JSC HALYK BANK

Consolidated Financial Statements
Years ended 31 December 2006, 2005 and 2004

and Independent Auditors' Report

JSC HALYK BANK

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004

The following statement, which should be read in conjunction with independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2006, 2005 and 2004, and the results of its operations, cash flows and changes in equity for the years ended 31 December 2006, 2005 and 2004, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

On behalf of the Management Board of the Bank:

Grigory A. Marchenko **Chairman of the Board**	**Pavel A. Cheussov** **Chief Accountant**
1 December 2007	1 December 2007

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC Halyk Bank

We have audited the accompanying consolidated financial statements of JSC Halyk Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the balance sheets as at 31 December 2006, 2005, and 2004, the consolidated statements of income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, 2005 and 2004, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

As discussed in Note 25, the accompanying consolidated financial statements have been restated.

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

Nurlan Bekenov
General Director
Deloitte, LLP

1 December 2007
Almaty, Kazakhstan

	Notes	31 December 2006	31 December 2005	31 December 2004
ASSETS				
Cash and cash equivalents	5	127,799	57,102	33,123
Obligatory reserves	6	55,106	8,632	7,578
Financial assets at fair value through profit or loss	7	53,016	50,018	62,382
Amounts due from credit institutions	8	2,049	2,777	695
Available-for-sale investment securities	9	123,339	12,099	20,618
Loans to customers	10	596,216	411,097	254,590
Property and equipment	12	16,412	10,979	9,131
Intangible assets and goodwill		4,803	743	488
Insurance assets	13	5,626	-	-
Other assets	14	6,993	6,218	4,649
TOTAL ASSETS		991,359	559,665	393,254
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	15	597,935	323,515	231,930
Amounts due to credit institutions	16	118,719	107,284	76,493
Debt securities issued	17	134,413	58,814	44,940
Provisions	11	3,021	2,280	1,801
Deferred tax liability	18	2,530	425	451
Insurance liabilities	13	7,535	-	-
Other liabilities	19	6,579	2,903	2,071
TOTAL LIABILITIES		870,732	495,221	357,686
EQUITY				
Share capital	20	60,684	29,016	15,759
Share premium reserve		2,183	2,192	2,191
Treasury shares		(38)	(16)	(17)
Retained earnings and other reserves		56,736	32,806	17,418
		119,565	63,998	35,351
Minority interest		1,062	446	217
TOTAL EQUITY		120,627	64,444	35,568
TOTAL LIABILITIES AND EQUITY		991,359	559,665	393,254

On behalf of the Management Board of the Bank:

Grigory A. Marchenko
Chairman of the Board

1 December 2007

Pavel A. Cheussov
Chief Accountant

1 December 2007

The notes on pages 12 to 61 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2006 (restated*)	Year ended 31 December 2005 (restated*)	Year ended 31 December 2004 (restated*)
INTEREST INCOME				
Loans to customers		71,292	47,549	28,447
Debt securities		5,352	3,450	3,520
Amounts due from credit institutions		4,003	1,386	983
		80,647	52,385	32,950
INTEREST EXPENSE				
Amounts due to customers		(18,491)	(11,873)	(8,026)
Debt securities issued		(9,238)	(4,909)	(1,639)
Amounts due to credit institutions		(6,455)	(4,374)	(3,094)
		(34,184)	(21,156)	(12,759)
NET INTEREST INCOME BEFORE IMPAIRMENT		46,463	31,229	20,191
Impairment charge	11	(8,331)	(11,970)	(7,954)
NET INTEREST INCOME		38,132	19,259	12,237
Fee and commission income	22	22,064	16,161	10,117
Fee and commission expense	22	(929)	(913)	(798)
Fees and commissions, net		21,135	15,248	9,319
Net (losses)/gains from financial assets at fair value through profit or loss		(193)	1,363	165
Net gains from available-for-sale investment securities		202	342	104
Net gains from dealing in foreign currencies		5,174	1,964	1,219
Net (losses)/gains from translation of foreign currencies		(1,734)	(70)	772
Insurance underwriting income	23	664	-	-
Share of income of associates		167	249	196
Other income		1,025	571	609
OTHER NON INTEREST INCOME		5,305	4,419	3,065

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2006 (restated*)	Year ended 31 December 2005 (restated*)	Year ended 31 December 2004 (restated*)
Salaries and other employee benefits		(15,931)	(11,236)	(6,877)
Administrative and operating expenses	24	(8,558)	(5,242)	(4,513)
Depreciation and amortization expenses		(2,371)	(1,330)	(1,112)
Taxes other than income tax		(1,256)	(1,255)	(1,041)
Other provisions	11	(752)	(496)	(987)
Insurance claims incurred, net of reinsurance	13	(103)	-	-
NON INTEREST EXPENSE		(28,971)	(19,559)	(14,530)
INCOME BEFORE INCOME TAX EXPENSE		35,601	19,367	10,091
INCOME TAX EXPENSE	18	(8,442)	(3,539)	(1,998)
NET INCOME		27,159	15,828	8,093
Attributable to:				
Equity holders of the parent		26,659	15,628	8,088
Minority interest		500	200	5
		27,159	15,828	8,093
Basic earnings per share (in Kazakhstani Tenge)	25	27.99	17.24	9.98
Diluted earnings per share (in Kazakhstani Tenge)	25	18.07	7.66	9.98

*See Note 25 to the consolidated financial statements

On behalf of the Management Board of the Bank:

Grigory A. Marchenko
Chairman of the Board

1 December 2007

Pavel A. Cheussov
Chief Accountant

1 December 2007

The notes on pages 12 to 61 form an integral part of these consolidated financial statements.

JSC HALYK BANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Revaluation reserve of available-for-sale investment securities	Property and equipment revaluation reserve	Retained Earnings	Total	Minority Interest	Total Equity
31 December 2005		14,222	2,474	12,320	2,192	(16)	301	290	32,215	63,998	446	64,444
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	159	-	-	159	-	159
Net income recognized directly in equity		-	-	-	-	-	159	-	-	159	-	159
Transfers (net of any related tax):												
Gains transferred to statement of income on sale of available-for-sale investment securities		-	-	-	-	-	(202)	-	-	(202)	-	(202)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	(5)	5	-	-	-
Net income		-	-	-	-	-	-	-	26,659	26,659	500	27,159
Total recognized income and expense		-	-	-	-	-	(43)	(5)	26,664	26,616	500	27,116
Common shares issued	20	30,755	-	-	-	-	-	-	-	30,755	-	30,755
Preferred shares issued	20	-	-	913	-	-	-	-	-	913	-	913
Treasury shares purchased	20	-	-	-	(9)	(22)	-	-	-	(31)	-	(31)
Dividends – common shares		-	-	-	-	-	-	-	(1,331)	(1,331)	-	(1,331)
Dividends – preferred shares		-	-	-	-	-	-	-	(1,355)	(1,355)	-	(1,355)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	(58)	(58)
Changes in minority interest share of net assets		-	-	-	-	-	-	-	-	-	174	174
31 December 2006		44,977	2,474	13,233	2,183	(38)	258	285	56,193	119,565	1,062	120,627

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Revaluation reserve of available-for-sale investment securities	Property and equipment revaluation reserve	Retained Earnings	Total	Minority Interest	Total Equity
31 December 2004		13,285	2,474	-	2,191	(17)	224	296	16,898	35,351	217	35,568
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	420	-	-	420	29	449
Net income recognized directly in equity		-	-	-	-	-	420	-	-	420	29	449
Transfers (net of any related tax):												
Gains transferred to statement of income on sale of available-for-sale investment securities		-	-	-	-	-	(343)	-	-	(343)	-	(343)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	(6)	6	-	-	-
Net income		-	-	-	-	-	-	-	15,628	15,628	200	15,828
Total recognized income and expense income		-	-	-	-	-	77	(6)	15,634	15,705	229	15,934
Common shares issued	20	937	-	-	-	-	-	-	-	937	-	937
Preferred shares issued	20	-	-	12,320	-	-	-	-	-	12,320	-	12,320
Treasury shares sold	20	-	-	-	1	1	-	-	-	2	-	2
Dividends – preferred shares		-	-	-	-	-	-	-	(317)	(317)	-	(317)
31 December 2005		14,222	2,474	12,320	2,192	(16)	301	290	32,215	63,998	446	64,444

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Revaluation reserve of available-for-sale investment securities	Property and equipment revaluation reserve	Retained Earnings	Total	Minority Interest	Total Equity
31 December 2003		7,422	2,474	-	2,192	(16)	60	308	9,153	21,593	203	21,796
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	268	-	-	268	-	268
Net income recognized directly in equity		-	-	-	-	-	268	-	-	268	-	268
Transfers (net of any related tax):												
Gains transferred to statement of income on sale of available-for-sale investment securities		-	-	-	-	-	(104)	-	-	(104)	-	(104)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	(12)	12	-	-	-
Net income		-	-	-	-	-	-	-	8,088	8,088	5	8,093
Total recognized income and expense income		-	-	-	-	-	164	(12)	8,100	8,252	5	8,257
Common shares issued	20	5,863	-	-	-	-	-	-	-	5,863	-	5,863
Treasury shares purchased	20	-	-	-	(1)	(1)	-	-	-	(2)	-	(2)
Dividends – preferred shares		-	-	-	-	-	-	-	(355)	(355)	-	(355)
Changes in minority interest share of net assets		-	-	-	-	-	-	-	-	-	9	9
31 December 2004		13,285	2,474	-	2,191	(17)	224	296	16,898	35,351	217	35,568

On behalf of the Management Board of the Bank:

