JSC SB "KZI Bank"

Financial Statements

for the year ended 31 December 2005

Contents

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Independent Auditors' Report

To the Management of JSC SB "KZI Bank"

We have audited the accompanying balance sheet of JSC SB "KZI Bank" (the "Bank") as of 31 December 2005 and the related statements of income, changes in shareholders' equity and cash flows 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 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Janat Berdalina
Certified Auditor
Managing Partner

KPMG Janat, LLC
Licence # 6 dated 1 November 1996,
to conduct banking audits

KPMG Janat, LLC
Stephen Nye
Audit Partner

29 March 2006

	Notes	2005 KZT'000	2004 KZT'000
Interest income	4	221,338	161,735
Interest expense	4	(3,645)	(4,759)
Net interest income		**217,693**	**156,976**
Fee and commission income	5	110,793	100,034
Fee and commission expense	5	(10,495)	(14,892)
Net fee and commission income		**100,298**	**85,142**
Net foreign exchange income	6	67,507	65,406
Other income		11,137	2,083
Operating income		**396,635**	**309,607**
Reversal / (impairment losses)	7	5,278	(19,271)
General administrative expenses	8	(216,704)	(206,058)
Operating expenses		**(211,426)**	**(225,329)**
Income before taxes		**185,209**	**84,278**
Income tax (expense) / benefit	9	(44,774)	5,844
Net income for the year		**140,435**	**90,122**

The financial statements as set out on pages 1 to 29 were approved on 29 March 2006.

Chairman

Bekir Sonmez

Chief Accountant

Zilikha Usenova

РЕСПУБЛИКАСЫ АЛМАТЫ КАЛАСЫ REPUBLIC OF KAZAKHSTAN АКЦИОНЕРНОЕ ОБЩЕСТВО ДОЧЕРНИЙ БАНК KZI BANK Kazakhstan-Ziraat International Bank ALMATY CITY

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The income statement is to be read in conjunction with the notes to the financial statements.

	Notes	2005 KZT'000	2004 KZT'000
ASSETS			
Cash		146,251	208,171
Due from the National Bank of the Republic of Kazakhstan	10	244,897	9,445
Placements with banks and other financial institutions	11	500,900	158,144
Amounts receivable under reverse repurchase agreements	12	204,072	-
Loans to customers	13	1,490,335	605,171
Held-to-maturity investments	14	1,492,564	1,979,365
Other assets	15	33,626	48,622
Property and equipment	16	292,691	298,501
Intangible assets	17	32,679	38,381
Total Assets		**4,438,015**	**3,345,800**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current accounts and deposits from customers	18	2,118,466	1,002,750
Other liabilities	19	11,987	101,456
Deferred tax liability	20	655	-
Total Liabilities		**2,131,108**	**1,104,206**
Shareholders' Equity			
Share capital	21	2,066,287	2,066,287
Reserves		92,672	63,696
Retained earnings		147,948	111,611
Total Shareholders' Equity		**2,306,907**	**2,241,594**
Total Liabilities and Shareholders' Equity		**4,438,015**	**3,345,800**
Commitments and contingencies	23, 24		

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The balance sheet is to be read in conjunction with the notes to the financial statements.

	Notes	2005 KZT'000	2004 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		185,209	84,278
Adjustments for non-cash items:			
Depreciation and amortisation		19,656	22,465
Net charge for impairment		(5,278)	19,271
Loss on sale of premises and equipment		-	2,423
Accruals		(56,728)	(90,573)
Operating income before changes in net operating assets		**142,859**	**37,864**
(Increase)/ decrease in operating assets			
Obligatory reserves		30,457	(11,155)
Placements with banks and other financial institutions		(41,506)	108,425
Amounts receivable under reverse repurchase agreements		(204,072)	10,031
Loans to customers		(883,768)	(439,307)
Other assets		41,221	14,604
Increase/(decrease) in operating liabilities			
Amounts payable under repurchase agreements		(90,014)	90,014
Current accounts and deposits from customers		1,094,371	120,936
Other liabilities		545	6,383
Net cash from operating activities before taxes paid		**90,093**	**(62,205)**
Taxes paid		(41,961)	(10,178)
Cash flows from operations		**48,132**	**(72,383)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities		(1,435,836)	(2,726,382)
Proceeds from sales of investment securities		1,979,365	2,758,189
Purchases of property and equipment		(7,328)	(3,235)
Sales of property and equipment		-	3,420
Purchases of intangible assets		(816)	(2,333)
Cash flows from investing activities		**535,385**	**29,659**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(75,122)	(28,996)
Cash flows from financing activities		**(75,122)**	**(28,996)**
Net increase/ (decrease) in cash and cash equivalents		**508,395**	**(71,720)**
Effect of changes in exchange rates on cash and cash equivalents		38,350	-
Cash and cash equivalents at the beginning of the year		313,791	385,511
Cash and cash equivalents at the end of the year	26	**860,536**	**313,791**

