

# **JOINT STOCK COMPANY TEMIRBANK**

**Consolidated Financial Statements**  
For the Year Ended 31 December 2006

**and Independent Auditors' Report**

# JOINT STOCK COMPANY TEMIRBANK

## TABLE OF CONTENTS

---

	<b>Page</b>
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS' REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006:	
Consolidated income statement	4
Consolidated balance sheet	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8-52

## **JSC TEMIRBANK**

### **STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

---

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Temirbank and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements, and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group, and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2006 were authorized for issue on 7 February 2007 by the Management Board.

**On behalf of the Management Board:**

---

**Kebirov A.A.**  
**Chairman of the Board**

7 February 2007

---

**Abdayeva H.H.**  
**Chief Accountant**

7 February 2007

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders and Board of Directors of Joint Stock Company Temirbank:

7 February 2006  
Almaty

# JSC TEMIRBANK

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of tenge)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	4	15,659,568	6,127,998
Interest expense	4	<u>(8,235,308)</u>	<u>(3,929,952)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	4	7,424,260	2,198,046
Provision for impairment losses on interest bearing assets	5	<u>(3,071,084)</u>	<u>(1,619,718)</u>
NET INTEREST INCOME		<u>4,353,176</u>	<u>578,328</u>
Gain on sales of shares in subsidiary	1, 9	815,208	2,664,368
Net loss from financial assets at fair value through profit or loss	6	(6,747)	(48,847)
Net gain on foreign exchange operations	7	924,424	184,544
Fee and commission income	8	1,683,143	1,025,562
Fee and commission expense	8	(84,456)	(57,725)
Profit from sales of fixed assets		56,141	23,605
Dividends received		14,572	3,328
Other income	10	<u>107,016</u>	<u>81,567</u>
NET NON-INTEREST INCOME		3,509,301	3,876,402
OPERATING INCOME		7,862,477	4,454,730
OPERATING EXPENSES	11	<u>(4,587,715)</u>	<u>(2,511,454)</u>
OPERATING PROFIT		3,274,762	1,943,276
Provision for impairment losses on other assets	5	(1,583)	(32,029)
Recovery of provision for guarantees and other off-balance sheet contingencies	5	78	38,364
Share of results of associates	18	<u>91,564</u>	<u>107,865</u>
PROFIT BEFORE INCOME TAX		3,364,821	2,057,476
Income tax expense	12	<u>(293,011)</u>	<u>(11,885)</u>
NET PROFIT		<u>3,071,810</u>	<u>2,045,591</u>
Attributable to:			
Equity holders of the parent		2,999,266	2,116,648
Minority interest		72,544	(71,057)
Basic and deluted earnings per share (KZT)	13	300	469

### On behalf of the Management Board:

Kebirov A.A.  
Chairman of the Board

7 February 2007

Abdrayeva H.H.  
Chief Accountant

7 February 2007

The notes on pages 8-52 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

# JSC TEMIRBANK

## CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

(in thousands of tenge)

	Notes	31 December 2006	31 December 2005
<b>ASSETS:</b>			
Cash and balances with the National Bank of the Republic of Kazakhstan	14	17,564,330	4,0
Financial assets at fair value through profit or loss	15	14,129,646	9,392,715
Loans and advances to banks	16	13,332,101	9,287,119
Loans to customers	17	148,461,858	49,813,472
Investments in associates	18	1,615,623	917,899
Property and equipment	19	1,769,283	2,044,400
Debtors on capital investments		216,991	31,844
Income tax assets		104,654	86,794
Other assets	20	1,167,676	358,892
<b>TOTAL ASSETS</b>		<b>198,362,162</b>	<b>75,945,363</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks	21	40,247,516	15,095,498
Customer accounts	22	53,462,803	41,587,415
Debt securities issued	23	76,705,437	3,002,576
Other borrowed funds	24	88,843	109,616
Deferred income tax liabilities	12	138,620	40,852
Other liabilities	25	244,323	189,514
		170,887,542	60,025,471
Subordinated debt	26	5,099,043	5,354,550
<b>Total liabilities</b>		<b>175,986,585</b>	<b>65,380,021</b>
<b>EQUITY:</b>			
Equity attributable to equity holders of the parent:			
Share capital	27	15,433,800	6,061,099
Share premium	27	21,113	21,113
Other reserves		2,373	3,605
Retained earnings		6,918,291	3,917,793
		22,375,577	10,003,610
Minority interest		-	561,732
<b>Total equity</b>		<b>22,375,577</b>	<b>10,565,342</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>198,362,162</b>	<b>75,945,363</b>

**On behalf of the Management Board:**

**Kebirov A.A.**  
**Chairman of the Board**

7 February 2007

**Abdrayeva H.H.**  
**Chief Accountant**

7 February 2007

The notes on pages 8-52 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

# JSC TEMIRBANK

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of tenge)

	Share capital	Share premium	Property and equipment revaluation reserve	Retained earnings	Total	Minority interest	Total equity
<b>31 December 2004</b>	3,700,000	26,274	8,531	1,796,219	5,531,024	-	5,531,024
Share capital increase	2,361,099	(5,161)	-	-	2,355,938	-	2,355,938
Write-off of property and equipment revaluation reserve	-	-	(4,926)	4,926	-	-	-
Disposal of interest in subsidiary	-	-	-	-	-	632,789	632,789
Net profit	-	-	-	2,116,648	2,116,648	(71,057)	2,045,591
<b>31 December 2005</b>	6,061,099	21,113	3,605	3,917,793	10,003,610	561,732	10,565,342
Share capital increase	9,372,701	-	-	-	9,372,701	-	9,372,701
Write-off of property and equipment revaluation reserve	-	-	(1,232)	1,232	-	-	-
Net profit	-	-	-	2,999,266	2,999,266	72,544	3,071,810
Disposal of interest in subsidiary	-	-	-	-	-	(634,276)	(634,276)
<b>31 December 2006</b>	<u>15,433,800</u>	<u>21,113</u>	<u>2,373</u>	<u>6,918,291</u>	<u>22,375,577</u>	<u>-</u>	<u>22,375,577</u>

On behalf of the Management Board:

**Kebirov A.A.**  
Chairman of the Board

7 February 2007

**Abdayeva H.H.**  
Chief Accountant

7 February 2007

The notes on pages 8-52 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

# JSC TEMIRBANK

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of tenge)

	Year ended 31 December 2006	Year ended 31 December 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	14,579,605	5,709,332
Interest paid	(7,981,625)	(2,859,701)
Gain on foreign exchange operations received	462,667	(13,738)
Fee and commission income received	1,664,438	1,018,945
Fee and commission expense paid	(85,088)	(57,265)
Other operating income received	126,302	186,466
Operating expenses paid	(4,181,236)	(2,253,648)
Income tax paid	(165,048)	(2,902)
	<u>4,420,015</u>	<u>1,727,489</u>
Cash flows from operating activities before changes in operating assets and liabilities		
	4,420,015	1,727,489
Changes in operating assets and liabilities		
Net increase in loan and advances to banks	(9,729,591)	(983,353)
Net increase in financial assets at fair value through profit or loss	(4,557,672)	(6,031,036)
Net increase in loans to customers	(101,516,284)	(20,677,282)
Net increase in other assets	(311,112)	(95,400)
Net increase in loans and advances from banks	24,974,087	741,393
Net increase in customer accounts	11,984,686	21,176,169
Net increase in other liabilities	35,439	1,540
	<u>35,439</u>	<u>1,540</u>
Net cash used in operating activities	<u>(74,700,432)</u>	<u>(4,140,480)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in associates	(30,795)	(455,106)
Proceeds on sale of associate	109,051	-
Proceeds on sale of shares in subsidiary	1,163,100	3,200,000
Purchase of property and equipment	(1,586,612)	(181,635)
Purchase of intangible assets	(43,612)	(36,251)
Proceeds on sale of property and equipment	171,863	10,313
Dividends received	83,351	45,790
	<u>83,351</u>	<u>45,790</u>
Net cash used in investing activities	<u>(133,654)</u>	<u>2,583,111</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of ordinary and preferred shares	9,640,664	6,657,535
Treasury shares purchased	(107,071)	-
Debt securities issued	73,671,030	1,467,567
Debt securities purchased or repaid	-	(1,223,013)
Subordinated bonds issued	25,637	277,064
Subordinated bonds purchased or repaid	(67,417)	(205,040)
Other borrowed funds received	25,400	729,477
Other borrowed funds repaid	(44,725)	(507,490)
Dividends paid	(821,711)	(100)
	<u>(821,711)</u>	<u>(100)</u>
Net cash from financing activities	<u>82,321,807</u>	<u>7,196,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,487,721	5,638,631
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR, Note 14	11,341,564	5,556,096
<i>Effect of changes in foreign exchange rate on cash and cash equivalents</i>	<u>462,646</u>	<u>146,837</u>
CASH AND CASH EQUIVALENTS, END OF YEAR, Note 14	<u>19,291,931</u>	<u>11,341,564</u>

**On behalf of the Management Board:**

**Kebirov A.A.**  
**Chairman of the Board**

7 February 2007

**Abdrayeva H.H.**  
**Chief Accountant**

7 February 2007

The notes on pages 8-52 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

# JSC TEMIRBANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of tenge, unless otherwise stated)

### 1. ORGANISATION

Joint Stock Company Temirbank (the “Bank”) was formed on 26 March 1992 as a specialized bank to provide services to the railroad industry in the Republic of Kazakhstan. On 21 March 1996 the Bank was registered as a joint stock company. In December 2006 the Bank became a subsidiary of Joint Stock Company TuranAlem Bank, commercial bank registered under the laws of the Republic of Kazakhstan, and is among the three biggest banks of Kazakhstan.

The Bank holds a banking license dated 24 January 2006 #107 issued by the Agency of the Republic of Kazakhstan for regulation and supervision of financial markets and financial organisations (the “Agency”) for banking operations in Kazakhstani tenge (“Tenge”) and in foreign currency and other operations allowed by the banking legislation. The Bank’s primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank’s registered head office is located at the following address: 68/74 Abai Ave., Almaty, Republic of Kazakhstan. The Bank operates through 19 branches, 71 bank service centers throughout the Republic of Kazakhstan (2005: 15 branches and 46 bank service centers). The average number of the Bank’s employees during the year was 1,735 (2005: 1,239). The Bank provides general banking services to its clients, accepts deposits from legal entities and individuals, grants loans, provides custodial services, broker/dealer services, transfers payments in Kazakhstan and abroad, exchanges currencies, provides operations with precious metals and other banking services for its commercial and retail customers.

