

EURASIAN DEVELOPMENT BANK

Financial Statements

For the period from 16 June 2006 (inception date)
to 31 December 2006

and Independent Auditors' Report

EURASIAN DEVELOPMENT BANK

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EURASIAN DEVELOPMENT BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 16 JUNE 2006 (INCEPTION DATE) TO 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of the management and those of the independent auditors in relation to the financial statements of the Eurasian Development Bank (the "Bank").

The management is responsible for the preparation of the financial statements that fairly present in all material respects the financial position of the Bank, the results of its operations, changes in equity and cash flows for the period from 16 June 2006 (inception date) to 31 December 2006, in accordance with International Financial Reporting Standards ("IFRS").

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

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

The management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud, errors and other irregularities.

The financial statements for the period from 16 June 2006 (inception date) to 31 December 2006 were authorized for issue on 26 March 2007 by the Management of the Bank.

On behalf of the Management of the Bank:

I.V. Finogenov
Chairman of the Executive Board

26 March 2007
Almaty

INDEPENDENT AUDITORS' REPORT

To the members of the Council of the Eurasian Development Bank

Report on the Financial Statements

We have audited the accompanying financial statements of the Eurasian Development Bank, which comprise the balance sheet as at 31 December 2006, the income statement, and the statements of changes in equity and cash flows for the period from 16 June 2006 (inception date) to 31 December 2006 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Eurasian Development Bank as at 31 December 2006, and its financial performance and its cash flows for the period from 16 June 2006 (inception date) to 31 December 2006 in accordance with International Financial Reporting Standards.

Deloitte, LLP

State license on auditing of the Republic of Kazakhstan Number 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan dated September 13, 2006

Nurlan Bekenov
Engagement Partner
General Director
Deloitte, LLP

26 March 2007
Almaty

EURASIAN DEVELOPMENT BANK

BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	31 December 2006 (USD'000)
ASSETS:		
Cash and balances with national (central) banks of member-states of the Bank	4	129
Financial assets at fair value through profit or loss	5	290,355
Due from banks	6	470,594
Property, equipment and intangible assets	7	11,006
Other assets	8	<u>2,060</u>
TOTAL ASSETS		<u><u>774,144</u></u>
LIABILITIES AND EQUITY		
LIABILITIES:		
Loans from banks	9	149,328
Financial liabilities at fair value through profit or loss	5	306
Other liabilities	10	<u>615</u>
Total liabilities		<u>150,249</u>
EQUITY:		
Share capital	11	614,016
Retained earnings		<u>9,879</u>
Total equity		<u>623,895</u>
TOTAL LIABILITIES AND EQUITY		<u><u>774,144</u></u>

On behalf of the Management of the Bank:

I.V. Finogenov
Chairman of the Executive Board

26 March 2007
Almaty

The notes on pages 8-26 form an integral part of these financial statements. The Independent Auditors' report is on pages 2-3.

EURASIAN DEVELOPMENT BANK

INCOME STATEMENT FOR THE PERIOD FROM 16 JUNE 2006 (INCEPTION DATE) TO 31 DECEMBER 2006

	Notes	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
Interest income	12	12,115
Interest expense	12	<u>(250)</u>
NET INTEREST INCOME		<u>11,865</u>
Net gain on financial assets at fair value through profit or loss	13	1,974
Net gain on foreign exchange operations	14	1,047
Fee and commission expense	15	(368)
Other income		<u>17</u>
NET NON-INTEREST INCOME		<u>2,670</u>
OPERATING INCOME		14,535
OPERATING EXPENSES	16, 18	<u>(4,656)</u>
NET PROFIT		<u><u>9,879</u></u>

On behalf of the Management of the Bank:

I.V. Finogenov
Chairman of the Executive Board

26 March 2007
Almaty

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EURASIAN DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 16 JUNE 2006 (INCEPTION DATE) TO 31 DECEMBER 2006

