

JSC “NEFTEBANK”

**Financial Statements for the year ended
31 December 2004**

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Independent Auditors' Report


To the Board of Management of JSC "Neftebank"

We have audited the accompanying balance sheet of JSC "Neftebank" (the "Bank") as of 31 December 2004, and the related statements of income, changes in equity and cash flows for the year then ended. The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Bank as of 31 December 2003 were audited by other auditors whose report thereon, dated 19 March 2004, expressed an unqualified opinion on those statements.

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

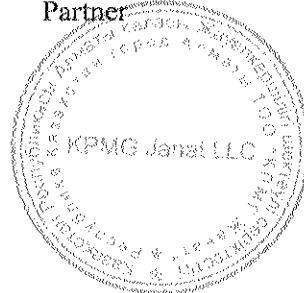
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Janat Berialina
Managing Partner


KPMG Janat, LLC
Licence to conduct banking audits
No. 6 dated 1 November 1996,

3 May 2005



Stephen Nye
Partner

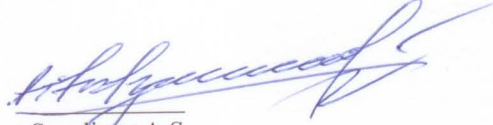


JSC "Neftebank"
Income statement
for the year ended 31 December 2004

	Notes	2004 KZT'000	2003 KZT'000
Interest income	4	167,007	166,430
Interest expense	4	(82,733)	(98,617)
Net interest income		84,274	67,813
Fee and commission income	5	102,106	88,340
Fee and commission expense	5	(22,859)	(17,287)
Net fee and commission income		79,247	71,053
Net foreign exchange income	6	62,043	49,480
Dividend income		1,240	1,240
Other income	7	11,516	6,244
Operating income		238,320	195,830
Release of provision for impairment losses	8	57,987	161,462
General and administrative expenses	9	(274,865)	(293,021)
Operating expenses		(216,878)	(131,559)
Income before taxes		21,441	64,271
Income tax benefit	10	57,055	-
Net income		78,496	64,271

The financial statements as set out on pages 1 to 27 were approved by the Board of Management of the Bank on 3 May 2005.


 Mustina G. Mambet
 Chairwoman of the Board


 Sanaliyev A.S.
 Chief Accountant



The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

JSC "Neftebank"
Balance sheet
as of 31 December 2004

	Notes	2004 KZT'000	2003 KZT'000
ASSETS			
Cash		102,151	141,883
Current account with the NBRK		333,839	585,840
Placements with banks and other financial institutions	11	71,726	296,283
Loans to customers	12	1,869,879	1,774,217
Loans held for trading	13	121,237	-
Investments	14	470,558	12,396
Property and equipment	15	495,629	231,927
Intangible assets	16	20,042	22,188
Other assets	17	127,261	296,354
Total assets		<u>3,612,322</u>	<u>3,361,088</u>
LIABILITIES AND EQUITY			
Due to the State		-	7,560
Current accounts and deposits from customers	18	1,841,214	2,215,387
Subordinated debt	19	325,834	361,386
Other liabilities	20	14,772	64,819
Total liabilities		<u>2,181,820</u>	<u>2,649,152</u>
Equity			
Share capital	22	1,321,000	835,757
Share premium		1,810	1,810
Property, plant and equipment revaluation reserve	15	133,127	-
Unrealised gain on available-for-sale securities		21,700	-
Accumulated losses		(47,135)	(125,631)
Total equity		<u>1,430,502</u>	<u>711,936</u>
Total liabilities and equity		<u>3,612,322</u>	<u>3,361,088</u>
Commitments and contingencies	24		