Grigory A. Marchenko
Chairman of the Board

1 December 2007

Pavel A. Cheussov
Chief Accountant

1 December 2007

The notes on pages 12 to 61 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income tax expense		35,601	19,367	10,091
Adjustments for:				
Impairment charge	11	8,331	11,970	7,954
Provisions	11	752	496	987
Depreciation and amortization expenses		2,371	1,330	1,112
(Gain)/loss from disposal of property and equipment and other assets		(277)	(28)	57
Change in reserves for claims	13	103	-	-
Change in unearned insurance premiums reserve	13	944	-	-
Net losses/(gains) from financial assets at fair value through profit and loss		193	(1,363)	(165)
Share of income of associates		(167)	(249)	(196)
Unrealized foreign exchange (gain)/loss		(366)	(67)	553
Cash flows from operating activities before changes in net operating assets		47,485	31,456	20,393
Changes in operating assets and liabilities:				
(Increase)/decrease in operating assets:				
Obligatory reserves		(48,471)	(1,054)	(2,366)
Financial assets at fair value through profit or loss		(3,665)	13,502	(22,303)
Amounts due from credit institutions		1,399	(2,092)	4,707
Loans to customers		(197,456)	(161,452)	(109,611)
Insurance assets		(521)	-	-
Other assets		(1,945)	(2,387)	(1,651)
Increase/(decrease) in operating liabilities:				
Amounts due to customers		282,260	87,732	84,482
Amounts due to credit institutions		10,286	28,397	21,056
Insurance liabilities		889	-	-
Other liabilities		2,937	701	(258)
Net cash flows from/(used in) operating activities before income taxes		93,198	(5,197)	(5,551)
Income tax paid		(5,791)	(2,843)	(2,338)
Net cash flows from/(used in) operating activities		87,407	(8,040)	(7,889)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of subsidiaries, net of cash acquired		(5,219)	-	220
Purchase of property and equipment		(8,584)	(3,180)	(2,953)
Proceeds from sale of property and equipment		1,100	119	142
Proceeds from sale of available-for-sale investment securities		900	14,560	4,382
Purchase of available-for-sale investment securities		(109,630)	(6,238)	(21,156)
Proceeds from redemption of held-to-maturity investment securities		-	-	5,355
Net cash flows (used in)/from investing activities		(121,433)	5,261	(14,010)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from common shares issued		30,755	937	5,863
Proceeds from preferred shares issued		913	12,320	-
Purchase of treasury shares		(31)	-	(2)
Sale of treasury shares		-	2	-
Dividends paid		(2,744)	(317)	(355)
Proceeds from debt securities issued		79,991	13,910	36,357
Redemption of debt securities issued	17	(2,347)	(951)	-
Net cash flows from financing activities		106,537	25,901	41,863
Effects of exchange rate changes on cash and cash equivalents		(1,814)	857	(256)
Net change in cash and cash equivalents		70,697	23,979	19,708
CASH AND CASH EQUIVALENTS, beginning of the year		57,102	33,123	13,415
CASH AND CASH EQUIVALENTS, end of the year	5	127,799	57,102	33,123
SUPPLEMENTARY INFORMATION:				
Interest received		76,070	49,438	33,792
Interest paid		27,791	19,418	8,442

On behalf of the Management Board of the Bank:

Grigory A. Marchenko
Chairman of the Board

1 December 2007

Pavel A. Cheussov
Chief Accountant

1 December 2007

The notes on pages 12 to 61 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank (the "Bank") and its subsidiaries (together the "Group") provide retail and corporate banking services principally in Kazakhstan, Russia and Kyrgyzstan, and pension asset management and insurance services in Kazakhstan. The Bank was incorporated in 1995 and is domiciled in Kazakhstan. The Bank operates under a general banking licence renewed by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of Kazakhstan ("FMSA") on 30 September 2005. The Bank also possesses licences for securities operations and custody services from the FMSA, which renewed on 19 February 2004. The Bank is a member of the obligatory deposit insurance system provided by the JSC Kazakhstani Fund for Deposits Guarantee.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and credit card operations and rendering other banking services to its customers. In addition, the Bank acts as the government's agent in channelling various budgetary payments and pensions through its nationwide network.

The address of the Bank's registered office is: 97 Rozybakiyev Street, Almaty, 050046, Kazakhstan. The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on the Luxembourg and London Stock Exchanges.

In December 2006 the Bank sold its Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange. The Group's controlling shareholder JSC Holding Group Almex ("Almex"), sold 17.69% of its share in the Group's equity through the GDR issuance, and obtained the proceeds from this issuance.

As at 31 December 2006 the Group was controlled by Almex via its 64.34% share in the Group's equity (2005 - 82.03%, 2004 – 80.92%). The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2006 the Bank operated through its head office in Almaty and its 19 regional branches, 127 sub-regional offices and 428 cash settlement units (2005 - 19, 126 and 393, respectively; 2004 – 20, 126 and 378, respectively) located throughout Kazakhstan.

The consolidated financial statements were authorised for issue by the Management Board of the Bank on 1 December 2007.

2. BASIS OF PREPARATION

Basis of consolidation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earning per share amounts and unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and property and equipment which are carried at re-valued cost less depreciation as described in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amount of assets and liabilities of the Group and disclosure of contingent assets and liabilities at the balance sheet date 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 on loans and investments, determination of the fair value of financial instruments, insurance reserves and determination of the deferred tax.

IFRS and IFRIC interpretations not yet effective

The Group has not applied the following IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures" - In August 2005, the International Accounting Standard Board ("IASB") issued IFRS 7, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. IFRS 7 is effective for annual periods beginning on or after 1 January 2007. The Group is evaluating the impact of IFRS 7 of the consolidated financial statements.
- IFRS 8 "Operating Segments" - On 30 November 2006, the IASB issued IFRS 8 which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after 1 January 2009. The Group is evaluating the impact of IFRS 8 of the consolidated financial statements.
- Amendment to IAS 1 "Presentation of Financial Statements" – "Capital Disclosures" - On 18 August 2005, the IASB issued an amendment to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. The Group does not expect the adoption of the amendment to IAS 1 to have a material impact on the consolidated financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.
- IFRIC 9 "Reassessment of Embedded Derivatives" On 1 March 2006, IFRIC issued Interpretation 9, which gives guidance on whether an entity should reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid is recognized. IFRIC 9 determines that reassessment is prohibited, unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group does not expect the adoption of IFRIC 9 to have a material impact on the Group's profit or loss or financial position. IFRIC 9 is effective for periods beginning on or after 1 June 2006.
- IFRIC 10 "Interim Financial Reporting and Impairment" - On 13 July 2006 IFRIC issued IFRIC 10, which requires that where an entity has recognized an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements. The Group does not expect the adoption of IFRIC 10 to have a material impact on the Group's profit or loss or financial position. IFRIC 10 is effective for periods beginning on or after 1 November 2006.
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" - On 30 November 2006 IFRIC issued IFRIC 11 which requires that treasury share transactions are treated as equity- settled, and share-based payments involving equity instruments of the parent should be treated as cash-settled. The Group does not expect the adoption of IFRIC 11 to have a material impact on the Group's profit or loss or financial position. IFRIC 11 is effective for periods beginning on or after 1 March 2007.

Consolidated Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	Holding, % 31 December 2006	31 December 2005	31 December 2004	Country	Industry
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	100	Netherlands	Issue and placement of Eurobonds
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer Activities
LLP Halyk Inkassatsiya	100	100	-	Kazakhstan	Cash collection Services
JSC Halyk Life	100	-	-	Kazakhstan	Life insurance
JSC Halyk Capital	100	-	-	Kazakhstan	Broker and dealer Activities
LLP NBK-Finance	100	-	-	Russia	Broker and dealer Activities
JSC Kazakhinstrakh	98	-	-	Kazakhstan	Insurance
JSC Accumulated Pension fund of Halyk Bank	85	85	85	Kazakhstan	Pension assets accumulation and management
JSC Bank Khlebny	100	77	77	Russia	Banking
LLP ARIR	-	100	100	Kazakhstan	Financial markets Research

During the year ended 31 December 2006, the Group sold its investment in LLP ARIR.

Associates

The following associates are accounted for under the equity method:

Associate	Holding, %	Country	Activity	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
2006								
JSC Processing Center	25	Kazakhstan	Processing	(28)	737	19	718	46

Associate	Holding, %	Country	Activity	Share in net income	Total assets	Total liabilities	Equity	Total revenue
2005								
JSC Kazakhinstrakh	42	Kazakhstan	Insurance	249	3,826	1,761	2,065	2,752

Associate	Holding, %	Country	Activity	Share in net income	Total assets	Total liabilities	Equity	Total revenue
2004								
JSC Kazakhinstrakh	42	Kazakhstan	Insurance	196	3,508	2,034	1,474	1,698

Investments in associates are classified within other assets. During 2006, the Group purchased an additional 56% of the share capital of JSC Kazakhinstrakh and the associate is now a consolidated subsidiary.

Reclassifications

Reclassifications have been made to the 31 December 2005 and 2004 balances in order to conform to the 2006 presentation. Intangible assets and goodwill, which were previously included within other assets, have been presented separately in the consolidated balance sheet. Prepaid principal and interest on loans to customers was reclassified from other liabilities to amounts due to customers.

	31 December 2005		31 December 2004	
Amount	**Previously reported**	**As reclassified**	**Previously reported**	**As reclassified**
Intangible assets and goodwill	-	743	-	488
Other assets	6,961	6,218	5,137	4,649
Amounts due to customers	320,630	323,515	231,501	231,930
Other liabilities	5,788	2,903	2,500	2,071

3. SUMMARY OF ACCOUNTING POLICIES

Consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intragroup transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in consolidated subsidiaries not held by the Group. The interest of minority shareholders is initially measured at the minority shareholder’s proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Minority interest is presented within equity.

Increases in ownership interests in subsidiaries

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities and contingent liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group’s incremental interest in the net fair value of the identifiable assets and liabilities.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognized in the consolidated statement of income, and its share of movements in reserves is recognized in equity. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Obligatory Reserves

Obligatory reserves represent funds in correspondent accounts with the National Bank of Kazakhstan (“NBK”) and cash which are not available to finance the Bank’s day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Amounts Due from Credit Institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Financial Assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in Net losses/gains on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in “Other income” when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated balance sheet.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the consolidated statement of income when the investments are impaired, as well as through the amortisation process.

The Group does not classify any financial assets as held-to-maturity if the Group had during the current financial year or during the preceding two financial years sold or reclassified more than an insignificant portion of held-to-maturity investments before their maturity. The Group does not classify any financial assets as held-to-maturity if the assets have a put option feature.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of income. However, interest calculated using the effective interest method is recognized in the consolidated statements of income.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Financial guarantees

Financial guarantee contracts are recognized in the consolidated balance sheet at fair value when it becomes probable that the Group will be called to make payment, and are subsequently re-measured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from NBK, excluding obligatory reserves and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Offsetting

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

Repurchase and Reverse Repurchase Agreements and Securities Lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within Net losses/gains from trading securities in the consolidated statement of income. The obligation to return securities borrowed is recorded at fair value as a trading liability.

Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in other assets or other liabilities in the consolidated balance sheet. Gains and losses resulting from these instruments are included in other income in the consolidated statement of income.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in consolidated statements of income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Amounts Due to Customers and Credit Institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheets and the difference between the carrying amount of the liability and the consideration paid is recognized in other income.

Debt Securities Issued

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost – If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of income.

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Available-for-sale financial assets – If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from equity to the consolidated statement of income. In respect of equity instruments classified as available-for-sale, impairment losses previously recognized in the consolidated statement of income are not reversed through the consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Renegotiated loans – Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of Financial Assets and Liabilities

Financial assets – A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities – A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and Equipment

Property and equipment are carried mainly at cost less accumulated depreciation and any accumulated impairment.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and constructions	13
Vehicles	7
Computers and banking equipment	5-10
Other	4-10

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in administrative and operating expenses. However where a revaluation surplus for the asset exists, an impairment loss is recognized directly against that surplus in the property and equipment revaluation reserve, to the extent that the impairment loss does not exceed the amount in the revaluation reserve.

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and Other Benefit Obligations

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and other employee benefits in consolidated statements of income. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

Share capital – The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as additional paid-in capital. Effective 13 May 2003, upon change in law concerning “Joint Stock Companies”, the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares – Where the Bank or its subsidiaries purchase their own shares, the consideration paid, including any attributable transaction costs, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at nominal value.

Dividends – Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognized in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the balance sheet but disclosed when an inflow of economic benefits is probable.

Trust Activities

Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign Currency Translation

The consolidated financial statements are presented in Kazakhstani tenge, which is the functional currency of the Bank and each of its subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as of the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as net losses/gains from translation of foreign currencies balances and operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rate at 31 December 2006 was KZT 127.00 to USD 1 (2005 – KZT 133.98 to USD 1, 2004 – KZT 130.00 to USD 1).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by FMSA for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting Income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated balance sheet.

Losses and loss adjustments are charged to statement of income as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated statement of income.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated balance sheets within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for Insurance Losses and Loss Adjustment Expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated balance sheet and is based on the estimated amount payable on claims reported prior to the balance sheet date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported "IBNR" reserve for motor hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by FMSA. Under this guidance, the IBNR reserve is calculated as using the expected loss ratio for each line of business, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statements of income in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from reinsurer and are included in the consolidated balance sheet within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables – The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its balance sheet.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgement to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of Financial Instruments – Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgement as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgement, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of income on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its balance sheet as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

Taxation – Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

As at 31 December 2006, 2005 and 2004, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts – For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of IBNR claims at the balance sheet date. For certain lines of business, IBNR claims form the majority of the balance sheet claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by FMSA, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill – Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2006	31 December 2005	31 December 2004
Cash on hand	14,931	14,912	10,447
Correspondent accounts with Organization for Economic Co-operation and Development countries (OECD) based banks	6,328	3,669	992
Correspondent accounts with non-OECD based banks	1,100	1,148	432
Correspondent accounts with the NBK	-	9,375	-
Overnight deposits with OECD based banks	81,495	20,081	11,276
Overnight deposits with Kazakhstan banks	381	-	-
Short-term deposits with Kazakhstan banks	23,564	7,917	9,906
Short-term deposits with non-OECD based banks	-	-	70
Cash and cash equivalents	127,799	57,102	33,123

Interest rates and currencies in which interest earning cash and cash equivalents are denominated follow:

	31 December 2006		31 December 2005		31 December 2004	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	3.6%-5.3%	-	2.3%-4.2%	-	1.0%-2.5%
Overnight deposits with Kazakhstan banks	6.0%	-	-	-	-	-
Short-term deposits with Kazakhstan banks	6.0%-9.0%	-	4.0%-14.0%	5.0%	1.0%-7.7%	3.0%-11.9%
Short-term deposits with non-OECD based banks	-	-	-	-	4.0%-8.0%	4.0%-6.0%

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2006	31 December 2005	31 December 2004
Due from the NBK allocated to obligatory reserves	48,317	8,632	7,578
Cash on hand allocated to obligatory reserves	6,789	-	-
Obligatory reserves	55,106	8,632	7,578

During 2006 the NBK changed its reserve requirements in respect of local and international borrowings, which resulted in significant increase in obligatory reserves balances as at 31 December 2006.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2006	31 December 2005	31 December 2004
Treasury bills of the Ministry of Finance of Kazakhstan	29,162	19,527	27,747
Sovereign bonds of Kazakhstan	6,290	4,674	4,883
Corporate bonds	5,279	-	-
Bonds of the Development Bank of Kazakhstan	4,545	992	1,191
Eurobonds of Kazakhstan banks	3,011	1,665	1,549
NBK notes	2,497	23,160	27,006
Mutual investment funds shares	1,452	-	-
Equity securities of Kazakhstan banks	428	-	-
Equity securities of Kazakhstan corporations	352	-	-
Equity securities of Kyrgyz corporations	-	-	6
Financial assets at fair value through profit or loss	53,016	50,018	62,382
Subject to repurchase agreements	1,000	-	200

Financial assets at fair value through profit or loss were designated by the Group as such upon their initial recognition.

As at 31 December 2006, NBK notes amounting to KZT 31 million and Treasury bills of the Ministry of Finance of Kazakhstan amounting to KZT 1 million were restricted as collateral for certain of the Group's borrowings (2005 – KZT 522 million and nil, 2004 - nil). On 3 January 2007, the pledges on these securities were removed.

Interest rates and maturities of financial assets at fair value through profit or loss follow:

	31 December 2006		31 December 2005		31 December 2004	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Kazakhstan	3.2%-6.7%	2008-2014	3.1%-8.4%	2006-2014	4.0% -8.6%	2005-2014
Corporate bonds	8.1%-10.5%	2007-2015	-	-	-	-
Sovereign bonds of Kazakhstan	11.1%	2007	11.1%	2007	11.1%	2007
Bonds of the Development Bank of Kazakhstan	4.8%-9.8%	2007-2026	7.1%-8.5%	2007	7.1%-7.4%	2007-2013
Eurobonds of Kazakhstan banks	6.1%-8.6%	2007-2013	7.9%-10.1%	2007-2013	6.0%-8.6%	2007-2010
NBK notes	2.2%	2007	2.1%-2.4%	2006	3.0%-6.8%	2005

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2006	31 December 2005	31 December 2004
Term deposits	1,885	2,085	695
Loans to Kazakhstan credit institutions	170	692	-
	2,055	2,777	695
Less Allowance for impairment (Note 11)	(6)	-	-
Amounts due from credit institutions	2,049	2,777	695

Interest rates and maturity of amounts due from credit institutions follow:

	31 December 2006		31 December 2005		31 December 2004	
	%	Maturity	%	Maturity	%	Maturity
Term deposits	4.1%-10.6%	2007-2008	4.0%-12.0%	2006-2008	4.1%-14.5%	2005
Loans to Kazakhstan credit institutions	13.0%-15.0%	2007-2011	4.1%	2006	-	-

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2006	31 December 2005	31 December 2004
NBK notes	107,856	-	472
Corporate bonds	10,166	6,548	4,758
Bonds of Kazakhstan banks	3,085	2,625	820
Treasury bills of the Ministry of Finance of Kazakhstan	1,061	2,644	-
Equity securities of Kazakhstan corporations	971	-	-
Treasury bills of the Kyrgyz Republic	114	282	-
Local municipal bonds	86	-	357
US Treasury bills	-	-	14,211
Available-for-sale investments securities	123,339	12,099	20,618
Subject to repurchase agreements	29,500	-	3,652

As at 31 December 2004, US Treasury bills were pledged as security for loans advanced by another financial institution to a third party. The Group was exposed to credit risk in relation to these loans which amounted to KZT 13,993 million (2006 and 2005 - nil). During the year ended 31 December 2005 the pledge has been removed and the related securities were liquidated.

Interest rates and maturities of available-for-sale investment securities are:

	31 December 2006		31 December 2005		31 December 2004	
	%	Maturity	%	Maturity	%	Maturity
NBK notes	2.9%-4.8%	2007	-	-	1.7%-1.9%	2005
Corporate bonds	7.5%-13.0%	2007-2017	3.5%-9.6%	2006-2014	6.9%-10.7%	2005-2014
Bonds of Kazakhstan banks	5.9-12.0%	2007-2014	7.0%-13.5%	2007-2013	7.0%-20.1%	2005-2010
Treasury bills of the Ministry of Finance of Kazakhstan	3.5%-5.7%	2008-2014	2.8%-3.5%	2006-2008	-	-
Treasury bills of the Kyrgyz Republic	5.2%-16.0%	2007-2008	4.5%-7.3%	2007-2013	-	-
Local municipal bonds	8.5%	2008	-	-	6.0%-8.5%	2005-2008
US Treasury bills	-	-	-	-	1.7%-4.7%	2005-2012

10. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2006	31 December 2005	31 December 2004
Originated loans to customers	625,566	431,151	264,768
Overdrafts	2,743	1,500	2,241
Promissory notes	1,561	4,288	3,498
Factoring	-	79	621
	629,870	437,018	271,128
Less – Allowance for loan impairment (Note 11)	(33,654)	(25,921)	(16,538)
Loans to customers	596,216	411,097	254,590

As at 31 December 2006, the annual interest rates charged by the Group ranged from 9% to 24% per annum for KZT-denominated loans (31 December 2005 – from 6% to 25%, 31 December 2004 - from 7% to 26%) and from 6% to 22% per annum for US Dollar-denominated loans (31 December 2005 – from 6% to 22%, 31 December 2004 - from 6% to 24%).

As at 31 December 2006, the Group had a concentration of loans of KZT 93,394 million from the ten largest borrowers that comprised 15% of the Group's total gross loan portfolio (31 December 2005 – KZT 52,972 million; 12%, 31 December 2004 - KZT 42,037 million; 16%) and 76% of the Group's total equity (31 December 2005 – 84%, 31 December 2004 - 119%). As at 31 December 2006, an allowance for impairment amounting to KZT 2,643 million was made against these loans (31 December 2005 – KZT 1,675 million, 31 December 2004 - KZT 9,197 million).

