# JSC Trust Bank

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

**And Independent Auditors' Report**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheet of JSC Trust Bank (the "Bank") as of 31 December 2004, the related profit and loss account and statements of cash flows and changes in shareholders' equity ("the financial statements") for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

11 February 2005
*Almaty*

# JSC TRUST BANK

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2004

| | Notes | Year ended 2004 KZT'000 | Year ended 2003 KZT'000 |
|---|---|---|---|
| Interest income | 4, 20 | 130,603 | 132,191 |
| Interest expense | 4 | (8,295) | (8,740) |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | | 122,308 | 123,451 |
| Provision for loan losses | 5 | (44,496) | (17,171) |
| NET INTEREST INCOME | | 77,812 | 106,280 |
| Net gain on securities available for sale | | 302 | 8 |
| Net gain on foreign exchange operations | 6 | 2,142 | 1,891 |
| Fee and commission income | 7, 20 | 5,259 | 4,145 |
| Fee and commission expense | 7 | (786) | (830) |
| Other income | 8 | 474 | 10,156 |
| NET NON-INTEREST INCOME | | 7,391 | 15,370 |
| OPERATING INCOME | | 85,203 | 121,650 |
| OPERATING EXPENSES | 9, 20 | (53,831) | (46,658) |
| OPERATING PROFIT | | 31,372 | 74,992 |
| Recovery of provision/(provision) for losses on other transactions | 5 | 3,517 | (3,517) |
| PROFIT BEFORE TAXATION | | 34,889 | 71,475 |
| Income tax expense | 10 | (6,850) | (1,540) |
| NET PROFIT | | 28,039 | 69,935 |

**On behalf of the Board:**

| | |
|---|---|
| **Gupalo E.A.** | **Seitova R.S.** |
| **Chairman** | **Chief Accountant** |
| 11 February 2005 | 11 February 2005 |
| Ekibastuz | Ekibastuz |

The notes on pages 6 to 25 form an integral part of these financial statements.
The Independent Auditors' Report is presented on page 1.

## JSC TRUST BANK

**BALANCE SHEET**
**AS OF 31 DECEMBER 2004**

| | Notes | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and balances with the National Bank of the Republic of Kazakhstan | 11 | 53,557 | 26,454 |
| Loans and advances to banks | | 183 | 3,908 |
| Securities available-for-sale | 12 | - | 24,890 |
| Securities purchased under agreements to resell | 13 | 130,022 | 115,163 |
| Loans and advances to customers, less allowance for loan losses | 14,20 | 963,900 | 933,691 |
| Fixed and intangible assets, less accumulated depreciation | 15 | 14,105 | 15,358 |
| Income tax assets | 10 | 594 | 11,975 |
| Other assets | | 367 | 1,549 |
| TOTAL ASSETS | | 1,162,728 | 1,132,988 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| LIABILITIES: | | | |
| Customer accounts | 16, 20 | 156,500 | 92,021 |
| Deferred income tax liabilities | 10 | - | 66 |
| Other liabilities | 17 | 3,583 | 6,295 |
| Total liabilities | | 160,083 | 98,382 |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital | 18 | 884,631 | 884,631 |
| Retained earnings | | 118,014 | 149,975 |
| Total shareholders' equity | | 1,002,645 | 1,034,606 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 1,162,728 | 1,132,988 |

**On behalf of the Board:**

| | |
|---|---|
| **Gupalo E.A.** | **Seitova R.S.** |
| **Chairman** | **Chief Accountant** |
| 11 February 2005 | 11 February 2005 |
| Ekibastuz | Ekibastuz |

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

| | Share capital | Retained earnings | Total shareholders' equity |
|---|---|---|---|
| | KZT'000 | KZT'000 | KZT'000 |
| **31 December 2002** | 884,631 | 112,726 | 997,357 |
| Net profit for the year | - | 69,935 | 69,935 |
| Dividends declared and paid | - | (32,686) | (32,686) |
| **31 December 2003** | 884,631 | 149,975 | 1,034,606 |
| Net profit for the year | - | 28,039 | 28,039 |
| Dividends declared and paid | - | (60,000) | (60,000) |
| **31 December 2004** | 884,631 | 118,014 | 1,002,645 |

**On behalf of the Board:**

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**Gupalo E.A.**
**Chairman**