The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

JSC "Neftebank"
Statement of cash flows
for the year ended 31 December 2004

	<u>2004</u>	<u>2003</u>
	<u>KZT'000</u>	<u>KZT'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before income tax	21,441	64,271
Adjustment for non-cash items:		
Interest income	(164,167)	(165,501)
Interest expense	82,733	98,617
Recovery of (provision for) impairment loss on loans	(75,220)	(168,993)
Other impairment losses	17,233	7,531
Depreciation and amortisation	15,243	39,340
Unrealised foreign exchange gain	(7,745)	(28,450)
Cash flow from operating activities before changes in operating assets and liabilities	<u>(110,481)</u>	<u>(153,185)</u>
(Increase)/decrease in operating assets:		
Placements with banks and other financial institutions	(14,158)	(1,442)
Loans to customers	(237,010)	582,240
Interest received on loans	207,007	67,576
Obligatory reserves	(67,381)	(122,941)
Other assets	155,530	(87,201)
Increase/(decrease) in operating liabilities:		
Due to the State	(7,560)	(23,530)
Current accounts and deposits from customers	(332,573)	431,932
Interest paid on current accounts and deposits from customers	(61,427)	(71,218)
Other liabilities	(53,717)	(20,498)
Cash flows from operations	<u>(521,769)</u>	<u>754,918</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(87,374)	(10,242)
Proceeds from disposal of property and equipment	2,946	(51,196)
Purchase of intangible assets	(2,189)	-
Purchase of investment securities	(726,462)	-
Proceeds on sale of investment securities	290,000	-
Cash flows from investing activities	<u>(523,079)</u>	<u>(61,438)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	485,243	-
Purchase of treasury shares	-	-
Interest paid on subordinated debt	(19,958)	(19,861)
Cash flows from financing activities	<u>465,285</u>	<u>(19,861)</u>
Net (decrease) / increase in cash and cash equivalents	<u>(579,563)</u>	<u>520,434</u>
Effect of changes in exchange rates on cash and equivalents	(18,266)	(6,589)
Cash and cash equivalents at 1 January	899,623	385,778
Cash and cash equivalents at 31 December (Note 25)	<u><u>301,794</u></u>	<u><u>899,623</u></u>



The statement of cash flows is to be read in conjunction with the notes, to and forming part of, the financial statements.

JSC "Neftebank"
Statement of changes in equity
for the year ended 31 December 2004

KZT'000	Share capital	Share premium	Property, plant and equipment revaluation reserve	Unrealised gain on available-for- sale securities	Accumulated losses	Total
Balance at 1 January 2003	835,757	1,810	-	-	(189,902)	647,665
Net income	-	-	-	-	64,271	64,271
Balance at 31 December 2003	835,757	1,810	-	-	(125,631)	711,936
Revaluation of property and equipment, net of tax	-	-	133,127	-	-	133,127
Net income	-	-	-	-	78,496	78,496
Shares issued	485,243	-	-	-	-	485,243
Increase in gains on available- for-sale securities, net of tax	-	-	-	21,700	-	21,700
Balance at 31 December 2004	1,321,100	1,810	133,127	21,700	(47,135)	1,430,502



The statement of changes in equity is to be read in conjunction with the notes, to and forming part of, the financial statements.

2 Basis of preparation

a) Statement of compliance

The Bank maintains its accounting records in accordance with the legislative requirements of the Republic of Kazakhstan. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), as promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets, loans for trading, investments and land and buildings, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

c) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstani Tenge ("KZT"). Management have determined the Bank's functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank's presentation currency for the purposes of these financial statements. Financial information presented in KZT has been rounded to the nearest thousand.

d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank's assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments, which would be necessary should the Bank be unable to continue as a going concern.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

a) Foreign currency transactions

Transactions in foreign currencies are translated to KZT at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to KZT at the foreign exchange rate reported by the Kazakhstani Stock Exchange at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to KZT at the foreign exchange rate ruling at the date of the transaction.



3 Significant accounting policies (continued)

a) Foreign currency transactions (continued)

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows at 31 December:

	2004 KZT	2003 KZT
USD	130.00	144.22
EUR	177.10	180.23
RUR	4.67	4.93

b) Cash and cash equivalents

The Bank considers cash, current account with the NBRK, with the exception of the minimum reserve requirements, and nostro accounts to be cash and cash equivalents.

The minimum reserve deposit with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawal.

c) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Originated loans and receivables are loans and receivables created by the Bank providing money to a borrower other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers.

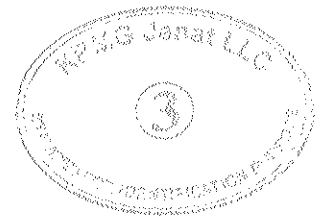
Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

(ii) Recognition

The Bank recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.



3 Significant accounting policies (continued)

c) Financial instruments (continued)

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition trading instruments and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and so whose fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less provisions. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all trading instruments are recognised in the income statement.

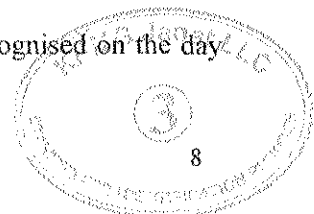
Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When available-for-sale assets are sold, collected or otherwise disposed of the cumulative gain or loss recognised in equity is transferred to the income statement.

(vi) Derecognition

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.