The Bank is a parent company of the banking group (the “Group”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	The Bank ownership interest		Type of operation
		2006	2005	
TemirCapital BV	The Kingdom of Netherlands	100%	100%	<i>Raising funds from international financial markets</i>
JSC “First Broker House”	Republic of Kazakhstan	100%	100%	<i>Brokerage services, assets management and operations on securities market</i>
JSC Temirleasing	Republic of Kazakhstan	43.87%	59%	<i>Leasing activity</i>

In August 2005 the Bank purchased 100% of the shares of JSC “First Brokerage House” at their carrying value of KZT 45,950 thousands, mostly comprised of securities held for trading. JSC “First Broker House” has licenses for brokerage and dealer operations (№0401201033) and for investment portfolio management (№0403200298) issued by the Agency on 28 May 2005.

As of 31 December 2006 JSC “First Brokerage House” manages five operating mutual funds. The total value of net assets of the five funds as of 31 December 2006 amounted to KZT 370,608 thousand.

In December 2006 the Bank became a subsidiary of JSC TuranAlem Bank. The existing legislation of the Republic of Kazakhstan prohibits the Bank to have own subsidiaries. In December 2006 the Bank sold 230,000 shares representing 15.13 % of the share capital of JSC Temirleasing at the secondary stock market at 5,057 tenge per share. Profit from sales of shares of JSC Temirleasing amounted to KZT 815,208 thousand and was recognised in the income statement (Note 9).

Due to loss of control over JSC Temirleasing this company was consolidated according to the equity method as of 31 December 2006.

With respect to investments in other subsidiaries, JSC “First Brokerage House”, which were sold subsequently (Note 29), and TemirCapital BV, the Bank received a written consent from the Agency to delay the sale to the middle of 2007.

During the reporting period dividends were paid to the shareholders of the Bank owning preferred shares based on the results of 2005 and for 1-3 quarters of 2006 in the following amounts:

№	For which period payment was made	Accrued	Withholding tax	Paid
		(KZT'000)	(KZT'000)	(KZT'000)
1	On results of 2005	473,690	10,778	462,912
2	On results of 1-3 quarters of 2006	348,021	8,377	339,644
	Total	821,711	19,155	802,556

The Bank's common and preferred shares are listed on the A list of the Kazakhstani Stock Exchange (KASE). The Bank has more than 26,000 shareholders, of which 99.0% are minority holders consisting mainly of current and former employees of the National Railway Company, Kazakhstan Temir Zholy. These shareholders in total own not more than 1.34% of the total number of listed shares of the Bank.

As of 31 December 2006, 1.45% of common shares are held by nominee holders who have not declared the identity of the underlying beneficial owners of such common shares. Under Kazakhstan securities law regulating the stock market such nominee holders may not vote at shareholder meetings until the beneficial owner is disclosed, however once the identity of a beneficial owner is disclosed such common shares entitle the holder to vote at shareholder meetings.

As at 31 December 2006 and 2005, the following shareholders of the Bank constituting more than 5% of the Bank's common shares that have the right to vote at shareholder meeting:

	31 December 2006, %	31 December 2005, %
<b>Shareholders of the Bank: (shareholders of first level)</b>		
JSC TuranAlem Bank	50.8	-
Yassy-Capital LLP	6.2	-
LLP NAK- LTD	6.2	-
Company Premium-Invest LLP	5.5	-
JSC "First Broker House" (nominee holder)	-	11.7
Bank of New York	1.4	46.9
BTA Kurmet Pension Fund	-	8.9
O. A. Kononenko	-	5.9
Other shareholders owning less than 5%	29.9	26.6
Total	100.0	100.0

1.45% of common shares of the Bank without voting right are held by The Bank of New York, the depositary of the Bank on the Global Program of placing of depositary receipts, the basic asset of which is common stock of the Bank.

The following table sets out information as to all registered shareholders constituting more than 5% of the Bank's preferred shares as at 31 December 2006 and 2005:

	31 December 2006, %	31 December 2005, %
JSC BTA Kazakhstan accumulation pension fund	50.3	41.4
JSC Valut-Transit accumulation pension fund	13.6	13.4
JSC Korgau accumulation pension fund	5.8	6.0
JSC "First Broker House" (nominee holder)	5.7	-
JSC Halyk Bank accumulation pension fund	-	9.9
JSC Kazakhmys accumulation pension fund	-	7.4
Other shareholders owning less than 5%	24.6	21.9
Total	100.0	100.0

On 22 December 2006, the international rating agency, Fitch Ratings, confirmed the rating of JSC Temirbank as long-term BB-, short-term B, individual D/E, and support rating 3.

In December 2006 the agency, Moody's Investors Service, increased the long-term rating of the Bank to Ba1 on deposits in foreign currency. In addition, Moody's also increased the long-term debt rating on Eurobonds issued by TemirCapital B.V. under a guarantee of the Bank to Baa3. The Agency also confirmed the short-term rating of the Bank on NP level, the rating of financial stability E+. The forecast on all rating is Stable.

## **2. BASIS OF PRESENTATION**

### ***Accounting basis***

These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in thousands of Kazakhstani tenge ("KZT"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard ("IAS") No. 16 "Property, Plant and Equipment"

The Group maintains its accounting records in accordance with IFRS, and its foreign subsidiary maintains accounting records in accordance with the requirements of its country of residence where the subsidiary operates. These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiaries, and have been adjusted to conform to IFRS.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

### ***Functional currency***

The functional currency of these financial statements is the Kazakhstani tenge.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated profit and loss in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively. For a business combination involving entities or business under common control all assets and liabilities of a subsidiary are measured at their historic/fair values recorded in the stand-alone financial statements of the subsidiary not included in IFRS.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are done:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate at the end of the reporting period;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the income statement.

### ***Investments in associates***

An associate is an entity over which the Group is in a position to exercise significant influence, however cannot control it.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except for those held for sale.

Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

As at 31 December 2006 and 2005 assets, liabilities and profit for the years then ended of associated companies, CJSC Ineximbank and JSC Temirleasing, are presented as follows:

**31 December 2006:**

<b>Name of associated company</b>	<b>Fair value of investments in associated company</b>	<b>Total assets of associated company</b>	<b>Total liabilities of associated company</b>	<b>Profit</b>
CJSC Ineximbank	883,719	12,095,469	10,163,156	277,0
JSC Temirleasing	731,904	3,734,007	2,065,813	94,4

**31 December 2005:**

<b>Name of associated company</b>	<b>Fair value of investments in associated company</b>	<b>Total assets of associated company</b>	<b>Total liabilities of associated company</b>	<b>Profit</b>
CJSC Ineximbank	839,307	9,665,681	7,878,313	235,220
Kunayev D.A. APF	78,592	256,526	3,194	78,498

***Recognition and measurement of financial instruments***

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards and government securities denominated in KZT carried at fair value through profit or loss, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the NBRK is not included as a cash equivalent due to restrictions on its availability.

***Loans and advances to banks***

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Loans and advances to banks 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 amortized cost based on expected maturities. Loans and advances to banks are carried net of any allowance for impairment losses, if any.

***Financial assets and liabilities at fair value through profit or loss***

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities acquired principally for the purpose of selling them in the near future, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or securities that upon initial recognition are designated by the Bank at fair value through profit or loss or is a derivative. Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The fair value of derivative financial instruments is determined based on the interest rate model. The Bank uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments are entered into by the Group principally for trading purposes and include forwards on foreign currency, precious metals and securities. No derivatives are used by the Group for hedging purposes.

#### ***Repurchase and reverse repurchase agreements***

The Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

#### ***Loans to customers***

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Group with fixed maturities are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within the profit and loss account using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

#### ***Write off of loans and advances***

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The decision on writing off a bad debt to impairment loss allowance for all major, preferential, unsecured and insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor’s funds.

#### ***Allowance for impairment losses***

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate, for financial assets which are carried at amortised cost. 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 by adjusting the allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees.

These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

### **Finance leases**

Financial leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Bank as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Finance income from leases is recognized to receive a constant periodic rate of repayment on net unpaid investment. Initial direct expenses are recognized as expenses when incurred.

### *Property and equipment and intangible assets*

Property and equipment and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Property and equipment and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property and equipment and intangible assets is charged on the carrying value of property and equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2.5%
Furniture and computer equipment	15-40%
Intangible assets	20-50%

Depreciation of construction in progress commences when the assets are put into operation.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, equipment and intangible assets 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 operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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 recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

### ***Taxation***

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

### **Deposits from banks and customers**

Customer and bank deposits are initially recognized at fair value which is equal to the amount of received funds less transaction costs. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

### **Debt securities issued**

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

### **Subordinated debt**

Subordinated debt is initially recognized at fair value which usually amounts to net proceeds from the issue less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over period of the loan using the effective interest method.

### **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.

### **Financial guarantee contracts issued and letters of credit**

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

### ***Share capital and share premium***

Share capital is recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on common shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

## **Preferred shares**

Preferred shares which carry a mandatory dividend payment are classified as a subordinated debt. On initial recognition the fair value of the debt is equivalent to the present value of the mandatory dividend obligations over the term of the preferred share discounted at the market interest rate for a similar instrument that does not retain a residual benefit to discretionary dividends.

Dividends on preferred shares are classified as an expense and are recognized in the consolidated income statement with interest expense.

## **Retirement and other benefit obligations**

In accordance with the requirements of the Kazakh legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

## **Recognition of income and expense**

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Commission income/expenses are recognized when accrued.

## **Fee and commission income**

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognised in profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

## Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

### *Rates of exchange*

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
KZT/1 US Dollar	127.00	133.77
KZT/1 Euro	167.12	158.54

### *Offset of financial assets and liabilities*

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

## Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately.

Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

## Adoption of new and revised International Financial Reporting Standards

In 2006 the following interpretations and amendments applicable to the Bank became effective:

- IFRIC 4 “Determining Whether an Arrangement Contains a Lease” (effective 1 January 2006);
- IFRIC 8 “Scope of IFRS 2” (effective 1 May 2006);
- IFRIC 9 “Reassessment of Embedded Derivatives” (effective 1 June 2006);
- Amendment to IAS 39 regarding the financial guarantee contracts (effective 1 January 2006);
- Amendment to IAS 39 regarding the fair value option (effective 1 January 2006).

The effect of these changes on the consolidated financial statements of the Group is not significant.

At the date of authorisation of these financial statements, the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures” (effective 1 January 2007);
- IFRIC 10 “Interim Financial Reporting and Impairment” (effective 1 November 2006);
- Amendments to IAS 1 regarding disclosure on the Bank’s objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

#### 4. INTEREST INCOME AND EXPENSE

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
<b>Interest income</b>		
Interest on loans to customers	13,692,145	5,611,867
Interest accrued on financial assets at fair value through profit or losses	1,492,192	291,548
Interest on loans and advances to banks	174,947	163,868
Interest on reverse repurchase transactions	<u>300,284</u>	<u>60,715</u>
Total interest income	<u>15,659,568</u>	<u>6,127,998</u>
<b>Interest expense</b>		
Interest on debt securities issued	3,157,801	241,167
Interest on customer accounts	3,063,981	1,951,795
Interest on loans and advances from banks	1,173,468	1,096,731
Dividends on preferred shares	470,605	473,690
Interest on repurchase transactions	298,525	78,715
Interest on borrowed funds	3,712	4,671
Interest on subordinated debt	<u>67,216</u>	<u>83,183</u>
Total interest expense	<u>8,235,308</u>	<u>3,929,952</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>7,424,260</u>	<u>2,198,046</u>

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	<b>Loans and advances to banks</b>	<b>Loans to customers</b>	<b>Total</b>
<b>31 December 2004</b>	13,000	725,304	738,304
(Recovery of provision)/Provision	(13,000)	1,632,718	1,619,718
Write-off of assets	-	(592,846)	(592,846)
Recoveries of assets previously written off	-	97,246	97,246
<b>31 December 2005</b>	-	1,862,422	1,862,422
Provisions	49,114	3,021,970	3,071,084
Write-off of assets	-	(457,745)	(457,745)
Recoveries of assets previously written off	-	147,449	147,449
Disposal of subsidiary	-	(122,650)	(122,650)
<b>31 December 2006</b>	<u>49,114</u>	<u>4,451,446</u>	<u>4,500,560</u>

The movements in allowances for impairment losses on other assets were as follows:

	<b>2006</b>	<b>2005</b>
<b>At the beginning of the year</b>	1,623	-
Provision	1,583	32,029
Write-off of assets	(13)	(43,515)
Recoveries of assets previously written off	-	13,109
<b>At the end of the year</b>	<u>3,193</u>	<u>1,623</u>

The movements in allowances for provisions on guarantees and other commitments were as follows:

	<b>2006</b>	<b>2005</b>
<b>At the beginning of the year</b>	803	39,167
Recoveries of provision	(78)	(38,364)
<b>At the end of the year</b>	<u>725</u>	<u>803</u>

## 6. NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net loss on financial assets at fair value through profit or loss comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Trading gain/(loss) on operations with financial assets at fair value through profit or loss, net		
- Bonds	203,044	(1,169)
- Common shares	138,025	(3,382)
- Derivative financial instruments on foreign currency	(85,856)	(51,445)
Fair value adjustment on financial assets at fair value through profit or loss, net		
- Bonds	(204,784)	6,304
- Common shares	(22,658)	(43)
- Derivative financial instruments on foreign currency	(34,518)	888
Total net loss on financial assets at fair value through profit or loss	<u>(6,747)</u>	<u>(48,847)</u>

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Dealing, net	461,779	37,707
Translation differences, net	462,645	146,837
Total net gain on foreign exchange operations	<u>924,424</u>	<u>184,544</u>

## 8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
<b>Fee and commission income:</b>		
Cash operations	1,132,416	579,170
Settlements	311,553	216,864
Guarantees issued	110,793	101,292
Custodian services	55,515	36,824
Trust management services	36,785	41,322
Letters of credit	11,704	23,527
Other	24,377	26,563
Total fee and commission income	<u>1,683,143</u>	<u>1,025,562</u>

	Year ended 31 December 2006	Year ended 31 December 2005
<b>Fee and commission expense:</b>		
Plastic cards services	30,602	19,240
Settlements	26,867	21,043
Securities operations	15,234	7,897
Cash operations	9,412	6,885
Custodial services	691	96
Documentary operations	-	1,572
Other	1,650	992
	<hr/>	<hr/>
Total fee and commission expense	<u>84,456</u>	<u>57,725</u>

## 9. GAIN ON SALES OF SHARES IN SUBSIDIARY

In December 2006 the Bank sold 230,000 shares of JSC Temirleasing (subsidiary of the Bank) at KZT 5,057 per 1 share (at nominal value of KZT 1,000) for KZT 1,163,110 thousand to third parties through KASE. The gain on sales amounted to KZT 815,208 thousand.

### Net assets disposed are as follows:

#### ASSETS

Cash	463
Financial leasing to customers	1,965,917
Property and equipment (Note 19)	1,126,876
Other assets	429,560
Other current assets	102,491
	<hr/>
	3,625,307

#### LIABILITIES

Deferred tax liabilities (Note 12)	(30,195)
Trade and other accounts payable	(107,950)
	<hr/>
	(138,145)
Minority interest	(634,276)
	<hr/>
Parent's interest in net assets deconsolidated	2,852,886
Total consideration	<u>(3,668,094)</u>
Gain on sales of shares in subsidiary	<u>(815,208)</u>

### Total consideration satisfied by:

Cash	1,163,100
Receivable on disposal (loans to customers)	1,843,908
Remaining proportionate share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary sold (43.87%) (Note 18)	767,767
Liabilities on disposal	(106,681)
	<hr/>
	<u>3,668,094</u>

## 10. OTHER INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Income from expertise of projects	36,123	12,536
Services to customers (sales of blanks, etc.)	16,423	16,658
Income from encashment services	12,932	4,504
Income from lease	12,466	7,962
Compensation of bank's expenses by customers	7,662	3,355
Income from safe operations	3,520	2,653
Fines and penalties received	-	13,806
Other	17,890	20,093
	<hr/>	<hr/>
Total other income	107,016	81,567
	<hr/> <hr/>	<hr/> <hr/>

## 11. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Staff costs	2,029,402	1,088,469
Depreciation and amortization	349,152	178,037
Advertising costs	304,777	173,280
Operational lease	255,334	58,026
Social tax	225,516	133,253
Administrative expenses	203,682	164,192
Taxes, other than income tax	188,747	113,769
Legal services	161,327	61,230
Property and equipment maintenance	155,589	93,212
Communications	144,559	108,688
Payments to the Deposit Insurance Fund	56,398	36,901
Business trip expenses	49,195	45,388
Security expenses	45,653	38,311
Information services	45,327	21,676
Transport expenses	39,989	20,561
Insurance expenses	25,737	18,017
Cash collection expenses	17,177	13,043
Representative expenses	13,632	10,511
Charity and sponsorship expenses	10,307	5,978
Other expenses	266,215	128,912
	<hr/>	<hr/>
Total operating expenses	4,587,715	2,511,454
	<hr/> <hr/>	<hr/> <hr/>

## 12. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2006 and 2005 comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>Deferred assets:</b>		
Intangible assets	<u>18,121</u>	<u>15,310</u>
Total deferred assets	<u>18,121</u>	<u>15,310</u>
<b>Deferred liabilities:</b>		
Property and equipment	<u>480,188</u>	<u>151,482</u>
Total deferred liabilities	<u>480,188</u>	<u>151,482</u>
Net deferred liabilities	<u>(462,067)</u>	<u>(136,172)</u>
Net deferred tax liability at the statutory tax rate (30%)	<u>(138,620)</u>	<u>(40,852)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Profit before income tax	<u>3,364,821</u>	<u>2,057,476</u>
Statutory tax rate	30%	30%
Tax at the statutory tax rate	1,009,446	617,243
Tax effect of permanent differences including:	(716,435)	(605,358)
- Interest income from mortgage loans not subject to income tax	(555,189)	(136,018)
- Interest income from leasing not subject to income tax	(109,370)	(78,548)
- Non-deductible expenses	311,327	409,805
- Profit from state securities and securities listed at KASE under A and B categories	(118,505)	(30,433)
- Non-taxable profit from sold shares of subsidiary	<u>(244,698)</u>	<u>(770,164)</u>
Income tax expense	<u>293,011</u>	<u>11,885</u>
Current income tax expense	165,048	2,990
Adjustment of previous years for current income tax	-	(16,242)
Deferred income tax expense	<u>127,963</u>	<u>25,137</u>
Income tax expense	<u>293,011</u>	<u>11,885</u>
<b>Deferred income tax liabilities</b>	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
<b>At the beginning of the year</b>	40,852	15,715
Deferred income tax liabilities of subsidiary sold (Note 9)	(30,195)	-
Increase in income tax liability for the period charged to profit	<u>127,963</u>	<u>25,137</u>
<b>At the end of the year</b>	<u>138,620</u>	<u>40,852</u>

### 13. EARNINGS PER SHARE

	Year ended 31 December 2006	Year ended 31 December 2005
<b>Profit:</b>		
Net profit attributable to equity holders of the parent	<u>2,999,266</u>	<u>2,116,648</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>9,992</u>	<u>4,511</u>
Basic and diluted earnings per share (KZT)	<u><u>300</u></u>	<u><u>469</u></u>

### 14. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

	31 December 2006	31 December 2005
Balances with the National Bank of the Republic of Kazakhstan	13,459,749	1,885,164
Cash	<u>4,104,581</u>	<u>2,127,064</u>
Total cash and balances with the National Bank of the Republic of Kazakhstan	<u><u>17,564,330</u></u>	<u><u>4,012,228</u></u>

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2006	31 December 2005
Cash and balances with the National Bank of the Republic of Kazakhstan	17,564,330	4,012,228
Correspondent accounts and overnight deposits with other banks (Note 16)	<u>1,727,601</u>	<u>7,329,336</u>
Total cash and cash equivalents	<u><u>19,291,931</u></u>	<u><u>11,341,564</u></u>

### 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss as of 31 December comprise:

	31 December 2006	31 December 2005
Debt securities	12,702,115	9,224,079
Shares	1,427,531	167,748
Derivative financial instruments	<u>-</u>	<u>888</u>
Total financial assets at fair value through profit and loss	<u><u>14,129,646</u></u>	<u><u>9,392,715</u></u>

As at 31 December 2006 and 2005 included in assets at fair value through profit or loss is accrued interest income on debt securities amounting to KZT 244,285 thousand and KZT 60,024 thousand, respectively.