11 February 2005
Ekibastuz

**Seitova R.S.**
**Chief Accountant**

11 February 2005
Ekibastuz

# JSC TRUST BANK

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

| | Notes | Year ended 2004 KZT'000 | Year ended 2003 KZT'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax | | 34,889 | 71,475 |
| Adjustments for: | | | |
| Provision for loan losses | | 44,496 | 17,171 |
| Recovery of provision/(provision) for losses on other transactions | | (3,517) | 3,517 |
| Depreciation and amortization | | 3,038 | 2,869 |
| Change in interest accruals, net | | 5,262 | (1,054) |
| Loss on sale of fixed assets and intangible assets | | 33 | - |
| Cash flow from operating activities before changes in operating assets and liabilities | | 84,201 | 93,978 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Loans and advances to banks | | 3,725 | (3,675) |
| Dealing securities | | 10,031 | (90,220) |
| Loans and advances to customers | | (79,967) | 53,970 |
| Other assets | | 1,182 | (11,813) |
| Increase/(decrease) in operating liabilities: | | | |
| Customer accounts | | 64,479 | 10,462 |
| Other liabilities | | 9,805 | 5,456 |
| Cash inflow from operating activities before taxation | | 93,456 | 58,158 |
| Income tax paid | | (4,535) | (10,102) |
| Net cash inflow from operating activities | | 88,921 | 48,056 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of fixed and intangible assets | | (1,886) | (6,216) |
| Proceeds on sale of fixed and intangible assets | | 68 | 62 |
| Net cash outflow from investing activities | | (1,818) | (6,154) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Dividends paid | | (60,000) | (32,686) |
| Net cash outflow from financing activities | | (60,000) | (32,686) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 27,103 | 9,216 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 26,454 | 17,238 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 11 | 53,557 | 26,454 |

Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to KZT 8,295 thousand and KZT 135,678 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to KZT 8,740 thousand and KZT 131,137 thousand, respectively.

**On behalf of the Board:**

**Gupalo E.A.**
**Chairman**

11 February 2005
Ekibastuz

**Seitova R.S.**
**Chief Accountant**

11 February 2005
Ekibastuz

The notes on pages 6 to 25 form an integral part of these financial statements.
The Independent Auditors' Report is presented on page 1.

## 1. ORGANISATION

JSC Zaman Bank (the "Bank") is a joint-stock bank, which was incorporated in the Republic of Kazakhstan in 1991. The address of its registered office is 111A Lenin Avenue, Ekibastuz, 638710, Republic of Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan (the "NBRK") and conducts its business under license number 11 dated 13 October 2004. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank has a branch in Almaty.

The number of employees of the Bank as of 31 December 2004 and 2003 was 38 and 38, respectively.

As of 31 December 2004, the following shareholders owned more than 5% of the outstanding shares.

| Shareholder | % |
|---|---|
| Alan-A LLP | 22.73 |
| Vershina LLP | 9.60 |
| Ekibastuz Regional Business Center LLP | 8.97 |
| Other (individually hold less than 3%) | 58.70 |
| Total | 100.0 |

These financial statements were authorized for issue by the Board on 11 February 2005.

## 2. BASIS OF PRESENTATION

### Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are presented in thousands of Kazakhstani tenge (KZT), unless otherwise indicated. These financial statements have been prepared on the historical cost basis.

The Bank maintains its accounting records in accordance with law of the Republic of Kazakhstan. These financial statements have been prepared from the Republic of Kazakhstan statutory accounting records and have been adjusted to conform with 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 losses and impairment and the fair value of financial instruments.

### Functional currency

The functional currency of these financial statements is the Kazakhstani Tenge ("KZT").

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Recognition and measurement of financial instruments

The Bank 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.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. 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 accounts with the National Bank of the Republic of Kazakhstan and advances to banks in countries included in the Organization for Economic Co-operation and Development (OECD).

### Loans and advances to banks

In the normal course of business, the Group maintains advances or 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 cost. Amounts due from credit institutions are carried net of any allowance for losses.

### Repurchase and reverse repurchase agreements

The Bank 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 Bank 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.

### Originated loans

Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower.

Loans granted by the Bank 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 loan losses.

### Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has received all available collateral.

### Non-accrual loans

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

### Allowance for losses

The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for 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 inherent in the risk assets. Provisions are made as a result of a detailed appraisal of risk assets.