	Share capital (USD'000)	Retained earnings (USD'000)	Total equity (USD'000)
16 June 2006 (inception date)			
Share capital increase	614,016	-	614,016
Net profit	<u>-</u>	<u>9,879</u>	<u>9,879</u>
31 December 2006	<u>614,016</u>	<u>9,879</u>	<u>623,895</u>

On behalf of the Management of the Bank:

I.V. Finogenov
Chairman of the Executive Board

26 March 2007
Almaty

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EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOW FOR THE PERIOD FROM 16 JUNE 2006 (INCEPTION DATE) TO 31 DECEMBER 2006

	Notes	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit		9,879
Adjustments for:		
Unrealised gain on securities		(997)
Net change in fair value of derivative financial instruments	5	(111)
Depreciation and amortization	7	54
Exchange rate loss unrealized		35
Amortization of discount on loans from banks		23
Change in other profit and loss accruals, net		609
Change in interest accruals, net		(3,646)
Cash flows from operating activities before changes in operating assets and liabilities		5,846
Changes in operating assets and liabilities:		
Increase in operating assets:		
Financial assets at fair value through profit or loss		(287,579)
Due from banks		(110,009)
Other assets		(1,818)
Net cash outflow from operating activities		(393,560)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets	5	(11,056)
Increase of prepayments on capital expenditures		(237)
Net cash outflow from investing activities		(11,293)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of common shares		614,016
Loans from banks		149,085
Net cash inflow from financing activities		763,101
NET INCREASE IN CASH AND CASH EQUIVALENTS		358,248
CASH AND CASH EQUIVALENTS, at beginning of the period	4	-
CASH AND CASH EQUIVALENTS, at end of the period	4	358,248

Interest paid and received by the Bank in cash during the period from 16 June 2006 (inception date) to 31 December 2006 amounted to 7 thousand and 8,353 thousand US dollars, respectively.

On behalf of the Management of the Bank:

I.V. Finogenov
Chairman of the Executive

26 March 2007
Almaty

The notes on pages 8-26 form an integral part of these financial statements. The Independent Auditors' report is on pages 2-3.

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 16 JUNE 2006 (INCEPTION DATE) TO 31 DECEMBER 2006

1. ORGANIZATION AND ITS ACTIVITY

The Eurasian Development Bank (the “Bank”) is an international organization, which was established in accordance with Agreement Establishing the Eurasian Development Bank entered into between the Russian Federation and the Republic of Kazakhstan on 12 January 2006 (the “Agreement on Incorporation”). This Agreement on Incorporation came into force on 16 June 2006 on the date of receipt of the last written notice through diplomatic channels from contracting parties on the fulfillment of domestic procedures necessary for its coming into force.

The Bank’s membership is open to new participants: other states and international organizations may join the Agreement on Incorporation of the Bank. The strategic objective of the Bank is promotion of development of market economy in member-states, their economic growth and expansion of mutual trade and economic relations through investment activity. The Bank is called to be a consolidating element of financial infrastructure in the single economic area, a partner of member-states in deepening of integration processes in the Eurasian area.

The Bank's principal activity consists of investment banking activity, operations with securities, loans, foreign currencies and derivative instruments, provision of loans and guarantees. The Bank finances large, medium- and long-term investment projects, including industrial and innovative programs of member-states and interstate target programs. The Bank also participates in the realization of investment projects of interregional significance, and lends to industrial companies of member-states.

Headquarters of the Bank are registered at: 98, Panfilov Street, Almaty, the Republic of Kazakhstan.

Total number of employees of the Bank as at 31 December 2006 was 57.

In accordance with its Charter, the Bank possesses immunity against any legal proceedings, except for the cases which do not result from its execution of its powers. The property and the assets of the Bank possess the same immunities from search, requisition, arrest, confiscation, expropriation or any other form of withdrawal or alienation prior to final judgment in relation to the Bank. The Bank is exempted from any taxes, levies, duties and other payments, except for those that represent a payment for specific types of service.