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

	Share capital KZT'000	Reserve for general banking risk KZT'000	Retained earnings KZT'000	Total KZT'000
Balance as at 1 January 2004	**2,066,287**	**63,696**	**50,485**	**2,180,468**
Net income for the year	-	-	90,122	90,122
Dividends declared	-	-	(28,996)	(28,996)
Balance as at 31 December 2004	**2,066,287**	**63,696**	**111,611**	**2,241,594**
Net income for the year	-	-	140,435	140,435
Dividends declared	-	-	(75,122)	(75,122)
Transfer to reserve for general banking risks	-	28,976	(28,976)	-
Balance at 31 December 2005	**2,066,287**	**92,672**	**147,948**	**2,306,907**

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The statement of changes in shareholders' equity is to be read in conjunction with the notes to the financial statements.

1 Background

Principal activities

JSC "KZI Bank" (the "Bank") was established in the Republic of Kazakhstan as a closed joint-stock company in 1993 and received a banking licence in Almaty. On 31 January 2005 the Bank was re-registered as a joint-stock company in accordance with the legislation on the Republic of Kazakhstan. The Bank's principal activities consist of accepting deposits, advancing loans and other forms of credit and carrying out operations in foreign currencies and securities. The Bank is regulated by the National Bank of the Republic of Kazakhstan (the "NBRK") and the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations.

"T. C. Ziraat Bankasi A. S.", Turkey, was the co-founder of the Bank and is the principal shareholder. The conditions for the Bank's establishment, management and organisational structure, within which it must conduct its activities, are regulated by the Charter documents. Details of related party transactions with the Ziraat group are provided in Note 25 to the financial statements.

The average number of people employed by the Bank for 2005 was 74 (2004: 68).

Kazakhstan business environment

The economic environment of Kazakhstan was assessed in 2004 and 2005 by international rating agencies. In 2005 Standard & Poor's confirmed the long-term foreign currency rating at "BBB-", and the long-term rating of borrowings in the national currency at "BBB"; the short-term ratings of borrowings in the national and foreign currencies were also confirmed at "A-3". In 2005 Moody's Investors Service rated the long-term debts in foreign currency at "Baa3" and long-term debts in the national currency at "Baa1". In 2005 Fitch rated the long-term borrowings in foreign currency at "BBB" and the long-term borrowings in the national currency at "BBB+".

The Bank's operations are subject to country risk being the economic, political, and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

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2 Basis of preparation

Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and investment securities available-for-sale are stated at fair value.

Functional and Presentation Currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"). Management have determined the Bank's functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank's presentation currency for the purposes of these financial statements.

Financial information presented in KZT has been rounded to the nearest thousand.

Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments, which would be necessary should the Bank be unable to continue as a going concern.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in note 7 –Impairment losses.

3 Significant accounting policies

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

Foreign currency transactions

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

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

Currency	2005	2004
1 USD	133.98	130.00
1 Euro	158.99	177.10

Cash and cash equivalents

The Bank considers cash deposits with maturity less than three months, correspondent accounts with the NBRK and nostro accounts with other banks to be cash and cash equivalents. The minimum reserve requirements with the NBRK is not considered to be a cash equivalent due to restrictions on its withdrawn.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value through the profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

3 Significant accounting policies, continued

Financial instruments, continued

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that the Bank upon initial recognition designates as at fair value through profit or loss, those that the Bank designates as available-for-sale, or those that meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions on the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for: loans and receivables which are measured at amortised cost using the effective interest method; and held to maturity assets which are measured at amortised cost using the effective yield method. All financial liabilities are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

Financial instruments, continued

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows: a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement; a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the (consolidated) income statement over the terms of the repo agreement.

