IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS UNDER RULE 144A OR (2) NON-U.S. PERSONS OR ADDRESSEES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, you must be either (1) a Qualified Institutional Buyer ("QIB") (within the meaning of Rule 144A under the Securities Act) or (2) a non-U.S. person (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) not (or, if you are acting on behalf of another person, such person is not) a U.S. person and that, in the latter case, the electronic mail address that you gave us and to which this e-mail has been delivered is not located (or, if you are acting on behalf of another person, such person is not) in the U.S. and (2) you consent to delivery of such Prospectus by electronic transmission. You are urged to read the information in "*Form of Notes and Transfer Restrictions*" in the attached Prospectus.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited, Dresdner Bank AG London Branch or HSBK (Europe) BV or JSC Halyk Bank or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited, Dresdner Bank AG London Branch or HSBK (Europe) BV or JSC Halyk Bank.

HSBK (Europe) B.V.

(incorporated with limited liability in The Netherlands)

U.S.$700 million
7.25 per cent. Notes due 2017

Guaranteed by

JSC HALYK BANK

(organised in the Republic of Kazakhstan)

Issue Price 99.168 per cent.

The U.S.$700 million 7.25 per cent. Notes due 2017 (the "Notes") are issued by HSBK (Europe) B.V. (the "Issuer") and guaranteed by JSC Halyk Bank, a joint stock company organised in the Republic of Kazakhstan (the "Bank" or the "Guarantor"). Interest on the Notes will accrue from 3 May 2007 and will be payable semi-annually in arrear on 3 May and 3 November of each year, commencing on 3 November 2007. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 3 May 2007 (the "Trust Deed") among the Issuer, the Bank and Deutsche Trustee Company Limited as trustee for the holders of the Notes (the "Trustee"). See "*Terms and Conditions of the Notes*".

The Notes will be offered and sold in an offering in the United States to "qualified institutional buyers" (as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A and in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "*Subscription and Sale*" and "*Form of Notes and Transfer Restrictions*" . The Notes may not be reoffered, resold, pledged, exchanged or otherwise transferred except in transactions exempt from or not subject to the registration requirements of the Securities Act and any other applicable securities laws. See "*Form of Notes and Transfer Restrictions*".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") to approve this Prospectus as a prospectus, and this Prospectus constitutes a prospectus for the purposes of article 5 of Directive 2003/71/EC. Application has also been made to admit the Notes described in this Prospectus to listing on the official list of the UK Listing Authority (the "Official List") and to trading on the Gilt Edged and Fixed Interest Market (the "Regulated Market") of the London Stock Exchange plc (the "London Stock Exchange"). Application has also been made for the Notes to be designated as eligible for trading on The PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). After their issue, the Bank will use its best efforts to cause the Notes to be listed on the Kazakhstan Stock Exchange ("KASE").

See "*Risk Factors*" beginning on page 7 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes are expected to be assigned on issue a rating of Baa1 by Moody's Investor Service and BB+ by Standard and Poor's Rating Service and Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "Unrestricted Global Note") in registered form, without interest coupons attached, which will be registered in the name of BT Globenet Nominees Limited as nominee for, and shall be deposited on or about 3 May 2007 (the "Closing Date") with Deutsche Bank A.G., as common depository for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "Restricted Global Note" and, together with the Unrestricted Global Note, the "Global Notes") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Deutsche Bank Trust Company Americas, as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the Securities Act, or (ii) to qualified institutional buyers in reliance on Rule 144A under the Securities Act, will be issued in minimum denominations of U.S.$100,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000. See "*Terms and Conditions of the Notes*". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "*Form of Notes and Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Citi **Dresdner Kleinwort**

The date of this Prospectus is 2 May 2007.

IMPORTANT NOTICE

The Issuer and the Bank (the "Responsible Persons"), having taken all reasonable care to ensure that such is the case, declare that the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. The Issuer and the Bank accept responsibility for the information contained in this Prospectus.

Certain information in the section "The Banking Sector in Kazakhstan" has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in the Republic of Kazakhstan ("Kazakhstan"). There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Responsible Persons only accept responsibility for accurately reproducing such extracts, and as far as the Responsible Persons are aware and able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.For further details see "Market Share, Industry and Economic Data".

None of the Managers (as defined in "Subscription and Sale"), the Trustee nor any of their respective directors, affiliates, advisers or agents, nor Issuer's or Bank's counsel, has made an independent verification of the information contained in this Prospectus in connection with the issue and offering of the Notes and no representation or warranty, expressed or implied, is made by the Managers, the Trustee or any of their directors, affiliates, advisers or agents, or such counsel with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Managers, the Trustee or any of their respective directors, affiliates, advisers or agents in any respect. Furthermore, none of the Managers nor the Trustee makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes, the performance and observance by the Issuer and the Bank of their obligations in respect of the Notes or the recoverability of any sums due or to become due from the Issuer and the Bank under the Notes.

In making an investment decision, investors must rely on their own examination of the Issuer, the Bank, Kazakhstan, the Notes, the Guarantee and the terms of this offering, including the merits and risks involved. See "Risk Factors". Investors should not construe anything in this Prospectus as legal, business or tax advice. Each investor should consult its own advisers as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. The Notes and the Guarantee have not been approved or disapproved by any U.S. federal or state securities commission or regulatory authority. In addition, no U.S. federal or state securities commission or regulatory authority has confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

This Prospectus has been prepared by the Issuer and the Bank solely for use in connection with the proposed offering of the Notes described in this Prospectus. No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Bank, the Trustee or any of the Managers or any of their respective directors, affiliates, advisers or agents. No representation or warranty, express or implied, is made by either the Issuer, the Bank, the Trustee or any of the Managers or any of their respective directors, affiliates, advisers or agents and nothing contained in this Prospectus is or shall be relied upon as a promise, warranty or representation, whether to the past or the future. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Issuer and Bank since the date hereof or that the information herein is correct as of any time subsequent to its date.

This communication is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

This Prospectus does not, and is not intended to, constitute or contain an offer to sell or a solicitation of an offer to purchase the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is *restricted by law. This Prospectus may not be used for or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer, the Bank and the Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under ''Subscription and Sale'' and ''Form of Notes and Transfer Restrictions''.*

IN CONNECTION WITH THIS ISSUE, DRESDNER BANK AG LONDON BRANCH (THE ''STABILISING MANAGER'') (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL, BUT IN DOING SO THE STABILISING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION WILL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE REGULATIONS. ANY LOSS RESULTING FROM OVER-ALLOTMENT AND STABILISATION SHALL BE BORNE, AND ANY NET PROFIT ARISING THEREFROM SHALL BE RETAINED, BY THE STABILISING MANAGER FOR ITS OWN ACCOUNT.

Table of Contents

	Page
IMPORTANT NOTICE	iii
CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS	vi
NOTICE TO RESIDENTS OF NEW HAMPSHIRE	vi
AVAILABLE INFORMATION	vi
ENFORCEMENT OF FOREIGN JUDGMENTS	vii
FORWARD-LOOKING STATEMENTS	viii
PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION	ix
MARKET SHARE, INDUSTRY AND ECONOMIC DATA	x
OVERVIEW OF THE ISSUER AND THE BANK	1
OVERVIEW OF THE OFFERING	3
RISK FACTORS	7
TERMS AND CONDITIONS OF THE NOTES	18
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM	36
USE OF PROCEEDS	37
THE ISSUER	38
OVERVIEW OF THE BANK	40
CAPITALISATION OF THE BANK	46
SELECTED CONSOLIDATED FINANCIAL DATA	47
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	50
ASSET, LIABILITY AND RISK MANAGEMENT	72
SELECTED STATISTICAL AND OTHER INFORMATION	84
BUSINESS OF THE BANK	102
MANAGEMENT AND EMPLOYEES	112
PRINCIPAL SHAREHOLDERS	118
TRANSACTIONS WITH RELATED PARTIES	119
THE BANKING SECTOR IN KAZAKHSTAN	122
KAZAKHSTAN CURRENCY AND BANKING LEGISLATION	126
FORM OF NOTES AND TRANSFER RESTRICTIONS	128
SUBSCRIPTION AND SALE	133
TAXATION	134
GENERAL INFORMATION	139
INDEX TO FINANCIAL STATEMENTS	F-1

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE BANK IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO RESIDENTS OF NEW HAMPSHIRE

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

Neither the Issuer nor the Bank is currently required to file periodic reports under Sections 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the U.S. Securities and Exchange Commission ("SEC"). In order to preserve the exemption for resales and transfers under Rule 144A, the Issuer and the Bank have agreed that, so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Bank will, if they are not exempt from the reporting requirements of the Exchange Act pursuant to Rule 12g 3-2(b) thereunder and do not thereafter become subject to and comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act, provide to any holder of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder, upon the request of such holder or prospective purchaser, any information required to be provided by Rule 144A(d)(4) under the Securities Act. See "*Terms and Conditions of the Notes — Condition 5.3*".

ENFORCEMENT OF FOREIGN JUDGMENTS

The Bank is a joint stock company organised under the legislation of Kazakhstan and certain of its officers and directors and certain other persons referred to in this Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Bank and of each of such persons are located in Kazakhstan. As a result, it may not be possible (a) to effect service of process upon the Bank or any such person outside Kazakhstan, (b) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes, the Guarantee or the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Notes, the Guarantee, the Trust Deed and the Agency Agreement (as defined in "*Terms and Conditions of the Notes*") are governed by the laws of England and the Issuer and the Guarantor have agreed in the Notes or the Guarantee, as the case may be, and in the Trust Deed and in the Agency Agreement that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in "*Terms and Conditions of the Notes*"), to arbitration in London, England. See "*Terms and Conditions of the Notes — Conditions 14 and 20*". Courts in Kazakhstan will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. However, each of Kazakhstan and England is a party to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention"), and English arbitration awards are generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

A new Law on International Commercial Arbitration (the "Arbitration Law") was adopted by the Kazakhstan Parliament effective 28 December 2004. This law is intended to resolve uncertainty created by prior decisions of the Constitutional Council of Kazakhstan regarding enforcement of the Convention in Kazakhstan and which were effective 15 February 2002 and 12 April 2002 by providing clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the Convention.

In addition, the Issuer is incorporated under the laws of The Netherlands and its managing directors are residents of The Netherlands and Kazakhstan, respectively. A substantial portion of the assets of the Issuer and of its managing directors are located in The Netherlands and Kazakhstan. As a result, it may not be possible for investors (a) to effect service of process upon the Issuer or any such person outside The Netherlands or Kazakhstan, as the case may be, (b) to enforce against any of them, in courts of jurisdictions other than The Netherlands or Kazakhstan, as the case may be, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in the courts of The Netherlands or Kazakhstan, as the case may be, judgments obtained in jurisdictions other than The Netherlands or Kazakhstan, respectively, including judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by legal counsel in The Netherlands, NautaDutilh N.V., that The Netherlands does not currently have a treaty with the United States providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, would not be directly enforceable in The Netherlands. If the party in whose favour such final judgment is rendered brings a new suit in a competent court in The Netherlands, however, such party may submit to a Dutch court the final judgment that has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in The Netherlands.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements can be identified by the use of forward-looking terminology such as "estimates", "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately", or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include, but are not limited to, statements regarding the Bank's objective to maintain higher returns on equity and on assets and to increase profitability by (among other things) consolidating the Bank's position as the leading retail bank in Kazakhstan; the anticipated expansion of the Bank's corporate customer base and of the Bank's revenue base through selective regional growth and development of subsidiary operations; the impact of anticipated improvements in operational efficiency and management; planned capital expenditures; and Management's expectations regarding the increase of the Bank's equity capital, finding a strategic partner and improving the composition of the Bank's loan portfolio. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions; the demand for the Bank's services; competitive factors in the industries in which the Bank competes; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); results of litigation or arbitration; interest rate fluctuations and other market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders; and the timing, impact and other uncertainties of future actions. See "*Risk Factors*" for a discussion of important factors that could cause actual results to differ materially from these forward-looking statements.

The Bank is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributed to the Bank, or to persons acting on the Bank's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Until 31 December 2003, the Bank was required to maintain its books of account in Tenge in accordance with the relevant laws and regulations in Kazakhstan, including the regulations of the National Bank of Kazakhstan (the "NBK"). Since 1 January 2003, the Bank has been required to maintain its books of account and prepare its accounts for regulatory purposes in accordance with International Financial Reporting Standards ("IFRS"). Since 1 January 2004, the Bank has been required to comply with the requirements of the Agency of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") (collectively, "Kazakhstan Regulations" or "Prudential Norms"). If not otherwise specified, for the sake of the financial analysis and management discussion herein, the term "the Bank" shall mean JSC Halyk Bank and its consolidated subsidiaries.

The Bank's audited consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2006, 2005 and 2004 have been prepared in accordance with IFRS. The Bank's consolidated financial statements as at and for the years ended 31 December 2006, 2005 and 2004 were audited by Ernst & Young LLP, independent auditors ("Ernst & Young"), whose audit reports for the respective periods are included elsewhere in this Prospectus. See the consolidated financial statements, including the relevant notes thereto, included elsewhere in this Prospectus and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

In this Prospectus, references to "Tenge" or "KZT" are to Kazakhstan Tenge, the lawful currency of Kazakhstan; references to "U.S. Dollars" or "U.S.$" are to United States Dollars, the lawful currency of the United States of America; references to "Russian Roubles" or "RUR" are to Russian Roubles, the lawful currency of the Russian Federation, references to "Som" are to Kyrgyz Som, the lawful currency of Kyrgyzstan; and references to "Euros" or "€" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union and as further amended by the Treaty of Amsterdam. References to "Kazakhstan", the "Republic" or the "State" are to the Republic of Kazakhstan; references to the "Government" are to the government of the Republic of Kazakhstan; references to "The Netherlands" are to the Kingdom of The Netherlands excluding The Netherlands Antilles and Aruba; and the references to the "CIS" are to the Commonwealth of Independent States.

Solely for the convenience of the reader, this Prospectus presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate, in each case calculated in accordance with the exchange rates for U.S. Dollars on the KASE as reported by the NBK. On 31 December 2006, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 127.00 per U.S.$1.00 and the average exchange rate for the year ended 31 December 2006 as reported by the NBK was KZT 126.09 per U.S.$1.00. On 31 December 2005, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 133.98 per U.S.$1.00 and the average exchange rate for the year ended 31 December 2005 as reported by the NBK was KZT 132.88 per U.S.$1.00. For further details of applicable exchange rates, see the consolidated financial statements included herein.

No representation is made that the Tenge or U.S. Dollar amounts in this Prospectus could have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate or at all. Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

MARKET SHARE, INDUSTRY AND ECONOMIC DATA

It is difficult to obtain precise industry and market information in the Kazakhstan banking industry or economic information on Kazakhstan. Generally, information as to the market and competitive position data included in this Prospectus have been obtained from the NBK, the National Statistics Agency (the "NSA"), the FMSA, published financial information and surveys or studies conducted by third-party sources that are believed to be reliable. The information contained in "*The Banking Sector in Kazakhstan*" and "*Kazakhstan Currency and Banking Legislation*" has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. Except that the Issuer and the Bank confirm that, as far as they are aware and are able to ascertain from the sources described above, no facts have been omitted which would render any reproduced information inaccurate or misleading, the Bank and the Issuer accept responsibility only for the accurate extraction of such information.

OVERVIEW OF THE ISSUER AND THE BANK

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be made based on a consideration of the Prospectus as a whole.

The Issuer

The Issuer is a wholly-owned subsidiary of the Bank incorporated on 1 May 1998 under the laws of The Netherlands for the primary purpose of raising funds in the international capital markets and lending such funds to the Bank.

The Bank

The Bank is one of Kazakhstan's leading financial services groups, with the largest customer base and distribution network of any bank in Kazakhstan. The Bank is developing as a universal financial services group offering a broad range of services (banking, pensions, insurance, leasing, brokerage and asset management) to its retail, small- and medium-enterprise ("SME") and corporate customers.

The Bank's history dates back to the opening of a branch of the Soviet Sberbank (the Savings Bank of the former Soviet Union) in 1923. The Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1993 and, in 1998, was reorganised into an open joint stock company and in 2003 into a joint stock company with an unlimited duration. The Bank was privatised in a series of transactions between 1998 and 2001.

According to statistics published by the FMSA, as at 31 December 2006, the Bank had the largest retail deposit base in Kazakhstan (with a 20 per cent. market share), as well as the largest portfolio in the fast-growing mortgage loan market (with a 21.7 per cent. market share) and had issued the largest number of payment cards (with a 51.2 per cent. market share). The Bank was also the fourth largest bank in Kazakhstan according to statistics published by the FMSA, based on total assets of KZT 991,359 million, as at 31 December 2006. For the year ended 31 December 2006, the Bank's net income after income tax expense was KZT 27,159 million and operating income (net interest income plus net fees and commissions and other non-interest income) was KZT 64,572 million. As at 31 December 2006, total equity was KZT 120,628 million.

The Bank's core business is focused on retail, SME and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through, as of 31 December 2006, 19 regional branches, 127 district branches, 428 limited service branches, 4 VIP centres and 39 personal service centres. Other distribution channels used by the Bank include, as of 31 December 2006, 700 Automated Teller Machines ("ATMs"), the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan. Through subsidiary companies, the Bank's operations also include pensions, general and life insurance, leasing, brokerage and asset management. According to the FMSA statistics, as at 31 December 2006, the Bank's pension fund business had the largest market share in Kazakhstan (27.8 per cent.), and the management of the Bank believes its insurance business has the largest network in the country.