As at 31 December 2006 shares of the Bank were distributed in the following manner:

	31 December 2006, %
The Russian Federation:	66.67%
The Republic of Kazakhstan:	<u>33.33%</u>
Total	<u><u>100.00%</u></u>

2. BASIS OF PRESENTATION

Accounting basis

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

These financial statements are presented in thousands of US dollars (“thousand US dollars”, “USD’000”), unless otherwise indicated. These financial statements have been prepared under the accrual method and historical cost conversion, except for the measurement at fair value of certain financial instruments.

Key assumptions

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

Due from banks are measured at amortized cost/cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgment. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

As at balance sheet date the balance of the Bank does not contain the items, which require the assumptions and estimations that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Functional currency

The functional currency of these financial statements is US dollars (“US dollars”).

The Bank considered the following factors in determining its functional currency: US dollars mainly influence sales prices for services, labor, material and other costs, share capital is formed in US dollars, and funds from financing activities are generated mainly in US dollars.

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. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, the Central Bank of the Russian Federation, advances to banks in the Russian Federation and the Republic of Kazakhstan, and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), with original maturity within 90 days.

Loans and advances to banks

In the normal course of business, the Bank 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 rate method. Those that do not have fixed maturities are carried at amortized cost based on the expected date of sale or realization of those assets.

Financial assets and liabilities at fair value through profit or loss

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

Derivative financial instruments are used by the Bank principally for trading purposes and include forwards on foreign currency and securities. No derivatives are used by the Bank for hedging purposes.

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 liquidity management and trading business with securities.

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 accrued interest. These agreements are accounted for as financing transactions collateralized by securities. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as due to banks or customer accounts based on the counterparty of the deal.

Assets purchased under reverse repos are recorded in the financial statements as due from banks or loans to customers based on the counterparty of the deal.

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.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and intangible assets is charged on the carrying value of property and equipment and is designed to allocate depreciable amount of asset on a systematic basis over its useful life. It is calculated on a straight line basis at the following annual prescribed rates:

Furniture and equipment	14.3%-50%
Vehicles	16.67%
Intangible assets	15%-50%

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

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

Taxation

The Bank, its incomes, property and other assets, and also its operations and transactions carried out in accordance with the present Charter on the territory of member-states of the Bank, are exempted from any taxes, levies, duties and other payments, except for that which represent payment for certain types of service.

The wages and remuneration of the Chairman of the Executive Board of the Bank, Deputy Chairman of the Executive Board of the Bank, members of the Executive Board of the Bank and employees of the Bank are exempted from taxation. Every state-participant of the Bank has the right to not apply the specified clearing on taxation for citizens and the persons permanently residing on the territory of the given state.

Any obligations or securities issued by the Bank, and also dividends or interests on them irrespective of their holder are tax-free in the member-states of the Bank:

- a) which are discriminatory relating to such obligations or securities only by virtue of their being issued by the Bank, or
- b) if the unique legislative ground for such taxation is: a place of issue of the specified obligations or securities; currency in which they are issued, are subject to payment or are paid; the location of any office or place of activity belonging to the Bank.

Loans from banks

Loans from banks are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Share capital

Share capital is recognized at cost.

Retirement and other benefit obligations

The Bank is exempt from payments to obligatory pension funds. The Bank provides non-state retirement obligations in accordance with internal regulative documents of the Bank. In accordance with pension programme pension payments of employees represent a percentage of current total disbursements to staff. The related expenses are recognized in the related period.