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the reverse repo agreement using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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3 Significant accounting policies, continued

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below).

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

Depreciation

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

Buildings	20 to 50 years
Computer equipment	3 years
Vehicles	7 to 15 years
Other	5 to 20 years

Intangible assets

Intangible assets consist of software acquired by the Bank, which is stated at cost less accumulated amortisation.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets is 5 to 7 years.

Impairment

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

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3 Significant accounting policies, continued

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the different between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies, continued

Provisions

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

Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date.

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

Interest income and expenses

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

3 Significant accounting policies, continued

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards on its financial statements.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's financial instruments.

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's capital.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

4 Net interest income

	2005 KZT '000	2004 KZT '000
Interest income		
Loans to customers	159,553	68,523
Investment securities	56,728	90,573
Placements with banks and other financial institutions	2,903	2,497
Amounts receivable under reverse repurchase agreements	2,154	142
	221,338	**161,735**
Interest expense		
Current accounts and deposits from customers	(3,560)	(4,288)
Deposits and balances from banks and other financial institutions	-	(11)
Amounts payable under repurchase agreements	(85)	(460)
	(3,645)	**(4,759)**

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5 Fee and commission income and expenses

	2005 KZT '000	2004 KZT '000
Fee and commission income		
Transfer operations	76,340	71,028
Account maintenance	22,597	20,136
Guarantees issued	8,562	6,094
Other	3,294	2,776
	110,793	**100,034**
Fee and commission expense		
Payment transfer fees	(7,026)	(13,668)
Transactions in foreign currencies	(751)	(88)
Brokerage fee	(640)	(1,025)
Other fees	(2,078)	(111)
	(10,495)	**(14,892)**

6 Net foreign exchange income

	2005 KZT '000	2004 KZT '000
Gain on trading in foreign currencies	73,042	65,166
(Loss) / gain from revaluation of financial assets and liabilities	(5,535)	240
	67,507	**65,406**

7 Reversal / (impairment losses)

	2005 KZT '000	2004 KZT '000
Impairment losses		
Loans to customers	8,645	(11,195)
Other assets	(3,367)	(8,076)
Net reversal / (impairment losses)	**5,278**	**(19,271)**

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8 General administrative expenses

	2005 KZT '000	2004 KZT '000
Employee compensation	114,432	95,369
Depreciation and amortisation	19,656	22,465
Administration	21,630	24,944
Security	13,793	11,896
Taxes other than on income	13,283	14,690
Communications and information services	10,143	7,856
Professional services	4,603	5,635
Advertising and marketing	2,494	1,434
Other expenses	16,670	21,769
	216,704	**206,058**

9 Income tax (expense) / benefit

	2005 KZT '000	2004 KZT '000
Current tax expense		
Current year	(38,180)	(10,178)
(Over) / underprovided in prior years	(940)	-
	(39,120)	**(10,178)**
Deferred tax expense		
Origination and reversal of temporary differences	(5,654)	16,022
	(5,654)	**16,022**
	(44,774)	**5,844**

The Bank's applicable tax rate for current and deferred tax is 30% (2004: 30%).

Reconciliation of effective tax rate:

	2005 KZT '000	%	2004 KZT '000	%
Income before tax	185,209	100%	84,278	100%
Income tax at the applicable tax rate	(55,563)	30%	(25,283)	30%
Non-taxable income	11,729	(6.3%)	31,127	(36.9%)
(Over) / underprovided in prior years	(940)	0.5%	-	-
	(44,774)	**24.2%**	**5,844**	**(6.9%)**

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10 Due from the National Bank of the Republic of Kazakhstan

	2005 KZT '000	2004 KZT '000
Correspondent accounts	**244,897**	**9,445**

11 Placements with banks and other financial institutions

	2005 KZT '000	2004 KZT '000
Nostro accounts	500,900	93,269
Loans and deposits	-	64,875
	500,900	**158,144**

Concentration of placements with banks and other financial institutions

As at 31 December 2005 the Bank had one bank whose balances exceeded 10% of total placements with banks and other financial institutions (2004:3). The gross value of these balances as of 31 December 2005 and 2004 was KZT 379,989 thousand and KZT 118,419 thousand, respectively.

