capital expenditure</i>	
	<i>Amount</i>	<i>Share %</i>	<i>Amount</i>	<i>Share %</i>	<i>Amount</i>	<i>Share %</i>
Kazakhstan	30,133	86%	877,997	88%	–	–
Russia	5,036	14%	119,808	12%	–	–
Total	35,169	100%	997,805	100%	–	–
<i>2004</i>	<i>Total operating income</i>		<i>Total assets</i>		<i>Capital expenditure</i>	
	<i>Amount</i>	<i>Share %</i>	<i>Amount</i>	<i>Share %</i>	<i>Amount</i>	<i>Share %</i>
Kazakhstan	19,439	92%	559,911	91%	–	–
Russia	1,747	8%	58,391	9%	–	–
Total	21,186	100%	618,302	100%	–	–
<i>2003</i>	<i>Total operating income</i>		<i>Total assets</i>		<i>Capital expenditure</i>	
	<i>Amount</i>	<i>Share %</i>	<i>Amount</i>	<i>Share %</i>	<i>Amount</i>	<i>Share %</i>
Kazakhstan	13,150	94%	348,677	93%	–	–
Russia	889	6%	24,387	7%	–	–
Total	14,039	100%	373,064	100%	–	–

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30. Subsequent Events

On January 6, 2006, the Bank has obtained a permission from the FMSA to found a special purpose subsidiary, BTA Finance Luxembourg S.A, to be incorporated in Luxembourg as a public limited liability company. On January 20, 2006 the Bank has attracted USD 400 million, through issuance, by BTA Finance Luxembourg S.A., of perpetual preferred securities.