The change in the allowance for losses is charged to profit and the total of the allowance for losses is deducted in arriving at assets as shown in the balance sheet. Management's evaluation of the allowance is based upon the Bank’s past loss experience, known and inherent risks in the risk assets, adverse situations that may affect the debtor's ability to repay, the estimated value of any underlying collateral and current economic conditions.

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

### Securities available-for-sale

Securities available-for-sale represent debt investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank’s securities available-for-sale. If such quotes do not exist, management estimation is used. Realised and unrealised gains and losses arising from changes in the fair value of securities available-for-sale are included in the profit and loss account in the period in which they arise as gain on investment securities. Interest earned on securities available-for-sale is reflected in the profit and loss account as interest income on investment securities. Dividends received are included in dividend income in the profit and loss account.

### Fixed and intangible assets

Fixed assets and intangible assets are stated at cost less accumulated depreciation and any recognized impairment loss.
Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Computers | 28% |
| Vehicles | 14% |
| Other | 15% |
| Intangible assets | 10% |

The carrying amounts of fixed 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 fixed assets 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.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

### 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 profit and loss account 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 Bank'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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are not recognised for taxable temporary differences where the Bank 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 realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Deposits from banks and customers

Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

### Provisions

Provisions are recognized when the Bank 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.

### Share capital and share premium

Share capital is recognized at historic cost.

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

### Retirement and other benefit obligations

The Bank does not incur any expenses in relation to provision of pensions to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Bank withholds pension contributions from employee salaries and transfers them into state or private pension funds. Current contributions by the employer are calculated as a percentage of current gross salary payments with the expense charged in the period in which the related salaries are earned. Upon retirement of employees, all pension payments are administered by the above pension funds.

**Recognition of income and expense**

Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more than 30 days. Interest income also includes income earned on investment securities and securities held-for-trading. Other income is credited to the profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission income/expenses are recognized on an accrual basis.

**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 Bank in the preparation of the financial statements are as follows:

| | 31 December 2004 | 31 December 2003 |
|---|---|---|
| KZT/1 USD | 130.00 | 144.22 |
| KZT/1 EUR | 177.10 | 180.23 |

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Reclassifications**

Certain reclassifications have been made to the financial statements as of 31 December 2003 and for the year then ended to conform to the presentation as of 31 December 2004 and for the year then ended.

## 4. NET INTEREST INCOME

| | Year ended 2004 KZT'000 | Year ended 2003 KZT'000 |
|---|---|---|
| **Interest income** | | |
| Interest on loans and advances to customers | 127,942 | 130,771 |
| Interest on loans and advances to banks | 1,434 | 311 |
| Interest on reverse repos transactions | 1,224 | 1,108 |
| Interest on debt securities | 3 | 1 |
| Total interest income | 130,603 | 132,191 |
| **Interest expense** | | |
| Interest on customer accounts | 8,295 | 8,714 |
| Interest on repos transactions | - | 26 |
| Total interest expense | 8,295 | 8,740 |
| Net interest income | 122,308 | 123,451 |

## 5. ALLOWANCE FOR LOSSES AND IMPAIRMENT, OTHER PROVISIONS

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

| | Loans and advances to customers | Guarantee and other commitments | Total |
|---|---|---|---|
| 31 December 2002 | 54,297 | - | 54,297 |
| Provision | 17,171 | 3,517 | 20,688 |
| Write-off | (15,029) | - | (15,029) |
| 31 December 2003 | 56,439 | 3,517 | 59,956 |
| | | | |
| Provision/ (recovery) | 44,496 | (3,517) | 40,979 |
| Write-off | (19,521) | - | (19,521) |
| 31 December 2004 | 81,414 | - | 81,414 |

## 6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Dealing, net | 2,522 | 2,003 |
| Translation differences, net | (380) | (112) |
| Total net gain on foreign exchange operations | 2,142 | 1,891 |

## 7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| **Fee and commission income:** | | |
| Cash operations | 2,150 | 2,493 |
| Guarantee issuance | 1,464 | 799 |
| Transfer operations | 589 | 435 |
| Documentary operations | 323 | 217 |
| Foreign exchange operations | 275 | 103 |
| Other operations | 458 | 98 |
| Total fee and commission income | 5,259 | 4,145 |

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| **Fee and commission expense:** | | |
| Transfer operations | 269 | 239 |
| Settlements | 13 | 14 |
| Other operations | 504 | 577 |
| Total fee and commission expense | 786 | 830 |

## 8. OTHER INCOME

Other income includes net gain on operations with securities, penalties and fines levied upon customers, banking and non-banking income amounting to KZT 474 thousand and KZT 10,156 thousand for the year ended 31 December 2004 and 2003, respectively.