12 Amounts receivable under reverse repurchase agreements

	2005 KZT '000	2004 KZT '000
Amounts receivable from banks and other financial institutions	204,001	-
Accrued interest	71	-
	204,072	-

Collateral

As of 31 December 2005 amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	Fair value 2005 KZT '000	Fair value 2004 KZT '000
Treasury of Ministry of Finance	217,783	-
Euronotes	4,000	-
	221,783	-

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13 Loans to customers

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Kazakhstan, who operate in the following economic sectors:

	2005 KZT '000	2004 KZT '000
Mortgage and consumer loans to individuals	781,709	307,649
Trading enterprises	343,940	155,679
Plastic goods manufacturing	132,846	43,083
Construction	128,852	13,394
Food processing	22,929	41,187
Metal processing	16,608	22,467
Furniture manufacturing	7,924	9,761
Other	65,635	30,109
Accrued interest	3,802	3,104
	1,504,245	**626,433**
Provision for impairment	(13,910)	(21,262)
	1,490,335	**605,171**

Significant credit exposures

As at 31 December 2005 and 2004, the Bank had no borrowers representing more than 10% of total loans to customers.

Contractually overdue loans

Information in relation to loans with contractually overdue principal or interest as at 31 December 2005 and 2004, is summarised as follows:

	2005 KZT '000	2004 KZT '000
Gross loans with contractually overdue principal or interest	4,012	7,856
Provision for impairment	(3,750)	(7,092)
Net contractually overdue loans recorded in the balance sheet	**262**	**764**

Analysis of movements in the provision for impairment

	2005 KZT '000	2004 KZT '000
Balance at the beginning of the year	21,262	8,035
Net (reversal) /charge for the year	(8,645)	11,195
Recovery of loans previously written-off	1,293	-
Write-offs	-	2,032
Balance at the end of the year	**13,910**	**21,262**

13 Loans to customers, continued

As described in Note 2, the Bank uses its experience and judgement to estimate the amount of impairment loss for loans and advances to customers. The Bank has reviewed its current commercial loan portfolio and has identified loans of KZT 2,613 thousand which display indicators of impairment. The amount of impairment was determined by discounting estimated future cash flows. Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus one percent, the loan impairment on loans as of 31 December 2005 would be KZT 7,225 thousand lower / higher.

As for retail loans the Bank estimates potential loan impairment based on its past historical loss experience on these types of loans of KZT 11,297 thousand. As retail lending is relatively new to Kazakhstan, the Bank and the industry have limited historical experience in this type of lending on which to base its provision for impairment. Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the loan impairment on uninsured retail loans as of 31 December 2005 would be KZT 7,818 thousand lower / higher.

Loan maturities

The maturity of the Bank's loan portfolio is presented in note 29, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

14 Held-to-maturity investments

	2005 KZT '000	2004 KZT '000
Held-to-maturity		
Debt instruments – listed		
Notes issued by NBRK	1,491,798	1,942,074
Accrued interest	766	37,291
	1,492,564	**1,979,365**

15 Other assets

	2005 KZT '000	2004 KZT '000
Receivables from sale of foreclosed assets	10,096	66,422
Other equity investments	7,001	7,001
Prepayments	5,564	4,582
Other assets	14,746	623
Deferred tax assets	-	4,999
	37,407	**83,627**
Provision for impairment	(3,781)	(35,005)
	33,626	**48,622**

At 31 December 2005 and 2004 other equity investments consisted of ordinary shares of JSC "Kazakhstan Stock Exchange" of KZT 6,601 thousand and Central Depository of KZT 400 thousand. Other unquoted equity investments are carried at cost.