	Interest to nominal %	31 December 2006	Interest to nominal %	31 December 2005
<b>Debt securities:</b>				
Corporate bonds	8.0-12.0	11,105,043	8.0-9.5	7,843,557
Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	4.05-6.68	1,597,072	4.0-8.35	610,717
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	11.13	652,732
Notes of NBRK		-		117,073
		<u>12,702,115</u>		<u>9,224,079</u>
		<b>31 December 2006</b>		<b>31 December 2005</b>
<b>Equity investments:</b>				
JSC ATF Bank		521,882		-
JSC Kazkommertsbank		317,571		101,456
JSC Exploration, production KazMunaiGas		244,213		-
JSC Kazzinc		178,559		-
JSC Bank CenterCredit		101,366		-
JSC Kazakhtelecom		61,740		-
Shares of JSC ValutTransitBank		-		66,292
Other		2,200		-
		<u>1,427,531</u>		<u>167,748</u>

#### Derivative financial instruments (Note 25):

	31 December 2006			31 December 2005		
	Nominal amount	Net fair value		Nominal Amount	Net fair value	
		Asset	Liability		Asset	Liability
<b>Foreign currency contracts</b>						
Forwards	8,301,700	-	33,368	4,020,900	-	-
Swaps	1,919,750	-	262	991,502	168	-
Spots	-	-	-	1,271,160	720	-
	<u>10,221,450</u>	<u>-</u>	<u>33,630</u>	<u>6,283,562</u>	<u>888</u>	<u>-</u>

#### 16. LOANS AND ADVANCES TO BANKS

	31 December 2006	31 December 2005
Loans under reverse repurchase agreements	10,382,848	1,502,059
Correspondent accounts and overnight placements with banks	1,448,201	5,011,195
Current term placements with banks	1,550,166	2,773,865
	<u>13,381,215</u>	<u>9,287,119</u>
Less: Allowance for impairment	(49,114)	-
Total loans and advances to banks, net	<u>13,332,101</u>	<u>9,287,119</u>

As at 31 December 2006 and 2005 movement in allowances for impairment of loans and advances to banks is presented in Note 5.

As at 31 December 2006 and 2005 included in loans and advances to banks is accrued interest amounting to KZT 29,978 thousand and KZT 63,738 thousand, respectively.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
Notes of NBRK	8,000,003	8,000,003	-	-
Shares of JSC TuranAlem Bank	2,951,088	1,930,196	1,500,069	1,500,069
Bonds of JSC TuranAlem Bank	549,393	437,007	-	-
Equity securities of JSC KASE	2,000	2,000	-	-
Accrued interest	13,642	13,642	1,990	1,990
	<u>11,516,126</u>	<u>10,382,848</u>	<u>1,502,059</u>	<u>1,502,059</u>
Total				

As at 31 December 2006 the Group did not have significant concentrations per one counterparty on current placements with banks. As at 31 December 2005, the Group placed three deposits with banks each exceeding KZT 800,000 thousand. The total amount of placements amounted to KZT 2,249,551 thousand or 81% of the total current time placements with banks.

## 17. LOANS TO CUSTOMERS

	<b>31 December 2006</b>	<b>31 December 2005</b>
Originated loans	149,779,833	47,292,769
Investments in financial leasing	-	1,721,639
Loans under repurchase agreements	<u>3,133,471</u>	<u>2,661,486</u>
	152,913,304	51,675,894
Less: Allowance for loan impairment	<u>(4,451,446)</u>	<u>(1,862,422)</u>
Total loans to customers	<u>148,461,858</u>	<u>49,813,472</u>

As at 31 December 2006 and 2005 accrued interest expenses included in loans to customers amounted to KZT 2,011,658 thousand and KZT 1,098,572 thousand, respectively.

As at 31 December 2006 and 2005, loans, on which accrual of interest was suspended, amounted to KZT 816,007 thousand and KZT 810,712 thousand, respectively.

As at 31 December 2006 and 2005 movement in allowances for impairment is presented in Note 5.

Loans to customers by type of collateral are as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Loans collateralized by real estate	95,191,010	29,051,621
Loans collateralized by guarantees of enterprises	10,126,610	994,551
Loans collateralized by inventories	3,039,216	783,749
Loans collateralized by shares and bonds of other companies	16,942,274	2,661,486
Loans collateralized by equipment	206,418	1,792,376
Loans collateralized by cash or Kazakhstani Government guarantees	3,187,885	4,508,728
Other types of collateral	9,246,899	9,469,869
Unsecured loans	10,521,546	551,092
	<u>148,461,858</u>	<u>49,813,472</u>
Total loans to customers	<u>148,461,858</u>	<u>49,813,472</u>

Economic sector risk concentrations within the customer loan portfolio are as follows:

	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>KZT'000</b>	<b>%</b>	<b>KZT'000</b>	<b>%</b>
Individuals	98,100,912	66.08	20,742,451	41.64
Wholesale trade	14,359,243	9.67	6,568,682	13.19
Construction	7,080,758	4.77	6,827,969	13.71
Financial services	6,869,322	4.63	2,896,941	5.82
Water, gas and power supply	6,139,332	4.14	230,755	0.46
Real estate	3,888,899	2.62	1,816,838	3.65
Transportation	2,802,219	1.89	939,502	1.89
Agriculture	1,658,422	1.12	493,959	0.99
Hotels and restaurants	1,424,277	0.96	1,506,964	3.03
Retail trade	1,166,483	0.79	574,775	1.15
Services to enterprises	719,454	0.48	2,624,014	5.27
Food	739,443	0.50	1,978,860	3.97
Paper production	416,353	0.28	222,064	0.45
Chemicals	342,176	0.23	219,084	0.44
Farms	341,352	0.23	228,183	0.46
Health care	240,940	0.16	111,769	0.22
Printing	237,692	0.16	423,531	0.85
Furniture production	164,486	0.11	149,769	0.30
Utilities	111,471	0.08	11,813	0.02
Education	89,236	0.06	74,511	0.15
Fabricated metal products	32,414	0.02	137,878	0.28
Entertainment	19,018	0.01	118,382	0.24
Mining	2,138	0.00	196,721	0.39
Oil and gas	-	-	442,432	0.89
Lease	-	-	39,152	0.08
Other	1,515,818	1.02	236,473	0.47
	<u>148,461,858</u>	<u>100.00</u>	<u>49,813,472</u>	<u>100.00</u>
Total loans to customers	<u>148,461,858</u>	<u>100.00</u>	<u>49,813,472</u>	<u>100.00</u>

Loans to individuals were under the following lending programs:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Consumer loans collateralized by real estate	52,943,440	2,528,698
Mortgage loans	25,461,144	12,196,030
Car loans	5,152,272	1,624,752
Other	14,544,056	4,392,971
	<u>98,100,912</u>	<u>20,742,451</u>
Total loans to individuals	<u>98,100,912</u>	<u>20,742,451</u>

As at 31 December 2006 and 2005 the Group provided loans to 10 and 6 corporate clients, totaling KZT 28,634,468 thousand and KZT 7,166,849 thousand, respectively, which individually exceeded 5% of the Group's equity.

A significant amount of loans (95.6% of total portfolio) is granted to borrowers operating in the Republic of Kazakhstan, which represents significant geographical concentration in one region.

Fair value of assets pledged and carrying value of loan under reverse repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
Equity securities of JSC TuranAlem Bank	2,050,944	1,769,749	-	-
Equity securities of JSC Ordabasy Corporation	667,000	667,000	1,106,479	1,106,479
Equity securities of JSC Mangistau Munai Gas	635,620	635,620	-	-
Bonds of JSC Astana Finance	-	-	493,816	493,816
Equity securities of JSC Valut-Transit Bank	-	-	465,664	465,664
Bonds of JSC ATF	-	-	242,878	242,878
Bonds of JSC Valut-Transit Bank	-	-	185,036	185,036
Bonds of JSC Bank Caspian	-	-	117,998	117,998
Accrued interest	61,102	61,102	49,615	49,615
<b>Total</b>	<b>3,414,666</b>	<b>3,133,471</b>	<b>2,661,486</b>	<b>2,661,486</b>

Net investments in financial leasing as of 31 December 2005 comprised:

	<b>31 December 2005</b>
Minimum lease payments	2,418,359
Less unearned financial income	(559,311)
Less provision for impairment losses	(137,409)
<b>Net investments in financial leasing</b>	<b>1,721,639</b>
Current portion	676,570
Long-term portion	1,182,478
Provision for impairment losses	(137,409)
<b>Net investments in financial leasing</b>	<b>1,721,639</b>

The present value of the future minimum lease payments received under financial leasing as of 31 December 2005 is as follows:

	<b>31 December 2005</b>
Not later than 1 year	1,056,236
Later than 1 year and not later than 5 years	1,360,417
Later than 5 years	1,706
Less unearned financial income	(559,311)
Less provision for impairment losses	(137,409)
<b>Total present value of the future minimum lease payments</b>	<b>1,721,639</b>

## 18. INVESTMENT IN ASSOCIATES

The following enterprises were recorded in the consolidated financial statements using the equity method:

	31 December 2006		31 December 2005	
	Interest	Amount	Interest	Amount
CJSC IneximBank	46%	883,719	46%	839,307
JSC Temirleasing	43.87%	731,904	-	-
D.A. Kunayev APF	-	-	34%	78,592
		<u>1,615,623</u>		<u>917,899</u>

Interest in the above associated companies represents direct and indirect interest.

Movements in the amount of investment in associates in consolidated financial statements using the equity method comprised:

	2006	2005
<b>At the beginning of the year</b>	917,899	400,718
Purchase costs	30,795	455,106
Sale of investments	(109,051)	-
Share of results of associates	91,564	107,865
Remaining proportionate share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary sold (Note 9)	767,767	-
Dividends received	<u>(83,351)</u>	<u>(45,790)</u>
<b>At the end of the year</b>	<u>1,615,623</u>	<u>917,899</u>

In 2006 the Group sold its shares in D.A. Kunayev Accumulative Pension Fund to a third party for KZT 109,388 thousand. Income from sales of these investments amounted to KZT 452 thousand.