## 9. OPERATING EXPENSES

| | Year ended 2004 KZT'000 | Year ended 2003 KZT'000 |
|---|---|---|
| Salary and bonuses | 18,195 | 13,067 |
| Operating lease expense | 9,480 | 4,360 |
| Professional services fees | 4,796 | 5,600 |
| Taxes, other than income tax | 3,453 | 2,843 |
| Depreciation of fixed and intangible assets | 3,038 | 2,869 |
| Communication | 2,577 | 2,833 |
| Administrative services | 2,554 | 3,369 |
| Other non-banking expenses | 2,149 | 1,899 |
| Security services | 2,044 | 2,133 |
| Travel expenses | 1,988 | 3,491 |
| Encashment expenses | 562 | 562 |
| Advertisement and marketing expenses | 451 | 564 |
| Penalties and fines | - | 1,116 |
| Other | 2,544 | 1,952 |
| **Total operating expenses** | **53,831** | **46,658** |

## 10. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with Kazakhstani statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2004 and 2003, the Kazakhstani tax rate for corporations' profits was 30%.

Tax assets and liabilities consist of the following:

| | Year ended 2004 KZT'000 | Year ended 2003 KZT'000 |
|---|---|---|
| Deferred tax assets | 594 | 11,975 |
| **Tax assets** | **594** | **11,975** |
| Deferred tax liabilities | - | 66 |
| **Tax liabilities** | **-** | **66** |

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 comprise:

| | **31 December 2004** KZT'000 | **31 December 2003** KZT'000 |
|---|---|---|
| Deferred tax assets: | | |
| Provisions for loans | 52 | - |
| Fixed and intangible assets | 37 | - |
| Other assets | 505 | 332 |
| **Total deferred tax assets** | **594** | **332** |

| | **31 December 2004** KZT'000 | **31 December 2003** KZT'000 |
|---|---|---|
| Deferred tax liabilities: | | |
| Fixed assets | - | 101 |
| Loans to banks and customers | - | 297 |
| **Total deferred tax liabilities** | **-** | **398** |
| **Net deferred tax assets/ (liabilities)** | **594** | **(66)** |

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

| | **2004** KZT'000 | **2003** KZT'000 |
|---|---|---|
| Profit before income taxes | 34,889 | 71,475 |
| Statutory tax rate | 30% | 30% |
| Tax at the statutory tax rate | 10,467 | 21,443 |
| Tax effect of permanent differences | (3,617) | (146) |
| Loss brought forward | - | (19,757) |
| Income tax expense | 6,850 | 1,540 |
| Current income tax expense | 7,510 | 1,474 |
| Deferred tax (credit)/ expense | (660) | 66 |
| Income tax expense | 6,850 | 1,540 |

| **Deferred tax (assets)/ liabilities** | **31 December 2004** KZT'000 | **31 December 2003** KZT'000 |
|---|---|---|
| At beginning of the period | 66 | - |
| (Increase)/decrease of the deferred tax assets in the period | (660) | 66 |
| At end of the period | (594) | 66 |

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

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Cash in vault | 1,360 | 5,645 |
| Balance with the National Bank of the Republic of Kazakhstan | 52,197 | 20,809 |
| Total cash and cash equivalents | 53,557 | 26,454 |

Cash and balances with NBRK as of 31 December 2004 and 2003 include KZT 5,822 thousand and KZT 896 thousand, respectively, which represents the minimum reserve required by the NBRK. The Bank is required to maintain the reserve balance, which is computed as the percentage of certain liabilities of the Bank. The Bank is entitled to use such funds if it complies with regulations.

## 12. SECURITIES AVAILABLE-FOR-SALE

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| NBRK bonds | - | 24,890 |
| Total securities available-for-sale | - | 24,890 |

NBRK notes are securities issued by the NBRK, and are freely tradeable on the Kazakhstani market.