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15 Other assets, continued

Analysis of movements in the provision for impairment

	2005 KZT '000	2004 KZT '000
Balance at the beginning of the year	35,005	42,094
Net charge for the year	3,367	8,076
Write-offs	(34,591)	(15,165)
Balance at the end of the year	**3,781**	**35,005**

16 Property and equipment

KZT'000	**Land and buildings**	**Computer equipment**	**Vehicles**	**Other**	**Total**
Cost					
At 1 January 2005	299,822	13,561	8,297	39,431	361,111
Additions	-	4,587	1,473	1,268	7,328
Disposals	-	(2,892)	(3,633)	(3,310)	(9,835)
At 31 December 2005	299,822	15,256	6,137	37,389	358,604
Depreciation					
At 1 January 2005	24,791	10,818	5,511	21,490	62,610
Depreciation charge	5,665	2,613	1,168	3,692	13,138
Disposals	-	(2,892)	(3,633)	(3,310)	(9,835)
At 31 December 2005	30,456	10,539	3,046	21,872	65,913
Carrying value					
At 31 December 2005	**269,366**	**4,717**	**3,091**	**15,517**	**292,691**
At 31 December 2004	**275,031**	**2,743**	**2,786**	**17,941**	**298,501**

17 Intangible assets

KZT'000	**Software**	**Other**	**Total**
Cost			
At 1 January 2005	45,087	7,979	53,066
Additions	578	238	816
Disposals	-	(382)	(382)
At 31 December 2005	45,665	7,835	53,500
Amortisation			
At 1 January 2005	11,813	2,872	14,685
Amortisation charge	3,148	3,370	6,518
Disposals	-	(382)	(382)
At 31 December 2005	14,961	5,860	20,821
Carrying value			
At 31 December 2005	**30,704**	**1,975**	**32,679**
At 31 December 2004	33,274	5,107	38,381

18 Current accounts and deposits from customers

	2005 KZT '000	2004 KZT '000
Current accounts and demand deposits		
- Retail	382,036	398,285
- Corporate	1,406,494	561,963
Accrued expense	1,641	-
Term deposits		
- Corporate	138,812	17,982
- Retail	188,316	24,396
Accrued expense	1,167	124
	2,118,466	**1,002,750**

Blocked accounts

As of 31 December 2005, the Bank maintained customer deposit balances of KZT 182,552 thousand (2004: KZT 42,378 thousand) which were blocked by the Bank as collateral for loans and guarantee issued by the Bank.

Concentrations of current accounts and customer deposits

As of 31 December 2005 the Bank had one customer whose balances approximated 10% of total customer accounts (2004:0). These balances as of 31 December 2005 were KZT 444,235 thousand.

19 Other liabilities

	2005 KZT '000	2004 KZT '000
Income taxes payable	10,311	-
Non-income taxes payable	266	5
Amounts payable under repurchase agreements	-	90,014
Other liabilities	1,410	11,437
	11,987	**101,456**

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20 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2005 and net deferred tax assets as at 31 December 2004.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
KZT'000	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Property and equipment	-	3,449	(939)	-	(939)	3,449
Intangible assets	284	1,550	-	-	284	1,550
Total deferred tax assets/(liabilities)	**284**	**4,999**	**(939)**	**-**	**(655)**	**4,999**
Recognised net deferred tax assets/(liabilities)	**284**	**4,999**	**(939)**	**-**	**(655)**	**4,999**

The rate of tax applicable for deferred taxes was 30% (2004: 30%).

Movement in temporary differences during the year

KZT'000	**Balance 1 January 2005**	**Recognised in income**	**Balance 31 December 2005**
Property and equipment	3,449	(4,388)	(939)
Intangible assets	1,550	(1,266)	284
	4,999	**(5,654)**	**(655)**

21 Share capital and reserves

At 31 December 2005 and 2004, the authorised, issued and paid share capital comprises 2,066,287 ordinary shares having a par value of 1,000 KZT. Each ordinary share is entitled to one vote and shares equally in dividends declared.

The Bank has established a reserve for general banking risks by allocation from retained earnings. As at 31 December 2005 the reserve amounted to KZT 92,672 thousand (2004: 63,696).

Dividends payable are restricted to the maximum of the retained earnings of the Bank, which are determined according to the legislation of the Republic of Kazakhstan. In 2005, and in accordance with the resolution of a general shareholders' meeting, the Bank declared and paid dividends of KZT 75,122 thousand related to 2004 (2004: KZT 28,996 thousand related to 2003).

22 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

Market risk

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 instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank's exposure to fair value interest rate risk at year end refer to notes 28 and 29.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to note 30.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Management Board.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board. For further information on the Bank's exposure to liquidity risk at year end refer to note 29.