3 Significant accounting policies (continued)

c) Financial instruments (continued)

(vii) *Offsetting*

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

d) Property and equipment

(i) *Owned assets*

Items of property and equipment are stated at cost or valuation less accumulated depreciation and impairment losses (refer to note 3(f) below). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) *Leased assets*

Leases under the terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer to Note 3 (f) below).

Operating leases, under the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

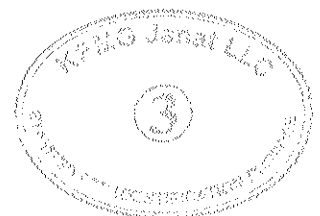
(iii) *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	40 years
Computers	5 years
Vehicles	7 years
Other	3-5 years

e) Intangible assets

Intangible assets consist of software acquired by the Bank, stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the first day of the month subsequent to the date the asset is available for use. The estimated useful life of intangible assets is 5 years.



3 Significant accounting policies (continued)

f) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the receivable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

h) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

i) Dividends

Subject to specific provisions contained with the Charter and Kazakhstan Law, the shareholders may approve the payment of an annual or an interim dividend whenever the financial position of the Bank justifies such payment in the opinion of the shareholders.

j) Taxation

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k) Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

l) Fee and commission income

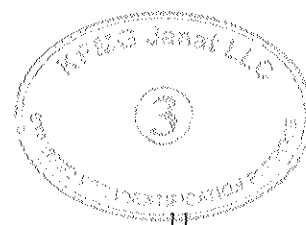
Fee and commission income is recognised when the corresponding service is provided.

m) Net foreign exchange income

Net foreign exchange income includes gain and losses arising from foreign currency operations and from the revaluation of assets and liabilities denominated in foreign currencies.

n) Comparative information

Comparative information has been reclassified to conform to changes in presentation in the current year.



4 Net interest income

	2004 KZT'000	2003 KZT'000
Interest income		
Loans to customers	164,167	165,501
Investment securities	2,522	-
Placements with banks and other financial institutions	318	929
	<u>167,007</u>	<u>166,430</u>
Interest expense		
Current accounts and deposits from customers	(62,733)	(75,492)
Subordinated debt	(19,956)	(19,876)
Placements with banks and other financial institutions	(44)	(2,527)
Other	-	(722)
	<u>(82,733)</u>	<u>(98,617)</u>
Net interest income	<u>84,274</u>	<u>67,813</u>

5 Fee and commission income and expense

	2004 KZT'000	2003 KZT'000
Fee and commission income		
Cash transactions	48,723	44,418
Transfers	21,894	19,288
Guarantees issued	14,461	11,649
Clients accounts maintenance	13,832	6,586
Other	3,196	6,399
	<u>102,106</u>	<u>88,340</u>
Fee and commission expense		
Transfer transactions	(10,087)	(4,237)
Transactions with plastic cards	(4,909)	(4,582)
Insurance policies	(3,762)	(5,186)
KASE membership fee	(1,991)	-
Cash transactions	(1,662)	-
Other commission expense	(448)	(3,282)
	<u>(22,859)</u>	<u>(17,287)</u>

6 Net foreign exchange income

	2004 KZT'000	2003 KZT'000
Gain on trading in foreign currencies	43,173	27,814
Gain on revaluation of assets and liabilities	18,870	21,666
	<u>62,043</u>	<u>49,480</u>



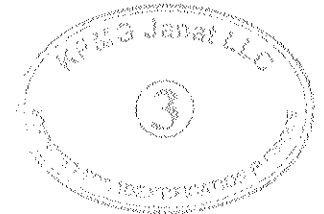
7 Other income

	2004 KZT'000	2003 KZT'000
Rent	6,118	4,899
Gain from disposal of foreclosed assets	1,853	65
Gain from sale of inventory	316	341
Other	3,229	939
	<u>11,516</u>	<u>6,244</u>

8 Impairment losses

The movement in provisions for impairment losses was as follows:

KZT'000	Loans to customers	Guarantees and letters of credit	Other assets	Total
Balance at 1 January 2003	483,468	27,200	7,103	517,771
(Released) charged to income statement	(168,993)	1,911	5,620	(161,462)
Recovery	127,864	-	-	127,864
Written off	(65,035)	(3,822)	(6,313)	(75,170)
Balance at 31 December 2003	<u>377,304</u>	<u>25,289</u>	<u>6,410</u>	<u>409,003</u>
(Released) charged to income statement	(75,220)	3,670	13,563	(57,987)
Recovery	39,862	1,176	46	41,084
Written off	(56,939)	(26,835)	(18,473)	(102,247)
Balance at 31 December 2004	<u>285,007</u>	<u>3,300</u>	<u>1,546</u>	<u>289,853</u>