## 13. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Securities purchased under agreements to resell comprised:

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| NBRK notes | 130,022 | 40,077 |
| MEOKAM | - | 75,086 |
| Total securities purchased under REPOs | 130,022 | 115,163 |

## 14. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Originated loans | 1,044,127 | 983,681 |
| Accrued interest income on loans and advances to customers | 1,187 | 6,449 |
| | 1,045,314 | 990,130 |
| Less allowance for loan losses | (81,414) | (56,439) |
| Total loans and advances to customers, net | 963,900 | 933,691 |

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Loans collateralized by goods | 460,733 | 422,571 |
| Loans collateralized by real estate | 187,095 | 186,631 |
| Loans collateralized by equipment | 154,409 | 292,510 |
| Loans collateralized by mixed collateral | 143,656 | 1,969 |
| Loans collateralized by cash | 80,303 | 80,000 |
| Loans collateralized by vehicles | 16,687 | - |
| Loans collateralized by guarantees | 83 | - |
| Unsecured loans | 1,161 | - |
| Accrued interest income on loans and advances to customers | 1,187 | 6,449 |
| | 1,045,314 | 990,130 |
| Less allowance for loan losses | (81,414) | (56,439) |
| Total loans and advances to customers, net | 963,900 | 933,691 |

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

As of 31 December 2004 and 2003 the Bank had one loan totaling KZT 154,000 thousand and KZT 154,000 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2004 and 2003 included in loans and advance to customers are non-accrual loans amounting to nil and KZT 24,159 thousand, respectively.

| **Analysis by industry** | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Trading | 839,776 | 751,404 |
| Construction and maintenance | 85,696 | 500 |
| Equipment manufacturing | 69,737 | 90,000 |
| Transport | 32,710 | 22,800 |
| Individuals | 7,060 | - |
| Non-metallic products manufacturing | 6,239 | 6,750 |
| Services | 1,909 | 8,000 |
| Agriculture | 1,000 | 8,150 |
| Wooden goods manufacturing | - | 53,474 |
| Coal mining | - | 32,667 |
| Sale and repair of vehicles | - | 5,000 |
| Other | - | 4,936 |
| Accrued interest income on loans and advances to customers | 1,187 | 6,449 |
| | 1,045,314 | 990,130 |
| Less allowance for loan losses | (81,414) | (56,439) |
| Total loans and advances to customers, net | 963,900 | 933,691 |

## 15. FIXED AND INTANGIBLE ASSETS

| | Vehicles | Computers | Other | Intangible assets | Total |
|---|---|---|---|---|---|
| **At cost** | | | | | |
| 31 December 2003 | 2,632 | 4,388 | 6,403 | 10,721 | 24,144 |
| Additions | - | 212 | 887 | 787 | 1,886 |
| Disposals | (2,632) | (328) | (35) | - | (2,995) |
| 31 December 2004 | - | 4,272 | 7,255 | 11,508 | 23,035 |
| **Accumulated depreciation** | | | | | |
| 31 December 2003 | 2,612 | 2,168 | 2,316 | 1,690 | 8,786 |
| Charge for the period | - | 890 | 986 | 1,162 | 3,038 |
| Disposals | (2,612) | (263) | (19) | - | (2,894) |
| 31 December 2004 | - | 2,795 | 3,283 | 2,852 | 8,930 |
| **Net book value** | | | | | |
| 31 December 2004 | - | 1,477 | 3,972 | 8,656 | 14,105 |
| **Net book value** | | | | | |
| 31 December 2003 | 20 | 2,220 | 4,087 | 9,031 | 15,358 |

## 16. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Repayable on demand | 67,224 | 9,554 |
| Customer deposit | 89,276 | 82,467 |
| Total customer accounts | 156,500 | 92,021 |

As of 31 December 2004 and 2003, customer accounts amounting to KZT 88,906 thousand and KZT 82,467 thousand, respectively were held as collateral against loans.

Analysis of customer accounts by industry:

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Individuals | 85,515 | 82,538 |
| Trade | 54,994 | 359 |
| Construction | 9,575 | 3,579 |
| Coal extraction | 3,451 | - |
| Services | 2,307 | - |
| Agriculture | 226 | 143 |
| Fuel | - | 3,572 |
| Other | 432 | 1,830 |
| Total customer accounts | 156,500 | 92,021 |

## 17. OTHER LIABILITIES

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Settlement on other transactions | 3,387 | 2,227 |
| Taxes payable, other than income tax | 23 | 362 |
| Allowance for losses on guarantees and credit related commitments | - | 3,517 |
| Other | 173 | 189 |
| Total other liabilities | 3,583 | 6,295 |

## 18. SHAREHOLDERS' EQUITY

As of 31 December 2004 and 2003 share capital authorized, issued and fully paid comprised 880,230 ordinary shares with par value of KZT 1,005 each. All ordinary shares are ranked equally and carry one vote.