Loans are made to the following sectors

	31 December 2006	%	31 December 2005	%	31 December 2004	%
Retail loans:						
- mortgage loans	110,274	17%	78,680	18%	36,664	13%
- consumer loans	86,907	14%	51,922	12%	30,320	11%
Wholesale trade	113,510	18%	60,924	14%	26,917	10%
Construction	70,064	11%	54,461	12%	35,851	13%
Agriculture	47,474	8%	38,019	9%	34,043	13%
Retail trade	42,098	7%	33,909	8%	8,673	3%
Services	23,213	4%	13,866	3%	7,798	2%
Real estate	14,896	2%	12,494	3%	9,133	3%
Energy	14,745	2%	7,279	2%	6,892	3%
Oil and gas	13,532	2%	16,380	4%	26,191	10%
Transportation	11,503	2%	8,440	2%	4,587	2%
Food industry	10,359	2%	3,743	1%	5,809	2%
Hotel industry	5,811	1%	3,323	1%	-	0%
Metallurgy	5,638	1%	3,968	1%	4,362	2%
Mining	4,835	1%	6,587	1%	4,566	2%
Consumer goods and automobile trading	4,639	1%	2,149	0%	4,373	2%
Research and development	2,444	0%	8,307	2%	8,018	3%
Machinery	2,194	0%	2,708	1%	-	0%
Communication	1,888	0%	1,433	0%	1,558	0%
Other	43,846	7%	28,426	6%	15,373	6%
	629,870	100%	437,018	100%	271,128	100%

As at 31 December 2006 the amount of accrued interest on impaired loans comprised KZT 5,719 million (31 December 2005 – KZT 5,006 million, 31 December 2004 – KZT 2,695 million).

11. ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

The movements in the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers	Amounts due from credit institutions	Other assets	Total
31 December 2003	(10,529)	(16)	(56)	(10,601)
Impairment losses recognized	(7,471)	(426)	(57)	(7,954)
Write-offs	1,741	457	38	2,236
Recoveries	(279)	(15)	(1)	(295)
31 December 2004	(16,538)	-	(76)	(16,614)
Impairment losses recognized	(11,839)	-	(131)	(11,970)
Write-offs	3,573	-	75	3,648
Recoveries	(1,117)	-	(2)	(1,119)
31 December 2005	(25,921)	-	(134)	(26,055)
Impairment losses recognized	(8,179)	(6)	(146)	(8,331)
Write-offs	3,427	-	99	3,526
Recoveries	(2,981)	-	(2)	(2,983)
Acquisition of subsidiaries	-	-	(35)	(35)
31 December 2006	(33,654)	(6)	(218)	(33,878)

Allowances for impairment of assets are deducted from the related assets.

The movements in provisions were as follows:

	2006	2005	2004
1 January	(2,280)	(1,801)	(921)
Provision	(752)	(496)	(987)
Write-off	11	17	107
31 December	(3,021)	(2,280)	(1,801)

Provisions represent provisions against letters of credit and guarantees issued.

12. PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2005	4,763	654	6,987	4,200	16,604
Additions	2,725	570	1,862	3,224	8,381
Disposals	(87)	(125)	(436)	(961)	(1,609)
Acquisition of subsidiaries	54	33	35	81	203
Transfers	(16)	-	-	16	-
31 December 2006	7,439	1,132	8,448	6,560	23,579
Accumulated depreciation					
31 December 2005	497	222	3,399	1,507	5,625
Charge	402	166	978	563	2,109
Disposals	(3)	(62)	(388)	(114)	(567)
Transfers	(1)	-	-	1	-
31 December 2006	895	326	3,989	1,957	7,167
Net book value:					
31 December 2006	6,544	806	4,459	4,603	16,412

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2004	4,221	606	5,849	3,294	13,970
Additions	94	299	1,338	1,449	3,180
Disposals	(15)	(251)	(200)	(80)	(546)
Transfers	463	-	-	(463)	-
31 December 2005	4,763	654	6,987	4,200	16,604
Accumulated depreciation					
31 December 2004	407	320	2,867	1,245	4,839
Charge	98	61	696	321	1,176
Disposals	(8)	(159)	(164)	(59)	(390)
31 December 2005	497	222	3,399	1,507	5,625
Net book value:					
31 December 2005	4,266	432	3,588	2,693	10,979

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2003	3,656	514	4,373	2,771	11,314
Additions	583	129	1,663	578	2,953
Disposals	(44)	(39)	(233)	(68)	(384)
Acquisition of subsidiaries	26	2	46	13	87
31 December 2004	4,221	606	5,849	3,294	13,970
Accumulated depreciation					
31 December 2003	334	260	2,244	1,153	3,991
Charge	108	63	705	131	1,007
Disposals	(35)	(3)	(82)	(39)	(159)
31 December 2004	407	320	2,867	1,245	4,839
Net book value:					
31 December 2004	3,814	286	2,982	2,049	9,131

13. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2006	31 December 2005	31 December 2004
Reinsurance premium unearned	2,609	-	-
Reinsurance amounts recoverable	189	-	-
	2,798	-	-
Premiums receivable	2,828	-	-
Insurance assets	5,626	-	-

Insurance liabilities comprised the following:

	31 December 2006	31 December 2005	31 December 2004
Gross unearned insurance premium reserve	5,290	-	-
Reserves for insurance claims	391	-	-
	5,681	-	-
Payables to reinsurers and agents	1,854	-	-
Insurance liabilities	7,535	-	-

Reserves for insurance claims have been established on the basis of information currently available, including potential outstanding loss notifications, experience with similar claims and case law.

The movements on claims reserves from the 27 October 2006 acquisition by the Group of JSC Kazakhinstrakh to 31 December 2006 were as follows:

	2006	2005	2004
Reserves for claims, 27 October	(331)	-	-
Reserves for claims, reinsurance share, 27 October	63	-	-
Net reserves for claims, 27 October	(268)	-	-
Plus claims incurred	(103)	-	-
Less claims paid	169	-	-
Net reserves for claims, 31 December	(202)	-	-
Reserves for claims, reinsurance share, 31 December	189	-	-
Reserves for claims, 31 December	(391)	-	-

The movements on unearned insurance premium reserve from the date of acquisition to 31 December 2006 were as follows:

	2006	2005	2004
Gross unearned insurance premiums reserve, 27 October	(4,596)	-	-
Unearned insurance premiums reserve, reinsurance share, 27 October	2,859	-	-
Net unearned insurance premiums reserve, 27 October	(1,737)	-	-
Change in unearned insurance premiums reserve	(742)	-	-
Change in unearned insurance premiums reserve, reinsurance share	(202)	-	-
Change in unearned insurance premiums reserve, net	(944)	-	-
Net unearned insurance premiums reserve, 31 December	(2,681)	-	-
Unearned insurance premium reserve, reinsurance share, 31 December	(2,609)	-	-
Gross unearned insurance premium reserve, 31 December	(5,290)	-	-

14. OTHER ASSETS

Other assets comprise:

	31 December 2006	31 December 2005	31 December 2004
Accrued commission for managing pension assets	2,289	480	3
Prepayments for property and equipment	1,419	1,238	684
Inventory	905	447	263
Other debtors on non-banking activities	721	987	629
Accrued other commission income	466	370	127
Investments in associates	293	1,453	834
Prepayments for taxes other than income tax	264	572	309
Other debtors on banking activities	243	154	224
Other prepayments	146	234	276
Advances paid to employees	8	7	10
Advances paid for income tax	-	8	808
Other	457	402	558
	7,211	6,352	4,725
Provision for other assets	(218)	(134)	(76)
Other assets	6,993	6,218	4,649

15. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2006	31 December 2005	31 December 2004
Term deposits:			
Commercial entities	263,192	92,026	69,949
Individuals	157,281	97,444	81,412
Governmental entities	27,908	17,427	-
	448,381	206,897	151,361
Current accounts:			
Commercial entities	66,809	64,588	37,010
Individuals	52,597	37,913	30,892
Governmental entities	29,438	10,466	11,476
	148,844	112,967	79,378
Restricted accounts	710	3,651	1,191
Amounts due to customers	597,935	323,515	231,930

As at 31 December 2006, the Group's ten largest customers accounted for approximately 52% of the total amounts due to customers (31 December 2005 – 39%, 31 December 2004 - 32%).

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector follows:

	31 December 2006	%	31 December 2005	%	31 December 2004	%
Individuals and entrepreneurs	209,877	35%	135,357	42%	112,305	48%
Metallurgy	102,345	17%	636	0%	2,701	1%
Construction	81,319	14%	22,891	7%	5,363	2%
Oil and gas	67,540	11%	99,769	31%	42,857	18%
Financial sector	44,168	7%	5,422	2%	678	1%
Other transportation	17,291	3%	4,760	1%	3,659	2%
Wholesale trade	15,800	3%	5,908	2%	2,090	1%
Energy	12,844	2%	10,391	3%	11,858	5%
Transportation of oil and gas	1,794	0%	6,267	2%	20,694	9%
Other	44,957	8%	32,114	10%	29,725	13%
	597,935	100%	323,515	100%	231,930	100%

16. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2006	31 December 2005	31 December 2004
Loans and deposits from OECD based banks	73,126	97,540	64,365
Loans and deposits from Kazakhstan banks	36,007	1,100	5,311
Loans and deposits from non-OECD based banks	5,073	2,145	3,453
Loans from other financial institutions	650	1,414	58
Loans due to the European Bank for Reconstruction and Development (“EBRD”)	-	679	658
Loans due to the Small Business Development Fund	-	-	800
Overnight deposits	3,338	3,851	900
Correspondent accounts	525	555	948
Amounts due to credit institutions	118,719	107,284	76,493

Interest rates and maturities of amounts due to credit institutions follow:

	31 December 2006		31 December 2005		31 December 2004	
	%	Maturity	%	Maturity	%	Maturity
Loans and deposits from OECD based banks	2.3%-8.4%	2007-2015	3.8%-7.8%	2006-2012	2.4%-6.9%	2005-2009
Loans and deposits from Kazakhstan banks	0.7%-7.0%	2007	4.0%-8.0%	2006	2.0%-5.3%	2005-2006
Loans and deposits from non-OECD based banks	4.6%-6.7%	2007-2012	4.7%-6.0%	2006-2012	3.9%-6.0%	2005-2012
Loans from other financial institutions	5.9%-8.4%	2007-2012	2.4%-7.3%	2006-2012	2.4%	2008
Loans due to the EBRD	-	-	6-month LIBOR + 4.25%	2006	6-month LIBOR + 4.25%	2006
Loans due to the Small Business Development Fund	-	-	-	-	7.8%	2005
Overnight deposits	2.5%-4.8%	2007	4.0%-5.0%	2006	2.0%-2.5%	2005