9 General and administrative expenses

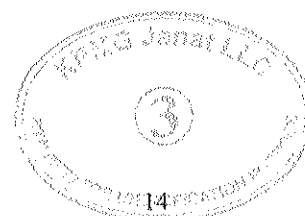
	2004 KZT'000	2003 KZT'000
Employee compensation	(125,593)	(116,625)
Depreciation and amortisation	(15,243)	(39,340)
Communication	(24,890)	(20,668)
Rent	(17,046)	(15,006)
Taxes other than income tax	(13,524)	(19,140)
Audit and consulting	(12,329)	(7,832)
Travel	(9,285)	(7,706)
Security	(8,523)	(5,360)
Utilities expense	(6,556)	(4,133)
Informational technology expenses	(6,353)	(4,878)
Individual deposit insurance	(5,363)	(5,296)
Transportation	(4,678)	(4,552)
Advertising and marketing expenses	(2,559)	(3,212)
Repairs and maintenance expense	(1,738)	(1,512)
Representative	(1,586)	(1,460)
Fines and penalties	(1,026)	(289)
Net gain/(loss) from disposal of property and equipment	70	(15,633)
Other	(18,643)	(20,379)
	<u>(274,865)</u>	<u>(293,021)</u>

10 Income tax benefit

	2004 KZT '000	2003 KZT '000
Current tax expense	-	-
Deferred tax expense:		
Origination of temporary differences	(14,050)	
Change in unrecognised deferred tax assets	71,105	-
Total income tax benefit in the income statement	<u>57,055</u>	<u>-</u>

The Bank's applicable tax rate is 30% (2003 – 30%). Reconciliation of the effective tax rate:

	2004		2003	
	KZT '000	%	KZT '000	%
Income before tax	21,441	100%	64,271	100%
Income tax using the applicable tax rate	6,432	30%	19,281	30%
Tax effect of permanent differences	7,618	36%	67,754	105%
Change in valuation allowance	(71,105)	(332%)	(87,035)	(135%)
Income tax benefit	<u>(57,055)</u>	<u>(266%)</u>	<u>-</u>	<u>-</u>



11 Placements with banks and other financial institutions

	2004 <u>KZT '000</u>	2003 <u>KZT '000</u>
Nostro accounts	56,126	294,841
Restricted account	15,600	1,442
	<u>71,726</u>	<u>296,283</u>

At 31 December 2004 and 2003, the restricted accounts represent deposits held with a local bank for VISA card payments.

12 Loans to customers

Loans to customers are issued primarily to customers located within the Republic of Kazakhstan and which operate in the following economic sectors:

	2004 <u>KZT'000</u>	2003 <u>KZT'000</u>
Individuals	384,333	274,099
Trade	350,854	730,051
Food	289,327	100,905
Construction	297,623	296,627
Research and development	182,312	95,360
Metal processing	156,800	50,158
Water processing and purifying	108,000	37,500
Agriculture	105,364	129,946
Transport	86,633	111,228
Entertainment	53,276	92,156
Engineering	35,644	76,281
Oil & Gas	7,987	2,987
Health care	4,295	-
Energy	4,121	-
Postal	-	13,878
Other	33,232	42,420
Accrued interest	55,085	97,925
Provision for impairment	(285,007)	(377,304)
	<u>1,869,879</u>	<u>1,774,217</u>

At 31 December 2004 and 2003, the Bank had two and six borrowers with total balances of KZT 471,635 thousand and KZT 670,628 thousand, respectively, representing 25% and 38% of total loans to customers.

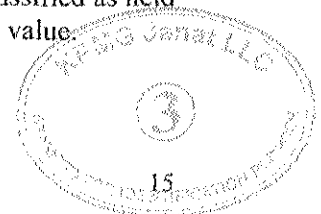
At 31 December 2003, loans to customers included non-accrual loans of KZT 14,480 thousand (2004: KZT 1,035,928 thousand).

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 29 and shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. It is possible that loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the classification indicated based on contractual terms.

13 Loans held for trading

At 31 December 2004, loans with a carrying value of 121,237 thousand were classified as held for trading. These loans were sold in 2005 to an unrelated party at their carrying value.