23 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

	2005 KZT '000	2004 KZT '000
Contracted amount		
Guarantees	231,456	229,414
Letters of credit	3,396	8,671
	234,852	**238,085**
Less cash collateral	(50,647)	(21,043)
	184,205	**217,042**

As of 31 December 2005, approximately 70% of total guarantees issued relate to one customer (2004:85%).

The total outstanding contractual commitments to extend credit indicated above do not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

24 Contingencies

Insurance

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

Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

24 Contingencies (continued)

Taxation contingencies

The taxation system in the Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

25 Related party transactions

Control relationships

The Bank's Parent is "T.C. Ziraat Bankasi A.S." The party with ultimate control over the Bank is the Government of Republic of Turkey.

Transactions Directors and executive officers

Loans to members of the Board of Directors and the Management Board amounting to KZT 4,651 thousand (2004: KZT 10,371 thousand) are included in loans to customers (refer note 13).

There are no special bonus schemes or non-cash benefits provided by the Bank to Directors and members of the Management Board. Total remuneration included in employee compensation (refer note 8) is as follows:

	2005 KZT '000	2004 KZT '000
Members of the Board of Directors	3,595	-
Members of the Management Board	21,024	23,903
	24,619	**23,903**

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26 Related party transactions, continued

Transactions Directors and executive officers, continued

The outstanding balances and average interest rates as of 31 December 2005 and 2004 with shareholder, members of the Board of Directors and the Management Board are as follows:

	2005 KZT '000	Average Interest Rate	2004 KZT '000	Average Interest Rate
Balance Sheet				
Assets				
Loans to members of the Board of Directors and the Management Board	4,651	10.4%	10,371	9.3%
Liabilities				
Current accounts and deposits	-	-	72,338	0%

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2005 KZT '000	2004 KZT '000
Income statement		
Interest income	2,122	185

Transactions with other entities within the Group

The Group refers to the parent bank and its affiliates. The outstanding balances and the related average interest rates as at 31 December 2005 and 2004 with other Group members which include T.C. Ziraat Bankasi Frankfurt, T.C. Ziraat Bankasi London, T.C. Ziraat Bankasi Moscow, T.C. Ziraat Bankasi Ankara are as follows:

	Parent Bank				Fellow subsidiaries			
	2005 KZT '000	Average interest rate	2004 KZT '000	Average interest rate	2005 KZT '000	Average interest rate	2004 KZT '000	Average interest rate
Assets								
Placement with banks	-	-	-	-	-	-	65,603	4%
Nostro accounts with banks	58	-	-	-	27,642	-	20,962	-

Amounts included in the income statement in relation to transaction with Group members are as follows:

	2005 KZT '000	2004 KZT '000
Income statement		
Interest income (related to fellow subsidiaries)	-	2,253

26 Cash and cash equivalents

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

	2005 KZT '000	2004 KZT '000
Cash	146,251	208,171
Nostro accounts	500,900	92,541
Deposits with related banks with maturity less than 3 months	-	64,875
Due from the National Bank of the Republic of Kazakhstan	244,897	9,445
Related accrued interest	-	728
Obligatory reserve	(31,512)	(61,969)
	860,536	**313,791**

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

27 Fair value of financial instruments

The estimated fair value of the Bank's financial assets and liabilities, as required to be disclosed by IAS 32 "Financial Instruments: Disclosure and Presentation", are as follows:

	2005 Fair Value KZT'000	2005 Carrying Value KZT'000	2004 Fair Value KZT'000	2004 Carrying Value KZT'000
ASSETS				
Cash	146,251	146,251	208,171	208,171
Due from the National Bank of the Republic of Kazakhstan	244,897	244,897	9,445	9,445
Placements with banks and other financial institutions	500,900	500,900	158,144	158,144
Amounts receivable under reverse repurchase agreements	204,072	204,072	-	-
Loans to customers	1,496,751	1,490,335	607,776	605,171
Held-to maturity investment securities	1,492,564	1,492,564	1,979,365	1,979,365
Other assets	33,626	33,626	48,622	48,622
LIABILITIES				
Current accounts and deposits from customers	2,126,940	2,118,466	1,006,761	1,002,750
Other liabilities	11,987	11,987	101,456	101,456