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In accordance with the terms of certain of those loans, the Group is also required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares. Furthermore, certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

As at 31 December 2006, 2005 and 2004, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

17. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	31 December 2006	31 December 2005	31 December 2004
Fixed rate KZT denominated bonds	10,610	11,385	5,267
Inflation indexed KZT denominated bonds	9,104	9,090	5,101
Reverse inflation indexed KZT denominated bonds	8,908	3,679	-
USD denominated bonds	2,086	3,902	3,780
Total subordinated debt securities outstanding	30,708	28,056	14,148
USD denominated bonds	64,145	26,909	26,019
KZT denominated bonds	39,560	3,801	4,753
RUR denominated promissory notes	-	48	20
Total unsubordinated debt securities outstanding	103,705	30,758	30,792
Total debt securities outstanding	134,413	58,814	44,940

During the years ended 31 December 2006, 2005 and 2004, the Group redeemed KZT 2,210 million, KZT 17 million, and KZT nil million, respectively, of subordinated debt securities. During the years ended 31 December 2006, 2005 and 2004, the Group redeemed KZT 137 million, KZT 1,314 million, and KZT nil million, respectively, of unsubordinated debt securities. Total debt securities outstanding shown above have been reduced as of 31 December 2006, 2005 and 2004 for these redemptions.

The interest rates and maturities of these debt securities issued follow:

	31 December 2006		31 December 2005		31 December 2004	
	%	Maturity	%	Maturity	%	Maturity
Subordinated debt securities issued						
KZT denominated bonds	7.5%-9.6%	2007-2015	7.5%-9.6%	2007-2015	7.5%-9.0%	2009-2014
Inflation indexed KZT denominated bonds	inflation rate plus 1% plus 2%	2010-2015	inflation rate plus 1% plus 2%	2010-2015	inflation rate plus 2%	2010
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15.0% less inflation rate	2015	-	-
USD denominated bonds	8.0%-11.8%	2007	8.0%-11.8%	2007	8.0%-11.8%	2007
Unsubordinated debt securities issued						
USD denominated bonds	7.8%-8.1%	2009-2013	8.1%	2009	8.1%	2009
KZT denominated bonds	5.0%-7.3%	2007-2009	5.0%	2007	5.0%	2007
RUR denominated promissory notes	-	On demand	-	On demand	-	-

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Interest on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, lending exposures, limitations on transactions at less than fair market value and payment of dividends. The terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. Management believes that as of 31 December 2006, 2005 and 2004, the Group was in compliance with the covenants of the agreements the Group has with the notes' trustee and holders.

18. TAXATION

The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC Bank Khlebny, OJSC Halyk Bank Kyrgyzstan and LLP NBK-Finance are subject to taxation in Kazakhstan. HSBK (Europe) B.V. is subject to income tax in the Netherlands. JSC Bank Khlebny and LLP NBK-Finance are subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan.

The income tax expense comprises:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Current tax charge	6,337	3,564	1,721
Deferred tax benefit/(charge)	2,105	(25)	277
Income tax expense	8,442	3,539	1,998

Kazakhstan legal entities must file individual tax declarations. The tax rate for banks for income other than on state and other qualifying securities was 30% for 2006, 2005 and 2004. The tax rate for companies other than banks was also 30% for 2006, 2005 and 2004, except for insurance companies taxed at 4%. Income on state and other qualifying securities is tax exempt.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Income before income tax expense	35,601	19,367	10,091
Statutory tax rate	30%	30%	30%
Income tax expense at the statutory rate	10,680	5,810	3,027
Tax-exempt interest income on mortgage loans and long-term loans issued by the Group to modernize equipment	(2,449)	(1,812)	(916)
Tax-exempt interest income and other related income on state and other qualifying securities	(898)	(1,223)	(882)
Income of subsidiaries taxed at different rates	(90)	(11)	(114)
Other tax exempt income	-	-	(24)
Non-deductible expenditures:			
- other provisions	345	-	128
- general and administrative expenses	271	-	-
- withholding tax on interest	237	312	544
- charity	27	33	25
- interest on deposits to non-residents	27	318	177
- other	292	112	33
Income tax expense	8,442	3,539	1,998

Deferred tax assets and liabilities comprise:

	31 December 2006	31 December 2005	31 December 2004
Tax effect of deductible temporary differences:			
Loans to customers, up-front fees	-	342	-
Bonuses accrued	870	-	-
Deferred tax asset	870	342	-
Tax effect of taxable temporary differences:			
Loans to customers, allowance for impairment losses	(1,599)	-	-
Property and equipment, accrued depreciation	(1,801)	(767)	(451)
	(3,400)	(767)	(451)
Net deferred tax liability	(2,530)	(425)	(451)

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

19. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2006	31 December 2005	31 December 2004
Salary payable	3,622	973	24
Taxes other than income tax payable	1,002	604	428
Other creditors on non-banking activities	859	595	542
Other prepayments received	358	94	13
Accrued general and administrative expenses	339	27	24
Other transit accounts	171	242	310
Amounts due to government	110	85	471
Other creditors on bank activities	55	252	205
Accrued other commission expense	27	19	2
Payables for property and equipment	21	11	17
Other	15	1	35
Other liabilities	6,579	2,903	2,071

20. EQUITY

Authorized and issued share capital as at 31 December 2006, consisted of 970,689,036 common shares, 24,742,000 non-convertible preferred shares and 80,215,187 convertible preferred shares (31 December 2005 - 897,383,050, 24,742,000 and 74,887,521, respectively, 31 December 2004 - 87,160,237, 24,742,000 and nil, respectively). All shares are KZT denominated.

Movements of shares authorized, fully paid and outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	**Non-convertible preferred**	**Convertible preferred**	**Common**	**Non-convertible preferred**	**Convertible preferred**
31 December 2003	74,068,613	24,742,000	-	7,406	2,474	-
Capital contributions	13,100,888	-	-	5,863	-	-
Purchase of treasury shares	(9,264)	-	-	(1)	-	-
31 December 2004	87,160,237	24,742,000	-	13,268	2,474	-
Capital contributions	2,574,778	-	74,887,521	937	-	12,320
Sale of treasury shares	3,290	-	-	1	-	-
31 December 2005 (before share split)	89,738,305	24,742,000	74,887,521	14,206	2,474	12,320
One-to-ten share split	807,644,745	-	-	-	-	-
31 December 2005	897,383,050	24,742,000	74,887,521	14,206	2,474	12,320
Capital contributions	75,531,122	-	5,327,666	30,755	-	913
Purchase of treasury shares	(2,225,136)	-	-	(22)	-	-
31 December 2006	970,689,036	24,742,000	80,215,187	44,939	2,474	13,233

At 31 December 2006, the Group held 3,858,746 of the Group’s shares as treasury shares at KZT 38 million (31 December 2005 – 1,633,610 at KZT 16 million; 31 December 2004 -166,651 at KZT 17 million).

Common Shares

Each common share is entitled to one vote and is equal for dividends.

Preferred shares

In accordance with IAS 32 “Financial Instruments: Disclosure and Presentation”, both the non-convertible and convertible preferred shares (together, the “Preferred Shares”) are classified as part of equity. On a return of capital on liquidation, the assets of the Group available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Bank pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on preferred shares. The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the preference share agreement and is based on the Group’s profitability. Dividends on the Preferred Shares are paid only if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders.

The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Convertible preferred shares

Non-convertible preferred shares are not redeemable.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion. This amount as calculated based on a formula specified in the convertible preference share agreement.

21. COMMITMENTS AND CONTINGENCIES

Financial Commitments and Contingencies – The Group's financial commitments and contingencies comprised the following:

	31 December 2006	31 December 2005	31 December 2004
Guarantees issued	39,897	29,330	44,595
Commitments to extend credit	21,629	17,000	104,964
Commercial letters of credit	18,326	16,107	15,526
	79,852	62,437	165,085
Less: cash collateral against letters of credit	(132)	(766)	(762)
Less: provisions	(3,021)	(2,280)	(1,801)
Financial commitments and contingencies	76,699	59,391	162,522

Guarantees issued included above represent financial guarantees where payment is not probable as at the respective balance sheet date, and therefore have not been recorded in the consolidated balance sheet. As at 31 December 2006, the ten largest guarantees accounted for 63% of the Group's total financial guarantees (31 December 2005 – 56%, 31 December 2004 - 33%) and represented 21% of the Group's total equity (31 December 2005 – 25%, 31 December 2004 - 42%).

As at 31 December 2006, the ten largest letters of credit accounted for 78% of the Group's total commercial letters of credit (31 December 2005 – 74%, 31 December 2004 - 83%) and represented 12% of the Group's total equity (31 December 2005 – 18%, 31 December 2004 - 36%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Trust Activities – In the normal course of its business, the Group enters into agreements with clients to manage the clients' assets with limited decision making rights and in accordance with specific criteria established by the clients. The Group may only be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The maximum potential financial risk of the Group on any date is equal to the volume of the clients' funds, net of any unrealized income/loss on the client's position. The balance of the clients' funds under the management of the Group, as at 31 December 2006 is KZT 254 million (2005 – KZT 168 million, 2004 - KZT 121 million).

22. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Pension fund and asset management	7,030	3,115	790
Bank transfers	5,898	4,312	2,381
Cash operations	2,714	2,225	1,860
Letters of credit and guarantees issued	1,357	1,796	1,195
Maintenance of customer accounts	1,104	894	753
Customers' pension payments	1,080	894	635
Utilities payments	765	861	724
Plastic cards maintenance	433	529	540
Foreign currency operations	232	781	647
Other	1,451	754	592
	22,064	16,161	10,117

Fees and commission expense comprised the following:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Plastic cards	(490)	(382)	(344)
Bank transfers	(148)	(126)	(83)
Foreign currency operations	(117)	(218)	(217)
Other	(174)	(187)	(154)
	(929)	(913)	(798)

23. INSURANCE UNDERWRITING INCOME

Insurance underwriting income comprised:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Insurance premiums written, gross	2,420	-	-
Ceded reinsurance share	(812)	-	-
Change in unearned insurance premiums, net	(944)	-	-
	664	-	-

24. ADMINISTRATIVE AND OPERATING EXPENSES

Administrative and operating expenses comprised:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Repair and maintenance	(1,207)	(826)	(694)
Professional services	(907)	(90)	(514)
Deposit insurance	(885)	(692)	(594)
Advertisement	(789)	(526)	(392)
Rent	(644)	(293)	(140)
Communication	(644)	(438)	(401)
Stationery and office supplies	(539)	(348)	(257)
Business trip expenses	(532)	(412)	(303)
Security	(510)	(183)	(144)
Information services	(376)	(207)	(66)
Hospitality expenses	(211)	(76)	(88)
Transportation	(209)	(159)	(159)
Charity	(97)	(106)	(91)
Social events	(95)	(91)	(44)
Other	(913)	(795)	(626)
Administrative and operating expenses	(8,558)	(5,242)	(4,513)

25. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

Basic and diluted earnings per share for the years ended 31 December 2006, 2005, and 2004 have been restated due to errors identified after the issuance of the consolidated financial statements. An error was identified in the computation of basic and diluted earnings per share in relation to the calculation of net income attributable to equity holders of the parent and the weighted average number of participating shares. The preferred shares do not have equivalent rights of the common shares and should be excluded from the basic earnings per share weighted average share calculation. An error was also identified in that basic and diluted earnings per share were reported for preferred shares. Basic and diluted earnings per share have been recalculated and presented below in accordance with IAS 33 “Earnings per share”. Potentially dilutive shares consist of the convertible preference shares, which have been included in the calculation of diluted earnings per share.

The following table presents basic and diluted earnings per share as previously reported:

	As previously reported					
	Year ended 31 December 2006		Year ended 31 December 2005		Year ended 31 December 2004	
Net income attributable to equity holders of the parent	26,659		15,628		8,088	
	Common shares	Preferred shares	Common shares	Preferred shares	Common shares	Preferred shares
Weighted average number of participating shares	896,851,972	79,963,750	726,285,353	44,686,581	744,639,277	24,742,000
Basic and diluted earnings per share (Tenge)	27.29	27.29	20.27	20.27	10.51	10.51

The following tables present basic and earnings per shares as restated:

	Basic earnings per share - As restated		
	Year ended 31 December 2006	**Year ended 31 December 2005**	**Year ended 31 December 2004**
Net income attributable to equity holders of the parent	26,659	15,628	8,088
Less: Dividends on preferred shares	(1,355)	(317)	(355)
Earnings attributable to common shareholders	25,304	15,311	7,733
Weighted average number of participating shares for the purposes of basic earnings per share	904,100,063	887,855,179	774,719,702
Basic earnings per share (Tenge)	27.99	17.24	9.98

	Diluted earnings per share - As restated		
	Year ended 31 December 2006	**Year ended 31 December 2005**	**Year ended 31 December 2004**
Earnings used in the calculation of total basic earnings per share	25,304	15,311	7,733
Add: Dividends on convertible preferred shares	1,018	-	-
Less: Amounts payable to preferred shareholders upon conversion	(8,541)	(8,355)	-
Earnings used in the calculation of total diluted earnings per share	17,781	6,956	7,733
Weighted average number of participating shares for the purposes of basic earnings per share	904,100,063	887,855,179	774,719,702
Shares deemed to be issued:			
Weighted average number of convertible preferred shares	79,854,432	20,018,988	-
Weighted average number of participating shares for the purposes of diluted earnings per share	983,954,495	907,874,167	774,719,702
Diluted earnings per share (Tenge)	18.07	7.66	9.98

26. BUSINESS COMBINATIONS

Subsidiaries acquired in 2006

	Principal activity	**Date of acquisition**	**Proportion of shares acquired**	**Cost of acquisition**
JSC Kazakhinstrakh	Insurance	27 October 2006	56.7%	4,782
JSC Halyk Life	Life insurance	1 September 2006	100.0%	560

JSC Kazakhinstrakh

During 2006, the Group acquired 56.7% of the share capital of JSC Kazakhinstrakh for KZT 4,782 million bringing its share in the Company to 98.4%. The consideration was paid in two tranches on 27 October 2006 and 30 October 2006 and control was obtained on 27 October 2006. Kazakhinstrakh had previously been accounted for as an equity method investment, and has been included in the consolidated balance sheet and its results of operations have been included in the consolidated statements of income since 27 October 2006.

The purchase price on acquisition of JSC Kazakhinstrakh has been allocated as follows:

	Book Value	Fair value on
Cash and cash equivalents	269	269
Amounts due from credit institutions	440	440
Available-for-sale investment securities	3,733	3,733
Unearned premiums, reinsurance share	2,859	2,859
Insurance reserves, reinsurance share	63	63
Insurance receivables	1,113	1,113
Other assets	486	486
Unearned premiums	(4,596)	(4,596)
Insurance reserves	(331)	(331)
Other creditors	(1,073)	(1,073)
Net assets	2,963	2,963
Group's acquired share of the fair value of net assets	1,680	1,680
Goodwill	-	3,102
Consideration paid in cash	-	4,782
Less: cash and cash equivalent balances acquired	-	(269)
	-	4,513

At the date of acquisition the estimated fair value of the net assets of JSC Kazakhinstrakh approximated their carrying amounts. The goodwill resulting from this acquisition mainly arises from the large market share of JSC Kazakhinstrakh.

JSC Halyk Life

During 2006, the Group acquired 100% of the share capital of JSC Halyk Life for KZT 560 million. The consideration was paid in two tranches on 1 September 2006 and 8 September 2006 and control was obtained on 1 September 2006. JSC Halyk Life has been included in the consolidated balance sheet and its results of operations have been included in the consolidated statements of income since 1 September 2006.

The purchase price on acquisition of JSC Halyk Life has been allocated as follows:

	Book value	Fair value on acquisition
Amounts due from credit institutions	360	360
Available-for-sale investment securities	204	204
Other assets	7	7
Liabilities	(40)	(40)
Net assets	531	531
Group's share of the fair value of net assets	531	531
Goodwill	-	29
Consideration paid in cash	-	560

At the date of acquisition the estimated fair value of the net assets of JSC Halyk Life approximated their carrying amounts.

Included in the Group's net profit for the year are KZT 46 million net income and KZT 21 million net loss attributable to the purchases of JSC Kazakhinstrakh and JSC Halyk Life, respectively.

Had these business combinations been effected at 1 January 2005, the net income of the Group would have been KZT 27,748 million and revenue would have been KZT 110,714 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods. In determining the 'pro-forma' numbers the management of the Group used stand-alone financial statements of acquired subsidiaries without making any adjustments to them.

Subsidiaries acquired in 2004

	Principal activity	**Date of acquisition**	**Proportion of shares acquired**	**Cost of acquisition**
JSC Bank Khlebny	Banking	15 April 2004	77%	163
LLP ARIR	Financial market research	30 June 2004	100%	87
JSC Kairat Bank	Banking	30 September 2004	100%	180

JSC Bank Khlebny

During 2004, the Group acquired 77% of the share capital of JSC Bank Khlebny for KZT 163 million tenge. The consideration was paid and control was obtained on 15 April 2004.

The purchase price on acquisition of JSC Bank Khlebny has been allocated as follows:

	Book value	**Fair value on acquisition**
Cash and cash equivalents	93	93
Loans to customers	87	87
Property and equipment	53	53
Other assets	11	11
Liabilities	(151)	(151)
Net assets	93	93
Less minority interest	(21)	(21)
Net assets less minority interest	72	72
Group's share of the fair value of net assets	55	55
Goodwill	-	108
Consideration paid in cash	-	163
Less: cash and cash equivalent balances acquired	-	(93)
	-	70

At the date of acquisition the estimated fair value of the net assets of JSC Bank Khlebny approximated their carrying amounts.

LLP ARIR

During 2004, the Bank acquired 100% of the charter capital of LLP ARIR for KZT 87 million. The consideration was paid and control was obtained on 30 June 2004.

The purchase price on acquisition of LLP ARIR has been allocated as follows:

	Book value	Fair value on acquisition
Cash and cash equivalents	38	38
Accounts receivable	20	20
Property and equipment	46	46
Other assets	17	17
Liabilities	(170)	(170)
Net liabilities	(49)	(49)
Goodwill	-	49
Consideration paid in cash	-	-
Less: cash and cash equivalent balances acquired	-	(38)
	-	(38)

At the date of acquisition the estimated fair value of the net liabilities of LLP ARIR approximated their carrying amounts.

JSC Kairat Bank

During 2004, the Bank acquired 100% of the share capital of JSC Kairat Bank for KZT 180 million (re-registered under name OJSC Halyk Bank Kyrgyzstan on 31 December 2004). The consideration was paid and control was obtained on 30 September 2004.

The purchase price on acquisition of JSC Kairat Bank has been allocated as follows:

	Book value	Fair value on acquisition
Cash and cash equivalents	454	454
Amounts due from credit institutions	88	88
Available-for-sale investment securities	449	449
Other assets	45	45
Liabilities	(886)	(886)
Net assets	150	150
Goodwill	-	30
Consideration paid in cash	-	180
Less: cash and cash equivalent balances acquired	-	(454)
	-	(274)

At the date of acquisition the estimated fair value of the net assets of JSC Kairat Bank approximated their carrying amounts.

Included in the Group's net profit for the year are KZT 2 million net loss, KZT 48 million net loss and KZT 7 million net income attributable to the purchases of JSC Bank Khlebny, LLP ARIR and JSC Kairat Bank, respectively.

Had these business combinations been effected at 1 January 2004, the net income of the Group for the year ended 31 December 2004 would have been KZT 8,050 million and revenue would have been KZT 45,455 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods. The ‘pro-forma’ revenue and profit of the Group was determined as described for the ‘pro-forma’ information related to the year ended 31 December 2006. In determining the 'pro-forma' numbers the management of the Group used stand-alone financial statements of acquired subsidiaries without making any adjustments to them.

27. FINANCIAL RISK MANAGEMENT

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

Credit risk – The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry. Limits on the level of credit risk by borrower and industry sector for corporate loans are approved by the Commercial Direction, and for retail loans – by the Retail Credit Committee. Where appropriate, and in the case of most loans, the Bank obtains collateral.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Commercial Direction and Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the consolidated financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Geographical Concentration – All assets and liabilities, except for those located in OECD and non-OECD countries are located in Kazakhstan. The percentage of assets and liabilities located in Kazakhstan as at 31 December 2006, 2005 and 2004 are 90% of KZT 991,359 million, 94% of KZT 559,665 million, and 92% of KZT 393,254 million, respectively.