14 Investments

	2004 KZT'000	2003 KZT'000
Available for sale		
<i>Equity investment securities – listed</i>		
Ordinary shares of JSC "Valut Transit Bank"	157,490	-
Ordinary shares of JSC "Ordabasy Corporation"	128,129	-
Preferred shares of JSC "ATF Bank"	111,368	-
Ordinary shares of JSC "Zhazyk"	12,366	-
Preferred shares of JSC "MangistauMunaiGaz"	11,666	12,396
	<u>421,019</u>	<u>12,396</u>
Held-to-maturity		
<i>Debt instruments – listed</i>		
Notes issued by the NBRK	49,539	-
	<u>470,558</u>	<u>12,396</u>

15 Property and equipment

KZT'000	Land and buildings	Computers	Vehicles	Other	Total
<i>Cost or revalued amount</i>					
At 1 January 2004	231,651	33,397	18,917	69,602	353,567
Revaluation	150,236	-	-	-	150,236
Additions	62,829	4,833	15,905	3,807	87,374
Disposals	(152)	(1,996)	(3,880)	(10,075)	(16,103)
At 31 December 2004	<u>444,564</u>	<u>36,234</u>	<u>30,942</u>	<u>63,334</u>	<u>575,074</u>
<i>Depreciation</i>					
At 1 January 2004	(40,098)	(23,946)	(10,300)	(47,296)	(121,640)
Adjustment to depreciation after revaluation	39,946	-	-	-	39,946
Depreciation charge	(9,128)	(6,796)	(2,911)	(8,081)	(26,916)
Revision of estimated useful lives	-	1,969	4,003	10,036	16,008
Disposals	152	1,901	2,792	8,312	13,157
At 31 December 2004	<u>(9,128)</u>	<u>(26,872)</u>	<u>(6,416)</u>	<u>(37,029)</u>	<u>(79,445)</u>
<i>Carrying value</i>					
At 31 December 2004	<u>435,436</u>	<u>9,362</u>	<u>24,526</u>	<u>26,305</u>	<u>495,629</u>
At 31 December 2003	191,553	9,451	8,617	22,306	231,927

During 2005, the Bank engaged an independent appraiser to assess the fair market value of the Bank's land and buildings. The revaluation was reflected in the Bank's financial statements with effect from 1 January 2004. The increase in the carrying value of the revalued assets was reflected as an increase in equity (revaluation reserve). Management will review the carrying value of these assets at subsequent balance sheet dates to determine if they differ materially from fair market value, and any adjustment required to adjust the carrying amount to approximate fair market value will be made at that time.

In 2004, the Bank reassessed the useful lives of certain assets. The resulting effect on depreciation is shown above.



16 Intangible assets

KZT'000

	<u>Software</u>
Cost	
At 1 January 2004	47,594
Additions	2,189
At 31 December 2004	<u>49,783</u>
Amortisation	
At 1 January 2004	(25,406)
Amortisation charge	(4,335)
At 31 December 2004	<u>(29,741)</u>
Carrying amount	
At 31 December 2004	<u>20,042</u>
At 31 December 2003	<u>22,188</u>

17 Other assets

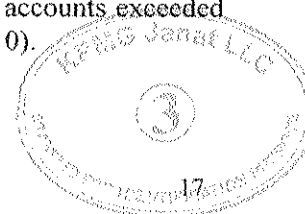
	<u>2004</u>	<u>2003</u>
	<u>KZT '000</u>	<u>KZT '000</u>
Foreclosed assets	41,961	194,226
Taxes prepaid	48,448	6,635
Due from employees	10,925	12,017
Prepayments	9,814	74,269
Other equity investments	6,216	4,734
Inventory	5,663	2,593
Debtors from documentary settlements	5,632	4,491
Other	148	3,799
Provision for impairment (Note 8)	(1,546)	(6,410)
	<u>127,261</u>	<u>296,354</u>

At 31 December 2004 other equity investments consisted of ordinary shares of JSC "Kazakhstani Stock Exchange" of KZT 2,567 thousand and JSC "Accumulating Pension Fund ABN Amro CaspiyMunaiGaz" of KZT 3,649 thousand (2003: KZT 2,934 thousand and KZT 1,800 thousand, respectively). Other equity investments are carried at cost.

18 Current accounts and deposits from customers

	<u>2004</u>	<u>2003</u>
	<u>KZT '000</u>	<u>KZT '000</u>
Demand deposits	1,071,336	1,316,727
Term deposits	653,986	804,118
Deposits pledged as collateral	95,000	75,000
Accrued interest	20,892	19,542
	<u>1,841,214</u>	<u>2,215,387</u>

At 31 December 2004 there were no customers whose deposits and current accounts exceeded 10% of the Bank's total current accounts and deposits from customers (2003: 0).