The Bank offers a wide range of retail banking products and services including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, Internet banking and ATM services. The corporate banking business provides a range of wholesale banking products and services to corporate and small and medium size business customers, financial institutions and Government entities. As at 31 December 2006, the Bank had approximately 5.9 million retail customers (the largest customer base among all banks in Kazakhstan), approximately 63 thousand SME customers and 323 corporate customers.

Shares of the Bank have been listed on the KASE since 1998. As at 31 December 2006, Holding Group Almex JSC owned 64.3 per cent. of the voting shares of the Bank. See "*Principal Shareholders*". The Bank's principal office is located at 97 Rozybakiev Street, Almaty 050046, Kazakhstan.

Business Strategy

The Bank's strategy is to retain and strengthen its position as a leading Kazakhstan universal financial services group offering a broad range of products to retail, SME and corporate customers and to benefit from the anticipated growth in the Kazakhstan economy. In addition to developing its core banking business in Kazakhstan and neighbouring countries, management is focused on expanding and cross-selling the Bank's other businesses such as pensions, insurance, leasing, brokerage and asset management. Key elements of the Bank's strategy are summarised below:

- Maintain the number one position in the Kazakhstan retail banking market and capture growth in Kazakhstan;
- Expand the Bank's high-margin SME banking platform;
- Further develop the Bank's corporate banking franchise through a wider product range;
- Maintain and develop the Bank's leading distribution network;
- Leverage the Bank's universal banking platform to maximise cross-selling of products and services and to increase its customer base;
- Selectively expand into attractive neighbouring markets; and
- Continue to raise standards in the Bank to achieve operational excellence and efficiency.

Credit Ratings

Currently, the Bank is rated by three rating agencies: Fitch Ratings ("Fitch"), Moody's Investor Service ("Moody's") and Standard & Poor's Rating Service, a division of McGraw Hill Companies ("Standard & Poor's"). The current ratings of the Bank are as follows:

Fitch		Moody's		Standard & Poor's	
Individual	C/D	Strength	D		
Long-term	BB+	Long-term	Ba1	Long-term	BB+
Short-term	B	Short-term	NP	Short-term	B
Outlook	Positive	Outlook	Stable	Outlook	Stable

It is expected that, on issue, Fitch and Standard & Poor's will assign a BB+ rating, and Moody's will assign a Baa1 rating, respectively, to the Notes. A security rating is not a recommendation to buy, sell or hold the securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

OVERVIEW OF THE OFFERING

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be made based on consideration of the Prospectus as a whole. Capitalised terms not specifically defined in this overview have the meaning set out in the "Terms and Conditions of the Notes".

Issuer:	HSBK (Europe) B.V., a wholly-owned subsidiary of the Bank incorporated under the laws of The Netherlands.
Guarantor:	JSC Halyk Bank, incorporated in the Republic of Kazakhstan under the Joint Stock Companies Law with registration number 3898-1900-AO.
Issue:	U.S.$700 million 7.25 per cent. Notes due 2017.
	The Notes are being offered, by the Issuer through the Managers, to (i) certain qualified institutional buyers ("QIBs") (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in the United States in reliance on Rule 144A under the Securities Act; and (b) to certain non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. See "*Subscription and Sale*".
Issue Date:	3 May 2007
Issue Price:	99.168 per cent. of the principal amount of the Notes.
Form:	The Notes are issued in registered form, without interest coupons attached, in minimum denominations of U.S.$100,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000. The Notes will initially be represented by the Unrestricted Global Note and the Restricted Global Note, which will be exchangeable in the limited circumstances specified by their respective terms for Unrestricted Note Certificates and Restricted Note Certificates, respectively.
Governing Law:	The Notes, the Trust Deed and the Agency Agreement are governed by, and will be construed in accordance with, the laws of England.
Listing:	Application has been made to list the Notes described in this Prospectus on the Official List and traded on the Regulated Market of the London Stock Exchange. Application has also been made for the Notes to be designated as eligible for trading on The PORTAL.
	After their issue, the Bank will use its best efforts to cause the Notes to be listed on the KASE.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in the United Kingdom and Kazakhstan. See "*Form of Notes and Transfer Restrictions*".
Use of Proceeds:	The proceeds of the offering, expected to amount to U.S.$700 million, will be deposited by the Issuer with the Bank. The Bank will use such proceeds to fund loans to its customers and for other general corporate purposes.

	The expenses and combined management, underwriting and selling commission incurred with the issue of the Notes will be paid by the Bank and/or by the Issuer.
Trustee:	Deutsche Trustee Company Limited
Principal Paying Agent and Transfer Agent:	Deutsche Bank AG, London Branch
NY Paying Agent, Registrar and Transfer Agent:	Deutsche Bank Trust Company Americas
Registrar:	Deutsche Bank Luxembourg S.A.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 7.25 per cent. per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 3 May and 3 November of each year, commencing on 3 November 2007.
Maturity Date:	3 May 2017.
Guarantee:	The Bank will, on or prior to the Closing Date, enter into the Guarantee under a deed of guarantee pursuant to which the Bank will unconditionally guarantee the due and punctual payment of all sums payable by the Issuer in respect of the Notes.
Status:	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 4.1 (*Negative Pledge — Negative Pledge of the Issuer*) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (save for such exceptions as may be provided by mandatory provisions of applicable law) with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. The obligations of the Bank under the Guarantee constitute direct, general, unconditional and (subject to Condition 4.2 (*Negative Pledge — Negative Pledge of the Guarantor*)) unsecured obligations of the Bank which rank and will at all times rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Bank, save only for such obligations as may be preferred by mandatory provisions of applicable law of general application. See Condition 3.2 (*Status — Status of the Guarantee*).
Negative Pledge:	Each of the Issuer and the Bank has agreed that, so long as any Notes remain outstanding, it shall not create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than a Permitted Security Interest as defined in Condition 5 (*Covenants*)) upon or with respect to any of their respective undertakings, assets or revenues to secure any Financial Indebtedness (as defined in Condition 5 (*Covenants*)) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Financial Indebtedness or are otherwise given the benefit of such other arrangements as shall be approved. See Condition 4 (*Negative Pledge*).
Certain Covenants:	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on payment of dividends, (ii) limitations on transactions at less than the fair market value, (iii) limitations on merger and consolidation and (iv) limitations on transfers of interests in the Issuer by the Bank. See Condition 5 (*Covenants*).

Taxation:	All payments of principal and interest in respect of the Notes will be made free and clear of any taxes imposed by or within The Netherlands or Kazakhstan or any jurisdiction from or through which payment is made, unless withholding or deduction thereof is required by law. See Condition 9 (*Taxation*). In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by The Netherlands or Kazakhstan upon or as a result of such payment, will not be less than the amount provided for in such Note to be then due and payable. See "*Terms and Conditions of the Notes — Condition 9*". Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15 per cent. to 20 per cent. unless reduced or made exempt by an applicable double taxation treaty. See "*Taxation — Kazakhstan Taxation*".
Tax Redemption:	The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any), at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See Condition 6.2 (*Redemption, Purchase and Cancellation — Redemption for Taxation Reasons*).
Substitution:	The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Guarantor and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as the Trustee may direct in the interests of the Noteholders, substitute (once or more than once) any entity (the "**Substituted Obligor**") in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, or substitute any entity in place of the Guarantor, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Guarantor or the substitute Guarantor as the case may be (unless the Substituted Obligor is the Guarantor) and (ii) all other relevant conditions of the Trust Deed having been complied with. See Condition 9 (*Substitution*).
Optional Exchange or Redemption:	In the event of an exchange offer (the "**Exchange Offer**") for the Notes being accepted by holders of 90 per cent. in principal amount of Notes for the time being outstanding, the Guarantor shall, subject to the receipt of any required certification, have the option to require the exchange of such outstanding Notes for the securities offered by way of the Exchange Offer. The Guarantor shall have the option to redeem Notes held by holders of Notes who are unable to provide such certification at their principal amount together with accrued interest.
Payment and Settlement:	The identification numbers for the Notes are as follows: Regulation S Notes: ISIN: XS0298931287 Common Code: 029893128 Rule 144A Notes: ISIN: US40430AAB98 CUSIP: 40430AAB9 Common Code: 029893187

Risk Factors:	For a discussion of certain investment considerations relating to Kazakhstan, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "*Risk Factors*".

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Prospectus, the following risks associated with investment in Kazakhstan entities generally and in the Bank and the Notes specifically. The risks and uncertainties described below are not the only ones the Bank faces. Additional risks and uncertainties that the Bank is not aware of or that the Bank currently believes are immaterial may also materially adversely affect the Bank's financial condition or results of operations. If any of the possible events described below occurs, the Bank's financial condition or results of operations could be materially and adversely affected.

General Risk Relating to Emerging Markets

Investors in emerging markets, such as in Kazakhstan, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets, such as in Kazakhstan, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Risk Factors Relating to the Republic of Kazakhstan

Most of the Bank's operations are conducted, and substantially all of its assets are located, in Kazakhstan. Accordingly, the Bank is largely dependent on the economic and political conditions prevailing in Kazakhstan

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has experienced significant change as it emerged from a single-party political system and a centrally controlled command economy to a market-oriented, democratic model. The transition was initially marked by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free-market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than some other countries of the former Soviet Union. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this Prospectus will continue or that such reforms will achieve all or any of their intended aims. Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

Since independence, Kazakhstan has had only one President. Under the current constitution, Mr. Nazarbayev is not eligible for re-election in the next scheduled election in late 2012. Any uncertainty in relation to succession could have an adverse effect on the Kazakhstan economy which could, in turn, adversely affect the Bank's business and financial condition or results of operations.

Although Kazakhstan has in the recent past enjoyed relative stability, it could be adversely affected by political unrest in the Central Asian region. Also, in common with other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or by military or other action taken against sponsors of terrorism in the region.

According to figures compiled by the Kazakhstan National Statistics Agency (the "NSA"), gross domestic product ("GDP") has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.8 per cent. in 2002, 9.2 per cent. in 2003, 9.4 per cent. in 2004, 9.4 per cent. in 2005 and 10.6 per cent. in 2006 (Source: the NSA). However, there can be no assurance that GDP will continue to grow and any decrease in GDP or in the rate of GDP growth in subsequent years could adversely affect Kazakhstan's economic development which could, in turn, materially and adversely affect the Bank's business and financial condition or results of operations.

Uncertainty over the outcome of the implementation of further market-based economic reforms may impose risks

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunication company.

However, there remains a need for substantial investment in many sectors of the Kazakhstan economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the significant size of the shadow economy may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. However, there can be no assurance that these measures will be effective or that any failure to implement them may not materially and adversely affect the Bank's business and financial condition or results of operations.

There are risks associated with the underdevelopment and evolution of the legislative, tax and regulatory framework in Kazakhstan

Although a large volume of legislation has come into force since early 1994, including a new tax code, laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still at a relatively early stage of development compared to countries with established market economies. The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces: there have been instances of improper payments being made to public officials; court decisions can be difficult to predict; and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

It is expected that the tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Bank's business and financial condition and on the results of operations of companies operating in Kazakhstan and there can be no assurance that any tax legislation passed in the future will not materially and adversely affect the Bank's business and financial condition or results of operations.

Changes in exchange rate policies in Kazakhstan may impose risks on the Bank

The Tenge is convertible for current account transactions, although it is not a fully convertible currency for capital account transactions outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the authorities instituted a number of expenditure cuts and took revenue increasing measures and, in April 1999, the NBK adopted a floating rate exchange policy for the Tenge. The Tenge fell by 64.6 per cent. against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7 per cent. in the year ended 31 December 1998. From 2003 the Tenge started appreciating in value against the U.S. Dollar and in 2006 appreciated by another 5.5 per cent. against the U.S. Dollar. (See "*Exchange Rate and Exchange Controls*".) As at 31 December 2006, the official KZT/U.S. Dollar exchange rate reported by the NBK was KZT 127.00 per U.S.$1.00. Exchange rates may also be affected by the levels of inflation in Kazakhstan as high rates of inflation tend, over time, to lead to a depreciation of currency.

While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy, which would, in turn, have an adverse effect on the Bank's business and financial condition or results of operations.

The Kazakhstan economy is highly dependent on oil exports. Accordingly, the Kazakhstan economy and the Bank may be affected by oil price volatility

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility on earnings from U.S. Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other currencies might have a material adverse effect on the Kazakhstan economy, which would, in turn, have an adverse effect on the business, financial condition and results of operations of the Bank.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of the Kazakhstan economy

An organised securities market was only established in Kazakhstan in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed in Kazakhstan, or as strictly enforced, compared to the United States, the United Kingdom and the other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan entities, such as the Bank, may be publicly available to investors in securities issued or guaranteed by such entities than is available to investors in entities organised in the United States, the United Kingdom or the remaining Western Europe.

Financial instability in any emerging market could cause the price of the Bank's securities to suffer

Financial instability in any emerging market country tends to adversely affect prices in stock markets and prices for securities of some or all other emerging market countries as investors move their money to more developed markets that they perceive to be more stable. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan and adversely affect the Kazakhstan economy. In addition, during such times, emerging market companies can face severe liquidity constraints if foreign funding sources are withdrawn. Thus, even if the fundamentals of the Kazakhstan economy remain relatively sound, financial instability in any other emerging market country could materially and adversely affect the Bank's business and/or the price of its securities.

Risk factors relating to operating within the Kazakhstan banking sector

Laws and regulations regarding the Kazakhstan banking sector have only recently been brought into force, are not as developed as in many Western countries and may change rapidly and unexpectedly, which may impose risks on the Bank

The Bank operates in a highly regulated environment; however, like most of Kazakhstan's legislation regarding business activities, Kazakhstan's laws regarding banks and banking activities have only been adopted relatively recently and are subject to change and development, which could, in certain cases, be rapid and unexpected. It is difficult to forecast how changes in banking and financial regulation may affect the Kazakhstan banking system, and no assurance can be given that the regulatory system will not change in a way that will impair the Bank's ability to provide a full range of banking and financial services or to compete effectively, thus materially and adversely affecting the Bank's financial condition or results of operations.

In addition, notwithstanding regulatory standards in Kazakhstan, prospective investors should understand that regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the relevant regulators may differ from those applicable to banking operations in countries with more developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

In January 2007, to reduce the risks associated with rapid growth in the external debt of Kazakhstan banks, the FMSA introduced certain amendments to Kazakhstan's capital adequacy regulations. These regulations limit the total amount of foreign borrowings which a bank may incur to a multiple of such bank's regulatory capital. Although the Bank fully complies with the new regulations as of the date hereof, the Bank's access to the foreign loan and capital markets may be curtailed in the future. For more information (see "*The Banking Sector in Kazakhstan*").

The future implementation by the FMSA of the recommendations of the Basle II Framework may impose constraints on the Bank's business which may materially and adversely affect the Bank's business and financial condition or results of operations. (See "*The Banking Sector in Kazakhstan*".)

The Bank depends on its banking and other licences

All banking operations in Kazakhstan require licensing by the FMSA which, in addition, licenses securities, insurance and pension services. The Bank has a current licence for all of its banking and other operations. Although the Bank believes it is currently in compliance with its existing material licence and reporting obligations, there is no assurance that the Bank will be able to maintain such licences in the future. The Bank is subject to periodic unannounced reviews by the FMSA, and in its most recent inspection the Bank was found not to be in full compliance with all FMSA regulations, although the Bank believes that such non-compliance was in respect of matters which are not material. However, the loss of a licence, a breach of the terms of the licence by the Bank or failure to obtain any further required licences in the future for whatever reason could have a material adverse effect on the Bank's financial condition or results of operations. If the Bank loses its general banking licence, the Bank will be unable to perform any banking operations.

The proposed reform of the international capital adequacy framework could increase the Bank's borrowing costs

In 2001, the Basel Committee issued a proposal for a new capital adequacy framework to replace the previous Capital Accord issued in 1988. With regard to the risk weightings to be applied to banks' credit exposures, the Basel Committee proposes replacing the existing approach with a system that would use both external and internal credit assessments for determining risk weightings. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk weighting of exposures to banks, securities firms and corporates. As a result, banks providing loans to the Bank may have higher capital requirements and, therefore, the Bank may be subject, along with other Kazakhstan banks, to higher borrowing costs, which may materially and adversely affect the Bank's financial condition or results of operations.

New anti-monopoly legislation has recently been enacted in Kazakhstan and its impact on the Bank is uncertain

In July 2006, the Kazakhstan Parliament adopted Law No. 173 On Competition and Limitation of Monopoly Activity which has replaced the previous anti-monopoly law. The new law extends the definition of dominant (monopoly) position to include up to three entities, even if they are separate and unrelated, if such entities (i) have the biggest market share and (ii) the sum of their market share is 50 per cent. or more of the entire market. In some product areas, the Bank and its two main competitors may account for more than 50 per cent. of the banking market in Kazakhstan. An entity deemed to have a dominant position may become subject to anti-monopoly review by the Kazakhstan Anti-Monopoly Body and, if it is found to be abusing its dominant position, it may be subject to regulation of prices for its products and other types of restrictions and sanctions. The amended anti-monopoly legislation is new and untested in practice and no guidelines have yet been adopted on how the amended legislation would be implemented and whether it will be applicable to banks. Accordingly, it is uncertain how this legislation will be implemented (in particular as to how relevant market share is defined) and what impact this amended legislation may have on the Bank, if implemented. It is possible that this legislation could have a material adverse effect on the Bank's financial condition and results of operations.