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27 Fair value of financial instruments, continued

The estimated fair values of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

28 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2005 and 2004 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2005 Value KZT '000	2005 Effective interest rates, %	2004 Value KZT '000	2004 Effective interest rates, %
Interest Bearing Assets				
Placements with banks	**500,900**		**158,144**	
- KZT	12,990	0%	2,896	0%
- USD	432,568	0 - 2%	99,588	0 – 4%
- Other	55,342	2%	55,660	0%
Held-to-maturity investments				
- KZT	**1,492,564**	**2.31%**	**1,979,365**	**4.82%**
Amounts receivable under reverse repurchase agreements			-	
-KZT	**204,072**	**2.16%**	-	-
Loans to customers (gross before provisions)	**1,504,245**		**626,433**	
- KZT	1,341,075	14.7%	383,865	14.11%
- USD	163,170	14.2%	239,165	14.58%
- Other	-	-	3,403	16.00%
Interest Bearing Liabilities				
Current accounts and deposits from customers	**2,118,466**		**1,002,750**	
- KZT	1,044,585	0%	528,134	0%
- USD	1,018,989	0 - 5.5%	405,661	0 – 5.5%
- Other	54,892	0%	68,955	0%

29 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2005:

	Less than 1 month	1 to 3 months	3 months to 1 year	1year to 5 years	More than 5 years	No maturity	Total
Assets	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**	**KZT '000**
Cash	146,251	-	-	-	-	-	146,251
Due from the NBRK	244,897	-	-	-	-	-	244,897
Placements with banks and other financial institutions	432,651	68,249	-	-	-	-	500,900
Amounts receivable under reverse repurchase agreements	204,072	-	-	-	-	-	204,072
Loans to customers	26,203	56,494	454,988	908,430	44,220	-	1,490,335
Held-to-maturity investments	1,492,564	-	-	-	-	-	1,492,564
Other assets	21,626	-	4,999	7,001	-	-	33,626
Property and equipment	-	-	-	-	-	292,691	292,691
Intangible assets	-	-	-	-	-	32,679	32,679
Total assets	**2,568,264**	**124,743**	**459,987**	**915,431**	**44,220**	**325,370**	**4,438,015**
Liabilities							
Current accounts and deposits from customers	1,972,118	8,642	2,808	134,898	-	-	2,118,466
Other liabilities	3,691	-	-	3,700		4,596	11,987
Deferred tax liabilities, net	-	-	655	-	-	-	655
Total liabilities	**1,975,809**	**8,642**	**3,463**	**138,598**	**-**	**4,596**	**2,131,108**
Net position as at 31 December 2005	**592,455**	**116,101**	**456,524**	**776,833**	**44,220**	**320,774**	**2,306,907**
Net position as at 31 December 2004	(478,359)	401,186	1,551,116	375,415	55,354	336,882	2,241,594

30 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2005:

	KZT	USD	Other currencies	Total
	KZT '000	KZT '000	KZT '000	KZT '000
Assets				
Cash	36,315	92,252	17,684	146,251
Due from the NBRK	244,897	-	-	244,897
Placements with banks and other financial institutions	12,990	432,568	55,342	500,900
Amounts receivable under reverse repurchase agreements	204,072	-	-	204,072
Loans to customers	1,327,165	163,170	-	1,490,335
Held-to-maturity investments	1,492,564	-	-	1,492,564
Other assets	33,626	-	-	33,626
Property and equipment	292,691	-	-	292,691
Intangible assets	32,679	-	-	32,679
Total assets	**3,676,999**	**687,990**	**73,026**	**4,438,015**
Liabilities				
Current accounts and deposits from customers	1,044,585	1,018,989	54,892	2,118,466
Other liabilities	11,987	-	-	11,987
Deferred tax liabilities	655	-	-	655
Total liabilities	**1,057,227**	**1,018,989**	**54,892**	**2,131,108**
Net balance sheet position as of 31 December 2005	**2,619,772**	**(330,999)**	**18,134**	**2,306,907**
Net balance sheet position as of 31 December 2004	2,211,975	33,666	(4,047)	2,241,594

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