19 Subordinated debt

	2004 <u>KZT '000</u>	2003 <u>KZT '000</u>
Subordinated debt	325,000	360,550
Accrued interest	834	836
	<u>325,834</u>	<u>361,386</u>

At 31 December 2004 and 2003, the Bank has a subordinated debt of USD 2,500,000 to the International Financial Corporation (IFC) denominated in USD. The subordinated debt bears annual interest at the monthly LIBOR rate plus 4%. The subordinated debt will be repaid in four equal semi-annual payments from December 2006 to 15 June 2008.

The subordinated debt ranks behind claims against the bank from depositors and other creditors.

20 Other liabilities

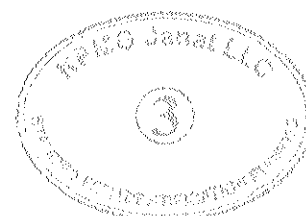
	2004 <u>KZT '000</u>	2003 <u>KZT '000</u>
Provision for losses on guarantees (Note 8)	3,300	25,289
Taxes payable other than income tax	4,689	25,145
Due to employees	1,647	4,085
Accrued expenses	5,136	1,256
Settlement on other transactions	-	9,044
	<u>14,772</u>	<u>64,819</u>

21 Deferred tax assets

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2004 and 2003. These taxable temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

KZT'000	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
Property and equipment	155,112	16,931	(57,055)	-	98,057	16,931
Intangible assets	1,196	-	-	-	1,196	-
Loans to customers	-	138,823	-	-	-	138,823
Tax losses	13,496	-	-	-	13,496	-
Deferred tax assets/(liabilities)	<u>169,804</u>	<u>155,754</u>	<u>(57,055)</u>	<u>-</u>	<u>112,749</u>	<u>155,754</u>
Valuation allowance	<u>(169,804)</u>	<u>(155,754)</u>	<u>57,055</u>	<u>-</u>	<u>(112,749)</u>	<u>(155,754)</u>
Net deferred tax assets/(liabilities)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The rate of tax applicable for deferred taxes was 30%.



Movement in temporary differences during the year

KZT'000	Balance 1 January 2004	Recognised in equity	Recognised in income statement	Balance 31 December 2004
Property and equipment	16,931	(57,055)	138,181	98,057
Intangible assets	-	-	1,196	1,196
Loans to customers	138,823	-	(138,823)	-
Tax losses	-	-	13,496	13,496
	<u>155,754</u>	<u>(57,055)</u>	<u>14,050</u>	<u>169,804</u>
Valuation allowance	(155,754)	57,055	(71,105)	(169,804)
	<u>-</u>	<u>-</u>	<u>(57,055)</u>	<u>-</u>

22 Share capital

At 31 December 2004 and 2003, the authorised share capital was KZT 1,321,000 thousand, consisting of 1,000,000 common shares each with a par value of 1,321 KZT. At 31 December 2004 issued and paid share capital consisted of 975,095 shares (2003: 632,670 shares) amounting to KZT 1,288,100 thousand (2003: KZT 835,757 thousand). Each common share is entitled to one vote and shares equally in dividends declared.

During 2004, the share capital was increased by KZT 485,243 thousand by contributions from the shareholders.

23 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.

The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk.

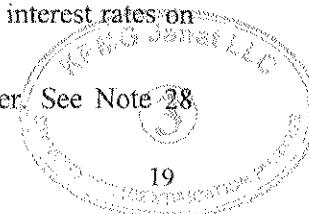
The Bank's credit policy is reviewed and approved by the Shareholder.

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Shareholder. See Note 28 "Average effective interest rates".



23 Risk management (continued)

Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Bank's liquidity policy is reviewed and approved by the Shareholder. See Note 29 "Maturity analysis".

Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

The Bank's foreign currency policy is reviewed and approved by the Shareholder.

See Note 30 "Currency analysis".

24 Commitments and contingencies

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and are generally for a period of up to one year.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

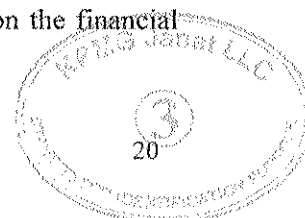
	2004 KZT '000	2003 KZT '000
Guarantees issued	81,670	125,024
Less provisions (Notes 8, 19)	(3,300)	(25,289)
Less cash collateral	(30,703)	-
	<u>47,667</u>	<u>99,735</u>

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Litigation

The Bank is not involved in legal proceedings, including arbitration, other than routine legal proceedings in the ordinary course of business. In the opinion of management, the final disposition of these legal proceedings will not have a material adverse effect on the financial condition or results of operations of the Bank.