Risk factors relating to the Bank

The Bank's rapid growth subjects it to numerous risks, including those in relation to maintenance of asset quality

The Bank's net loan portfolio as at 31 December 2006 was KZT 596,216 million representing a 45.0 per cent. increase from KZT 411,097 million as at 31 December 2005 which in turn represented a 61.5 per cent. increase from KZT 254,590 million as at 31 December 2004. The significant and rapid increase in the loan portfolio size has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels through the Bank's credit risk management programme. The anticipated increase in the overall level of lending and, in particular, in the level of lending to SMEs as well as to retail customers, may further increase the credit risk faced by the Bank. SMEs and retail customers typically have less financial strength than large companies, historically the Bank's core lending customer base, and negative developments in the Kazakhstan economy could affect these borrowers more significantly than large companies. Since the Bank plans to increase funding to the construction and real estate sectors, which are currently characterised by rapid price growth, it faces significant risks of falling prices, which, in turn, may adversely effect the borrowers' ability to repay loans. This could result in higher levels of classified and non-performing loans and, as a result, higher levels of provisioning.

Growth rates such as those experienced by the Bank in the last two years also require the Bank to attract and retain a significant number of qualified personnel, not only to monitor asset quality but also to ensure the appropriate levels of expertise to execute the cross-selling plans of the Bank. In addition, the continued development of relatively new retail and SME credit products requires not only credit assessment skills, but also appropriate risk management and IT systems, some of which have yet to be installed. Failure to manage growth and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's financial condition and results of operations. In addition, the rapid increase of the size of the Bank's loan portfolio will require further equity capital to strengthen the Bank's capital base and any inability to obtain such capital on commercially reasonable terms may materially and adversely affect the Bank's results of operations.

The Bank faces significant competition, which may increase in the future and have an adverse impact on the Bank

Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector due to its extensive branch network and customer base, it faces competition from a number of existing and prospective participants in the Kazakhstan banking sector. The Bank is subject to competition from both domestic and foreign banks. As at 31 December 2006, there were a total of 33 banks operating in Kazakhstan (excluding NBK and the Development Bank of Kazakhstan ("DBK") both of which are government-owned), of which 14 were banks with foreign ownership, including subsidiaries of foreign banks. Although foreign-owned banks do not currently provide significant domestic competition, some of these institutions have significantly greater resources and cheaper funding sources than the Bank. Foreign banks also have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. In addition, regulatory changes may make it easier for foreign banks to increase their market penetration in Kazakhstan, and this may be more likely in connection with any eventual WTO accession by Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate banking sector (and possibly in the retail banking sector) in the longer term. The Bank also expects that DBK, established in 2001, while not licensed to accept deposits or provide transactional services, may become an important competitor in the corporate lending sector. The large number of corporate lenders in Kazakhstan has led banks to find other sources of revenue, primarily in SME and retail banking, where the barriers to entry are lower and a number of the smaller banks are seeking to grow their market share. Moreover, there are relatively few large corporate customers that do not have established banking relationships, which means that competition in this sector is intense. Increased competition may have a material adverse effect on the Bank's financial condition or results of operations. (See "*Business of the Bank — Competition*" and "*The Banking Sector in Kazakhstan*".)

Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would adversely affect the Bank

As at 31 December 2006, the Bank's Tier I and total capital adequacy ratios calculated in accordance with FMSA rules were 9.5 per cent. and 16.6 per cent., respectively, compared to the minimum levels of 5 per cent. for Tier I and 10 per cent. for total capital required under the FMSA rules for commercial banks whose shareholder has the status of the parent company of a "conglomerate" under the FMSA rules, as is the case with the Bank. (See "*Management's Discussion and Analysis of Financial Condition and Results of Operations Overview — Capital Adequacy and Liquidity*" and "*The Banking Sector in Kazakhstan*".)

The rapid increase in the size of the Bank's assets will require further equity capital to strengthen the Bank's capital base. Increased levels of debt financing from financial institutions and capital markets will also require the Bank to raise additional capital to meet the required capital adequacy levels.

The Bank plans further capitalisation through issuances of both common and preferred shares as well as hybrid and subordinated debt instruments for Tier I and Tier II capital. Although the principal shareholder of the Bank had demonstrated its willingness to participate in an additional common share issue in the past, it has no obligation to inject additional capital in the Bank in the future. The failure to raise capital as planned could substantially limit the Bank's ability to grow its business in compliance with applicable capital adequacy requirements. Any such events could have a material adverse effect on the Bank's prospects, business, financial condition and results of operations.

The Bank has depended and will depend on its principal shareholder for support

Although the principal shareholder of the Bank has provided additional capital to the Bank in the past, there is no assurance that this support will continue in the future or that Almex will be able to provide such support. The existing shareholders of the Bank, including the Bank's principal shareholder, have no obligation to inject additional capital in the Bank. In addition, through its ownership of a significant majority of the Bank's voting share capital, Almex has the ability to block any increase in the Bank's capital. Any inability to raise sufficient amounts of capital could substantially limit the Bank's ability to increase the size of its asset base in compliance with applicable capital adequacy requirements and may result in breach of the capital adequacy rules and breach of covenants relating to its capital adequacy contained in certain of its outstanding financing documents. Any such events could materially and adversely affect the Bank's financial condition or results of operations. No assurance can be given that, if the Bank requires a capital increase, the Bank's principal shareholder will approve such increase and/or participate in the subscription for any new shares or otherwise provide financing to the Bank or that the principal shareholder will approve other actions deemed advisable by Management which require shareholders' approval. (See "*— Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would adversely affect the Bank*".)

Almex's shareholders, Mr. and Mrs. Kulibayev, are, respectively, the son-in-law and daughter of the President of Kazakhstan. Any political uncertainty in Kazakhstan may have a material and adverse effect on Almex and, in turn, the Bank.

Almex owns a substantial percentage of the Bank's shares and its interests may differ from the interests of the Bank's other shareholders and the holders of the Notes

Due to the size of the ownership interest of Almex, the Bank's principal shareholder (controlled by Mr. Kulibayev and his family), the majority joint shareholders of Almex have the ability to influence significantly the Bank's strategy or business through actions that require approval of the shareholders, including, without limitation, appointment of members of the Board of Directors and any increase in the share capital of the Bank required for funding purposes or otherwise. (See "*Principal Shareholders*".) There is nothing to prevent the Bank's principal shareholder from engaging in activities that compete directly with the Bank's businesses or activities, which could materially and adversely affect its financial condition or results of operations. The interests of the Bank's principal shareholder may differ significantly from or compete with the Bank's interests or the interests of other shareholders, and there can be no assurance that the Bank's principal shareholder will exercise influence over the Bank in a manner that is in the best interests of the Bank, the Bank's other shareholders or the holders of the Notes.

In addition, parties directly and indirectly related to Almex and its shareholders have significant transactions and balances with the Bank. (See "*Transactions with Related Parties*".) A change in the nature of the relationship with these parties could have a material adverse effect on the Bank's financial condition or results of operations.

The Bank is exposed to a number of market risks, including interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and on its interest-earning assets and foreign currency exchange risk resulting from fluctuations in the prevailing foreign currency exchange rates

Although the Bank believes that it has policies and procedures in place together with the appropriately trained staff to measure, monitor and manage both liquidity and market risks, maturity mismatches or any significant volatility in interest rate movements, exchange rates or commodity market prices could have an adverse effect on the Bank's financial condition or results of operations. Management of these risks also requires substantial resources. The failure to appropriately manage risk may materially and adversely affect the Bank's financial condition or results of operations.

The Bank has some open currency exposure and although Kazakhstan regulations set a maximum aggregate currency exposure of 25 per cent. of regulatory capital, to the extent that these risks are not managed correctly, any losses incurred may have a material and adverse effect on the Bank's financial condition or results of operations.

The Bank depends on net interest income and its net interest margin, any decline in which may adversely affect the Bank's profitability

The Bank's net interest margin, which is the net interest income on its average interest earning assets, is a significant factor in determining the Bank's profitability. Net interest margins in Kazakhstan are still generally higher than those in most Western jurisdictions, though interest rates have been declining over the past few years. Interest rates are highly sensitive to many factors beyond the Bank's control, including the reserve policies of the NBK and domestic and international economic and political factors and there can be no assurances that the Bank will be able to protect itself from the negative effects of future interest rate declines. Any declines in the market interest rates as well as increased rates payable on deposits could lead to a reduction in net interest income and net interest margin and materially and adversely affect the Bank's financial condition or results of operations.

Concentrations of the Bank's loan and deposit portfolio subject it to risks from default by its larger borrowers, from exposure to particular sectors of the Kazakhstan economy and withdrawal of large deposits

The Bank's loan portfolio shows industry and borrower concentration. Loans to the Bank's 10 largest borrowers represented 14.8 per cent. of the Bank's gross loan portfolio as at 31 December 2006.

As at 31 December 2006, the Bank's exposure to its single largest borrower was KZT 14,104 million, which constituted 2.2 per cent. of the Bank's gross loan portfolio and 10.1 per cent. of its regulatory capital (compared to the statutory maximum of 25 per cent. imposed by the FMSA), as at such date.

In terms of industry concentration, as at 31 December 2006, mortgages, consumer loans, wholesale trade, the construction sector and agriculture accounted for 17.5 per cent., 13.8 per cent., 18.0 per cent., 11.1 per cent. and 7.5 per cent., respectively, of the Bank's gross loan portfolio.

The Bank's 10 largest depositors accounted for some 52 per cent. of amounts due to customers as at 31 December 2006. Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the Bank's financial condition or results of operations.

A downturn in any of these companies, or in the sectors in which they operate, may negatively impact the financial condition of the companies operating in such sectors, which could have a material adverse effect on the Bank's financial condition or results of operations.

The lack of accurate statistical, corporate and financial information in Kazakhstan may limit the ability of the Bank to assess customer credit risks accurately

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally, or specific economic sectors within it, or corporate or financial information relating to companies or other economic enterprises, is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Bank relating to its prospective and existing corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the difficulties associated with the inability to assess the value of collateral accurately post-enforcement may decrease the accuracy of the Bank's assessments of credit risk. The NBK established a central credit bureau in Kazakhstan in 2004 to facilitate the collection of information and assessment of risk; however, this agency is at a preliminary stage of development and there can be no assurance that this resource will improve the Bank's ability to assess credit risk.

The Bank may not be successful in implementing its strategic plans

According to its strategy, the Bank plans to further expand its revenue base through an increased emphasis on retail and SME banking and other products as well as through selective regional expansion. (See "*Business of the Bank — Strategy*".)

The expansion of the Bank's business activities to offer new financial products and services exposes it to a number of risks and challenges, including, among others, the following:

- new business activities may require greater marketing and compliance costs than the Bank's traditional services focused on Kazakhstan corporates;
- new business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage to its competitors;
- the Bank's competitors, particularly foreign banks, may have substantially greater experience in and resources for the new business activities the Bank wishes to commence, and thus the Bank may not be able to attract customers from its competitors;
- the Bank will need to hire or retrain personnel who are able to supervise and conduct the relevant new business activities, adding significantly to the Bank's cost base; and
- the Bank will need to enhance the capability of its information technology systems to support a broader range of activities and increased retail customer base.

To the extent the Bank further expands its international operations, it will be exposed to additional risks. In particular, it is likely that the Bank will be affected by local licensing and regulations as well as by political and economic developments in other former Soviet Union countries, particularly Russia and the Kyrgyz Republic, such as the recent public unrest and political developments in the Kyrgyz Republic. Any failure to manage such business risks and risks associated with geographic expansion may cause the Bank to incur increased liabilities in respect of such operations. Moreover, the inability of the Bank to successfully integrate and extract value from its newer business areas and acquisitions could adversely affect the Bank's financial condition or results of operations.

The Bank's success depends on its ability to recruit and retain key personnel

To meet business challenges and retain the effectiveness of its operations, the Bank must continue to recruit and retain appropriately skilled personnel. The Bank relies on its senior management for the implementation of its strategy and operation of its day-to-day activities. As competition for skilled personnel, especially at the senior management level, is intense, the Bank intends to take additional measures, such as the establishment of a share-based incentive programme, to attract and retain skilled personnel (See "*Management and Employees — Share Ownership by Management*"). If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its financial condition or results of operations could be adversely affected.

The Bank's banking business entails operational risks which may have a material adverse effect on the Bank's financial condition or results of operations

The Bank is exposed to operational risk. Operational risk is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. The Bank is susceptible to and has experienced in the past, among other things, fraud by employees or outsiders, unauthorised transactions by employees and operational errors, including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems. Given the Bank's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, the Bank's IT systems do not fully support its operations and a number of transactions are processed manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that may be difficult to detect.

The Bank maintains a system of controls designed to monitor and control operational risk. However, there can be no assurance that the Bank will not suffer losses from any failure of these controls to detect or contain operational risk in the future. Consequently, the inadequacy of the Bank's internal processes or systems may result in unauthorised transactions and errors not being detected, or the Bank's insurance may not cover the Bank's losses from such transactions or errors, which may have a material adverse effect on the Bank's financial condition or results of operations.

Any failure or interruption in or breach of the Bank's information systems, and any failure to implement properly or update such systems, may have a material adverse effect on the Bank's financial condition or results of operations

The Bank relies heavily on information systems to conduct its business and is currently upgrading a number of its IT systems, including greater automation of reporting systems and database integration; however, there can also be no assurance that the improved information technology systems will be developed according to schedule or that the new systems will address all of the shortcomings of the current systems.

Furthermore, any failure or interruption in or breach of security of these systems could result in failures or interruptions in the Bank's risk management, deposit servicing and/or loan origination systems or errors in its accounting books and records. Although the Bank has developed back-up systems, including two fully equipped disaster recovery centres in Almaty and is in the process of developing a further centre in Astana, and may continue some of its operations through branches in case of emergency, if the Bank's information systems failed, even for a short period of time (e.g. as a result of the occurrence of a disaster), it might be unable to serve some customers' needs on a timely basis and might lose their business. Likewise, a temporary shutdown of the Bank's information systems may result in the Bank incurring costs associated with information retrieval and verification. In addition, a failure to update and develop the Bank's existing information systems may result in a competitive disadvantage. No assurance can be given that such failures or interruptions will not occur or that the Bank will adequately address them if they do occur. Accordingly, the occurrence of any failures or interruptions and failure to implement properly any systems could have a material adverse effect on the Bank's financial condition or results of operations.

The Bank's accounting systems are not as sophisticated as those of companies with a longer history of compliance with IFRS and certain material weaknesses in the Bank's internal controls have been identified by the Bank's independent auditor

Similar to many other companies in emerging markets, the Bank has in the past identified areas of its internal controls over financial reporting that need improvement. In connection with its audit by Ernst & Young of the consolidated financial statements for the year ending 31 December 2006, Ernst & Young reported material weaknesses in the Bank's internal controls to the Bank's management and proposed recommendations to improve the Bank's internal controls.

Under the applicable international auditing standard, a material weakness is a weakness in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Specifically, Ernst & Young identified weaknesses in the Bank's controls, specifying that the Bank's accounting systems may not be as sophisticated as those banks in jurisdictions with a longer history of compliance with IFRS. In particular:

- Although the Bank has recently started establishing a dedicated IFRS reporting function this function still lacks adequately qualified people and the Bank's processes to co-ordinate and review the information collected for the preparation of the IFRS financial statements are inadequate as compared with companies with a longer history of compliance with IFRS; and

- the Bank's methodology to assess the allowances for possible loan losses has not been updated to further comply with the recent requirements of IAS 39 "Financial Instruments — Recognition and Measurement" introduced in 2005.

The Bank's auditors considered these deficiencies in determining the nature, timing and extent of the procedures performed as part of the audit of the IFRS Financial Statements. Such deficiencies did not affect their audit opinion on the consolidated financial statements (see "*Audited Consolidated Financial Statements of Joint Stock Company Halyk Savings Bank of Kazakhstan as at and for the year ended 31 December 2006 — Report of Independent Auditors*"). However, the existence of a material weakness could result in material errors in the Bank's financial statements or could delay the Bank's preparation of timely and reliable financial statements. Notwithstanding the above, the Bank believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency rules as a listed entity.

Although it is taking steps to remedy these deficiencies, the Bank may not be successful in remedying these material weaknesses or preventing future material weaknesses. If the Bank is unable to remedy these material weaknesses or prevent future material weaknesses, it may not be able to prevent or detect a material misstatement in its IFRS consolidated financial statements.

The Bank's measures to prevent money laundering may not be completely effective

The existence of "black" and "grey" market economies in Kazakhstan, loopholes in legislation and the lack of administrative guidance on its interpretation increase the risk of Kazakhstan's financial institutions being used as vehicles for money laundering.

The Bank has implemented measures aimed at preventing it being used as a vehicle for money laundering, including "know your client" policies and the adoption of anti-money laundering and compliance procedures in all its branches. However, there can be no assurance that attempts to launder money at the Bank will not be made or that its anti-money-laundering measures will be completely effective. If the Bank were associated with money laundering or if it were unable to comply with all of the relevant laws regarding financial assistance or money laundering, it could be subject to significant fines as well as harm to its reputation, and its financial condition or results of operations may be materially and adversely affected.