In December 2006 the Group sold shares in its subsidiary JSC Temirleasing resulting in loss of control and recognition of the remaining proportionate share of the next fair value of the identifiable assets, liabilities and contingent liabilities of the company (43.87%) (Note 9).

## 19. PROPERTY AND EQUIPMENT

	<b>Buildings and other real estate</b>	<b>Furniture and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>At cost</b>					
31 December 2004	291,492	397,190	121,847	399,755	1,210,284
Additions	1,490,756	68,400	42,102	70,153	1,671,411
Disposals	<u>(224,791)</u>	<u>(13,848)</u>	<u>(9,786)</u>	<u>(8,051)</u>	<u>(256,476)</u>
31 December 2005	1,557,457	451,742	154,163	461,857	2,625,219
Additions	790,646	426,885	68,352	318,277	1,604,160
Disposals	(391,418)	(26,688)	(45,882)	(15,641)	(479,629)
Disposal of subsidiary	<u>(1,149,098)</u>	<u>(2,875)</u>	<u>(1,807)</u>	<u>(8,239)</u>	<u>(1,162,019)</u>
31 December 2006	<u>807,587</u>	<u>849,064</u>	<u>174,826</u>	<u>756,254</u>	<u>2,587,731</u>
<b>Accumulated depreciation</b>					
31 December 2004	32,207	224,440	55,542	166,274	478,463
Charge for the year	12,423	80,300	13,677	47,471	153,871
Eliminated on disposal	<u>(22,957)</u>	<u>(13,137)</u>	<u>(8,368)</u>	<u>(7,053)</u>	<u>(51,515)</u>
31 December 2005	21,673	291,603	60,851	206,692	580,819
Charge for the year	32,601	151,865	30,984	108,579	324,029
Written off on disposal	(4,035)	(26,350)	(14,862)	(6,010)	(51,257)
Disposal of subsidiary	<u>(30,441)</u>	<u>(1,525)</u>	<u>(1,733)</u>	<u>(1,444)</u>	<u>(35,143)</u>
31 December 2006	<u>19,798</u>	<u>415,593</u>	<u>75,240</u>	<u>307,817</u>	<u>818,448</u>
<b>Net book value</b>					
31 December 2006	<u>787,789</u>	<u>433,471</u>	<u>99,586</u>	<u>448,437</u>	<u>1,769,283</u>
31 December 2005	<u>1,535,784</u>	<u>160,139</u>	<u>93,312</u>	<u>255,165</u>	<u>2,044,400</u>

## 20. OTHER ASSETS

	<b>31 December 2006</b>	<b>31 December 2005</b>
Office supplies and other inventories	640,031	84,459
Trade receivables	212,886	58,017
Deferred expenses	142,186	88,970
Intangible assets	96,689	79,637
Accrued commissions	25,322	17,989
Receivables from employees	10,371	7,510
Plastic cards receivables	9,930	9,057
Prepaid taxes	3,376	4,252
Precious metals	-	1,153
Other	<u>30,078</u>	<u>9,471</u>
	1,170,869	360,515
Less allowance for impairment losses	<u>(3,193)</u>	<u>(1,623)</u>
Total other assets	<u>1,167,676</u>	<u>358,892</u>

Movements in allowances for impairment losses on other assets for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

As of 31 December 2006 office supplies and other inventories included withdrawn collateral accepted in the balance sheet for further sales in the amount of KZT 565,530 thousand.

## 21. LOANS AND ADVANCES FROM BANKS

	<b>31 December 2006</b>	<b>31 December 2005</b>
Loans received under repurchase agreements	17,130,428	2,667,227
Deposits from banks	15,463,891	7,766,166
Loans from banks and financial institutions, including:	7,211,184	3,290,257
Syndicated loan from a group of banks (maturity – September 2007, interest rate 7.07063 %)	6,488,437	-
Loan from FMO N.V. (maturity – October 2009, interest rate 9.12 %)	487,108	-
Loan from JSC Rehabilitation fund (maturity - , interest rate %)	235,639	-
Correspondent accounts and overnight placements of banks	<u>442,013</u>	<u>1,371,848</u>
 Total loans and advances from banks	 <u><u>40,247,516</u></u>	 <u><u>15,095,498</u></u>

As at 31 December 2006 and 2005 accrued interest expenses included in loans and advances from banks amounted to KZT 347,671 thousand and KZT 174,392 thousand, respectively.

As at 31 December 2006 and 2005 included in bank deposits are two deposits from JSC TuranAlem Bank totaling USD 44,000,000 (KZT 5,895,120 thousand) with interest rate of 12% per annum and maturity in January 2007. As at 31 December 2006 included in bank deposits are three deposits from JSC TuranAlem Bank totaling KZT 7,280,000 thousand with interest rate of 11% per annum and maturity in December 2007.

As at 31 December 2006 and 2005 included in loans and advances from banks are loans under repurchase agreements amounted to KZT 17,130,428 thousand and KZT 2,667,227 thousand, respectively, including accumulated expenses of KZT 12,292 thousand and KZT 5,349 thousand, respectively.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>Fair value of collateral</b>	<b>Carrying value of loans</b>	<b>Fair value of collateral</b>	<b>Carrying value of loans</b>
Notes of NBRK	7,589,000	7,589,000	85,001	85,001
Bonds of Kazakhstani companies	8,686,956	7,386,135	2,444,521	2,444,521
State short-term obligations of the Ministry of Finance of the Republic of Kazakhstan	1,750,328	1,335,000	111,000	111,000
Shares of Kazakhstani companies	1,154,287	808,001	21,356	21,356
Accrued interest	<u>12,292</u>	<u>12,292</u>	<u>5,349</u>	<u>5,349</u>
 Total	 <u><u>19,192,863</u></u>	 <u><u>17,130,428</u></u>	 <u><u>2,667,227</u></u>	 <u><u>2,667,227</u></u>

## 22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Time deposits	30,663,633	31,668,727
Repayable on demand	<u>22,799,170</u>	<u>9,918,688</u>
 Total customer accounts	 <u><u>53,462,803</u></u>	 <u><u>41,587,415</u></u>

As at 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to KZT 585,054 thousand and KZT 692,207 thousand, respectively.

As at 31 December 2006 and 2005 customer accounts included the amount of KZT 1,265,400 thousand and KZT 3,280,793 thousand, respectively, which were held as security against the loans.

As at 31 December 2006 and 2005 customer accounts included the amount of KZT 176,356 thousand and KZT 166,587 thousand, respectively, which were held as security against letters of credit issued guarantees issued.

Concentration of risks inherent in economic sector as per the customer accounts is presented as follows:

	2006		2005	
	KZT'000	%	KZT'000	%
Individuals	17,999,158	33.67	9,916,132	23.84
Financial services and insurance services	14,048,326	26.28	12,277,846	29.52
Uranium mining	7,456,941	13.95	7,351,672	17.68
Construction	3,647,803	6.82	2,162,116	5.20
Services to individuals and enterprises	2,322,823	4.34	998,808	2.40
Education	1,675,812	3.13	687,928	1.65
Transport	1,675,741	3.13	324,309	0.78
Wholesale trade	1,526,485	2.86	4,638,450	11.15
Agriculture	865,794	1.62	191,920	0.46
Retail trade	451,919	0.85	151,446	0.36
Healthcare	249,439	0.47	361,013	0.87
Real estate	224,096	0.42	1,263,904	3.04
Research and developments	208,910	0.39	189,415	0.46
Metallurgy	207,478	0.39	11,997	0.03
Associations and unions	196,638	0.37	173,878	0.42
Utility	82,129	0.15	163,504	0.39
Food	59,888	0.11	109,261	0.26
Printing	58,720	0.11	47,580	0.11
Mining	13,208	0.02	190,231	0.46
State administration	4,266	0.01	14,664	0.04
Other	487,229	0.91	361,341	0.90
Total customer accounts	<u>53,462,803</u>	<u>100.00</u>	<u>41,587,415</u>	<u>100.00</u>

At 31 December 2006 ten largest customers' accounts amounted to KZT 17,432,110 thousand and represented 32.6 % of total customer accounts (31 December 2005: 10 customers' accounts amounted to KZT 19,939,709 thousand and represented 48% of total customer accounts).

As at 31 December 2006 included in customer accounts are loans under repurchase agreements amounting to KZT 496,864 thousand with maturity in January 2007. Accrued interest on these loans amounted to KZT 207 thousand.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	31 December 2006		31 December 2005	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Shares of Kazakhstani companies	522,116	394,945	-	-
Corporate bonds of the Kazakhstani companies	108,758	101,712	-	-
Accrued interest	207	207	-	-
	<u>631,081</u>	<u>496,864</u>	<u>-</u>	<u>-</u>

## 23. DEBT SECURITIES ISSUED

	Currency	Maturity date month/year	Annual coupon rate	31 December 2006 KZT'000	31 December 2005 KZT'000
Eurobonds issued at price of					
99.680	USD	March 2009	9.25%	19,050,000	-
99.017	USD	November 2011	9.00%	38,100,000	-
				57,150,000	-
Accumulated interest expenses				130,952	-
				57,280,952	-
Bonds issued in the local market	KZT	November 2012	8.0%-9.7%	19,048,770	3,087,700
Discount				(97,068)	(133,571)
Accumulated interest expenses				472,783	48,447
				19,424,485	3,002,576
Total debt securities issued				76,705,437	3,002,576

On 28 January 2005 at the General meeting of shareholders the decision was made on registration of the program of the bond issue in the local market in the amount of KZT 30,000,000 thousand for creation of the resource base for the purpose of improvement of the Bank's activities in sphere of trade and project financing.