In 2004 the meeting of shareholders of the Bank made a decision to pay dividends for 2003 of KZT 60,000 thousand. The dividends were paid during 2004.

## 19. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

As of 31 December 2004 and 2003, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

| | 2004<br>KZT'000 | | 2003<br>KZT'000 | |
|---|---|---|---|---|
| | **Nominal Amount** | **Risk Weighted Amount** | **Nominal Amount** | **Risk Weighted Amount** |
| **Contingent liabilities and credit commitments** | | | | |
| Guarantees issued and similar commitments | 14,066 | 14,066 | 70,344 | 70,344 |
| Commitments on credits and unused credit lines | 2,614 | 523 | 1,461 | 292 |
| **Total contingent liabilities and credit commitments** | 16,680 | 14,589 | 71,805 | 70,636 |

### Capital commitments

The Bank had no material commitments for capital expenditure outstanding as of 31 December 2004.

### Operating Leases

The Bank's future minimum rental payments under non-cancelable operating leases of buildings in effect as of 31 December 2004 and 2003 are presented in the table below.

| | 2004<br>KZT'000 | 2003<br>KZT'000 |
|---|---|---|
| Within 1 year | 4,429 | 640 |
| Between 2 years and 5 years | 5,051 | 3,720 |
| Total operating lease | 9,480 | 4,360 |

### Operating Environment

The Bank'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 Bank's assets and operations could be at risk due to negative changes in the political and business environment.

### Legal proceedings

From time to time and in the normal course of business, claims against the Bank 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

Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The Bank 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 five years.

### Pensions and retirement plans

Employees receive pension benefits in accordance with the laws and regulations of the Republic of Kazakhstan. As of 31 December 2004 and 2003, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 20. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by International Accounting Standard 24 'Related parties disclosures', are those counter parties that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. This includes holding companies, subsidiaries and fellow subsidiaries;

(b) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

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

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

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

| | 2004 KZT'000 | | 2003 KZT'000 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Loans to customers, gross | 302,348 | 1,045,314 | 151,267 | 990,130 |
| Allowance for loans to customers | 9,353 | 81,414 | 1,400 | 56,439 |
| Customer accounts | 12,685 | 156,500 | 6,295 | 92,021 |

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

| | Year ended 2004 KZT'000 | | Year ended 2003 KZT'000 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Interest income | 30,019 | 130,603 | 34,237 | 132,191 |
| - related companies | 30,004 | - | 34,013 | - |
| - directors | 15 | - | 224 | - |
| Fee and commission income | 1,227 | 5,259 | 1,767 | 4,145 |
| - related companies | 1,227 | - | 1,767 | - |
| Operating expenses | 2,640 | 53,831 | 3,770 | 46,658 |
| - related companies | 2,640 | - | 2,570 | - |
| - directors | - | - | 1,200 | - |

All transactions with related parties entered into by the Bank during the years ended 31 December 2004 and 2003 were mainly made in the normal course of business and under arm-length conditions.

## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of International Accounting Standard 32 "Financial Instruments: Disclosure and Presentation" and International Accounting Standard 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 Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

### Cash and balances with the National Bank of the Republic of Kazakhstan

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

### Securities available-for-sale

As of 31 December 2004 and 2003 securities available-for-sale are stated at fair value amounting to nil and KZT 24,890 thousand, respectively. The fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market (see Note 12).

### Loans and advances to customers

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

### Customer accounts

The fair value of short-term deposits and current accounts of the Bank's customers is considered to be the carrying value.

## 22. REGULATORY MATTERS

The following non-IFRS quantitative measures are established by regulation to ensure capital adequacy. The Bank is required to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk-weighted assets.

Capital is calculated as the amount of restricted and free components of the shareholders' capital and the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio is 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 losses:

| Estimate | Description of position |
|---|---|
| 0% | Cash and balances with the NBRK |
| 0% | State debt securities in Tenge |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans and advances to customers |
| 100% | Other assets |
| 0% | Standby letters of credit secured by customer funds |
| 50% | Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year |
| 100% | Guarantees issued and similar commitments |