24 Commitments and contingencies (continued)

Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes 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 may create tax risks in the Republic of Kazakhstan substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

Pension and retirement plans

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

25 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2004 KZT'000	2003 KZT'000
Cash	102,151	141,883
Due from the NBRK	333,839	585,840
Placements with banks and other financial institutions	56,126	294,841
	<u>492,116</u>	<u>1,022,564</u>
Obligatory reserves	(190,322)	(122,941)
	<u>301,794</u>	<u>899,623</u>

Under Kazakhstan legislation, the Bank is required to maintain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either deposits with the NBRK, overnight placements with the NBRK or in physical cash and maintained based on average monthly balances of the aggregate of deposits with the NBRK and physical cash. The use of such funds is, therefore, subject to certain restrictions and excluded from cash and equivalents.



26 Related party transactions

Transactions with Directors and Senior Management

Total remuneration included in employee compensation (refer Note 9) amounted to:

	<u>2004</u> <u>KZT'000</u>	<u>2003</u> <u>KZT'000</u>
Directors	4,848	3,288
Senior Management	40,992	39,338
	<u>45,840</u>	<u>42,626</u>

The outstanding balances of loans and deposits with Directors and Senior Management and the average interest rates as of 31 December 2004 and 2003 are as follows:

	<u>2004</u> <u>KZT'000</u>	<u>Average</u> <u>Interest Rate</u>	<u>2003</u> <u>KZT'000</u>	<u>Average</u> <u>Interest Rate</u>
Loans	17,090	12.70%	6,178	8.00%
Deposits	-	-	2,038	13.74%

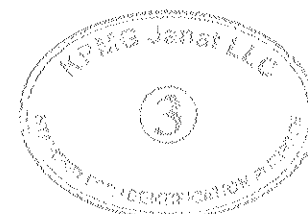
Amounts included in the income statement in relation to transactions with Directors and senior management are as follows:

	<u>2004</u> <u>KZT'000</u>	<u>2003</u> <u>KZT'000</u>
Interest income	2,170	1,318
Interest expense	-	145

Transactions with other related parties

At 31 December 2004 and 2003 other related party balances are as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Related party</u> <u>transactions</u>	<u>Total</u> <u>category as</u> <u>per financial</u> <u>statements</u> <u>caption</u>	<u>Related party</u> <u>transactions</u>	<u>Total</u> <u>category as</u> <u>per financial</u> <u>statements</u> <u>caption</u>
Loans to customers	24,081	1,752,000	13,146	1,774,217
Customer accounts	1,915	1,841,214	-	-
Other assets	5,995	112,124	37,000	296,354
Guarantees issued	8,610	81,670	-	-



26 Related party transactions (continued)

Included in the profit and loss account for the years ended 31 December 2004 and 2003 are the following amounts which arose due on transactions with related parties:

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	14,739	167,007	659	166,430
Interest expense	341	82,733	-	-
Fees and commission income	709	102,106	-	-

The transactions with related parties entered into by the Bank were made in the normal course of business and under arm-length conditions.

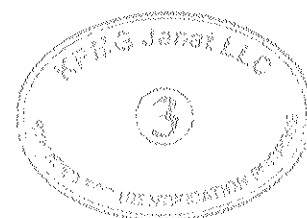
27 Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 Financial Instruments: Disclosure and Presentation, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Bank has concluded that due to the lack of liquidity in the Kazakhstan market it is not possible to determine the fair value of all of its financial assets and financial liabilities.

The financial assets and financial liabilities for which the Bank does believe it is able to estimate fair values include cash, due from the NBRK, investment securities, loans held for trading, placements with banks and financial institutions and deposits and balances from banks and other financial institutions. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets.



28 Average effective interest rates

The table below displays the Bank's interest-bearing assets and liabilities as at 31 December 2004 and 2003 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities. The amounts of interest-bearing assets and liabilities are presented with related accrued income or expense at the end of year.