Currency Risk – The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position and cash flows, which are monitored daily. The Assets and Liabilities Management Committee sets limits on the level of exposure by currencies within the authority approved by the Board of Directors, by branches and in total. These limits also comply with the minimum requirements of the NBK. The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2006			**31 December 2005**		
	KZT	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**
Monetary assets:						
Cash and cash equivalents	31,957	95,842	127,799	24,556	32,546	57,102
Obligatory reserves	18,873	36,233	55,106	8,632	-	8,632
Financial assets at fair value through profit or loss	37,484	15,532	53,016	42,687	7,331	50,018
Amounts due from credit institutions	1,928	121	2,049	1,330	1,447	2,777
Available-for-sale investment securities	122,157	1,182	123,339	9,624	2,475	12,099
Loans to customers	291,007	305,209	596,216	168,663	242,434	411,097
Other financial assets	2,925	1,416	4,341	3,850	430	4,280
	506,331	455,535	961,866	259,342	286,663	546,005
Monetary liabilities:						
Amounts due to customers	303,199	294,736	597,935	161,796	161,719	323,515
Amounts due to credit institutions	55,042	63,677	118,719	18,122	89,162	107,284
Debt securities issued	68,188	66,225	134,413	28,085	30,729	58,814
Other financial liabilities	5,757	432	6,189	2,025	773	2,798
	432,186	425,070	857,256	210,028	282,383	492,411
Net balance sheet position	74,145	30,465	104,610	49,314	4,280	53,594
Net off balance sheet position	80,203	159,191	239,394	14,021	32,618	46,639
Total open position	154,348	189,656	344,004	63,335	36,898	100,233

	31 December 2004		
	KZT	Other foreign currencies	Total
Monetary assets:			
Cash and cash equivalents	10,142	22,981	33,123
Obligatory reserves	7,578	-	7,578
Financial assets at fair value through profit or loss	54,753	7,629	62,382
Amounts due from credit institutions	-	695	695
Available-for-sale investment securities	5,022	15,596	20,618
Loans to customers	118,350	136,240	254,590
Other financial assets	3,693	691	4,384
	199,538	183,832	383,370
Monetary liabilities:			
Amounts due to customers	136,230	95,700	231,930
Amounts due to credit institutions	6,570	69,923	76,493
Debt securities issued	15,206	29,734	44,940
Other financial liabilities	915	1,156	2,071
	158,921	196,513	355,434
Net balance sheet position	40,617	(12,681)	27,936
Net off balance sheet position	14,393	31,934	46,327
Total open position	55,010	19,253	74,263

The Group’s principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group’s USD denominated monetary assets and liabilities.

Interest Rate Risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Bank’s interest rate policy is reviewed and approved by the Bank’s Assets and Liabilities Management Committee.

The interest rates on the Bank’s assets and liabilities are disclosed in the relevant notes to the consolidated financial statements.

The effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	31 December 2006		31 December 2005		31 December 2004	
	KZT	**Foreign currencies**	**KZT**	**Foreign currencies**	**KZT**	**Foreign currencies**
Cash and cash equivalents	0.08%	0.02%	0.11%	0.04%	0.34%	0.03%
Financial assets at fair value through profit or loss	5.80%	6.50%	3.74%	7.20%	3.94%	7.26%
Amounts due from credit institutions	3.23%	5.09%	5.80%	3.69%	9.34%	6.01%
Available-for-sale investment securities	5.00%	11.80%	7.10%	10.17%	6.15%	4.50%
Loans to customers	16.76%	11.31%	15.50%	11.31%	14.69%	11.62%
Amounts due to customers, including current accounts						
– legal entities	2.37%	5.50%	2.01%	4.94%	1.65%	4.61%
– individuals	5.52%	2.85%	5.23%	3.29%	5.63%	5.09%
Amounts due to credit institutions	5.90%	6.13%	4.70%	5.12%	-	3.36%
Debt securities issued	6.72%	6.57%	8.93%	9.95%	8.25%	9.80%

Liquidity Risk – Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Short-term liquidity needs are managed by the Bank's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by the Assets and Liabilities Management Committee by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means. The Assets and Liabilities Management Committee within the authority approved by the Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of monetary assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date, except for financial assets at fair value through profit or loss and available-for-sale investment securities which are included in the column “On demand” as they are available to meet the Bank’s short-term liquidity needs.

	31 December 2006						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 years**	**Total**
Monetary assets:							
Cash and cash equivalents	22,359	86,031	19,409	-	-	-	127,799
Obligatory reserves	13,718	13,797	2,575	20,248	3,869	899	55,106
Financial assets at fair value through profit or loss	51,984	1,032	-	-	-	-	53,016
Amounts due from credit institutions	-	-	162	148	1,711	28	2,049
Available-for-sale investment securities	-	109,302	66	182	4,597	9,192	123,339
Loans to customers	2,405	24,267	49,929	251,183	144,508	123,924	596,216
Other financial assets	-	2,751	264	1,032	-	294	4,341
	90,466	237,180	72,405	272,793	154,685	134,337	961,866
Monetary liabilities:							
Amounts due to customers	148,844	149,704	27,941	219,707	41,981	9,758	597,935
Amounts due to credit institutions	524	48,824	11,384	32,909	5,108	19,970	118,719
Debt securities issued	-	-	-	3,926	103,530	26,957	134,413
Other financial liabilities	-	366	1,002	4,712	109	-	6,189
	149,368	198,894	40,327	261,254	150,728	56,685	857,256
Net position	(58,902)	38,286	32,078	11,539	3,957	77,652	
Accumulated gap	(58,902)	(20,616)	11,462	23,001	26,958	104,610	

	31 December 2005						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 years**	**Total**
Monetary assets:							
Cash and cash equivalents	29,104	26,231	1,767	-	-	-	57,102
Obligatory reserves	3,041	1,050	502	2,387	1,568	84	8,632
Financial assets at fair value through profit or loss	50,018	-	-	-	-	-	50,018
Amounts due from credit institutions	-	-	1,446	1,120	211	-	2,777
Available-for-sale investment securities	-	354	909	1,476	1,998	7,362	12,099
Loans to customers	1,411	13,212	27,435	129,749	179,407	59,883	411,097
Other financial assets	968	1,188	109	607	-	1,408	4,280
	84,542	42,035	32,168	135,339	183,184	68,737	546,005
Monetary liabilities:							
Amounts due to customers	112,966	38,992	21,516	88,642	58,250	3,149	323,515
Amounts due to credit institutions	557	14,938	14,575	38,295	30,356	8,563	107,284
Debt securities issued	48	-	-	-	7,719	51,047	58,814
Other financial liabilities	-	1,037	667	790	304	-	2,798
	113,571	54,967	36,758	127,727	96,629	62,759	492,411
Net position	(29,029)	(12,932)	(4,590)	7,612	86,555	5,978	
Accumulated gap	(29,029)	(41,961)	(46,551)	(38,939)	47,616	53,594	

	31 December 2004						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 years**	**Total**
Monetary assets:							
Cash and cash equivalents	11,872	11,275	9,976	-	-	-	33,123
Obligatory reserves	2,506	822	879	2,371	872	128	7,578
Financial assets at fair value through profit or loss	62,382	-	-	-	-	-	62,382
Amounts due from credit institutions	-	23	413	259	-	-	695
Available-for-sale investment securities	-	2,380	560	3,567	13,993	118	20,618
Loans to customers	2,104	13,854	32,564	78,083	98,252	29,733	254,590
Other financial assets	3,590	794	-	-	-	-	4,384
	82,454	29,148	44,392	84,280	113,117	29,979	383,370
Monetary liabilities:							
Amounts due to customers	76,565	25,099	27,294	72,424	26,645	3,903	231,930
Amounts due to credit institutions	948	6,933	11,457	39,416	17,662	77	76,493
Debt securities issued	21	-	513	-	38,533	5,873	44,940
Other financial liabilities	1,612	15	70	183	191	-	2,071
	79,146	32,047	39,334	112,023	83,031	9,853	355,434
Net position	3,308	(2,899)	5,058	(27,743)	30,086	20,126	
Accumulated gap	3,308	409	5,467	(22,276)	7,810	27,936	

28. SEGMENT ANALYSIS

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

Business Segments

The Group is organised on a basis of two main business segments:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and cash and foreign currency related services.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

There were no transactions between business segments during 2006, 2005 and 2004.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2006, 2005 and 2004 is set out below:

	Retail Banking	Corporate banking	Other	Total
Year ended 31 December 2006				
External revenues	47,464	58,854	1,698	108,016
Total revenues	47,464	58,854	1,698	108,016
Total revenues comprise:				
- Interest income	33,025	47,622	-	80,647
- Net losses from financial assets at fair value through profit or loss	-	-	(193)	(193)
- Net gains from available-for-sale investment securities	-	-	202	202
- Share of income of associates	-	167	-	167
- Net gains from dealing in foreign currencies and from translation of foreign currencies	1,043	2,397	-	3,440
- Fee and commission income	13,396	8,668	-	22,064
- Other income	-	-	1,689	1,689
Total revenues	47,464	58,854	1,698	108,016
- Interest expense on amounts due to customers	(8,160)	(10,331)	-	(18,491)
- Impairment charge	(2,862)	(5,469)	-	(8,331)
- Fee and commission expense	(329)	(600)	-	(929)
- Salaries and other employee benefits	(3,736)	(12,195)	-	(15,931)
- Deposit insurance and advertisement expenses	(1,674)	-	-	(1,674)
- Other provisions	-	(752)	-	(752)
Segment result	30,703	29,507	1,698	61,908
Total unallocated costs				(26,307)
Income before income tax expense				35,601
Income tax expense				(8,442)
Net income				27,159
Total segment assets	212,907	513,437	176,355	902,699
Unallocated assets	-	-	-	88,660
Total assets				991,359
Total segment liabilities	(210,476)	(390,480)	-	(600,956)
Unallocated liabilities	-	-	-	(269,776)
Total liabilities				(870,732)
Other segment items:				
Provision and impairment charge to consolidated statement of income	(2,862)	(6,221)	-	(9,083)
Capital expenditure				(8,584)
Depreciation and amortization expense				(2,371)
Other non-cash income				(430)

Some of the assets and liabilities that cannot be allocated to particular segment were included in unallocated assets and liabilities. Unallocated assets include obligatory reserves, property and equipment and other unallocated assets. Unallocated liabilities include debt securities issued, amount due to credit institution and other unallocated liabilities.