Bond issue in the local market within 8 issue programs are presented in the table below:

	Date of Issue	Currency	Maturity	Interest rate	Bonds issued, thousand units	Nominal amount
I	06/07/2005	KZT	06/07/2015	8%	500	5,000,000
II	30/12/2005	KZT	30/12/2008	9.75%	3,000,000	3,000,000
III	30/12/2005	KZT	30/12/2012	10%	4,000,000	4,000,000
IV	01/06/2006	KZT	01/06/2015	9.7%	3,000	3,000,000
V	01/06/2006	KZT	01/06/2012	9.7%	3,500	3,500,000
VI	01/06/2006	KZT	01/06/2009	9.75%	3,000	3,000,000
VII	29/11/2006	KZT	29/11/2021	9%	4,000	4,000,000
VIII	29/11/2006	KZT	29/11/2016	8.5%	4,500	4,500,000
Total					7,018,500	30,000,000

During 2006 the Bank attracted additional funds by two Eurobond issues. The nominal value of the first issue in March 2006 amounted to USD 150 million, the nominal value of the second issue in November 2006 amounted to USD 300 million.

## 24. OTHER BORROWED FUNDS

	Currency	Maturity	31 December 2006 Interest rate	31 December 2006 Amount KZT'000	31 December 2005 Interest rate	31 December 2005 Amount KZT'000
Funding by the Ministry of Finance of the Republic of Kazakhstan	Tenge	2007-2009	6.0-8.1%	<u>88,843</u>	6.0-8.1%	<u>109,616</u>
Total other borrowed funds				<u>88,843</u>		<u>109,616</u>

As at 31 December 2006 and 2005 accrued interest expense is included in other borrowed funds amounting to KZT 270 thousand and KZT 272 thousand, respectively.

## 25. OTHER LIABILITIES

	31 December 2006	31 December 2005
Accounts payable to the employees	104,828	52,176
Derivative financial instruments (Note 15)	33,630	-
Advances received	31,877	50,638
Taxes payable, other than income tax	27,946	43,661
Contribution payable to Deposits Guarantee Fund	15,000	10,272
Provision for guarantees and other commitments	725	803
Other	<u>30,317</u>	<u>31,964</u>
Total other liabilities	<u>244,323</u>	<u>189,514</u>

Movements in provision for guarantees and other commitments for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

## 26. SUBORDINATED DEBT

	Maturity date	Interest Rate	31 December 2006	31 December 2005
Bonds in USD	2008	11%	532,295	601,051
Discount			(13,323)	(21,288)
Preferred shares (Note 27)			4,457,487	4,301,597
Preferred shares accrued dividends			<u>122,584</u>	<u>473,190</u>
Total subordinated debt			<u>5,099,043</u>	<u>5,354,550</u>

As at 31 December 2006 and 2005 accrued interest expense included in subordinated debt amounted to KZT 16,700 thousand and KZT 19,029 thousand, respectively.

As at 31 December 2006 subordinated bonds of USD 5,900,000 (KZT 749,300 thousand) have been issued by the Bank (31 December 2005: USD 5,864,100 or KZT 785,672 thousand) from which USD 1,840,200 (KZT 203,650 thousand) were repurchased by the Bank. The bonds bear interest at 11% per annum and were sold discount. The bonds mature in September 2008. The bonds rank behind the claims against the Bank depositors and other creditors.

In case of bankruptcy or liquidation of the Group settlement of this debt is performed after fulfillment of obligations of the Group against other creditors.

## 27. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2006 and 2005 the Group's share capital comprised the following:

	31 December 2006		31 December 2005	
	Number of shares	Amount KZT'000	Number of shares	Amount KZT'000
Common shares	15,000,000	14,998,098	5,627,440	5,630,540
Preferred shares	4,903,380	435,702	4,731,896	430,559
Total	<u>19,903,380</u>	<u>15,433,800</u>	<u>10,359,336</u>	<u>6,061,099</u>

Share premium represents the excess of contributions received over the nominal value of shares issued.

In 2006 the Bank allocated 9,372,560 of its common shares and 268,104 of preferred shares (KZT 1,000 per one share) among the affiliates of the current shareholders of the Group.

The preferred shares have a nominal value of KZT 1,000 and carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. They carry a minimum annual dividend of KZT 100 per share. The percentage of dividends is determined at the annual shareholders' meeting and is dependent on the annual financial results, but cannot be less than one percent for preference shares. These shares are not redeemable. If dividends are not declared, the preference shareholders obtain the right to vote as common shareholders until such time that the dividend is paid.

As required by IAS 32 "Financial instruments: presentation", the preference shares are classified as a liability, considering the substance of the arrangement which includes an unconditional obligation to deliver cash or another financial instrument.

Share premium represents the excess of contributions received over the nominal value of shares issued and the excess of contributions received for treasury shares sold over their purchase price.

## 28. FINANCIAL COMMITMENTS AND CONTINGENCIES

### Credit-related commitments

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

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

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

Provision for losses on letters of credit and guarantees amounted to KZT 725 thousand and KZT 803 thousand as at 31 December 2006 and 2005, respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2006 and 2005 the nominal or contract amounts and risk-weighted amounts were:

	<u>31 December 2006</u>		<u>31 December 2005</u>	
	<b>Nominal amount</b>	<b>Risk weighted amount</b>	<b>Nominal amount</b>	<b>Risk weighted amount</b>
<b>Contingent liabilities and credit commitments</b>				
Commitments on loans and unused credit lines	32,363,914	16,181,957	9,917,365	4,958,683
Guarantees issued and similar commitments	1,291,428	1,291,428	833,186	833,186
Letters of credit and other transaction related contingent obligations	247,846	112,176	410,559	178,092
Total contingent liabilities and credit commitments	<u>33,903,188</u>	<u>17,585,561</u>	<u>11,161,110</u>	<u>5,969,961</u>

### **Fiduciary activities**

These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories at nominal value:

	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>Nominal value</b>	<b>Nominal value</b>
Government securities held in custody of pension funds	40,006,864	30,820,933
Corporate securities held in custody of pension funds	74,081,742	33,902,769
Deposits of pension funds with other banks	20,719,893	10,765,643
Clients' assets in asset management	<u>6,555,423</u>	<u>1,292,459</u>
Total fiduciary assets	<u>141,363,922</u>	<u>76,781,804</u>

### **Legal proceedings**

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

### **Taxes**

Due to the presence in Kazakhstani commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, loss and impairment provisions and the market level for the pricing of deals. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

### **Pensions and retirement plans**

Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As at 31 December 2006 and 2005, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## **Operating environment**

The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting the business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

## **29. SUBSEQUENT EVENTS**

On 5 February 2007 the Bank sold 100% of the shares of JCS "First Brokerage House" for KZT 45,950 thousand.

## **30. TRANSACTIONS WITH RELATED PARTIES**

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries) have share in the Group which allow to render a material influence on the Bank, and which have a common control over the Group;
- (b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint enterprises, in which the Group is a member;
- (d) Key management personnel or its parent company;
- (e) Close relatives of any persons mentioned in articles (a) or (d);
- (f) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence;
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

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

	31 December 2006		31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to banks	970,280	13,332,101		
- <i>associates</i>	970,280			
Loans to customers	2,188,696	148,461,858	73,472	49,813,472
- <i>associates</i>	1,906,243			
- <i>key management personnel of the entity or its parent</i>	282,453		73,472	
Financial assets at fair value through profit or loss	2,242,416	14,129,646	-	
- <i>parent company</i>	1,498,352		-	
- <i>entities with joint control or significant influence over the entity</i>	700,789		-	
Investments in associates	1,615,623	1,615,623	917,899	917,899
- <i>associates</i>	1,615,623		917,899	
Loans and advances from banks	13,304,777	40,247,516	-	
- <i>parent company</i>	13,021,645		-	
- <i>associates</i>	283,132		-	
Customer accounts	1,679,531	53,462,803	3,293,511	41,587,415
- <i>entities with joint control or significant influence over the entity</i>	1,346,368		3,204,640	
- <i>key management personnel of the entity or its parent</i>	210,863		40,778	
- <i>associates</i>	122,300		48,093	
Commitments on loans and unused credit lines	614,446	32,363,914	-	
- <i>associates</i>	614,446		-	
Guarantees issued	17,380	1,291,428	18,087	833,186
- <i>key management personnel of the entity or its parent</i>	17,380		6,699	
- <i>entities with joint control or significant influence over the entity</i>	-		11,388	

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	145,921	15,659,568	9,860	6,127,998
- associates	133,734		-	
- key management personnel of the entity or its parent	12,187		9,860	
Interest expense	2,2770	8,235,308	7,440	3,929,952
- key management personnel of the entity or its parent	1,437		7,440	
- associates	1,333		-	
Personnel compensation	195,802	2,029,402	90,915	1,088,469
- key management personnel of the entity or its parent	195,802		90,915	

### 31. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

#### Business segments

The Group is organized on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses as at the year ended 31 December 2006 is presented below.

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Unallocated</b>	<b>Year ended 31 December 2006</b>	
External operating income	9,214,823	3,216,884	(27,581)	12,404,126	
Income from other segments	-	-	(1,470,566)	(1,470,566)	
<b>OPERATING INCOME</b>	<b>9,214,823</b>	<b>3,216,884</b>	<b>(1,498,147)</b>	<b>10,933,560</b>	
<b>OPERATING EXPENSES</b>	<b>(6,213,458)</b>	<b>(2,169,111)</b>	<b>722,266</b>	<b>(7,660,303)</b>	
<b>OPERATING PROFIT</b>	<b>3,001,365</b>	<b>1,047,773</b>	<b>(775,881)</b>	<b>3,273,257</b>	
Share of results of associates	-	-	91,564	91,564	
Profit before income tax	3,001,365	1,047,773	(684,317)	3,364,821	
Income tax expense	-	-	(293,011)	(293,011)	
<b>NET PROFIT</b>	<b>3,001,365</b>	<b>1,047,773</b>	<b>(977,328)</b>	<b>3,071,810</b>	
<b>Other segment items</b>					
Capital expenditure	(248,111)	(406,903)	(337,432)	(992,446)	
Depreciation expense	-	-	(349,152)	(349,152)	
Impairment loss recognized during the year in the consolidated income statement	(1,867,009)	(1,204,075)	(1,505)	(3,072,589)	
		<b>Retail banking</b>	<b>Corporate banking</b>	<b>Unallocated</b>	<b>31 December 2006</b>
Segment assets		98,100,912	49,059,314	49,481,659	196,641,885
Investments in associates		-	-	1,615,623	1,615,623
Tax asset		-	-	104,654	104,654
<b>TOTAL ASSETS</b>		<b>98,100,912</b>	<b>49,059,314</b>	<b>51,201,936</b>	<b>198,362,162</b>
Segment liabilities		17,999,158	35,463,645	122,385,162	175,847,965
Tax liabilities		-	-	138,620	138,620
<b>TOTAL LIABILITIES</b>		<b>17,999,158</b>	<b>35,463,645</b>	<b>122,523,782</b>	<b>175,986,585</b>