Changes in Tax Regulations can affect the Bank's financial position

Taxes in Kazakhstan to which the Bank is subject include value added tax, income tax, social taxes, and other taxes. The current statutory income tax rate in Kazakhstan is 30 per cent. The Bank's effective tax rate was 23.7 per cent., 18.3 per cent. and 19.8 per cent. for the years ended 31 December 2006, 2005 and 2004, respectively. The Bank's effective tax rate is generally less than the statutory rate because not all of the Bank's income is taxable. For example, interest received on Government securities is currently not taxable. However, following changes in Kazakhstan tax legislation, especially with respect to cancelled exemption on income earned from long-term (more than three years) loans, the Bank's effective rate increased in 2006. Since tax legislation may change in the future and, if it does, there is no assurance that the Bank's effective tax rate could not increase substantially.

Risk Factors Relating to the Notes

Insolvency Laws in Kazakhstan may not be as favourable to holders of the Notes as English or U.S. insolvency laws or those of another jurisdiction with which the Noteholders may be familiar

The Bank is organised in Kazakhstan and is subject to bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Bank from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions. After the initiation of bankruptcy proceedings, creditors of that debtor may not pursue any legal action to obtain an order for payment of indebtedness, to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor. Contractual provisions, such as those contained in the Guarantee, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, are not enforceable under Kazakhstan law. In addition, an administrator may apply to a court to set aside executory contracts, including the Guarantee. Specifically, Kazakhstan bankruptcy law provides that transactions or payments entered into or made (a) at any time prior to the commencement of bankruptcy proceedings which infringe Kazakhstan law or (b) within the period beginning three years prior to commencement of the bankruptcy proceedings for no consideration or below market rates, without sound reasons and which prejudice other creditors, may be declared void by a Kazakhstan court. There is no way to predict the outcome of a bankruptcy proceeding.

Changes in respect of the Credit Ratings of the Notes may materially and adversely affect the availability, cost, terms and conditions of theNotes

Outstanding Eurobonds of the Republic of Kazakhstan are rated "BBB/A-3" by Standard & Poor's, "Baa2" by Moody's and "BBB" by Fitch. These public ratings affect the Bank's ability to raise debt. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any downwards change in the credit rating of either the Bank or the Republic of Kazakhstan could affect the trading price of the Notes.

Absence of Trading Market for the Notes

There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell their Notes or the price at which such Noteholders would be able to sell Notes. Application has been made for the listing of the Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange and to have the Notes declared eligible for trading on PORTAL. After their issue, the Bank will use its best efforts to cause the Notes to be listed on the KASE. There can be no assurance that either such listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Risks Relating to the Issuer

Limited Resources of the Issuer

The Issuer is a limited liability company incorporated in The Netherlands on 1 May 1998. The Issuer has no employees and its business consists primarily of raising funds in the international capital markets and on-lending such funds to the Bank or its subsidiaries. The Issuer is a finance subsidiary of the Bank without independent operations or revenues. As such, its ability to meet its obligations under the Notes will be wholly dependent upon the support of the Bank. The assets of the Issuer may not be sufficient to meet all claims under the Notes and its assets substantially consist of the deposits it places with the Bank. See "*The Issuer*".

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment and other than the italicized text) will be attached to the Notes in definitive form, if any, and will be attached and (subject to the provisions thereof) apply to the Global Notes:

This Note is one of a duly authorised issue of U.S.$700 million 7.25% Notes due 3 May 2017 (the "**Notes**"; which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 17 (*Further Notes*) and forming a single series with the Notes) issued by HSBK (Europe) B.V. (the "**Issuer**") and guaranteed by JSC Halyk Bank (the "**Guarantor**") pursuant to a deed of guarantee dated 3 May 2007 (the "**Guarantee**"). The issue of the Notes and the giving of the Guarantee were authorised by a resolution of the Board of Directors of the Guarantor passed on 25 April 2007. The Notes are constituted by a trust deed dated 3 May 2007 (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include all Persons from time to time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed and of the paying agency agreement (the "**Agency Agreement**") dated 3 May 2007 relating to the Notes between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, London Branch (the "**Principal Paying and Transfer Agent**"; which expression shall include any successor principal paying and transfer agent under the Agency Agreement), Deutsche Bank Trust Company Americas (the "**Registrar, Paying and Transfer Agent**", which expression shall include any successor registrar, paying and transfer agent under the Agency Agreement) and together with the Principal Paying and Transfer Agent being referred to below as the "**Paying and Transfer Agents**", which expression shall include their successors as Paying and Transfer Agents under the Agency Agreement, and Deutsche Bank Luxembourg S.A. in its capacity as Registrar (the "**Registrar**", which expression shall include any successor registrar under the Agency Agreement), are available for inspection during usual business hours at the principal office of the Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified offices of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

References to "Conditions" are, unless the context requires, to the numbered paragraphs of these Conditions.

1 Form and Denomination

The Notes are issued in registered form, without interest coupons attached, and shall be serially numbered. Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the Securities Act of 1933, as amended (the "**Securities Act**") or (ii) to QIBs (as defined in the Trust Deed) in reliance on Rule 144A under the Securities Act, will be issued in minimum denominations of U.S.$100,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (each denomination referred to in (i) and (ii), an "**authorised denomination**").

2 Title, Registration and Transfer

2.1 Title

Title to the Notes will pass by transfer and registration as described in this Condition 2. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality; "**Noteholder**" or "**holder**" means the Person in whose name a Note is registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**Noteholder**" and "**holders**" shall be construed accordingly.

Notes sold to QIBs in the United States in reliance on Rule 144A under the Securities Act will be represented by a Restricted Global Note. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by a Unrestricted Global Note. The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg. The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC.

Ownership of beneficial interests in the Restricted Global Note will be limited to Persons that have accounts with DTC or Persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances.

2.2 Registration

The Issuer will cause a register (the "**Register**") to be kept at the specified office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

2.3 Transfer

2.3.1 Transfer

Notes may, subject to the terms of the Agency Agreement and to paragraphs 2.3.2, 2.3.3 and 2.3.4 below, be transferred in whole or in part in an authorised denomination upon surrender of the relevant Note (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or the relevant Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named Person (or Persons).

The Issuer will cause the Registrar, within five business days (as defined below) of any duly made application for the transfer of a Note, to deliver a new Note to the transferee (and, in the case of a transfer of part only of a Note, deliver a Note for the untransferred balance to the transferor), at the specified office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Note by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

2.3.2 Formalities Free of Charge

The transfer of a Note will be effected without charge subject to (i) the Person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the Person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

2.3.3 Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

2.3.4 Business Day

In these Conditions, "business day" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and the city in which the specified office of the Paying and Transfer Agent is located.

2.3.5 Regulations Concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is in the opinion of the Trustee not prejudicial to the interests of Noteholders with the prior approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3 Status

3.1 Status of the Notes

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The obligations of the Issuer under the Notes and the Trust Deed shall (save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4 (*Negative Pledge*)) at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

3.2 Status of the Guarantee

The Guarantor has in the Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and under the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Guarantor which rank and will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.

The Guarantor has undertaken in the Guarantee that, for so long as any of the Notes remain outstanding (as defined in the Trust Deed), it will not take any action for the liquidation or winding-up of the Issuer and will procure that sufficient funds are at all times made available to the Issuer to enable it to meet its liabilities as and when they fall due.

4 Negative Pledge

4.1 Negative Pledge of the Issuer

For so long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or permit to arise any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness of the Issuer, any such Subsidiary or any other Person, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably therewith to the satisfaction of the Trustee or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the interests of the Noteholders.

4.2 Negative Pledge of the Guarantor

For so long as any Note remains outstanding, the Guarantor shall not, and shall not permit any Material Subsidiary to, create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness of the Guarantor, any such Material Subsidiary or any other Person unless, at the same time or prior thereto, the Guarantor's obligations under the Notes, the Trust Deed and the Guarantee to the satisfaction of the Trustee are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

5 Covenants

For so long as any Note remains outstanding:

5.1 Limitations on Certain Transactions

The Guarantor shall not, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.$5 million, unless such transaction or series of transactions is, or are, at a Fair Market Value;

5.2 Limitation on Payment of Dividends

The Guarantor shall not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default (as defined in Condition 10 (*Events of Default*)) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default ("**Potential Event of Default**") or (ii) at any time when no such Event of Default or Potential Event of Default exists, (A) more frequently than once during any calendar year and (B) in an aggregate amount exceeding 50 per cent. of the Guarantor's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with IFRS, for which purpose, the amount of the Guarantor's net income shall be determined by reference to its audited financial statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to the payment of any dividends in respect of any preferred shares of the Guarantor;

5.3 Provision of Financial Information

For so long as the Notes are "restricted securities" within the meaning of Rule 144A(a)(3) under the Securities Act, the Issuer shall itself furnish, and shall co-operate with the Guarantor (which has agreed the same in the Trust Deed) to furnish, upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information with respect to the Issuer (or the Guarantor, as the case may be) required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer (or the Guarantor, as the case may be) is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule 12g3 2(b) thereunder; and

5.4 Maintenance of Capital Adequacy

The Guarantor shall not permit its total capital adequacy ratio calculated in accordance with applicable regulations of FMSA (including, without limitation, the Instructions on the Requirements and Calculation Methodology for Prudential Norms for Second Tier Banks, approved by Decree No. 358 of the Board of FMSA dated 30 September 2005 as amended from time to time) to fall below the minimum ratio required pursuant to such regulations, such calculation to be made by reference to the most recent financial statements of the Guarantor prepared in accordance with IFRS, as adjusted, as at the time of determination, for any changes in the Guarantor's capital, indebtedness or risk-weighted assets.

5.5 Merger and Consolidation

The Guarantor shall not consolidate with, merge with or into, or liquidate into, or convey, transfer or lease all or substantially all of its assets to, any Person, unless: (i) the corporation (if other than the Guarantor) formed by or resulting from any such consolidation or merger shall be a corporation duly incorporated, organised and existing under the laws of the Republic of Kazakhstan or any other country, provided that at such time such corporation shall have a credit rating which is at least as high as the then current rating of the Guarantor (as certified in writing to the Trustee by two authorised signatories of the Guarantor), and shall assume the performance and observance of all of the obligations and conditions of these Conditions, the Guarantee and the Trust Deed to be performed or observed by the Guarantor; (ii) the Guarantor or such successor corporation, as the case may be, shall not immediately thereafter be in default in relation to its obligations under any indebtedness; (iii) there has been delivered to the Trustee one or more legal opinion(s) in form and substance and from counsel, acceptable to the Trustee (x) to the effect that holders of Notes will not recognise income, gain or loss for U.S. federal income tax purposes as a result of such consolidation, merger, conveyance, transfer or lease and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such consolidation, merger, conveyance, transfer or lease had not occurred and (y) addressing such other matters as the Trustee may deem necessary; and (iv) the senior debt of the Guarantor or such successor corporation (including the Notes) shall at the time of the relevant event be rated by at least one internationally recognised rating organisation and the Trustee has been advised in writing by each such rating organisation which shall then be rating such senior debt (or, if more than two, by a majority of them) that the relevant event will not result in a downgrade of such rating organisation's or organisations' rating of the Notes or the senior debt of the Guarantor or such successor corporation.

5.6 Limitations on Transfers of Interest in the Issuer by the Guarantor

Notwithstanding Condition 5.1, the Guarantor will not sell or otherwise dispose of any of its interest in the capital, voting stock or other right of ownership in the Issuer other than to a wholly-owned subsidiary of the Guarantor.

For the purposes of these Conditions:

"**Development Organisation**" means any of Asian Development Bank, Islamic Development Bank, European Bank for Reconstruction and Development, or International Bank for Reconstruction and Development, International Finance Corporation, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. or Deutsche Investitions und Entwicklungsgesellschaft mbH or any other development finance institution established or controlled by one or more states and any other Person which is a, or controlled by any, Kazakhstan governmental body acting on behalf of or funded in relation to the relevant Financial Indebtedness by one or more of the foregoing development finance institutions.

"**Fair Market Value**" means, with respect to a transaction, the value that would be obtained in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer. A report of the Auditors (as defined in the Trust Deed) of the Guarantor or of another independent appraiser acceptable to the Trustee of the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties.

"**Financial Indebtedness**" means any Indebtedness of any Person for or in respect of (i) Indebtedness for Borrowed Money; or (ii) bonds, notes, standby letters of credit or other similar instruments issued in connection with the performance of contracts and Indebtedness Guarantees in respect of any of the foregoing Indebtedness.

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Committee, consistently applied by a company or as between companies, as in effect from time to time.

"**Indebtedness**" means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent.

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed; (ii) amounts raised by acceptance under any acceptance credit facility;

(iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments; (iv) amounts raised pursuant to any issue of shares of such Person, which are expressed to be redeemable; (v) the amount of any liability in respect of leases or hire purchase contracts, which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases; (vi) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service; and (vii) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a "with recourse" basis) having the commercial effect of a borrowing.

"**Indebtedness Guarantee**" means, in relation to any Financial Indebtedness of any Person, any obligation of another Person to pay such Financial Indebtedness including (without limitation) (i) any obligation to purchase such Financial Indebtedness; (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness; (iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and (iv) any other agreement to be responsible for such Financial Indebtedness.

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Guarantor whose gross assets or gross revenues or whose pre-taxation profits attributable to the Guarantor (having regard to its direct and/ or indirect beneficial interest in the shares, or the like, of that Subsidiary) represent at least 10 per cent. of the consolidated gross assets or consolidated gross revenues or, as the case may be, the pre-taxation profits of the Guarantor and its consolidated Subsidiaries and, for these purposes:

(i) the gross assets, gross revenues and pre-taxation profits of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and

(ii) the consolidated gross assets, consolidated gross revenues and pre-taxation profits of the Guarantor and its consolidated Subsidiaries shall be determined by reference to the then most recent audited consolidated financial statements of the Guarantor.

"**Permitted Security Interest**" means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary to secure Financial Indebtedness owed by such Subsidiary to the Guarantor; (ii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, including, without limitation, any rights of set-off with respect to demand or term deposits maintained with financial institutions and bankers' liens with respect to property of the Guarantor held by financial institutions; (iv) arising in the ordinary course of the Guarantor's or a Subsidiary's business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers; (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease; (vi) arising pursuant to any agreement (or other applicable terms and conditions), which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary other than on a short-term basis as part of the Guarantor's or such Subsidiary's liquidity management activities), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's and its Subsidiaries' foreign exchange dealings or other proprietary trading activities including, without limitation, Repos; (vii) granted upon or with regard to any property hereafter acquired by the

Guarantor or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property; (viii) created or outstanding upon any property or assets of the Guarantor or any Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Financial Indebtedness secured by such property or assets is limited to such property or assets, provided that the amount of Financial Indebtedness so secured pursuant to this clause (viii) at any one time shall not exceed an amount in any currency or currencies equivalent to 18 per cent. of the Guarantor's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with IFRS); (ix) granted by the Guarantor or any Subsidiary in favour of a Development Organisation to secure Financial Indebtedness owed by the Guarantor or such Subsidiary to such a Development Organisation pursuant to any loan agreement or other credit facility entered into between the Guarantor or any Subsidiary and such Development Organisation, provided, however, that the amount of Financial Indebtedness so secured pursuant to this clause (ix) shall not exceed in aggregate an amount in any currency or currencies equivalent to 10 per cent. of the Guarantor's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with IFRS); (x) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest; (xi) granted in favour of any noteholders or any trustee acting for them by the Issuer over any proceeds of any Indebtedness incurred by the Issuer and on-lent by it to the Guarantor, to secure any indebtedness owed by the Issuer to such noteholders or such trustee; and (xii) not included in any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding the greater of U.S.$55 million (or its equivalent in other currencies) and 5 per cent. of the Guarantor's equity (calculated by reference to the most recent audited financial statements of the Guarantor prepared in accordance with IFRS) at that time.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for purposes of this definition, the term "**securities**" means any capital stock, share, debenture or other debt or equity instrument, or other derivative, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral or organisation.

"**Security Interest**" means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (i) whose affairs and policies the first Person directly or indirectly controls or (ii) as to whom the first Person owns directly or indirectly more than 50 per cent. of the capital, voting stock or other right of ownership. "**Control**", as used in this definition, means the power by the first Person to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise.

6 Redemption, Purchase and Cancellation

6.1 Final Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 3 May 2017. The Notes may not be optionally redeemed other than in accordance with Conditions 6.2 (*Redemption for Taxation Reasons*) or 6.5 (*Optional Exchange or Redemption*).

6.2 Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 3 May 2007 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 9 (*Taxation*) or the Guarantee, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 9 (*Taxation*) or in the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 3 May 2007, as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 3 May 2007, and (ii) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Amounts or (as the case may be) the Guarantor has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a)(i) and (a)(ii) above or (as the case may be) (b)(i) and (b)(ii) above, in which event they shall be conclusive and binding on the holders of the Notes. Upon expiry of any such notice as referred to in this Condition 6.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 6.2.

6.3 Notice of Redemption

All Notes in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6.

6.4 Purchase

The Issuer or any of its Subsidiaries or the Guarantor or any of its Subsidiaries may at any time purchase or procure others to purchase for its account Notes at any price in the open market or otherwise. Notes so purchased may be held, rescinded or resold (provided that such resale is outside the United States, as defined in Regulation S under the Securities Act) or surrendered by the Issuer or the Guarantor, as the case may be, for cancellation at the option of the Issuer or the Guarantor, respectively.

Any Notes so purchased, while held on behalf of the Issuer or the Guarantor or any of their respective Subsidiaries, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purpose of calculating quorums at meetings of Noteholders.