Recognition of income and expense

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

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

Interest income also includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Loan syndication fees are recognized in the profit and loss and amortized using effective interest rate method for the period of loan. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars 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 the year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2006
US dollar/1 Kazakhstan tenge	0.0078846
US dollar/1 Russian ruble	0.0379779
US dollar/1 English pound sterling	1.9664009
US dollar/1 Euro	1.3177004
US dollar/1 Brazilian real	0.4667219

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. In case of transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Segment reporting

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

4. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS OF MEMBER -STATES OF THE BANK

	31 December 2006 (USD'000)
Balances with National Bank of the Republic of Kazakhstan	74
Cash on hand	<u>55</u>
Total cash and balances with national (central) banks of member-states of the Bank	<u><u>129</u></u>

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

	31 December 2006 (USD'000)
Cash and balances with national (central) banks of member-states of the Bank	129
Loans and advances to banks of OECD countries, the Russian Federation and the Republic of Kazakhstan	<u>358,119</u>
Total cash and cash equivalents	<u><u>358,248</u></u>

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprised the following:

	Interest to nominal %	31 December 2006 (USD'000)
Debt securities:		
Eurobonds of the Ministry of finance of the Russian Federation	3.00%	130,399
Bonds of JSC "GidroOGK"	8.10%	30,409
Eurobonds of the Russian Federation	5%-12.75%	28,422
Bonds of CJSC "Gazprombank"	7.10%	23,218
Bonds of Federal network company RAO "UES of Russia"	7.3-8.25%	20,803
Bonds of OJSC "Russian railways"	7.35%-7.55%	19,625
Bonds of OJSC "Rosselkhozbank"	7.85%	14,957
Eurobonds of OJSC "Gazprom"	8.625%-9.625%	5,073
Bonds of Moscow city	10.00%	2,729
Bonds of KfW Bankengruppe	12.50%	2,166
Eurobonds of TuranAlem Finance B.V.	8.50%	2,146
Eurobonds of OJSC "Industrial and Construction Bank"	6.20%	2,039
Eurobonds of JSC "ATF bank"	10.00%	2,032
Bonds of Specialized Mortgage Organization GPB-Ipoteka	8.00%	2,023
Eurobonds of AK OJSC "Moscow municipal bank – Bank of Moscow"	7.25%	1,988
Bonds of OJSC "Gazprom"	8.22%	1,667
Bonds of NC OJSC "Lukoil"	7.25%	242
		<u>289,938</u>

	Nominal amount	31 December 2006 Net fair value	
		Asset	Liability
Foreign currency contracts			
Forwards	75,102	183	-
Swaps	172,372	234	(306)
		<u>417</u>	<u>(306)</u>

As at 31 December 2006 financial assets at fair value through profit or loss included accrued interest income on debt securities amounting to 1,362 thousand US dollars.

6. DUE FROM BANKS

	31 December 2006 (USD'000)
Term deposits in other banks	309,260
Correspondent accounts in other banks	51,185
Correspondent accounts in other banks on broker operations	58
Trust management funds	10,734
Loans under reverse repurchase agreements	99,357
Total due from banks	<u>470,594</u>

As at 31 December 2006 due from banks included accrued interest in the amount of 2,504 thousand US dollars.

As at 31 December 2006 the Bank had due from OJSC “Rosselkhozbank” and JSC ATF Bank in the amount of 100,659 thousand US dollars and 63,399 thousand US dollars, respectively, which individually exceeded 10% of the Bank’s capital.

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

	31 December 2006 (USD'000)	
	Carrying value of loans	Fair value of loans
Bonds of Moscow city	12,065	13,215
Bonds of CJSC “Gazprombank”	10,140	10,944
Bonds of Irkutsk regional administration	439	475
Bonds of NC OJSC “Lukoil”	5,575	6,942
Bonds of OJSC “Rosselkhozbank”	5,258	5,804
Bonds of OJSC “Russian railways”	10,541	11,522
Bonds of OJSC “Gazprom”	11,016	13,800
Ordinary shares of OJSC “Rostelekom”	38,620	63,834
Ordinary shares of RAO “UES of Russia”	5,703	7,261
	<u>99,357</u>	<u>133,797</u>
Total	<u>99,357</u>	<u>133,797</u>

7. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land (USD'000)	Vehicles (USD'000)	Furniture and equipment (USD'000)	Intangible assets (USD'000)	Construction-in-progress (USD'000)	Total (USD'000)
At cost						
16 June 2006 (inception date)	-	-	-	-	-	-
Additions	<u>1,231</u>	<u>120</u>	<u>577</u>	<u>393</u>	<u>8,739</u>	<u>11,060</u>
31 December 2006	<u>1,231</u>	<u>120</u>	<u>577</u>	<u>393</u>	<u>8,739</u>	<u>11,060</u>
Accumulated depreciation and amortization						
16 June 2006 (inception date)	-	-	-	-	-	-
Charge for the period	<u>-</u>	<u>5</u>	<u>24</u>	<u>25</u>	<u>-</u>	<u>54</u>
31 December 2006	<u>-</u>	<u>5</u>	<u>24</u>	<u>25</u>	<u>-</u>	<u>54</u>
Net book value						
31 December 2006	<u>1,231</u>	<u>115</u>	<u>553</u>	<u>368</u>	<u>8,739</u>	<u>11,006</u>

8. OTHER ASSETS

	31 December 2006 (USD'000)
Value added tax reimbursable	1,224
Prepaid expenses	421
Prepayments and other debtors	385
Inventory	25
Other	5
	<hr/>
Total other assets	<u>2,060</u>

9. LOANS FROM BANKS

	31 December 2006 (USD'000)
Syndicated loans from a group of banks (arranged by CITIBANK N.A., ING Bank N.V. and Standard Bank plc., with maturity in December 2007 and interest rate of LIBOR+0.5 %)	<hr/> 149,328
Total loans from banks	<u>149,328</u>

As at 31 December 2006 loans from banks included accrued interest expenses in amount of 220 thousand US dollars.

10. OTHER LIABILITIES

	31 December 2006 (USD'000)
Short-term payments to employees	309
Pension payments to employees	194
Accrued administrative expenses	62
Accrued audit and consulting expenses	31
Accrued commission expenses	9
Creditors on capital commitments	4
Other payables	6
	<hr/>
Total other liabilities	<u>615</u>

11. SHARE CAPITAL

At 31 August 2006 the Bank's share capital comprised the following:

	Authorized share capital (USD'000)	Unpaid share capital (USD'000)	Total share capital (USD'000)
The Russian Federation	1,000,000	(600,000)	400,000
The Republic of Kazakhstan	<u>500,000</u>	<u>(285,984)</u>	<u>214,016</u>
Total share capital	<u>1,500,000</u>	<u>(885,984)</u>	<u>614,016</u>

At 31 August 2006 authorized share capital constitutes 1,500,000 common shares with nominal value of 1,000 US dollars each. One paid share represents one vote.

By the decision of the Council of the Bank, profit is subject to distribution between the participants of the Bank only when the reserve fund reaches fifteen (15) percent of the share capital of the Bank. The profit is distributed by the decision of the Council of the Bank. At that time, profit goes to replenishment of the reserve and other funds of the Bank. Distribution of profit of the Bank between participants of the Bank is made proportionally to the number of the shares as at the end of the fiscal year in which such profit was received.

12. NET INTEREST INCOME

	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
Interest income	
Interest on due from banks	9,441
Interest on debt securities	<u>2,674</u>
Total interest income	<u>12,115</u>
Interest expense	
Interest on loans from banks	<u>(250)</u>
Total interest expense	<u>(250)</u>
Net interest income	<u>11,865</u>

13. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
Trading gain/(loss) on operations with financial assets at fair value through profit or loss, net	
- Bonds	466
- Derivative financial instruments on bonds	106
- Derivative financial instruments on foreign currency	<u>(256)</u>
Total trading gain on operations with financial assets at fair value through profit or loss, net	<u>316</u>
Fair value adjustment of financial assets at fair value through profit or loss, net	
- Bonds	1,547
- Derivative financial instruments on foreign currency	<u>111</u>
Total fair value adjustment of financial assets at fair value through profit or loss, net	<u>1,658</u>
Total net gain on financial assets at fair value through profit or loss	<u><u>1,974</u></u>

14. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
Dealing, net	(38)
Translation differences, net	<u>1,085</u>
Total net gain on foreign exchange operations	<u><u>1,047</u></u>