Information about main operational segments for the year ended 31 December 2005 is set out below:

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Unallocated</b>	<b>Year ended 31 December 2005</b>
External operating income	1,989,476	2,875,791	(24,687)	4,840,580
Income from other segments	-	-	1,714,074	1,714,074
<b>OPERATING INCOME</b>	<b>1,989,476</b>	<b>2,875,791</b>	<b>1,689,387</b>	<b>6,554,654</b>
<b>OPERATING EXPENSES</b>	<b>(1,786,997)</b>	<b>(2,654,164)</b>	<b>(163,882)</b>	<b>(4,605,043)</b>
<b>OPERATING PROFIT</b>	<b>202,479</b>	<b>221,627</b>	<b>1,525,505</b>	<b>1,949,611</b>
Share in profit of associates before tax	-	-	107,865	107,865
<b>PROFIT BEFORE INCOME TAX</b>	<b>202,479</b>	<b>221,627</b>	<b>1,633,370</b>	<b>2,057,476</b>
Income tax expenses	-	-	(11,885)	(11,885)
<b>NET PROFIT</b>	<b>202,479</b>	<b>221,627</b>	<b>1,621,485</b>	<b>2,045,591</b>

#### **Other segment items**

Capital expenditure	(45,781)	(75,081)	(62,262)	(183,123)
Depreciation expenses	-	-	(178,037)	(178,037)
Impairment loss recognized during the year in consolidated income statement	(417,324)	(1,202,394)	6,335	(1,613,383)

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Unallocated</b>	<b>31 December 2005</b>
Segment assets	21,239,396	27,846,201	25,855,073	74,940,670
Investments in associates	-	-	917,899	917,899
Tax asset	-	-	86,794	86,794
<b>TOTAL ASSETS</b>	<b>21,239,396</b>	<b>27,846,201</b>	<b>26,859,766</b>	<b>75,945,363</b>
Segment liabilities	9,916,132	31,694,391	23,728,646	65,339,169
Tax liabilities	-	-	40,852	40,852
<b>TOTAL LIABILITIES</b>	<b>9,916,132</b>	<b>31,694,391</b>	<b>23,769,498</b>	<b>65,380,021</b>

#### **Geographical segments**

Segment information for the main geographical segments of the Group is set out below as at 31 December 2006 and 2005 and for the years then ended.

	<b>The Republic of Kazakhstan</b>	<b>OECD countries</b>	<b>Other non-OECD countries</b>	<b>The year ended 31 December 2006 Total</b>
External operating income	13,884,855	(1,835,841)	355,112	12,404,126
Assets	192,839,764	1,722,489	3,799,909	198,362,162
Liabilities	110,497,057	64,585,219	904,309	175,986,585
Credit-related commitments	33,902,462	-	-	33,902,462
Capital	(992,446)	-	-	(992,446)

expenditure  
s

	<b>The Republic of Kazakhstan</b>	<b>OECD countries</b>	<b>Other non-OECD countries</b>	<b>31 December 2005 Total</b>
External operating income	4,624,976	(4,595)	220,198	4,840,579
Assets	67,189,322	3,827,664	4,928,377	75,945,363
Liabilities	58,549,783	4,619,324	2,210,914	65,380,021
Credit- related commitments	11,160,307	-	-	11,160,307
Capital expenditures	(183,123)	-	-	(183,123)

External operating income, assets, and liabilities relating to loans have generally been allocated based on domicile of the counterparty. Tangible assets (cash on hand, precious metals, premises and equipment) have been allocated based on the country in which they are physically held.

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. 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 fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>Current value</b>	<b>Fair value</b>	<b>Current value</b>	<b>Fair value</b>
Cash and balances with the National Bank of the Republic of Kazakhstan	17,564,330	17,564,330	4,012,228	4,012,228
Financial assets at fair value through profit or loss	14,129,646	14,129,646	9,392,715	9,392,715
Loans and advances to banks	13,332,101	13,332,101	9,287,119	9,287,119
Loans and advances from banks	40,247,516	40,247,516	15,095,498	15,095,498
Customer accounts	53,462,803	53,462,803	41,587,415	41,587,415
Debt securities issued	76,705,437	76,705,437	3,002,576	3,002,576
Other borrowed funds	88,843	88,843	109,616	109,616
Subordinated debt	5,099,043	5,099,043	5,354,550	5,354,550

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

### 33. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

<b>Estimate</b>	<b>Description of position</b>
0%	Cash and balances with the National Bank of the Republic of Kazakhstan
0%	State debt securities
20%	Due from banks for up to 1 year
100%	Loans to customers
100%	Guarantees issued
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2006 the Group's total capital amount for Capital Adequacy purposes was KZT 25,340,025 thousand and tier 1 capital amount was KZT 22,373,204 thousand with tier 1 capital ratio 13.7% and 12.1%, respectively.

As at 31 December 2006 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital as in September 2006 they conducted a full amortization in relation to last but one year of circulation of these bonds. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

### **34. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the Group's 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 exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks:

#### **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.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

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 Management 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.

#### **Cash flow interest rate risk**

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

		2006			2005	
	Tenge	USD	EURO	Tenge	USD	EURO
<b>ASSETS</b>						
Financial assets at fair value						
through profit or loss	9.5	4.5	-	5.3	10.9	-
Loans and advances to banks	7.5	4.4	-	5.1	4.6	-
Loans to customers	18.3	16.3	8.0	15.8	15.0	8.2
<b>LIABILITIES</b>						
Loans and advances from						
banks	6.9	8.2	3.6	9.4	7.5	3.1
Customer accounts	6.9	7.8	6.4	6.8	9.6	4.3
Debt securities issued	9.6	11.7	-	9.4	10.5	-
Other borrowed funds	3.8	5.0	-	3.8	3.6	-
Subordinated debt	10.0	12.8	-	10.0	12.6	-

The analysis of interest rate and liquidity risk is presented in the following table.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2006 Total
<b>ASSETS</b>								
Financial assets at fair value through profit or loss	14,	-	-	-	-	-	-	14,129,646
Loans and advances to banks	8,	3,	86,	315	-	-	-	13,332,101
Loans to customers	6,	11,	3,	47	50	34	-	148,461,858
Total interest bearing assets	28,	14,	3,	47	50	34	-	175,923,605
Cash and balances with the National Bank of the Republic of Kazakhstan	17,	-	-	-	-	-	-	17,564,330
Investments in associates	-	-	-	-	-	-	-	1,615,623
Property and equipment	-	-	-	-	-	-	-	1,769,283
Debtors on capital investments	216,	-	-	-	-	-	-	216,991
Income tax current assets	-	-	-	-	-	-	10,	104,654
Other assets	373,	34,	-	4	-	-	75,	1,167,676
<b>TOTAL ASSETS</b>	<b>46,</b>	<b>14,</b>	<b>3,</b>	<b>47</b>	<b>50</b>	<b>34</b>	<b>-</b>	<b>198,362,162</b>
<b>LIABILITIES</b>								
Loans and advances from banks	25,	-	1,	481	-	-	-	40,247,516
Customer accounts	24,	3,	8	14	-	-	-	53,462,803
Debt securities issued	-	-	-	63	1,	-	-	76,705,437
Other borrowed funds	192	-	1,	71	-	-	-	88,843
Subordinated debt	-	-	12,	518	-	-	-	5,099,043
Total interest bearing liabilities	50,	3,	2,	79	18	-	-	175,603,642
Deferred income tax liabilities	138,	-	-	-	-	-	-	138,620
Other liabilities	227,	-	-	15	-	-	72,	244,323
<b>TOTAL LIABILITIES</b>	<b>50,</b>	<b>3,</b>	<b>2,</b>	<b>79</b>	<b>18</b>	<b>-</b>	<b>72,</b>	<b>175,986,585</b>
Liquidity gap	(3,	11,	10	(31	3	34	-	
Interest sensitivity gap	(21,	11,	10	(31	3	34	-	
Cumulative interest sensitivity gap	(21,	(10,	29	(31	(2	31	-	
Cumulative interest sensitivity gap as a percentage of total assets	(10.8%)	(5,	0	(15	0	0	-	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 Total
<b>ASSETS</b>								
Financial assets at fair value through profit or loss	9,	-	-	-	-	-	-	9,392,715
Loans and advances to banks	7,	142,776	1,530,409	333,167	-	-	-	9,287,119
Loans to customers	2,	4,242,978	16,805,425	19,050,213	6	304,235	-	49,813,472
Total interest bearing assets	19,	4,385,754	18,335,834	19,383,380	6	304,235	-	68,493,306
Cash and balances with the National Bank of the Republic of Kazakhstan	4,	-	-	-	-	-	-	4,012,228
Investments in associates	-	-	-	-	-	-	917,899	917,899
Property and equipment	-	-	-	-	-	-	2,044,400	2,044,400
Debtors on capital investments	31,	-	-	-	-	-	-	31,844
Current income tax assets	-	-	-	-	-	-	86,794	86,794
Other assets	245,	-	-	-	-	-	113,597	358,892
<b>TOTAL ASSETS</b>	<b>23,</b>	<b>4,385,754</b>	<b>18,335,834</b>	<b>19,383,380</b>	<b>6</b>	<b>304,235</b>	<b>3,162,690</b>	<b>75,945,363</b>
<b>LIABILITIES</b>								
Loans and advances from banks	4,	7,693,841	1,402,638	753,823	727	-	-	15,095,498
Customer accounts	12,	2,847,899	19,287,668	6,772,211	176	-	-	41,587,415
Debt securities issued	-	-	-	-	3	-	-	3,002,576
Other borrowed funds	-	99	20,729	88,788	-	-	-	109,616
Subordinated debt	-	-	473,190	579,763	4	-	-	5,354,550
Total interest bearing liabilities	17,	10,541,839	21,184,225	8,194,585	8	-	-	65,149,655
Deferred income tax liabilities	40,	-	-	-	-	-	-	40,852
Other liabilities	175,	250	205	13,115	-	-	803	189,514
<b>TOTAL LIABILITIES</b>	<b>17,</b>	<b>10,542,089</b>	<b>21,184,430</b>	<b>8,207,700</b>	<b>8</b>	<b>-</b>	<b>803</b>	<b>65,380,021</b>
Liquidity gap	6,	(6,156,335)	(2,848,596)	11,175,680	(1	304,235		
Interest sensitivity gap	2,	(6,156,085)	(2,848,391)	11,188,795	(1	304,235		
Cumulative interest sensitivity gap	2,	(3,615,519)	(6,463,910)	4,724,885	3	3,343,651		
Cumulative interest sensitivity gap as a percentage of total assets	3.35%	(4.76%)	(8.51%)	6.22%	4	4.40%		

## Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of Kazakhstani tenge devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of national (central) banks.