6.5 Optional Exchange or Redemption

In the event of an exchange offer (the "**Exchange Offer**") for the Notes being accepted by holders of 90 per cent in principal amount of Notes for the time being outstanding, the Guarantor shall, subject to the receipt of any required certification, have the option to require the exchange of such outstanding Notes for the securities offered by way of the Exchange Offer. The Guarantor shall have the option to redeem Notes held by holders of Notes who are unable to provide such certification at their principal amount together with accrued interest.

6.6 Cancellation

All Notes which are redeemed pursuant to Condition 6.2 (*Redemption for Taxation Reasons*), purchased and submitted for cancellation pursuant to Condition 6.4 (*Purchase*) or redeemed pursuant to Condition 6.5 (*Optional Exchange or Redemption*) will be cancelled and may not be re-issued or resold.

7 Interest

The Notes bear interest from 3 May 2007 (the "**Issue Date**") at the rate of 7.25 per cent. per annum, payable semi-annually in arrear on 3 May and 3 November in each year (each an "**Interest Payment Date**"), beginning on 3 November 2007, unless such Interest Payment Date is not a business day (as defined in Condition 8.8 (*Business Days*), in which case the relevant Interest Payment Date shall be the succeeding business day, unless such business day is in the next calendar month, in which case, the relevant Interest Payment Date shall be the immediately preceding business day, in each case, with the same force and effect as if made on such date.) Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**". Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period other than an Interest Period, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

8 Payments

8.1 Principal

Payment of the principal in respect of the Notes other than on an Interest Payment Date will be made to the Persons shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender of the Notes at the specified office of the Register or of the Paying and Transfer Agents.

8.2 Interest and Other Amounts

Payments of interest due on an Interest Payment Date will be made to the Persons shown in the Register at close of business on the Record Date. Payments of all amounts other than as provided in Condition 8.1 (*Principal*) and this Condition 8.2 will be made as provided in these Conditions.

8.3 Record Date

Each payment in respect of a Note will be made to the Person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

8.4 Payments

Each payment in respect of the Notes pursuant to Condition 8.1 (*Principal*) and 8.2 (*Interest and Other Amounts*) will be made by U.S. Dollar cheque drawn on a branch of a bank in New York City mailed to the holder of the relevant Note at his address appearing in the Register; provided, however, that, upon application by the holder to the specified office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8.1 (*Principal*), if later, on the business day on which the relevant Note is surrendered as specified in Condition 8.1 (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

8.5 Agents

The names of the initial Paying Agents, Transfer Agents and Registrar and their specified offices are set out below. The Issuer and Guarantor reserve the right (with the prior written consent of the Trustee under the Agency Agreement at any time to remove or vary the appointment of any Paying Agent, Transfer Agent or Registrar and to appoint other or further Paying Agents and Transfer Agents or another Registrar, provided that it will at all times maintain (i) a Principal Paying and Transfer Agent; (ii) Paying Agents and Transfer Agents in at least two major European cities approved by the Trustee, including London for so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market; (iii) a Paying Agent and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 - 27 November 2000; and (iv) a Registrar. Notice of any such removal or appointment and of any change in the specified office of any Paying and Transfer Agent or Registrar will as soon as practicable be given to Noteholders in accordance with Condition 18 (*Notices*) and no such removal or appointment shall take effect prior to 30 days after such notice has been given.

In this Condition "**EEA Regulated Market**" means a market as defined by Article 1(13) of the Investment Services Directive 93/22/EEC.

8.6 Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

8.7 Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day or (ii) if a cheque mailed in accordance with this Condition arrives after the date for payment.

8.8 Business Days

In this Condition, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and London and, in the case of presentation or surrender of a Note, in the place of the specified office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Note is presented or surrendered.

9 Taxation

All payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee and any payments by the Issuer or Guarantor under the Trust Deed) shall be made free and clear of, and without deduction or withholding for or on account of, any taxes, duties, assessments, or governmental charges (each a "**Tax**", collectively "**Taxes**") imposed, levied, collected, withheld or assessed by or in The Netherlands, Kazakhstan or any other jurisdiction from or through which payment is made, or, in any case, any political subdivision or any authority thereof or therein having power to tax (each, a "**Taxing Jurisdiction**"), unless such deduction or withholding is required by law. In such event, the Issuer or (as the case may be) the Guarantor shall, subject to certain exceptions and limitations set out below, pay such additional amounts (the "**Additional Amounts**") to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of any such Tax imposed by any Taxing Jurisdiction upon or as a result of such payment, will not be less than the amount such holder would have received without such withholding or deduction.

Notwithstanding the foregoing, neither the Issuer nor the Guarantor will be required to make any payment of Additional Amounts to any such holder for or on account of any such Taxes, which would not have been so imposed:

(i) but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership or a corporation) and the relevant Taxing Jurisdiction, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein other than the mere holding of the Note;

(ii) but for the presentation by the holder of any such Note for payment on a date more than 30 days after the date (the "**Relevant Date**"), which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for, except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days; or

(iii) where such Taxes are imposed on a payment to an individual and are required to be made pursuant to any law implementing Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000;

nor shall Additional Amounts be paid with respect to any payment on a Note or under the Guarantee to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

In addition, the Issuer and the Guarantor will indemnify and hold harmless each holder of a Note (subject to the exclusions set out in (i), (ii), (iii) and (iv) above) and will, upon written request of each holder (subject to the exclusions set out in (i), (ii), (iii) and (iv) above), and provided that reasonable supporting documentation is provided, reimburse or pay to each such holder for the amount of any Taxes levied or imposed by any Taxing Jurisdiction and paid by the holder as a result of payments made under or with respect to the Notes or the Guarantee, so that the net amount received by such holder after such reimbursement would not be less than the net amount the holder would have received if such Taxes had not been imposed or levied. The Issuer and the Guarantor, as the case may be, will pay any stamp, administrative, court, documentary, excise or property Taxes arising in any Taxing Jurisdiction in connection with the Notes and the Guarantee and will indemnify a holder for any such Taxes paid by the holder. Any payment made pursuant to this paragraph shall be considered an Additional Amount.

If, at any time, the Issuer or the Guarantor is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Issuer or, as the case may be, the Guarantor shall promptly notify the Trustee in writing, and shall deliver to the Trustee, within 30 days after it has made such payment to the applicable authority, a written certificate to the effect that it has made such payment to such authority of all amounts so required to be deducted or withheld in respect of each Note.

If the Issuer or (as the case may be) the Guarantor becomes generally subject at any time to any Taxing Jurisdiction other than The Netherlands or Kazakhstan, respectively, references in these Conditions to The Netherlands or (as the case may be) Kazakhstan shall be read and construed as a reference to such other jurisdiction.

Any reference in these Conditions to principal, redemption amount and/or interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured to its satisfaction) give notice to the Issuer that the Notes are and they shall immediately become due and repayable at their principal amount together with accrued interest if any of the following events (each, an "**Event of Default**") occurs:

10.1 Non-payment

The Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, upon redemption, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or Additional Amounts on any of the Notes and such default in respect of interest or Additional Amounts continues for a period of 10 days;

10.2 Breach of other Obligations

The Issuer or the Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Guarantee or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10 which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine)) after notice thereof has been given to the Issuer or the Guarantor, as the case may be, by the Trustee;

10.3 Cross-default

(i) Any Financial Indebtedness of the Issuer, the Guarantor or any Material Subsidiary becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of any default by the Issuer or the Guarantor, or is not repaid at maturity as extended by the period of grace, if any, applicable thereto; or

(ii) any Indebtedness Guarantee given by the Issuer, the Guarantor or any Material Subsidiary in respect of Financial Indebtedness of any other Person is not honoured when due and called;

provided that the aggregate principal amount of such Financial Indebtedness and/or Indebtedness Guarantee, as the case may be, exceeds U.S.$10 million (or its equivalent in other currencies (as determined by the Trustee));

10.4 Bankruptcy

(i) Any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, manager, administrator or liquidator or similar Person in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer, the Guarantor or any Material Subsidiary or all or substantially all of their respective property and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or

(ii) the Issuer, the Guarantor or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be placed into rehabilitation or adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, manager, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer, the Guarantor or any Material Subsidiary, as the case may be, or in respect of its respective property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due, or the Issuer, the Guarantor or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the relevant Material Subsidiary (in the opinion of the Trustee), materially prejudicial to the interests of the Noteholders;

10.5 Substantial Change in Business

The Guarantor makes or threatens to make any substantial change in the principal nature of its business as presently conducted which is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders;

10.6 Maintenance of Business

The Guarantor fails to take any action as is required of it under applicable banking regulations in Kazakhstan or otherwise to maintain in effect its banking licence or corporate existence or fails to take any action to maintain any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations which is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders and such failure (if capable of remedy) is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the Guarantor;

10.7 Material Compliance with Applicable Laws

The Issuer or the Guarantor fails to comply in any material (in the opinion of the Trustee) respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Guarantee, the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect;

10.8 Invalidity or Unenforceability

(i) the validity of the Notes, the Guarantee, the Trust Deed or the Agency Agreement is contested by the Issuer or the Guarantor, or the Issuer or the Guarantor shall deny any of its obligations under the Notes, the Guarantee, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(ii) it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with all or any of its obligations set out in the Notes, the Guarantee, the Trust Deed or the Agency Agreement; or

(iii) all or any of its obligations set out in the Notes, the Guarantee, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10.8 (other than the Issuer or the Guarantor denying any of its obligations under the Notes, the Guarantee, the Trust Deed or the Agency Agreement), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

10.9 Government Intervention

(i) All, or any substantial part, of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government; or

(ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders.

11 Meetings of Noteholders, Modification and Waiver

11.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by one or more Noteholders holding in aggregate not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more Persons present being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or the rate of interest on, or to vary the method of calculating interest on, the Notes, (iii) to change the currency of payment of the Notes or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case, the necessary quorum for passing an Extraordinary Resolution will be one or more Persons present holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Noteholders shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

A resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Notes who for the time being are entitled to receive notice of a meeting shall for all purposes be as valid as an Extraordinary Resolution passed at a meeting of Noteholders convened and held in accordance with the provisions of the Trust Deed. Such resolution in writing may be in one document or several documents in like form each signed by or on behalf of one or more of the Noteholders.

11.2 Modification and Waiver

The Trustee may, without the consent of the Noteholders, agree to any modification of the Notes, the Guarantee, the Trust Deed or the Agency Agreement, which (except as mentioned in the Trust Deed) in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. In addition, the Trustee may, without the consent of the Noteholders, also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer or the Guarantor (as the case may be) of the Conditions, the Guarantee, the Trust Deed or the Agency Agreement, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders; provided however, that no such modification shall be permitted unless an opinion of counsel in form and substance, and from counsel acceptable to the Trustee, is delivered to the Trustee to the effect that the Noteholders will not recognise income, gain or loss for U.S. federal income tax purposes or Kazakhstan tax purposes as a result of such modification and such Noteholders will be subject to U.S. federal income tax and Kazakhstan tax on the same amount and in the same manner and at the same times as would have been the case if such modification had not occurred. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 18 (*Notices*).

11.3 Entitlement of the Trustee

In connection with the exercise of any of its powers, trusts, authorities or discretions (including but not limited to those referred to in this Condition), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Trustee shall not be entitled to require, and no Noteholder shall be entitled to claim, from the Issuer or (in the case of a Noteholder) the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11.4 Substitution

The Trust Deed contains provisions to the effect that the Trustee may, without the consent of the Noteholders, having obtained the consent of the Guarantor, subject to such amendment of the Trust Deed and such other conditions and requirements as the Trustee may direct in the interests of the Noteholders, agree to substitute (once or more than once) any entity (the "**Substituted Obligor**") in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, or substitute any entity in place of the Guarantor, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Guarantor or the substitute Guarantor as the case may be (unless the Substituted Obligor is the Guarantor) and (ii) all other relevant conditions of the Trust Deed having been complied with. In the case of such a substitution the Trustee may agree without the consent of the Noteholders to a change of law governing the Notes provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 18 (*Notices*), failing which, the Issuer shall use its best endeavours to ensure that the Substituted Obligor does so.

12 Trustee and Agents; Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Guarantor and any entity relating to the Issuer and the Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or the Guarantee or for the performance by the Issuer or the Guarantor, as the case may be, of its obligations under or in respect of the Notes, the Guarantee and the Trust Deed, as applicable.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

13 Warranties

Each of the Issuer and the Guarantor hereby certifies and warrants that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of each Note and the Guarantee, as applicable, and to constitute the same legal, valid and binding obligations of the Issuer and the Guarantor enforceable in accordance with their terms, if any, have been done and performed and have happened in due compliance with all applicable laws.

14 Enforcement

The Trust Deed provides that only the Trustee may pursue remedies under general law, the Trust Deed or the Notes or the Guarantee to enforce the rights of the Noteholders against the Issuer and/or the Guarantor and, at any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes and the Guarantee, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding, and (ii) it shall have been indemnified and/or secured to its satisfaction. No Noteholder will be entitled to pursue such remedies, or otherwise proceed directly against the Issuer or the Guarantor, unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

15 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 8 (Payments) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

16 Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, Guarantor and/or the Registrar may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes Certificates must be surrendered before replacements will be issued.

17 Further Notes

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions of the Notes in all respects (or in all respects except for the issue price, issue date and/or first payment of interest on such further securities) and so that such further issue is consolidated and forms a single series with the outstanding securities of any series of the Issuer (including the Notes) or upon such other terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

18 Notices

18.1 To the Noteholders

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in the *Financial Times* may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that, so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market: (i) such notice is also delivered to the London Stock Exchange; and (ii) so long as the rules of the London Stock Exchange so require, publication will also be made in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in the *Financial Times* may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that, so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market: (i) such notice is also delivered to the London Stock Exchange; and (ii) so long as the rules of the London Stock Exchange so require, publication will also be made in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).

18.2 To the Issuer and the Guarantor

Notices to the Issuer or the Guarantor will be deemed to be validly given if delivered to the Guarantor at 97 Rozybakiev Street, Almaty 050046, Kazakhstan and clearly marked on their exterior "Urgent — Attention: Chairman" (or at such other address and for such other attention as may have been notified to the Noteholders in accordance with Condition 18.1) with a copy to the Issuer at Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands, and will, be deemed to have been validly given at the opening of business on the next day on which the Guarantor's principal office, as applicable, is open for business.

18.3 To the Trustee and Registrar

Notices to the Trustee or the Registrar will be deemed to have been validly given if delivered to the specified office, for the time being, of the Trustee or the Registrar, as the case may be, and will be validly given on the next day on which such office is open for business.

19 Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect the right or remedy of any Person which exists or is available apart from such Act.

20 Governing Law and Jurisdiction

20.1 Governing Law

The Notes, the Guarantee, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, English law.

20.2 Jurisdiction

Subject to Condition 20.7 (*Arbitration*), the courts of England shall have, subject as follows in this Condition 20.2, jurisdiction to hear and determine any suit, action or proceedings, which may arise out of or in connection with the Notes, the Trust Deed or the Guarantee (respectively, "**Proceedings**") and, for such purposes, the Issuer and the Guarantor irrevocably submit to the jurisdiction of such courts. Nothing in this Condition 20.2 shall limit the right of the Trustee or the Noteholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee or the Noteholders in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or the Noteholders in any other jurisdiction (whether concurrent or not) if and to the extent permitted by law.

20.3 Appropriate Forum

Each of the Issuer and the Guarantor has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim in any Proceedings that any such court is not a convenient or appropriate forum.

20.4 Agent for Service of Process

Each of the Issuer and the Guarantor has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to the Guarantor, Representative Office at 68 Lombard Street, London EC3V 9LJ or, if different, its registered office for the time being. If for any reason the Issuer or the Guarantor, as the case may be, does not have such an agent in England, it will promptly appoint a substitute process agent and notify in writing the Trustee of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

20.5 Consent to Enforcement, etc.

Each of the Issuer and the Guarantor has consented generally in respect of any Proceedings (or arbitration in accordance with Condition 20.7 (*Arbitration*)) to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be given in such Proceedings.

20.6 Waiver of Immunity

To the extent that the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or the Guarantor or its assets or revenues, the Issuer and the Guarantor have agreed, in connection with any Proceedings, not to claim and have irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

20.7 Arbitration

20.7.1 Disputes

Each of the Issuer and the Guarantor has agreed that the Trustee or, if the Trustee, having become bound to take Proceedings, fails to do so, a Noteholder may elect, by notice in writing to the Issuer or the Guarantor, to refer to arbitration in accordance with the provisions of this Condition 20.7 any claim, dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a claim, dispute or difference as to the breach, existence or validity of the Notes) or the Trust Deed (each a "**Dispute**").

20.7.2 UNCITRAL Arbitration Rules

Each of the Issuer and the Guarantor has agreed, and hereby agrees, that (with respect to any Dispute subject to a notice of election in accordance with Condition 20.7.1 (*Disputes*)), such Dispute may be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "**Rules**") as at present in force (which are deemed incorporated into this Condition 20.7) by a panel of three arbitrators appointed in accordance with the Rules. The seat of arbitration shall be in London, England. The procedural law of any reference shall be English law. The Issuer and/or the Guarantor, as the case may be, shall appoint one arbitrator and the Trustee shall appoint one arbitrator and the two arbitrators thus appointed shall appoint the third arbitrator who shall be chairman of the arbitral tribunal. The language of any arbitral proceedings shall be English. The appointing authority for the purposes of the Rules shall be the London Court of International Arbitration. Sections 45 and 69 of the Arbitration Act 1996 shall not apply to any arbitration proceedings pursuant to this Condition 20.7.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Note Certificate and the Global Note the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Notes contain provisions which apply to the Notes in respect of which the Global Notes are issued, some of which modify the effect of the Conditions set out in this Prospectus. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

1. Meetings

The registered holder of each Global Note will be treated as being two persons for the purpose of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 principal amount of Notes for which the Global Notes are issued. The Trustee may allow a person with an interest in Notes in respect of which a Global Note has been issued to attend and speak at a meeting of Noteholders on appropriate proof of his identity and interest.

2. Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by a reduction in the principal amount of the Notes in the register of Noteholders.

3. Payment

Payments of principal and interest in respect of Notes represented by a Global Note will be made without presentation or if no further payment is to be made in respect of the Notes against presentation and surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose.

4. Notices

So long as the Notes are represented by a Global Note, and such Global Note is held on behalf of DTC, Euroclear or Clearstream, Luxembourg, or any successor depository, notices to Noteholders may be given by delivery of the relevant notice to DTC, Euroclear or Clearstream, Luxembourg, or any successor depository, for communication by it to entitled accountholders in substitutions for notification as required by the Conditions.

5. Exchange of Interests

Certificates in definitive form for individual holders of Notes will not be issued in exchange for interests in the Notes in respect of which Global Notes are issued, except in the following circumstances:

(a) in the case of the Restricted Global Note, DTC or any successor depository on behalf of which the Notes evidenced by the Restricted Global Note may be held notifies the Issuer and the Guarantor that it is no longer willing or able to discharge its responsibilities as depository with respect to the Notes, ceases to be a clearing agency registered under the Exchange Act or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depository; or

(b) in the case of the Unrestricted Global Note, either Euroclear or Clearstream, Luxembourg or any successor depository on behalf of which the Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so; or

(c) in either case, upon the occurrence of an Event of Default as set out in Condition 10 (*Events of Default*); or

(d) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form of an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for Notes Certificates.

6. Transfers

Transfers of interests in the Notes will be effected through the records of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

USE OF PROCEEDS

The proceeds of the offering, expected to amount to U.S.$700 million, will be deposited by the Issuer with the Bank. The Bank will use such proceeds to fund loans to its customers and for other general corporate purposes. The expenses and combined management, underwriting and selling commission incurred with the issue of the Notes (estimated to be not more than U.S.$2,400,000) will be paid separately by the Bank and/or by the Issuer.

THE ISSUER

General

The Issuer is a limited liability company incorporated in The Netherlands whose statutory seat is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands, telephone number +31 (0)10 - 224 53 33. The Issuer was incorporated on 1 May 1998 and its number in the commercial register is 33302782. The Issuer is a direct, wholly-owned subsidiary of the Bank.

The authorised share capital of the Issuer is €90,800, divided into ordinary shares with a par value of €454 each. As at the date of this Prospectus, the Issuer's total capitalisation is €18,160 consisting of 40 ordinary shares which have been issued and fully paid at par and are directly owned by the Bank. In May of 2006, as a result of the debut Eurobond issue of the Issuer for the amount of U.S.$300 million, the Bank increased the Issuer's total paid-in capital by €2 million upon the issuance and sale of the notes by way of a payment of an additional share premium. The Bank will continue to use its best endeavours to give the Issuer the management and financial support it may require to pay its creditors.

Business

As set out in Article 2 of its Articles of Association, the Issuer was incorporated for the purpose of raising funds in the international capital markets and lending such funds to the Bank or its subsidiaries. See "*Use of Proceeds*". The Issuer has no employees or subsidiaries.

Apart from the indebtedness incurred in respect of the Issuer's debut Eurobonds issue and the loan agreement described on page 46, which will be secured by a pledge of the deposit in favour of the Bank, the Issuer has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Prospectus.

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) involving the Issuer, which may have, or have had since the date of incorporation of the Issuer, a significant effect on the financial position of the Issuer.

Financial Statements

The Issuer publishes annual financial statements in accordance with Dutch law. To comply with an FMSA requirement (which came into effect in December 2005) that the accounts of a banking conglomerate and its subsidiaries must be independently audited by one and the same auditor, the Issuer has engaged Ernst & Young Accountants, Rotterdam, The Netherlands ("Ernst & Young Accountants"), to conduct annual audits of its statutory financial statements. The Issuer's results are consolidated in the Bank's consolidated financial statements contained in this Prospectus.

Management

On 28 February 2005, the Bank, the Issuer and Equity Trust Co. N.V. entered into a management agreement appointing Equity Trust Co. N.V. as a managing director of the Issuer for an indefinite term. Under this agreement Equity Trust Co. N.V. is responsible for providing the registered office of the Issuer, maintaining Issuer's corporate and accounting records, checking, filing and forwarding correspondence and documents. Equity Trust Co. N.V. is regulated in The Netherlands by the Dutch central bank. The business address of its directors is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands.

Currently, the Issuer has two managing directors, Mr. Dauren Karabayev, age 28, and Equity Trust Co. N.V., a company incorporated with limited liability in The Netherlands. The directors of Equity Trust Co. N.V. are F. van der Rhee, R.G.A. de Schutter and J.C.W. van Burg (each a managing director) and W.P. Ruoff, J. P. Everwijn and W.H. Kamphuijs (each a deputy director), each jointly authorised to represent Equity Trust Co. N.V. as a managing director of the Issuer. Equity Trust Co. N.V. may also be represented by each of its (managing or deputy) directors and each of its registered proxyholders jointly.

The only potential conflict of interest between any duties of the Issuer's managing directors towards the Issuer and their private interests and/or other duties is, as stated above, that Mr. Karabayev is a Managing Director of both the Issuer and the Bank. Consequently, there may be situations where it is not possible for Mr. Karabayev to simultaneously act in the best interests of the Issuer and the Bank. Under Dutch corporate law, each managing director who has a conflict of interest with a company in relation to a certain transaction must disclose such conflict to the general meeting of shareholders of the company, which has the power in such circumstances to appoint an attorney to replace the managing board for the purpose of representing the company.

Except as disclosed in the first paragraph of this sub-section, there are no potential conflicts of interest between any duties of the members of the Board of Directors towards the Issuer and their private interests and/or other duties.

General Information

The business address of the Issuer is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The business address of Mr. Dauren Karabayev is 97 Rozybakiev Street, Almaty 050046, Kazakhstan. Administrative services are provided to the Issuer by Equity Trust Co. N.V., whose business address is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The Issuer has obtained all necessary consents, approvals and authorisations in The Netherlands in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

OVERVIEW OF THE BANK

General

The Bank is one of Kazakhstan's leading financial services groups, with the largest customer base and distribution network in Kazakhstan. The Bank is developing as a universal financial services group offering a broad range of services (banking, pensions, insurance, leasing, brokerage and asset management) to its retail, small- and medium-enterprise ("SME") and corporate customers.

The Bank's history dates back to the opening of a branch of the Soviet Sberbank (the Savings Bank of the former Soviet Union) in 1923. The Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1993 and, in 1998, was reorganised into an open joint stock company and in 2003 into joint stock company with an unlimited duration. The Bank was privatised in a series of transactions between 1998 and 2001.

As at 31 December 2006, according to statistics published by the FMSA, the Bank had the largest retail deposit base in Kazakhstan (with a 20.0 per cent. market share), as well as the largest portfolio in the fast-growing mortgage loan market (with a 21.7 per cent. market share) and had issued the largest number of payment cards (with a 51.2 per cent. market share). According to the FMSA, as at 31 December 2006, the Bank was the fourth largest bank in Kazakhstan in terms of total assets on an unconsolidated basis. As at 31 December 2006, amounts due to the Bank's retail customers were KZT 209,877 million while total amounts due to customers were KZT 597,935 million, mortgage loans were KZT 110,274 million while total gross loans were KZT 629,870 million and total assets were KZT 991,359 million. For the year ended 31 December 2006, the Bank had net income after income tax expense of KZT 27,159 million and operating income (net interest income plus net fees and commissions and other non-interest income) was KZT 64,572 million. As at 31 December 2006, total equity was KZT 120,628 million.

As at 31 December 2006, the Bank had approximately 5.9 million retail customers (the largest customer base in Kazakhstan), approximately 63 thousand SME customers and 323 corporate customers. With the most extensive retail distribution network in Kazakhstan, the Bank, as at 31 December 2006, served its customers through 617 retail outlets, including regional and district branches in all 14 regions of Kazakhstan, as well as through some 700 ATMs, the largest ATM network in Kazakhstan. Other distribution channels used by the Bank include the Internet and mobile banking and in-store points of sale located at certain shopping centres and supermarkets in Kazakhstan. In addition, the Bank also uses the distribution channels established by some of its other business lines, principally the pension fund and insurance businesses.

The Bank operates in three core business lines: retail, SME and corporate banking. Through subsidiary companies, the Bank's operations also include pensions, general and life insurance, leasing, brokerage and asset management. According to the FMSA statistics, as at 31 December 2006, the Bank's pension fund business had the largest market share (27.8 per cent.) in Kazakhstan and the management of the Bank believes its insurance business had the largest network in the country.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, Internet and mobile banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services (including loans, payroll services and cash management) to corporate and SME business customers, financial institutions and Government entities.

Shares of the Bank were first listed on the Kazakhstan Stock Exchange ("KASE") in 1998. As at 31 December 2006, Holding Group Almex JSC ("Almex") owned 64.3 per cent. of the voting shares of the Bank. See "*Principal Shareholders*".

History — Incorporation, Recapitalisation and Change of Ownership of the Bank

The Bank's history dates back to the opening of a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe in 1923, followed by the establishment of a branch in Almaty of the Soviet Sberbank in 1936. The Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1993 and, in 1998, reorganised into an open joint stock company with an unlimited duration. In 2003, the Bank completed its reregistration as a joint stock company in accordance with the Law on Joint Stock Companies adopted on 13 May 2003.

Since the early 1990s, the Bank has been moving towards becoming a more commercially focused bank, aiming to improve service to its customers and provide value to its shareholders. The Bank has undertaken a rationalisation of its branch network, closing unprofitable branches as well as reducing headcount and investing in new technology. The Bank has more recently opened new branches in selected locations, established a pension fund and asset management, insurance, leasing and brokerage operations, opened representative offices in London, Moscow and Beijing, and acquired subsidiary banks in Russia and the Kyrgyz Republic. In 2005, the Bank recruited a new senior management team, led by Mr. Grigoriy Marchenko (the former governor of the NBK).

Following the introduction of the privatisation programme in 1998, the Bank's shares were listed on the KASE and the Government gradually decreased its ownership interest in the Bank, selling its last remaining shares in the Bank in November 2001 through a public tender process.

Almex, the Bank's principal shareholder as at the date of this Prospectus, first acquired shares in the Bank in December 2001, when it purchased common shares representing 9.9 per cent. of the Bank's then total voting share capital in the secondary market. Almex increased its ownership interest during 2003 and 2004 in a series of secondary market and capital increase transactions to gain a controlling interest of 77.6 per cent. of the Bank's then total voting share capital in August 2004.

In December 2006, Almex sold 187,000,000 shares of the Bank's common stock in the form of global depositary receipts ("GDRs") on the London Stock Exchange (the "IPO"). The GDRs were sold at a price of U.S.$16.00 per GDR, and each GDR represents four shares of common stock. In the second stage of the IPO, the Bank offered domestically 55,000,000 new shares of common stock to its pre-IPO shareholders (the "Rights Issue"). Almex used the proceeds of the IPO to subscribe for shares of common stock in the Rights Issue. The Bank completed the Rights Issue in February 2007, and raised approximately U.S.$220 million in new capital.

As at 31 December 2006, Almex, which is now a regulated banking holding company in accordance with new banking legislation in Kazakhstan, owned 64.3 per cent. of the total voting share capital of the Bank. See "*Principal Shareholders*".

Competitive Strengths

The Bank has the following competitive strengths, which it believes will enable it to retain and strengthen its position as a leading Kazakhstan universal financial services group, offering a broad range of products to retail, SME and corporate customers and to benefit from the growth of the Kazakhstan economy while maintaining high profitability. In particular, the Bank believes that its branch network and its strength in retail banking will allow it to differentiate itself from its two larger competitors as retail banking, driven by the expected economic growth in Kazakhstan, becomes increasingly important.

Largest retail customer base, giving the Bank a strong position to capture future growth and fee and commission income

The Bank believes that it is the pre-eminent retail bank in Kazakhstan and is the largest in terms of the number of retail customers and amounts of retail deposits and retail loans, which were, respectively, approximately 5.9 million customers (compared to the total population of Kazakhstan of approximately 15 million), KZT 209,877 million of retail deposits and KZT 197,181 million of retail loans as at 31 December 2006. As at the same date, according to statistics published by the FMSA, the Bank had a market share of 20.0 per cent. in the retail deposits market and 15.8 per cent. in the retail loans market, respectively. The Bank enjoys leading positions across the full range of other retail banking products, including demand deposits (32.9 per cent. market share), consumer loans (11.0 per cent. market share) and mortgages (27.3 per cent. market share, excluding non-bank mortgage companies). The Bank has also issued the largest number of debit or payment cards (having a 51.2 per cent. market share) and is the leading bank in terms of number of card transactions. As the leading retail bank and provider of payment cards, the Bank generates a relatively high percentage of fee and commission income as compared to its main competitors.

Given the growth in retail banking which has occurred in recent years and which the management of the Bank expects to continue, resulting from strong growth in the Kazakhstan economy, management expects the Bank's leading position in retail banking to result in higher growth compared with its peers in the near- to mid-term. The retail deposit base also offers a strong funding advantage over other Kazakhstan banks and the large customer base provides significant diversification benefits, as well as enhanced cross-selling opportunities for non-banking products.

Largest branch network in Kazakhstan, enabling the Bank to benefit from further rapid growth in the regions and opportunities for cross-selling

As at 31 December 2006, the Bank's branch network consisted of 617 outlets in 235 cities and towns, representing the largest network in Kazakhstan; it is more than six times the size of the branch network of Kazkommertsbank and two and a half times the size of the branch network of Bank TuranAlem. The Bank's network provides coverage in all 14 regions of Kazakhstan. The Bank believes that the main centres of Almaty and Astana are relatively mature markets for financial services and that growth in the relatively "under-banked" regions is likely to be stronger and therefore the reach of the Bank's large network provides a competitive advantage to better service increasing demand for banking services.

Furthermore, the Bank's segmented branch network model with branches focused on distinct target customer groups — the mass market, middle market and VIPs for retail customers and small- and medium-sized businesses for SMEs — enhances its ability to cross sell its range of both banking and non-banking products.

Leading universal financial services group offering a broad product range

The Bank offers a full range of retail and corporate banking products and enjoys leadership positions in Kazakhstan in a number of product segments which the Bank expects will experience significant growth. The Bank's management believes that its broad product range (from current accounts and payroll services to corporate lending) and its position as one of the leading suppliers of pension, insurance and leasing services in Kazakhstan enhances the acquisition of new customers and cross-selling to existing customers.

Demonstrated ability to manage growth while achieving high returns on equity

In addition to its ability to successfully manage asset growth of over 55 per cent. per annum over the period from 31 December 2004 to 31 December 2006, the Bank has achieved an average annual return on equity of over 35 per cent. for the three years to 31 December 2006. This high level of profitability is in part a result of its ability to obtain cheaper funding from its large and relatively stable current account base as well as its high proportion (some 30 per cent.) of its total income derived from fee and commission income, which is less costly than interest income.

High quality assets balanced with well diversified funding sources

Despite the high growth it has experienced in recent years, the Bank has maintained strength on both sides of its balance sheet. Its loan portfolio is well diversified by industry and maturity and the percentage of its non-performing loans to its total loans has decreased over the last three years. The Bank's strength and size in retail banking has also provided it with a high share of cheaper deposit funding. In addition, the Bank's financial strength and high level of profitability has enabled it to access the international capital markets on favourable terms, also assisted by its Standard and Poor's long-term senior credit rating of "BB+", which is in the highest group for Kazakhstan banks. The Bank also maintains relatively strong capitalisation ratios. The Bank's financial strength is also a significant factor in attracting and retaining customers.

Experienced management team with a proven track record

In 2005, the Board of Directors of the Bank recruited a new senior management team, led by Mr. Grigoriy Marchenko (the former governor of the NBK), which it believes will be able to successfully lead the development of the Bank's operations. In particular, the Bank believes that its management's successful prior international banking experience will be a key asset as it seeks to continue to improve its operating performance. The Bank has also been successful in recruiting banking professionals in risk management, treasury, corporate banking and transaction services from international banks.

Widely recognised and trusted brand

Given its unique pre-privatisation history as the only retail bank in Kazakhstan, its high market penetration (with approximately 5.9 million retail customers out of a total Kazakhstan population of approximately 15 million) and its long-term relationships with leading Kazakhstan companies and state-owned enterprises, the Bank enjoys broad brand recognition throughout Kazakhstan. Market surveys conducted by the NBK and the Bank's relatively high customer retention compared with its peers support the Bank's belief that its brand is associated with financial strength, which is reinforced by its role in acting as an agent for the payment of pensions under the Kazakhstan state pension scheme.

Corporate Strategy

The Bank's strategy is to retain and strengthen its position as a leading Kazakhstan universal financial services group offering a broad range of products to retail, SME and corporate customers and to benefit from the expected growth in the Kazakhstan economy. In addition to developing its core banking business in Kazakhstan and neighbouring countries, management is focused on expanding and cross-selling the Bank's businesses, such as pensions, insurance, leasing, brokerage and asset management. Key elements of the Bank's strategy are summarised below.