	Retail banking	Corporate banking	Other	Total
Year ended 31 December 2005				
External revenues	24,583	46,106	2,276	72,965
Total revenues	24,583	46,106	2,276	72,965
Total revenues comprise:				
- Interest income	18,688	33,697	-	52,385
- Net gains from financial assets at fair value through profit or loss	-	-	1,363	1,363
- Net gains less available-for-sale investment securities	-	-	342	342
- Share of income of associates	-	249	-	249
- Net gains from foreign currencies and from translation of foreign currencies	928	966	-	1,894
- Fee and commission income	4,967	11,194	-	16,161
- Other income	-	-	571	571
Total revenues	24,583	46,106	2,276	72,965
- Interest expense on amounts due to customers	(5,637)	(6,236)	-	(11,873)
- Impairment charge	(2,658)	(9,312)	-	(11,970)
- Fee and commission expense	(236)	(677)	-	(913)
- Salaries and other employee benefits	(3,798)	(7,438)	-	(11,236)
- Deposit insurance and advertisement expenses	(1,218)	-	-	(1,218)
- Other provisions	-	(496)	-	(496)
Segment result	11,036	21,947	2,276	35,259
Total unallocated costs				(15,892)
Income before income tax expense				19,367
Income tax expense				(3,539)
Net income				15,828
Total segment assets	136,753	335,665	62,117	534,535
Total unallocated assets	-	-	-	25,130
Total assets				559,665
Total segment liabilities	(134,332)	(191,463)	-	(325,795)
Total unallocated liabilities	-	-	-	(169,426)
Total liabilities				(495,221)
Other segment items:				
Provision and impairment charge to consolidated statement of income	(2,658)	(9,808)	-	(12,466)
Capital expenditure				(3,180)
Depreciation and amortization expense				(1,330)
Other non-cash income				1,513

Some of the assets and liabilities that cannot be allocated to particular segment were included in unallocated assets and liabilities. Unallocated assets include obligatory reserves, property and equipment and other unallocated assets. Unallocated liabilities include debt securities issued, amount due to credit institution and other unallocated liabilities.

	Retail banking	Corporate banking	Other	Total
Year ended 31 December 2004				
External revenues	11,964	33,290	878	46,132
Total revenues	11,964	33,290	878	46,132
Total revenues comprise:				
- Interest income	7,927	25,023	-	32,950
- Net gains from financial assets at fair value through profit or loss	-	-	165	165
- Net gains from available-for-sale investment securities	-	-	104	104
- Share of income of associates	-	196	-	196
- Net gains from foreign currencies and from translation of foreign currencies	648	1,343	-	1,991
- Fee and commission income	3,389	6,728	-	10,117
- Other income	-	-	609	609
Total revenues	11,964	33,290	878	46,132
- Interest expense on amounts due to customers	(5,402)	(2,624)	-	(8,026)
- Impairment charge	(57)	(7,897)	-	(7,954)
- Fee and commission expense		(798)	-	(798)
- Salaries and other employee benefits	(1,988)	(4,889)	-	(6,877)
- Deposit insurance and advertisement expenses	(986)	-	-	(986)
- Other provisions	-	(987)	-	(987)
Segment result	3,531	16,095	878	20,504
Total unallocated costs				(10,413)
Income before income tax expense				10,091
Income tax expense				(1,998)
Net income				8,093
Total segment assets	85,255	203,840	83,001	372,096
Total unallocated assets	-	-	-	21,158
Total assets				393,254
Total segment liabilities	(112,665)	(121,066)	-	(233,731)
Total unallocated liabilities	-	-	-	(123,955)
Total liabilities				(357,686)
Other segment items:				
Provision and impairment charge to consolidated statement of income	(57)	(8,884)	-	(8,941)
Capital expenditure				(2,953)
Depreciation and amortization expense				(1,112)
Other non-cash income				249

Geographical segments – Segment information for the main geographical segments of the Group is set out below as at 31 December 2006, 2005 and 2004 and for the years than ended.

	Kazakhstan	OECD	Non OECD	Total
2006				
Total assets	892,586	97,124	1,649	991,359
External revenues	104,811	3,165	40	108,016
Capital expenditure	(8,584)	-	-	(8,584)
2005				
Total assets	526,620	31,536	1,509	559,665
External revenues	71,457	1,442	66	72,965
Capital expenditure	(3,180)	-	-	(3,180)
2004				
Total assets	359,835	32,911	508	393,254
External revenues	44,708	1,402	22	46,132
Capital expenditure	(2,953)	-	-	(2,953)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts Due from and to Credit Institutions - For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to Customers - The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts Due to Customers - Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt Securities Issued - Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of monetary assets and liabilities not carried at their fair values:

	31 December 2006		31 December 2005		31 December 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Amounts due from credit institutions	2,049	2,049	2,777	2,777	695	695
Loans to customers	596,216	597,849	411,097	438,905	254,590	257,641
Financial liabilities						
Amounts due to customers	597,935	598,249	323,515	325,585	231,930	231,205
Amounts due to credit institutions	118,719	122,911	107,284	109,983	76,493	74,697
Debt securities issued	134,413	134,867	58,814	58,550	44,940	45,531

Financial assets at fair value through profit or loss and available-for-sale investment securities are carried at fair value in the consolidated balance sheet. Carrying value approximates fair value for cash and cash equivalents.

30. SUBSEQUENT EVENTS

In January and February 2007 the Bank issued 9,468,878 common shares for the total amount of KZT 4,847 million.

On 7 March 2007 the Bank issued KZT denominated semi-annual coupon bonds with nominal value of KZT 12,500 million. These bonds bear coupon interest of 7.20% per annum and mature on 7 March 2009.

On 27 April 2007 the Bank issued KZT denominated semi-annual coupon bonds with nominal value of KZT 12,500 million. These bonds bear coupon interest of 7.80% per annum and mature on 27 April 2009.

On 23 April 2007 the Bank declared dividends in the amount of KZT 1,579 million for preferred shares and KZT 2,450 million for common shares. Dividends are paid on 15 May 2007 and 22 May 2007 for preferred shares and common shares, respectively.

On 3 May 2007 the Bank issued USD denominated semi-annual coupon bonds with nominal value of KZT 84,168 million These bonds bear coupon interest of 7.25% per annum and mature on 3 May 2017.

On 9 October 2007 the Bank issued KZT 10,000 million subordinated bonds with semi-annual coupons. This KZT denominated bonds were listed on the KASE and have maturity date on 9 October 2017. The following table sets out rates of coupon and interest rate cap of the bonds:

Period	Coupon rate, % per annum	Interest rate cap, % per annum
From 9 October 2007 to 9 April 2008	11%	-
From 9April 2008 to 9 October 2012	Inflation rate plus 2%	7%-13%
From 9 October 2012 to 9 October 2017	Inflation rate plus 3.5%	7%-13%

31. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures" ("IAS 24"), parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at 31 December 2006, 2005 and 2004, and related expenses and income for the years then ended are as follows:

	Year ended 31 December 2006				Year ended 31 December 2005			
	Controlling Shareholder and Entities Under Common Control	**Entities influenced by the Controlling Shareholder**	**Associates**	**Key management personnel**	**Controlling Shareholder and Entities Under Common Control**	**Entities influenced by the Controlling Shareholder**	**Associates**	**Key management personnel**
Loans outstanding, gross, beginning of the period	681	1,157	-	72	930	4,909	-	130
Loans issued during the period	602	7,919	-	47	309	3,933	-	56
Loan repaid during the period	(1,054)	(4,104)	-	(74)	(558)	(7,685)	-	(114)
Loans outstanding, gross, ending of the period	229	4,972	-	45	681	1,157	-	72
Less: allowance for impairment	-	(959)	-	-	-	-	-	-
Loans outstanding, net, ending	229	4,013	-	45	681	1,157	-	72
Interest income on loans	73	385	-	6	277	17	-	7
Deposits and current accounts, beginning of the period	807	15,447	183	240	51	72,829	101	-
Receipts of deposits and current accounts during the period	1,000,939	5,108,431	11,169	589	8,991	222,900	125	271
Payments of deposits and current accounts during the period	(900,721)	(5,007,572)	(11,113)	(406)	(8,235)	(280,282)	(43)	(31)
Deposits and current accounts, ending of the period	101,025	116,306	239	423	807	15,447	183	240
Interest expense on deposits	1,944	2,696	4	20	93	3,204	15	13
Commitments and guarantees issued	-	586	7	-	2,562	-	-	-
Fee and commission income	9	109	8	-	9	111	3	-

	Year ended 31 December 2004			
	Controlling Shareholder and Entities Under Common Control	Entities influenced by the Controlling Shareholder	Associates	Key management personnel
Loans outstanding, gross, beginning of the period	1,552	2,601	-	2
Loans issued during the period	683	10,724	-	133
Loan repaid during the period	(1,305)	(8,416)	-	(5)
Loans outstanding, gross, ending of the period	930	4,909	-	130
Less: allowance for impairment	-	-	-	-
Loans outstanding, net, ending	930	4,909	-	130
Interest income on loans	131	295	-	3
Deposits and current accounts, beginning of the period	-	17,266	95	-
Receipts of deposits and current accounts during the period	51	854,908	52	-
Payments of deposits and current accounts during the period	-	(799,345)	(46)	-
Deposits and current accounts, ending of the period	51	72,829	101	-
Interest expense on deposits	-	897	-	-
Commitments and guarantees issued	14	-	-	-
Fee and commission income	13	267	7	-

Compensation of 12 members of the Management Board and Board of Directors of the Bank was comprised of the following (2005 – 11 members, 2004 – 13 members):

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Salaries and bonuses	974	819	641
Social tax	69	60	47
Total key management compensation	1,043	879	688

32. CAPITAL ADEQUACY

The FMSA requires banks to maintain ratios of total capital to risk weighted assets, which are computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks. As at 31 December 2006, 2005 and 2004, these ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.