15. FEE AND COMMISSION EXPENSE

	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
Fee and commission expense on:	
Operations with securities	355
Plastic cards services	8
Money transfer services	4
Other	<u>1</u>
Total fee and commission expense	<u><u>368</u></u>

16. OPERATING EXPENSES

	Period from 16 June 2006 (inception date) to 31 December 2006 (USD'000)
Staff costs and other payments to employees	2,823
Professional services	473
Business trip expenses	322
Accommodation costs of employees	302
Transportation expenses	104
Communication expenses	104
Rent expenses	103
Depreciation and amortization	54
Reuters and SWIFT related expenses	48
Representative expenses	39
Security	17
Office and postal expenses	17
Repair expenses	14
Maintenance of acquired systems and programs	13
Other	223
	<hr/>
Total operating expenses	<u><u>4,656</u></u>

17. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of its business, the Bank uses 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 policy in undertaking off-balance sheet commitments as it does for on-balance instruments.

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

	31 December 2006 (USD'000)	
	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	<u>60,000</u>	<u>60,000</u>
Total contingent liabilities and credit commitments	<u><u>60,000</u></u>	<u><u>60,000</u></u>

Capital commitments – The Bank had capital commitments totaling 570 thousand US dollars as at 31 December 2006.

Operating lease commitments – No material rental commitments were outstanding as at 31 December 2006.

Operating environment – The Bank’s principal business activities are in the Republic of Kazakhstan and the Russian Federation. Laws and regulations affecting business environment in the Republic of Kazakhstan and in the Russian Federation are subject to changes and the Bank’s assets and operations could be at risk due to negative changes in the political and business environment.

18. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties are presented in accordance with definition provided for in IAS 24 “Related party disclosures”.

In considering each possible related party relationship, special attention is paid to the substance of the relationship, and not merely to its legal form.

Included in the income statement for the period from 16 June 2006 (inception date) to 31 December 2006 the following amounts which arose due to transactions with related parties:

	For the period from 16 June 2006 (inception date) to 31 December 2006 (USD’000)	
	Related party transactions	Total by category as per items in the financial statements
Key management personnel compensation:		
Staff costs and other payments to employees	1,312	2,823
Accommodation costs of employees	86	302
	<u>1,398</u>	<u>3,125</u>

19. SEGMENT REPORTING

The Bank’s primary format for reporting segment information is geographical segments.

Geographical segments

Segment information for the main geographical segments of the Bank as at 31 December 2006 and for the period from 16 June 2006 (inception date) to 31 December 2006 is set out below:

	Russia	Kazakhstan	Other countries	31 December 2006 Total (USD’000)
Interest income	7,451	4,573	91	12,115
Interest expense	(7)	-	(243)	(250)
NET INTEREST INCOME	<u>7,444</u>	<u>4,573</u>	<u>(152)</u>	<u>11,865</u>
NET NON-INTEREST INCOME	<u>2,692</u>	<u>(261)</u>	<u>239</u>	<u>2,670</u>
OPERATING INCOME	10,136	4,312	87	14,535
OPERATING EXPENSES	<u>(469)</u>	<u>(4,101)</u>	<u>(86)</u>	<u>(4,656)</u>
NET PROFIT	<u>9,667</u>	<u>211</u>	<u>1</u>	<u>9,879</u>
Commitments on loans and unused credit lines	-	(60,000)	-	-

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein may not necessarily indicate of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular financial instrument.

Information about the fair value of financial assets and liabilities of the Bank compared with the corresponding carrying amount in the balance sheet is presented below:

	31 December 2006	
	Carrying value, (USD’000)	Fair value, (USD’000)
Cash and balances with national (central) banks of member-states of the Bank	129	129
Financial assets at fair value through profit or loss	290,355	290,355
Due from banks	470,594	470,594
Other assets	2,060	2,060
Loans from banks	149,328	149,328
Financial liabilities at fair value through profit or loss	306	306
Other liabilities	615	615

21. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank’s business. 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, price risk. The Bank’s risk management is performed at the Bank’s level, linear (at the level of relevant departments) and at the level of each individual employee.