Maintain the number one position in the Kazakhstan retail banking market and capture growth in Kazakhstan

The Bank is the leader in the Kazakhstan retail banking market both by customer numbers and across a range of products. The Kazakhstan retail banking market is currently experiencing high levels of growth, driven by both economic growth as well as increasing levels of banking usage or penetration, increasing from a relatively modest base when compared with more developed economies. Leveraging upon its role as a provider of corporate payroll services, the Bank is also continuing to acquire new retail customers who are employees of its corporate customers.

Expand the Bank's high-margin SME banking platform

In order to extend its existing client base, the Bank intends to target financially strong SMEs by offering them a wide range of financial services, including corporate finance advisery services, currency conversions and insurance and pension fund services, in addition to its more traditional banking products such as deposits, payroll services, payment transfers and loans. Top SME clients are given personalised service through account managers who are responsible for both business retention and new customer acquisition. Management of the Bank believes that the SME sector will represent one of the most important areas of growth for the Bank, largely reflecting the expected growth of the Kazakhstan economy. Management of the Bank expects that growth in the relatively higher margin SME banking segment will also offset, to some extent, lower margins in the corporate banking segment due to increased competition.

Further develop the Bank's corporate banking franchise through a wider product range

Utilising its long history and its corporate client relationship management systems, the Bank has been able to develop strong credit relationships with large corporate clients in Kazakhstan and, despite the faster growth in retail and SME loans, corporate loans still make up the majority of the Bank's overall loan portfolio. As increasing competition puts pressure on corporate lending margins, the Bank has been seeking to increase its fee and commission income as a means of maintaining and enhancing profitability by providing to its corporate customers additional products and services as well as the full suite of the Bank's product range of services: pensions, insurance, leasing, brokerage and asset management, including providing underwriting services to corporate clients as they begin to access the domestic equity and debt capital markets. The Bank's management believes that additional services provided to corporate customers further deepen the Bank's relationships with such customers and enhances their loyalty, particularly through the Bank's corporate payroll services, which also provide a strong acquisition tool for retail customers.

Maintain and develop the Bank's leading distribution network

The Bank has the largest distribution network in Kazakhstan with 617 banking sales outlets as well as approximately 100 additional outlets distributing and/or administering pension and insurance products. In addition, the Bank has a network of approximately 700 ATMs and over 2,800 point-of-sale terminals. The Bank is continuing to improve its distribution network by upgrading its IT system as well as optimising its productivity by increasing the number of products sold and clients covered per sales outlet. The Bank's strategy also includes the expansion of its online and mobile phone banking services and increasing its number of ATMs (already the largest in Kazakhstan) throughout the country. Through a targeted distribution strategy, with branches segmented into mass market, middle market and VIP banking centres, the Bank is seeking to maximise cross-selling of retail banking and other retail financial products and services, for instance by converting large retail banking deposits into higher-margin asset management products. The Bank is, in particular, continuing to further enhance training for its branch staff and sales agents.

Leverage the Bank's universal banking platform to maximise cross-selling of products and services and to increase its customer base

The Bank's cross-selling strategy is focused on maximising the number of both banking and non-banking financial products sold to existing customers and in winning new customers through leveraging opportunities offered by the Bank's platform. In addition to leading positions in its retail, SME and corporate banking businesses in Kazakhstan, the Bank offers a range of other non-banking financial services, including pensions, insurance and leasing, in each of which it believes it is either the Kazakhstan market leader or one of the leading market participants. The Bank's management believes that its strategy of combining breadth in offering market-leading financial products with superior distribution allows it to cross-sell and acquire new customers more effectively than its competitors.

Selectively expand into attractive neighbouring markets

As part of its growth strategy, the Bank intends to selectively expand its retail, SME and corporate banking operations into neighbouring markets in the region, where it hopes to transfer expertise gained in Kazakhstan in order to develop market leading positions. Markets targeted include the Kyrgyz Republic, adjacent regions of Russia, Azerbaijan and Xinjiang province in Western China. All of these markets have strong trading links with Kazakhstan, have relatively low banking penetration and offer significant opportunities for growth.

Continue to raise standards in the Bank to achieve operational excellence and efficiency

The Bank seeks to bring its operating performance into line with the best international standards, including in relation to IT, risk management, management information systems, marketing and cross-selling. The Bank is in the process of a major IT installation, which is designed to enhance its internal processes and reporting systems as well as to allow for productivity improvements to help improve its cost/income efficiency.

Competition

As at 31 December 2006, there were 33 commercial banks operating in Kazakhstan. Among the large domestic banks the Bank considers JSC Kazkommertsbank, JSC Bank TuranAlem and JSC ATFBank as its major competitors. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank, JSC Kazkommertsbank and JSC Bank TuranAlem; banks under foreign ownership, such as JSC ABN AMRO Bank SB, JSC Citibank and JSC HSBC Kazakhstan; and smaller local banks. Management believes that the Bank is in a strong position to compete in the Kazakhstan banking sector due to its large branch network and customer base.

As at 31 December 2006, there were 14 banks under foreign ownership in Kazakhstan, including nine subsidiaries of foreign banks. Whilst foreign-owned banks do not currently provide significant domestic competition and are not active in the retail banking sector, the Bank believes that such banks, some of which may have significantly greater resources and a lower cost funding base than the Bank, may become the Bank's main long-term competitors in the corporate banking sector. Foreign banks also bring international experience in servicing customers, and they target the key corporate customers of the Kazakhstan banks as well as foreign companies operating in Kazakhstan.

The following table sets out certain financial information as at 31 December 2006 relating to the Bank and the banks the Bank considers to be its major competitors in the Kazakhstan banking sector:

	Assets	Equity
	(KZT billions)	
Kazkommertsbank	2,269	223
Bank TuranAlem	1,825	167
ATF Bank	1,047	64
Halyk Bank	977	114
Alliance Bank	925	83
Bank CenterCredit	571	40
Nurbank	206	24
Temir Bank	199	28
Bank Caspian	196	21
Eurasian Bank	152	18
Total — Top 10 Banks	8,367	783
Other	508	96
Total	**8,875**	**879**

Source: Regular monthly non-consolidated reports to the FMSA, prepared in accordance with FMSA requirements, the results of which may differ from the audited financial statements of the relevant bank.

CAPITALISATION OF THE BANK

The following table sets out the consolidated capitalisation of the Bank as at 31 December 2006 (i) on an actual basis and (ii) as adjusted to reflect the issuance of the Notes. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Consolidated Financial Data" and the Bank's consolidated financial statements, and related notes thereto, included elsewhere in this Prospectus.

	Actual		As adjusted	
	(U.S.$ millions)[(1)]	*(KZT millions)*	*(U.S.$ millions)[(1)]*	*(KZT millions)*
Liabilities				
Senior long-term liabilities[(2)]	1,435	182,263	2,135	271,163
Subordinated long-term debt[(3)]	212	26,966	212	26,966
Total long-term liabilities	**1,647**	**209,229**	**2,347**	**298,129**
Equity				
Common share capital	354	44,977	354	44,977
Preferred share capital	124	15,707	124	15,707
Total share capital[(4)]	**478**	**60,684**	**478**	**60,684**
Share premium reserve	17	2,183	17	2,183
Treasury stock	0	(39)	0	(39)
Retained earnings and other reserves	447	56,736	447	56,736
Minority interest	8	1,062	8	1,062
Total equity	**950**	**120,628**	**950**	**120,628**
Common equity[(5)]	**818**	**103,858**	**818**	**103,858**
Total capitalisation	**2,597**	**329,857**	**3,297**	**418,757**

Notes:

(1) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

(2) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated.

(3) Subordinated long-term debt represents subordinated debt that falls due after one year.

(4) As at 31 December 2006, the Bank's issued and paid share capital consisted of 970,905,778 common shares, 24,742,000 non-convertible preferred shares and 80,215,187 convertible (at the option of the Bank) preferred shares. As at 31 December 2006, the Bank held 3,858,746 of the Bank's shares as treasury shares at KZT 38,587 (December 31, 2005 — 1,633,610 at KZT 16,336).

(5) Common equity comprises total equity less preferred shares and minority interest.

In January-March 2007, the Bank completed the placement of 9,468,878 common shares following an IPO in December 2006 for total consideration of KZT 4,847 million (U.S.$39 million based on an exchange rate of U.S.$1=KZT 123.84 as at 31 March 2007).

In April 2007, the Issuer entered into a U.S.$400 million 3-year loan agreement with a syndicate of banks, such loan having been guaranteed by the Bank. The loan proceeds were deposited in full with the Bank and such deposit was pledged to the Bank to secure the obligations of the Issuer under the above-mentioned guarantee.

Save as disclosed herein, there has been no material change in the Bank's total capitalisation and long-term liabilities since 31 December 2006.

SELECTED CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as at and for the years ended 31 December 2006, 2005 and 2004 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Bank's audited consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2006, 2005 and 2004, contained elsewhere in this Prospectus.

The Bank's consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2006, 2005 and 2004 have been prepared in accordance with IFRS, and have been audited by Ernst & Young, whose audit reports for the respective periods are included elsewhere in this Prospectus.

Prospective investors should read the summary consolidated financial information in conjunction with the information contained in "Risk Factors", "Capitalisation of the Bank", "Management's Discussion and Analysis of Financial Condition and Results of Operations Overview", "Business of the Bank", "Selected Statistical and Other Information", the Bank's audited consolidated financial statements including the related notes thereto, as at and for the years ended 31 December 2006, 2005 and 2004, and the other financial data appearing elsewhere in this Prospectus.

Income Statement Data

	For the years ended 31 December			
	2006	**2006**	**2005**	**2004**
	(U.S.$ millions)[(1)]	*(KZT millions)*[(2)]		
Interest income	639.6	80,647	52,385	32,950
Interest expense	(271.1)	(34,183)	(21,156)	(12,759)
Net interest income before impairment charge	368.5	46,464	31,229	20,191
Impairment charge	(66.1)	(8,331)	(11,970)	(7,954)
Net interest income	302.4	38,132	19,259	12,237
Fees and commissions, net	167.6	21,135	15,248	9,318
Other non-interest income	42.1	5,305	4,419	3,065
Operating income[(3)]	512.1	64,572	38,926	24,620
Other non-interest expense (operating expense)	(229.8)	(28,971)	(19,560)	(14,530)
Income before income tax expense	282.3	35,601	19,366	10,091
Income tax expense	(67.0)	(8,442)	(3,539)	(1,998)
Net income after income tax expense	215.4	27,159	15,828	8,093
Minority interest	4.0	500	200	5
Net income, less minority interest	**211.4**	**26,659**	**15,628**	**8,088**
Dividends to preferred shareholders	(12.5)	(1,579)[(4)]	(1,428)[(5)]	(332)[(5)]
Net income attributable to common shareholders[(6)]	198.9	25,080	14,200	7,756
Basic earnings per share[(7)]	0.2	27.3	20.2	10.5
Basic earnings per common share[(8)]	0.2	26.8	28.8	96.2

Notes:

(1) Except for per share data, which are in U.S. Dollars. These are unaudited convenience translations. See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

(2) Except for per share data, which are in Tenge.

(3) Operating income is net interest income, plus net fees and commissions and other non-interest income.

(4) Dividends declared for the year ended 31 December 2006, but not yet paid.

(5) Dividends actually paid. These amounts are different from "Dividends — preferred shares" in the Bank's audited consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2005 and 2004. In 2004, when dividends were linked to the U.S. Dollar/Tenge exchange rate and the Tenge strengthened against the U.S. Dollar, the amount declared in respect of dividends was greater than the amount paid. In 2005, dividends were linked to inflation, and because there was inflation during the time that elapsed between the balance sheet date and the actual payment date of the dividend, the amount paid was greater than the amount declared.

(6) Comprises net income after income tax expense, less minority interest and dividends paid to preferred shareholders.

(7) Basic earnings per share is calculated as (a) net income, less minority interest, divided by (b) daily weighted average number of common and preferred shares.

(8) Basic earnings per common share is calculated as (a) net income attributable to common shareholders, divided by (b) average number of common shares outstanding, less treasury shares.

Balance Sheet Data

	As at 31 December			
	2006	2006	2005	2004
	(U.S.$ millions)(1)	*(KZT millions)*		
Assets				
Cash and cash equivalents	1,006.3	127,799	57,102	33,123
Obligatory reserves	433.9	55,106	8,632	7,578
Financial assets at fair value through profit or loss	417.5	53,016	50,018	62,382
Amounts due from credit institutions	16.1	2,049	2,777	695
Investment securities	971.2	123,338	12,099	20,618
Loans to customers	4,694.6	596,216	411,097	254,590
Property and equipment	129.2	16,412	10,979	9,131
Other assets	137.2	17,422	6,961	5,135
Total assets	**7,806.0**	**991,359**	**559,665**	**393,254**
Liabilities and equity				
Amount due to customers	4,708.2	597,935	323,515	231,930
Amounts due to credit institutions	934.8	118,719	107,284	76,493
Debt securities issued	1,058.4	134,413	58,814	44,940
Provisions	23.8	3,021	2,280	1,801
Deferred tax liability	19.9	2,530	425	451
Other liabilities	111.1	14,114	2,903	2,071
Total liabilities	**6,856.2**	**870,732**	**495,221**	**357,686**
Equity				
Share capital	477.8	60,684	29,016	15,759
Common shares	*354.1*	*44,977*	*14,222*	*13,285*
Preferred shares	*123.7*	*15,707*	*14,794*	*2,474*
Share premium reserve	17.2	2,183	2,192	2,191
Treasury shares	-0.3	-39	-16	-17
Retained earnings and other reserves	446.7	56,736	32,806	17,417
Equity before adding minority interest	941.5	119,565	63,998	35,351
Minority interest	8.4	1,062	446	217
Total equity	**949.8**	**120,628**	**64,444**	**35,568**
Total liabilities and equity	**7,806.0**	**991,359**	**559,665**	**393,254**
Common equity[(2)]	*817.8*	*103,858*	*49,204*	*32,877*

Notes:

(1) Unaudited convenience translations. See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

(2) Common equity comprises total equity, less minority interest and preferred share capital.

Selected Financial Ratios and Economic Data[(1)]

	As at and for the years ended 31 December		
	2006	2005	2004
	(per cent., except exchange rates)		
Profitability Ratios			
Return on average common equity[(2)]	41.8	37.2	29.9
Return on average total assets[(3)]	3.5	3.0	2.4
Net interest margin[(4)]	7.0	6.9	6.8
Net interest spread[(5)]	6.8	6.7	6.8
Operating expense[(6)]/operating income before impairment charge[(7)]	36.8	35.0	38.4
Other non-interest expense (operating expense)[(6)]/net interest income before impairment charge[(7)]	62.4	62.6	72.0
Other non-interest expense (operating expense)[(6)]/average total assets	4.0	4.0	4.5
Impairment charge[(7)]/operating income before impairment charge	11.4	23.5	24.4
Impairment charge[(7)]/average gross loans	1.7	3.4	3.6
Loan Portfolio Quality[(8)]			
Classified loans[(9)]/gross loans	8.3	9.1	8.6
Non-performing loans[(10)]/gross loans	1.2	1.4	2.0
Allowance for loan losses/gross loans	5.5	6.0	6.2
Allowance for loan losses/classified loans[(9)]	65.4	66.1	72.1
Allowance for loan losses/non-performing loans[(10)]	467.8	420.6	317.8
Balance Sheet Ratios			
Amounts due to customers/total net loans	100.3	78.7	91.1
Amounts due to customers/total assets	60.3	57.8	59.0
Total net loans/total assets	60.1	73.5	64.7
Total equity/total assets	12.2	11.5	9.0
Liquid assets[(11)]/total assets	36.4	23.3	31.6
Capital Adequacy (Basel ratios)			
Tier 1 capital ratio	14.0	12.8	9.7
Total capital ratio	17.1	17.1	13.7
Economic Data			
Period end exchange rate (KZT/U.S.$)	127.00	133.98	130.00
Average exchange rate for period (KZT/U.S.$)	126.09	132.88	136.04
Inflation rate (CPI)	8.6	7.6	6.9
GDP growth (real)	10.6	9.4	9.4

Notes:

(1) Amounts used in ratios are average monthly balances for the years ended 31 December 2006 and 2005; average balances for the year ended 31 December 2004 are calculated by adding the opening and closing balances and dividing by two.

(2) Return on average common equity is (a) net income attributable to common shareholders, divided by (b) average common equity.

(3) Return on average total assets comprises (a) net income after income tax expense, less dividends on Preferred Shares, divided by (b) average total assets.

(4) Net interest margin comprises (a) net interest income before impairment charge, divided by (b) average interest-earning assets.

(5) Net interest spread comprises the difference between the average interest rate earned on interest-earning assets and the average interest rate incurred on interest-bearing liabilities.

(6) Operating expense includes salaries and other employee benefits, administrative and operating expenses and depreciation and amortisation expenses.

(7) Impairment charge includes impairment charge on loan losses and other assets.

(8) Loan quality is calculated using gross loan balances excluding recognised interest.

(9) Classified loans comprise loans that are classified as "Doubtful" categories 3rd to 5th (20 per cent., 25 per cent. and 50 per cent. allowances) and "Loss" (100 per cent. allowance) in accordance with FMSA regulations.

(10) Non-performing loans comprise loans the principal or interest of which is past due by 30 days.