The Bank's actual capital amounts and ratios are presented in the following table:

| | Actual Amount<br>KZT'000 | For Capital Adequacy purposes<br>KZT'000 | Ratio For Capital Adequacy Purposes<br>% | Minimum Required Ratio<br>% |
|---|---|---|---|---|
| As of 31 December 2004 | | | | |
| Total capital | 1,002,645 | 1,002,651 | 109.73 | 8 |
| Tier 1 capital | 1,002,645 | 1,002,645 | 109.73 | 4 |
| As of 31 December 2003 | | | | |
| Total capital | 1,034,606 | 1,046,521 | 109.79 | 8 |
| Tier 1 capital | 1,034,606 | 1,034,606 | 108.54 | 4 |

## 23. RISK MANAGEMENT POLICIES

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

The Bank 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 following table presents an analysis of interest rate risk and liquidity risk on the balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

| | Up to 1 month KZT'000 | 1 month to 3 months KZT'000 | 3 month to 1 year KZT'000 | 1 year to 5 years KZT'000 | Over 5 years KZT'000 | Allowance for losses and impairment KZT'000 | 2004 Total KZT'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Securities purchased under repurchases agreement | 130,001 | - | - | - | - | - | 130,001 |
| Loans to customers, less allowance for loan losses | 82,636 | 128,644 | 469,511 | 363,336 | - | (81,414) | 962,713 |
| Total interest bearing assets | 212,637 | 128,644 | 469,511 | 363,336 | - | (81,414) | 1,092,714 |
| Cash and balances with the NBRK | 53,557 | - | - | - | - | - | 53,557 |
| Loans and advances to banks | 183 | - | - | - | - | - | 183 |
| Fixed and intangible assets, less accumulated depreciation | - | 11 | 128 | 3,583 | 10,383 | - | 14,105 |
| Income tax assets | 594 | - | - | - | - | - | 594 |
| Other assets | 388 | - | - | - | - | - | 388 |
| Interest accrued on interest bearing assets | 1,187 | - | - | - | - | - | 1,187 |
| TOTAL ASSETS | 268,546 | 128,655 | 469,639 | 366,919 | 10,383 | (81,414) | 1,162,728 |
| **LIABILITIES** | | | | | | | |
| Customer accounts | - | - | 3,466 | 85,440 | - | - | 88,906 |
| Total interest bearing liabilities | - | - | 3,466 | 85,440 | - | - | 88,906 |
| Customer accounts, non-interest bearing | 67,594 | - | - | - | - | - | 67,594 |
| Other liabilities | 3,583 | - | - | - | - | - | 3,583 |
| TOTAL LIABILITIES | 71,177 | - | 3,466 | 85,440 | - | - | 160,083 |
| Liquidity gap | 197,369 | 128,655 | 466,173 | 281,479 | 10,383 | | |
| Interest sensitivity gap | 212,637 | 128,644 | 466,045 | 277,896 | - | | |
| Cumulative interest sensitivity gap | 212,637 | 341,281 | 807,326 | 1,085,222 | 1,085,222 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 18% | 29% | 69% | 93% | 93% | | |

| | Up to<br>**1 month**<br>KZT'000 | 1 month to 3<br>**months**<br>KZT'000 | 3 month to<br>**1 year**<br>KZT'000 | 1 year to<br>**5 years**<br>KZT'000 | Over<br>**5 years**<br>KZT'000 | Allowance for losses and<br>**impairment**<br>KZT'000 | 2003<br>**Total**<br>KZT'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Securities available-for-sale | - | 24,890 | - | - | - | - | 24,890 |
| Securities purchased under repurchase agreement | 115,163 | - | - | - | - | - | 115,163 |
| Loans to customers, less allowance for loan losses | - | - | 639,687 | 319,835 | - | (32,280) | 927,242 |
| Total interest bearing assets | 115,163 | 24,890 | 639,687 | 319,835 | - | (32,280) | 1,067,295 |
| Cash and balances with the NBRK | 26,454 | - | - | - | - | - | 26,454 |
| Loans and advances to banks | 3,908 | - | - | - | - | - | 3,908 |
| Loans to customers | - | 21,921 | 2,238 | - | - | (24,159) | - |
| Fixed and intangible assets, less accumulated depreciation | - | - | - | 3,963 | 11,395 | - | 15,358 |
| Income tax assets | - | - | 11,975 | - | - | - | 11,975 |
| Other assets | 1,549 | - | - | - | - | - | 1,549 |
| Interest accrued on interest bearing assets | 2,500 | 3,949 | - | - | - | - | 6,449 |
| TOTAL ASSETS | 149,574 | 50,760 | 653,900 | 323,798 | 11,395 | (56,439) | 1,132,988 |
| **LIABILITIES** | | | | | | | |
| Customer accounts | - | - | 82,467 | - | - | - | 82,467 |
| Total interest bearing liabilities | - | - | 82,467 | - | - | - | 82,467 |
| Income tax liabilities | - | - | 66 | - | - | - | 66 |
| Customer accounts | 9,350 | - | - | 204 | - | - | 9,554 |
| Other liabilities | - | 6,295 | - | - | - | - | 6,295 |
| TOTAL LIABILITIES | 9,350 | 6,295 | 82,533 | 204 | - | - | 98,382 |
| Liquidity gap | 140,224 | 44,465 | 571,367 | 323,594 | 11,395 | | |
| Interest sensitivity gap | 115,163 | 24,890 | 557,220 | 319,835 | - | | |
| Cumulative interest sensitivity gap | 115,163 | 140,053 | 697,273 | 1,047,108 | 1,047,108 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 10% | 12% | 62% | 90% | 90% | | |