The Group's exposure to foreign currency exchange rate risk is presented in the tables below:

	Tenge	USD USD 1 = KZT 127.00	EURO EURO 1 = KZT 167.12	Other currency	31 December 2006 Total
<b>ASSETS</b>					
Cash and balances with the National Bank of the Republic of Kazakhstan	12,207,745	5,141,298	157,263	58,024	17,564,330
Financial assets at fair value through profit or loss	13,731,307	398,339	-	-	14,129,646
Loans and advances to banks	10,811,224	2,103,885	359,514	57,478	13,332,101
Loans to customers	90,610,279	57,851,579	-	-	148,461,858
Investments in associates	1,615,623	-	-	-	1,615,623
Property and equipment	1,769,283	-	-	-	1,769,283
Debtors on capital investments	216,991	-	-	-	216,991
Income tax assets	104,654	-	-	-	104,654
Other assets	1,065,180	92,186	10,028	282	1,167,676
<b>TOTAL ASSETS</b>	<b>132,132,286</b>	<b>65,587,287</b>	<b>526,805</b>	<b>115,784</b>	<b>198,362,162</b>
<b>LIABILITIES</b>					
Loans and advances from banks	25,396,013	14,614,252	237,251	-	40,247,516
Customer accounts	47,202,919	5,850,616	380,339	28,929	53,462,803
Debt securities issued	19,424,485	57,280,952	-	-	76,705,437
Other borrowed funds	88,843	-	-	-	88,843
Deferred income tax liabilities	138,620	-	-	-	138,620
Other liabilities	233,644	10,679	-	-	244,323
Subordinated debt	4,580,071	518,972	-	-	5,099,043
<b>TOTAL LIABILITIES</b>	<b>97,064,595</b>	<b>78,275,471</b>	<b>617,590</b>	<b>28,929</b>	<b>175,986,585</b>
<b>NET BALANCE SHEET POSITION</b>	<b>35,067,691</b>	<b>(12,688,188)</b>	<b>(90,785)</b>	<b>86,855</b>	

### Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2006:

	Tenge	USD USD 1 = KZT 127.00	EURO EURO 1 = KZT 167.12	Other currency	31 December 2006 Total
Accounts receivable on spot and derivative contracts	-	10,221,450	-	-	10,221,450
Accounts payable on spot and derivative contracts	10,221,450	-	-	-	10,221,450
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>(10,221,450)</b>	<b>10,221,450</b>	<b>-</b>	<b>-</b>	
<b>TOTAL NET POSITION</b>	<b>24,846,241</b>	<b>(2,466,738)</b>	<b>(90,785)</b>	<b>86,885</b>	

	KZT	USD USD 1 = KZT 133.77	EUR EUR 1 = KZT 158.54	Other currency	31 December 2005 Total
<b>ASSETS</b>					
Cash and balances with the National Bank of the Republic of Kazakhstan	2,710,589	980,214	269,544	51,881	4,012,228
Financial assets at fair value through profit or loss	8,600,490	792,225	-	-	9,392,715
Loans and advances to banks	3,147,518	6,037,346	20,990	81,265	9,287,119
Loans to customers	28,648,111	20,321,524	843,837	-	49,813,472
Investments in associates	917,899	-	-	-	917,899
Property and equipment	2,044,400	-	-	-	2,044,400
Debtors on capital investments	31,844	-	-	-	31,844
Income tax assets	86,794	-	-	-	86,794
Other assets	337,059	14,133	7,590	110	358,892
<b>TOTAL ASSETS</b>	<b>46,524,704</b>	<b>28,145,442</b>	<b>1,141,961</b>	<b>133,256</b>	<b>75,945,363</b>
<b>LIABILITIES</b>					
Loans and advances from banks	5,142,101	9,183,630	769,767	-	15,095,498
Customer accounts	28,426,934	12,835,371	266,223	58,887	41,587,415
Debt securities issued	3,002,576	-	-	-	3,002,576
Other borrowed funds	93,134	16,482	-	-	109,616
Deferred income tax liabilities	40,852	-	-	-	40,852
Other liabilities	174,745	3,418	11,351	-	189,514
Subordinated debt	4,774,787	579,763	-	-	5,354,550
<b>TOTAL LIABILITIES</b>	<b>41,655,129</b>	<b>22,618,664</b>	<b>1,047,341</b>	<b>58,887</b>	<b>65,380,021</b>
<b>NET BALANCE SHEET POSITION</b>	<b>4,869,575</b>	<b>5,526,778</b>	<b>94,620</b>	<b>74,369</b>	

### Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2005:

	KZT	USD USD 1 = KZT 133.77	EUR EUR 1 = KZT 158.54	Other currency	31 December 2006 Total
Accounts receivable on spot and derivative contracts	6,235,725	47,837	-	-	6,283,562
Accounts payable on spot and derivative contracts	-	6,227,803	55,759	-	6,283,562
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION</b>	<b>6,235,725</b>	<b>(6,179,966)</b>	<b>(55,759)</b>	<b>-</b>	
<b>TOTAL NET POSITION</b>	<b>11,105,300</b>	<b>(653,188)</b>	<b>38,861</b>	<b>74,369</b>	

### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price 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 a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

## **Fair value interest rate risk**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

## **Credit risk**

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments. The Group Branch Risk Department executes control of the credit risks by means of participation in credit committees with possibility of interposing a veto to any credit application. Risk Department is directly subject to the Group's Board of Directors.

The Group structures the level 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 (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by economy branches, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

For minimization of credit risks relating to retail crediting the Group executes crediting of borrowers through certain programs (credit products) with credit terms fixed in advance, i.e.: requirements to the ratio loan / security (LTV), type of security, the client's solvency, and others. The credit product terms are stipulated by means of analysis of market needs and weighting of bank risks as per the given product. Therefore, the whole retail crediting is performed in the framework of the credit products. Control over compliance with credit products is performed through the Risk Department. In case of rejection of crediting terms of the program terms, the issue is discussed within the credit committees in the framework of fixed limits.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

## Geographic Concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The Group's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of the Group's assets and liabilities is set out below:

	The Republic of Kazakhstan	OECD countries	Non-OECD countries	31 December 2006 Total
<b>ASSETS</b>				
Cash and balances with the National bank of the Republic of Kazakhstan	17,564,330	-	-	17,564,330
Financial assets at fair value through profit or loss	14,129,646	-	-	14,129,646
Loans and advances to banks	10,915,091	962,864	1,454,146	13,332,101
Loans to customers	146,282,539	718,972	1,460,347	148,461,858
Investment in associate	731,904	-	883,719	1,615,623
Property and equipment	1,769,283	-	-	1,769,283
Debtors on capital investments	216,991	-	-	216,991
Income tax assets	104,654	-	-	104,654
Other assets	1,125,326	40,653	1,697	1,167,676
<b>TOTAL ASSETS</b>	<b>192,839,764</b>	<b>1,722,489</b>	<b>3,799,909</b>	<b>198,362,162</b>
<b>LIABILITIES</b>				
Loans and advances from banks	32,727,179	6,975,545	544,792	40,247,516
Customer accounts	52,778,853	324,909	359,041	53,462,803
Debt securities issued	19,424,485	57,280,952	-	76,705,437
Other borrowed funds	88,843	-	-	88,843
Deferred income tax liabilities	138,620	-	-	138,620
Other liabilities	240,034	3,813	476	244,323
Subordinated debt	5,099,043	-	-	5,099,043
<b>TOTAL LIABILITIES</b>	<b>110,497,057</b>	<b>64,585,219</b>	<b>904,309</b>	<b>175,986,585</b>
<b>NET POSITION</b>	<b>82,342,707</b>	<b>(62,862,730)</b>	<b>2,895,600</b>	

	<b>The Republic of Kazakhstan</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>31 December 2005 Total</b>
<b>ASSETS</b>				
Cash and balances with the National bank of the Republic of Kazakhstan	4,012,228	-	-	4,012,228
Financial assets at fair value through profit or loss	9,392,715	-	-	9,392,715
Loans and advances to banks	4,745,082	3,239,490	1,302,547	9,287,119
Loans to customers	46,457,274	580,987	2,775,211	49,813,472
Investments in associates	78,592	-	839,307	917,899
Property and equipment	2,044,400	-	-	2,044,400
Debtors on capital investments	31,844	-	-	31,844
Income tax assets	86,794	-	-	86,794
Other assets less provision for impairment losses	340,393	7,187	11,312	358,892
<b>TOTAL ASSETS</b>	<b>67,189,322</b>	<b>3,827,664</b>	<b>4,928,377</b>	<b>75,945,363</b>
<b>LIABILITIES</b>				
Loans and advances from banks	12,342,677	1,744,098	1,008,722	15,095,497
Customer accounts	37,511,730	2,875,226	1,200,459	41,587,415
Debt securities issued	3,002,576	-	-	3,002,576
Other borrowed funds	109,617	-	-	109,617
Deferred income tax liabilities	40,852	-	-	40,852
Other liabilities	187,781	-	1,733	189,514
	53,195,233	4,619,324	2,210,914	60,025,471
Subordinated debt	5,354,550	-	-	5,354,550
<b>TOTAL LIABILITIES</b>	<b>58,549,783</b>	<b>4,619,324</b>	<b>2,210,914</b>	<b>65,380,021</b>
<b>NET POSITION</b>	<b>8,639,539</b>	<b>(791,660)</b>	<b>2,717,463</b>	