The Bank manages the following risks:

Liquidity risk

Liquidity risk refers to the risk of difficulties with availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

The treasury manages this risk through analysis of asset and liability maturity and performance of money market transactions to maintain current liquidity and optimize cash flows. Risk Management Department determines the optimum structure of balance sheet, limits on liquidity ratios and gap-positions approved by the Executive Board of the Bank. Risk Management Department monitors liquidity indicators.

The analysis of liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 (USD'000)
ASSETS:							
Financial assets at fair value through profit or loss	183	234	23,493	216,961	49,484	-	290,355
Due from banks	256,083	214,511	-	-	-	-	470,594
Total interest bearing assets	256,266	214,745	23,493	216,961	49,484	-	760,949
Cash and balances with the national (central) banks of member-states of the Bank	129	-	-	-	-	-	129
Property, equipment and intangible assets	-	-	-	-	-	11,006	11,006
Other assets	30	360	1,670	-	-	-	2,060
TOTAL ASSETS	256,425	215,105	25,163	216,961	49,484	11,006	774,144
LIABILITIES:							
Loans from banks	-	-	149,328	-	-	-	149,328
Total interest bearing liabilities	-	-	149,328	-	-	-	149,328
Financial liabilities at fair value through profit or loss	51	-	255	-	-	-	306
Other liabilities	81	31	503	-	-	-	615
TOTAL LIABILITIES	132	31	150,086	-	-	-	150,249
Liquidity gap	256,293	215,074	(124,923)	216,961	49,484	11,006	
Interest sensitivity gap	256,266	214,745	(125,835)	216,961	49,484	-	
Cumulative interest sensitivity gap	256,266	471,011	345,176	562,137	611,621	611,621	
Cumulative interest sensitivity gap as a percentage of total assets	33.1%	60.8%	44.6%	72.6%	79.0%	79.0%	

Interest rate risk

Interest rate risk refers to the risk of fluctuations in fair value of financial instruments due to changes in the market interest rates.

The treasury manages interest rate risk through management of interest-sensitive assets and liabilities positions of the Bank, and ensures the positive margin and expected profitability from changes in market interest rates with set limits on maximum amount of interest rate risk accepted by the Bank. Risk Management Department maintains control over interest rate risk, estimates sensitivity of the Bank in relation to changes in interest rates and influence of changes in interest rates on net profit of the Bank.

Table below presents the analysis of the interest rate risk, i.e. potential profits and losses of the Bank. Current effective interest rates are presented by types of financial assets and liabilities with the view to determine the interest risk of each type of assets and liabilities and ensure effectiveness of policy applied by the Bank.

	31 December 2006			
	US dollars	Tenge	Rubles	Brazilian real
ASSETS:				
Financial assets at fair value through profit and loss	6.58%	-	7.22%	9.38%
Due from banks	6.55%	7.50%	7.18%	-
LIABILITIES:				
Loans from banks	6.48%	-	-	-

Currency risk

Currency risk refers to the risk of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Bank's financial position and cash flows are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates.

The treasury manages currency risk through management of open currency position, which enables the Bank to minimize losses from significant fluctuations of exchange rates of foreign currencies. Risk Management Department determines risk limits by types of currencies. All limits and restrictions are approved by the Executive Board of the Bank. Risk Management Department performs monitoring of set limits.