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss (IFRS 32 par. 58). 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 Bank.

| | 2004<br>% | 2003<br>% |
|---|---|---|
| **ASSETS** | | |
| Securities available-for-sale | - | 2.66-5.65 |
| Securities purchased under repurchase agreement | 1-6 | 3-5 |
| Loans and advances to customers | 4-22 | 3-26 |
| **LIABILITIES** | | |
| Customer accounts | 5-10 | 10 |

### 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 Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | KZT | USD | EUR | RUR | Allowance for losses and impairment | 2004 Total KZT'000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with the NBRK | 53,064 | 135 | 116 | 242 | - | 53,557 |
| Loans and advances to banks | - | 76 | - | 107 | - | 183 |
| Securities purchased under repurchase agreement | 130,001 | - | - | - | - | 130,001 |
| Loans and advances to customers, less allowance for loan losses | 1,045,314 | - | - | - | (81,414) | 963,900 |
| Fixed and intangible assets, less accumulated depreciation | 14,105 | - | - | - | - | 14,105 |
| Income tax assets | 594 | - | - | - | - | 594 |
| Other assets | 388 | - | - | - | - | 388 |
| TOTAL ASSETS | 1,243,466 | 211 | 116 | 349 | (81,414) | 1,162,728 |
| **LIABILITIES** | | | | | | |
| Customer accounts | 156,500 | - | - | - | - | 156,500 |
| Other liabilities | 3,583 | - | - | - | - | 3,583 |
| TOTAL LIABILITIES | 160,083 | - | - | - | - | 160,083 |
| OPEN BALANCE SHEET POSITION | 1,083,383 | 211 | 116 | 349 | | |

| | KZT | USD | EUR | RUR | Allowance for losses and impairment) | 2003 Total KZT'000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with the NBRK | 25,425 | 908 | 111 | 10 | - | 26,454 |
| Loans and advances to banks | - | 8 | - | 3,900 | - | 3,908 |
| Securities available-for-sale | 24,890 | - | - | - | - | 24,890 |
| Securities purchased under repurchase agreement | 115,163 | - | - | - | - | 115,163 |
| Loans and advances to customers, less allowance for loan losses | 990,130 | - | - | - | (56,439) | 933,691 |
| Fixed and intangible assets, less accumulated depreciation | 15,358 | - | - | - | - | 15,358 |
| Income tax assets | 11,975 | | | | | 11,975 |
| Other assets | 1,549 | - | - | - | - | 1,549 |
| TOTAL ASSETS | 1,184,490 | 916 | 111 | 3,910 | (56,439) | 1,132,988 |
| **LIABILITIES** | | | | | | |
| Customer accounts | 88,164 | - | - | 3,857 | - | 92,021 |
| Income tax liabilities | 66 | | | | | 66 |
| Other liabilities | 6,295 | - | - | - | - | 6,295 |
| TOTAL LIABILITIES | 94,525 | - | - | 3,857 | - | 98,382 |
| OPEN BALANCE SHEET POSITION | 1,089,965 | 916 | 111 | 53 | | |

### Market Risk

Market 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 Bank is exposed to market risks of its products which are subject to general and specific market fluctuations. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

### Credit risk

The Bank 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.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by borrower are approved monthly 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. In the case of most loans, the Bank obtains collateral and corporate guarantees.

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

**Geographical concentration**

All assets and liabilities are located in Kazakhstan.