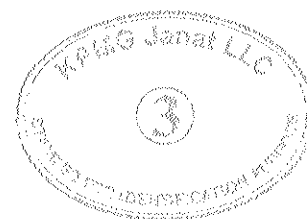
	2004		2003	
	Value KZT'000	Average effective interest rate, %	Value KZT'000	Average effective interest rate, %
Interest-bearing assets				
Placements with banks and other financial institutions	405,565		882,123	
- KZT	334,926	0	545,696	0
- USD	68,071	0	334,114	0
- Other currencies	2,568	0.2	2,313	0.2
Investment securities	49,539		12,396	
- KZT	49,539	3.2	12,396	10.0
Loans to customers	1,869,879		1,774,217	
- KZT	1,418,974	17.7	1,358,216	15.2
- USD	450,905	15.0	416,001	16.3
Interest-bearing liabilities				
Current accounts and deposits from customers	1,841,214		2,215,387	
- KZT	1,464,647	2.5	1,484,281	2.3
- USD	354,945	3.6	730,982	3.7
- Other currencies	21,622	5.2	124	0.2
Subordinated debt	325,834	0	361,386	0
- USD	325,834	6.2	361,386	5.1



29 Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2004. Due to the fact that substantially all the financial instruments of the Bank are fixed-rate contracts except for subordinated debt, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

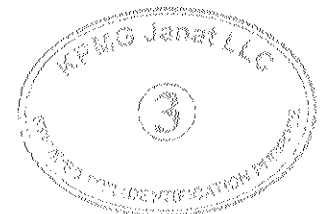
KZT'000	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Assets								
Cash	102,151	-	-	-	-	-	-	102,151
Due from the NBRK	333,839	-	-	-	-	-	-	333,839
Placements with banks and other financial institutions	71,726	-	-	-	-	-	-	71,726
Loans to customers	102,852	154,052	48,779	517,305	996,938	49,953	-	1,869,879
Loans for trading	-	-	121,237	-	-	-	-	121,237
Investments	415,717	-	54,841	-	-	-	-	470,558
Other assets	-	-	-	-	-	-	127,261	127,261
Total assets	1,026,285	154,052	224,857	517,305	996,938	49,953	127,261	3,096,651
Liabilities								
Customer accounts	48,767	87,278	52,249	282,785	266,245	830	1,103,060	1,841,214
Subordinated debt	-	-	-	834	-	325,000	-	325,834
Other liabilities	-	-	-	-	-	-	14,772	14,772
Total liabilities	48,767	87,278	52,249	283,619	266,245	325,830	1,117,832	2,181,820
Net position as of 31 December 2004	977,518	66,774	172,608	233,686	730,693	(275,877)	(990,571)	914,831
Net position as of 31 December 2003	(8,010)	136,636	15,128	24,386	487,282	238,867	19,317	913,606



30 Currency analysis

The following table shows the currency structure of monetary assets and liabilities at 31 December 2004:

KZT'000	KZT	USD	Other currencies	Total
Assets				
Cash	82,178	13,051	6,922	102,151
Due from the NBRK	333,839	-	-	333,839
Placements with banks and other financial institutions	1,088	67,952	2,686	71,726
Loans to customers	1,418,974	450,905	-	1,869,879
Loans held for trading	46,368	74,869	-	121,237
Investment securities	470,558	-	-	470,558
Other assets	125,961	1,300	-	127,261
Total assets	2,478,966	608,077	9,608	3,096,651
Liabilities				
Customer accounts	1,464,647	354,945	21,622	1,841,214
Subordinated debt	-	325,834	-	325,834
Other liabilities	14,772	-	-	14,772
Total liabilities	1,479,419	680,779	21,622	2,181,820
Net position as of 31 December 2004	999,547	(72,702)	(12,014)	914,831
Net position as of 31 December 2003	1,266,159	(353,186)	633	913,606



31 Geographical concentration

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

KZT'000	Republic of Kazakhstan	Non OECD countries	OECD countries	Total
Assets				
Cash	82,178	1,980	17,993	102,151
Due from the National Bank of the Republic of Kazakhstan	333,839	-	-	333,839
Placements with banks and other financial institutions	19,825	6,139	45,762	71,726
Loans to customers	1,869,879	-	-	1,869,879
Loans held for trading	121,237	-	-	121,237
Investment securities	470,558	-	-	470,558
Other assets	127,261	-	-	127,261
Total assets	3,024,777	8,119	63,755	3,096,651
Liabilities				
Customer accounts	1,756,629	84,585	-	1,841,214
Subordinated debt	-	-	325,834	325,834
Other liabilities	14,772	-	-	14,772
Total liabilities	1,771,401	84,585	325,834	2,181,820
Net position as of 31 December 2004	1,253,376	(76,466)	(262,079)	914,831
Net position as of 31 December 2003	1,590,219	13,571	(690,184)	913,606