Information about the Bank foreign currency risk is presented in the table below:

	US dollars	Kazakhstan tenge 1 tenge = 0.0078846 US dollars	Russian Ruble 1 ruble = 0.0379779 US dollars	Euro 1 Euro = 1.3177004 US dollars	Brazilian real 1 real = 0.4667219 US dollars	English pound sterling 1 pound = 1.9664009 US dollars	31 December 2006 Total (USD'000)
ASSETS							
Cash and balances with the national (central) banks of member-states of the Bank	36	93	-	-	-	-	129
Financial assets at fair value through profit or loss	170,527	-	117,662	-	2,166	-	290,355
Due from banks	312,982	7,937	99,513	50,162	-	-	470,594
Property, equipment and intangible assets	11,006	-	-	-	-	-	11,006
Other assets	357	1,531	22	117	-	33	2,060
TOTAL ASSETS	494,908	9,561	217,197	50,279	2,166	33	774,144
LIABILITIES:							
Loans from banks	149,328	-	-	-	-	-	149,328
Financial liabilities at fair value through profit or loss	306	-	-	-	-	-	306
Other liabilities	516	80	17	2	-	-	615
TOTAL LIABILITIES	150,150	80	17	2	-	-	150,249
OPEN BALANCE SHEET POSITION	344,758	9,481	217,180	50,277	2,166	33	

Derivative financial instruments

Fair value of derivative financial instruments is included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2006:

	US dollars	Kazakhstan tenge 1 tenge = 0.0078846 US dollars	Russian Ruble 1 ruble = 0.0379779 US dollars	Euro 1 Euro = 1.3177004 US dollars	Brazilian real 1 real = 0.4667219 US dollars	English pound sterling 1 pound = 1.9664009 US dollars	31 December 2006 Total (USD'000)
Accounts payable on forwards and swaps	-	-	197,402	50,072	-	-	247,474
Accounts receivable on forwards and swaps	247,346	-	-	-	-	-	247,346
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	247,346	-	(197,402)	(50,072)	-	-	(128)
TOTAL OPEN POSITION	592,104	9,481	19,778	205	2,166	33	

Price risk

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

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits. Treasury performs effective price risk management and Risk Management Department monitors risk management process.

Credit risk

In its investment and assets management activity the Bank is exposed to credit risk, i.e. 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.

Management of the risk is performed by the Council, the Executive Board and Credit Committee of the Bank within the set limits.

The Council of the Bank determines credit risk limits by determining maximum credit risk exposure on single borrower or group of borrowers. The Executive Board sets limits in relation to the credit risk on one borrower or group of borrowers, as well as limits on individual counterparties (including banks and brokers), and determines amount and structure of risk bearing assets.

For the purpose of effective credit risk management employees of relevant departments of the Banks are included in the Credit Committee and participate in the process of considering loan applications. Based on presentation and preliminary decision of the Credit Committee either the Executive Board or the Council of the Bank within the limits of their powers, review and approve investment projects and make decisions on any changes and addenda to the existing loan agreements

Functions of the Credit Committee include establishing control over the level of credit risk. The Credit and Investment Department and Risk Management Department monitors the level of credit risk and compares to the limits set on daily basis.

Geographical concentration

The Executive Board of the Bank exercises control over the risk related to legislation changes and assesses its impact on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations.

Information concerning geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Russia	OECD countries	Non-OECD countries	31 December 2006 Total (USD'000)
ASSETS:					
Cash and balances with the national (central) banks of member-states of the Bank	129	-	-	-	129
Assets at fair value through profit or loss	4,178	284,011	2,166	-	290,355
Due from banks	188,485	270,635	740	10,734	470,594
Property, equipment and intangible assets	11,006	-	-	-	11,006
Other assets	904	527	629	-	2,060
TOTAL ASSETS	204,702	555,173	3,535	10,734	774,144
LIABILITIES:					
Loans from banks	-	-	149,328	-	149,328
Financial liabilities at fair value through profit or loss	-	306	-	-	306
Other liabilities	601	13	1	-	615
TOTAL LIABILITIES	601	319	149,329	-	150,249
OPEN BALANCE SHEET POSITION	204,101	554,854	(145,794)	10,734	

22. SUBSEQUENT EVENTS

In February 2007 a Representative office of the Bank was registered in Astana city according to the official Note of the Ministry of Foreign Affairs. Official address of the Representative office is 33, First Street, Almaty District, Astana, the Republic of Kazakhstan.