(11) Liquid assets comprise securities plus cash and cash equivalents, obligatory reserves and due from other banks.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Bank's results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors". In this document, the consolidated financial statements presented are those of the Bank and its subsidiaries. This discussion is based on the audited consolidated financial statements of the Bank and should be read in conjunction with its audited consolidated financial statements and the accompanying notes appearing elsewhere in this Prospectus. Unless otherwise indicated, all of the financial data and discussions thereof are based upon the Bank's audited consolidated financial statements as at and for the years ended 31 December 2006, 2005 and 2004 prepared in accordance with IFRS. (See "Presentation of Financial and Certain Other Information".) IFRS differs in certain material respects from generally accepted accounting principles in the United States ("US GAAP").

Overview

The Bank is one of Kazakhstan's leading financial services groups, with the largest customer base and distribution network in Kazakhstan. The Bank is developing as a universal financial services group offering a broad range of services (banking, pensions, insurance, leasing, brokerage and asset management) to its retail, SME and corporate customers.

As at 31 December 2006, according to statistics published by the FMSA, the Bank had the largest retail deposit base in Kazakhstan (with a 20.0 per cent. market share), as well as the largest portfolio in the fast-growing mortgage loan market (with a 21.7 per cent. market share) and had issued the largest number of payment cards (with a 51.2 per cent. market share). According to the FMSA, as at 31 December 2006, the Bank was the fourth largest bank in Kazakhstan in terms of total assets on an unconsolidated basis. As at 31 December 2006, amounts due to the Bank's retail customers were KZT 209,877 million while total amounts due to customers were KZT 597,935 million, retail loans were KZT 197,181 million, while total gross loans were KZT 629,870 million. As at 31 December 2006, total assets were KZT 991,359 million. For the year ended 31 December 2006, the Bank had net income after income tax expense of KZT 27,159 million and operating income (net interest income plus net fees and commissions and other non-interest income) was KZT 64,572 million. As at 31 December 2006, total equity was KZT 120,628 million.

As at 31 December 2006, the Bank had approximately 5.9 million retail customers (the largest customer base in Kazakhstan), approximately 63 thousand SME customers and 323 corporate customers. With the most extensive retail distribution network in Kazakhstan, the Bank, as at 31 December 2006, served its customers through 617 retail outlets, including regional and district branches in all 14 regions of Kazakhstan as well as through some 700 ATMs, the largest ATM network in Kazakhstan. Other distribution channels used by the Bank include the Internet and mobile banking and in-store points of sale located at certain shopping centres and supermarkets in Kazakhstan. In addition, the Bank also uses the distribution channels established by some of its other business lines, principally the pension fund and insurance businesses.

The Bank operates in three core business lines: retail, SME and corporate banking. Through subsidiary companies, the Bank's operations also include pensions, insurance, leasing, brokerage and asset management. According to FMSA statistics, as at 31 December 2006, the Bank's pension fund business had the largest market share in Kazakhstan (27.8 per cent.) and the management of the Bank believes its insurance business had the largest network in the country.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, Internet and mobile banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services (including loans, payroll services and cash management) to corporate and SME business customers, financial institutions and Government entities.

Key Factors Affecting the Bank's Results of Operations

The Bank's financial condition and results of operations are affected by numerous factors. The Bank's management believes that the following are of particular importance:

Recent growth in Kazakhstan economy

Substantially all of the Bank's operations and customers are located in Kazakhstan. Recent economic growth in Kazakhstan has driven demand for the Bank's products and services by enabling it to expand its customer base and sell more to existing customers. The Bank has relatively high exposures to the retail, agriculture, construction, real estate and wholesale trade sectors, which have experienced significant growth in recent years. Accordingly, the Bank's financial condition and results of operations are dependent upon economic conditions prevailing in Kazakhstan as a whole and in these sectors in particular.

Opportunities resulting from market segmentation

Opportunities to service the banking needs of customers in the retail, SME and corporate segments have continued to emerge as the financial market develops and banking penetration increases. For example, as the funding needs of corporate and SME customers have grown, so too has the Bank's interest income on its loan portfolio and fee and commission income earned from providing specialised products and services to this customer base. More recently, as disposable personal income has continued to grow, the Bank has pursued opportunities in Kazakhstan's retail market by increasing its range of mortgage and consumer finance products to retail customers.

Combination of fee and commission income and interest income revenue streams

In recent years, both interest income and fee and commission income have been major contributors to the Bank's revenues. The Bank has deliberately targeted this revenue mix in order to mitigate adverse effects on interest income resulting from potential changes in interest rates, which reflect, to a certain degree, short-term and long-term rates in Kazakhstan and the United States of America and inflation expectations in Kazakhstan.

Ability to manage costs

The Bank believes it has effective controls on costs, which have grown less rapidly than revenues in recent years. Although the Bank has spent significant sums to improve its branch network and information technology infrastructure, these targeted improvements have served as platforms for increasing revenue growth. Furthermore, the Bank believes it enjoys a low average interest rate on its liabilities relative to its peers.

Credit quality

The Bank believes it has prudent lending policies and procedures. It periodically reviews its lending policies and procedures in light of current economic trends. (See "*Asset, Liability and Risk Management — Lending Policies and Procedures*".)

Provisioning policies

The Bank complies with provisioning requirements as mandated by the FMSA. In order to establish adequate allowances for impairment of loans, other assets and off-balance sheet risks in accordance with applicable regulatory requirements, the Bank uses impairment rates based on NBK and FMSA regulations. (See "*Asset, Liability and Risk Management — Loan Classification and Provisioning Policy*".) Provisioning policies under IFRS differ from those under Kazakhstan law. Namely, for IFRS purposes, the Bank makes provisions for losses on individually significant loans on a case-by-case basis and makes provisions for losses made on pools of homogenous loans and pools of individually significant loans that are not specifically impaired based on historical loss data. Actual provisions established take into account the value of specified collaterals or guarantees. Accordingly, the actual provision levels may differ from the provisioning rates used for regulatory purposes.

Taxes

Taxes in Kazakhstan to which the Bank is subject include value added tax, income tax, social taxes, and other taxes. The current statutory income tax rate in Kazakhstan is 30 per cent. The Bank's effective tax rate was 23.7 per cent., 18.3 per cent. and 19.8 per cent. for the years ended 31 December 2006, 2005 and 2004, respectively. The Bank's effective tax rate is generally less than the statutory rate because not all of the Bank's income is taxable. For example, interest received on residential mortgages and Government and other qualifying securities is currently not taxable. However, tax legislation may change in the future and, if it does, the Bank's effective tax rate could change substantially.

Kazakhstan tax regulations generally do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC Bank Khlebny, LLP NBK-Finance and OJSC Halyk Bank Kyrgyzstan, are subject to taxation in the Republic of 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 Kyrgyz Republic. Kazakhstan has concluded a double taxation treaty with each of these jurisdictions. This tax credit will not be available from 1 January 2007 due to the fact that from 1 January 2007, changes to the Kazakhstan tax code provide for the exemption of dividends from income tax irrespective of whether they are received from subsidiaries in Kazakhstan or abroad.

Critical Accounting Policies

The Bank's accounting policies are integral to understanding the financial condition and results of operations presented in the audited consolidated financial statements and the related notes thereto. The Bank's significant accounting judgements and estimates are described in Note 4 to the consolidated financial statements appearing elsewhere in this Prospectus. The preparation of these consolidated financial statements requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, the Bank's management evaluates its estimates and judgements, including those related to allowance for losses, income taxes, insurance reserves, contingencies, fair value of financial instruments and properties, and litigation and arbitration. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

The Bank's management believes that the following critical significant accounting policies require more critical judgements or estimates or involve a relatively greater degree of complexity in the application of accounting policies that affect the Bank's financial condition and results of operations:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh 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 Bank may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

As of 31 December 2006, 2005 and 2004, the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Claims liability 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 claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of balance sheet claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Goodwill impairment testing

The management of the Bank believes that JSC Kazakhinstrakh as a whole represents the appropriate level within the Bank at which the goodwill is monitored for management purposes; and, therefore, should be considered as the cash-generating unit for impairment testing purposes. The recoverable amount of cash-generating unit has been determined based on a value in use calculation. The cash flow projections for the years 2007, 2008 and 2009 were based on the financial budgets approved by the Management Board. The discount rate applied to cash flow projections is 20 per cent.; and, the estimated future cash flows, based on a conservative approach beyond the three-year period, ate estimated to be equal to the cash flows of the year 2009. The carrying amount of goodwill allocated to the cash-generating unit comprises KZT 3,102 million as of December 31, 2006.

Reporting of Preferred Shares Within Equity

The Bank has issued convertible and non-convertible Preferred Shares. The Preferred Shares are classified as equity as they are not redeemable and pay only a nominal dividend amount of KZT 0.01 per share to comply with Kazakhstan legislation which requires joint stock companies to pay dividends on Preferred Shares. The remainder of any dividend on Preferred Shares is paid only if the Bank is profitable. Preferred Shares generally have no voting rights, except as to matters directly affecting such shares, unless payment of dividends on Preferred Shares has been delayed for three months or more from the date they became due.

Results of Operations for the Years ended 31 December 2006, 2005 and 2004

The following table presents the Bank's income statement and certain income statement ratios for the periods indicated:

	For the years ended 31 December			Variations			
	2006	2005	2004	2006/05		2005/04	
	(KZT millions)[(1)]			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Income statement:							
Interest income	80,647	52,385	32,950	28,262	54.0	19,435	59.0
Interest expense	(34,183)	(21,156)	(12,759)	13,027	61.6	8,397	65.8
Net interest income before impairment	46,464	31,229	20,191	15,235	48.8	11,038	54.7
Impairment charge	(8,331)	(11,970)	(7,954)	(3,639)	(30.4)	4,016	50.5
Net interest income	38,132	19,259	12,237	18,873	98.0	7,022	57.4
Net fees and commissions	21,135	15,248	9,318	5,887	38.6	5,930	63.6
Other non-interest income	5,305	4,419	3,065	886	20.0	1,354	44.2
Operating income[(2)]	64,572	38,926	24,620	25,646	65.9	14,306	58.1
Other non-interest expense (operating expense)	(28,971)	(19,560)	(14,530)	9,411	48.1	5,030	34.6
Income before income tax expense	35,601	19,366	10,091	16,235	83.8	9,275	91.9
Income tax expense	(8,442)	(3,539)	(1,998)	4,903	138.5	1,541	77.1
Net income after income tax expense	27,159	15,828	8,093	11,331	71.6	7,735	95.6
Minority interest	(500)	(200)	(5)	300	150.0	195	3,900
Net income, less minority interest	26,659	15,628	8,088	11,031	70.6	7,540	93.2
Dividends to preferred shareholders	(1,579)[(3)]	(1,428)[(4)]	(332)[(4)]	151	10.6	1,096	330.1
Net income attributable to common shareholders[(5)]	25,080	14,200	7,756	10,880	76.6	6,444	83.1
Profitability ratios:							
Return on average common equity (per cent.)[(6)(7)]	41.8	37.2	29.9				
Return on average assets (per cent.)[(7)(8)]	3.5	3.0	2.4				
Net interest margin (per cent.)[(7)(9)]	7.0	6.9	6.8				
Operating expense[(10)]/operating income before impairment charge (per cent.)	36.8	35.0	38.4				
Impairment charge/operating income before impairment charge (per cent.)	11.4	23.5	24.4				
Basic earnings per share (Tenge)[(11)]	27.3	20.2	10.5				
Basic earnings per common share (Tenge)[(12)]	26.8	28.8	96.2				

Notes:

(1) Except for percentages and per share data.

(2) Operating income is net interest income, plus net fees and commissions and other non-interest income.

(3) Dividends declared for the year ended 31 December 2006, but not yet paid.

(4) Dividends actually paid. These amounts are different from "Dividends — preferred shares" in the Bank's audited consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2006, 2005 and 2004. In 2004, when dividends were linked to the U.S. Dollar/Tenge exchange rate and the Tenge strengthened against the U.S. Dollar, the amount declared in respect of dividends was greater than the amount paid. In 2005, dividends were linked to inflation, and because there was inflation during the time that elapsed between the balance sheet date and the actual payment date of the dividend, the amount paid was greater than the amount declared.

(5) Comprises net income after income tax expense, less minority interest and dividends to preferred shareholders.

(6) Return on average common equity is (a) net income attributable to common shareholders, divided by (b) average common equity.

(7) Amounts used in ratios are average monthly balances for the years ended 31 December 2006 and 2005. Average balances for the year ended 31 December 2004 are calculated by adding the opening and closing balances and dividing by two.

(8) Return on average total assets comprises (a) net income after income tax expense, less dividends on preferred shares, divided by (b) average total assets.

(9) Net interest margin comprises (a) net interest income before impairment charge, divided by (b) average interest-earning assets.

(10) Operating expense includes salaries and other employee benefits, administrative and operating expenses and depreciation and amortisation expenses.

(11) Basic earnings per share is calculated as (a) net income, less minority interest, divided by (b) daily weighted average number of shares and preferred shares.

(12) Basic earnings per common share is calculated as (a) net income attributable to common shareholders, divided by (b) average number of common shares outstanding, less treasury shares.

Net income

The Bank's net income for the year ended 31 December 2006 was KZT 27,159 million compared to KZT 15,828 million for the year ended 31 December 2005 and KZT 8,093 million for the year ended 31 December 2004. The increase of KZT 11,331 million, or 71.6 per cent., for the year ended 31 December 2006, compared to the same period of 2005, was mainly attributable to increases in net interest income of KZT 18,873 million, or 98.0 per cent., and in net fees and commissions income of KZT 5,887 million, or 38.6 per cent., which were partially offset by increases in non-interest expense of KZT 9,411 million, or 48.1 per cent., and income tax expense of KZT 4,903 million, or 138.5 per cent.

For the year ended 31 December 2005, net income increased by KZT 7,735 million or 95.6 per cent., compared to the same period of 2004. This increase was primarily attributable to increases of KZT 7,022 million, or 57.4 per cent., in net interest income, KZT 5,930 million, or 63.6 per cent., in net fees and commissions income, and KZT 1,354 million, or 44.2 per cent., in other non-interest income, which were partially offset by increases in non-interest expense of KZT 5,030 million, or 34.6 per cent., and income tax expense of KZT 1,541 million, or 77.1 per cent.

Interest Income

The following table sets out the principal components of the Bank's interest income for the periods indicated:

	For the years ended 31 December			Variations			
	2006	**2005**	**2004**	**2006/2005**		**2005/2004**	
	(KZT millions)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Interest on loans to customers	71,292	47,549	28,447	23,743	49.9	19,102	67.1
Interest on securities	5,352	3,450	3,520	1,902	55.1	(70)	(2.0)
Interest on cash and cash equivalents and amounts due from credit institutions	4,003	1,386	983	2,617	188.8	403	41.0
Interest income, total	**80,647**	**52,385**	**32,950**	**28,262**	**54.0**	**19,435**	**59.0**

Total interest income increased by KZT 28,262 million, or 54.0 per cent., to KZT 80,647 million in 2006 from KZT 52,385 million in 2005, mainly due to an increase in interest on loans to customers. Though interest on securities and interest on cash and cash equivalents and amounts due from credit institutions increased significantly, their contribution to total interest income earned remained modest. In 2005, interest income increased by KZT 19,435 million, or 59.0 per cent., compared to interest income of KZT 32,950 million for 2004, mainly due to increases of KZT 19,102 million, or 67.1 per cent., in interest income on loans to customers and KZT 403 million, or 41.0 per cent., in interest from deposits with other banks in 2005.

Interest income on loans to customers increased by KZT 23,743 million, or 49.9 per cent., in 2006 to KZT 71,292 million from KZT 47,549 million in 2005, after having increased by KZT 19,102 million, or 67.1 per cent., in 2005 from KZT 28,447 million, in 2004. The increases in interest income on loans to customers in 2006, compared to 2005, and in 2005, compared to 2004, were primarily due to increases in the volumes of loans made, average interest rates and the percentage of consumer and mortgage loans, which typically earn higher interest rates, within the loan portfolio. Gross loans to customers increased by KZT 192,852 million, or 44.1 per cent., to KZT 629,870 million as at 31 December 2006 from KZT 437,018 million as at 31 December 2005, after having increased by KZT 165,890 million, or 61.2 per cent., as at 31 December 2005 from KZT 271,128 million as at 31 December 2004. This increase was primarily due to an overall increase in lending activity, especially retail customers and to a lesser extent SMEs. Loans to retail customers increased by KZT 66,579 million, or 51.0 per cent., as at 31 December 2006 to KZT 197,181 million from KZT 130,602 million as at 31 December 2005, after having increased by KZT 63,618 million, or 95 per cent., as at 31 December 2005 from KZT 66,984 million as at 31 December 2004. Loans to SMEs increased by KZT 30,008 million, or 46.9 per cent., as at 31 December 2006 to KZT 93,928 million from KZT 63,920 million as at 31 December 2005, after having increased by KZT 14,560 million, or 29.5 per cent., as at 31 December 2005 from KZT 49,360 million as at 31 December 2004. (See "*Selected Statistical and Other Information — The Bank's Loan Portfolio — Loans to Customers*".)

Interest on securities, principally treasury bills, Government bonds, short-term notes issued by the NBK and Eurobonds issued by the Government, increased by KZT 1,902 million, or 55.1 per cent., to

KZT 5,352 million in 2006 from KZT 3,450 million in 2005, after having decreased by KZT 70 million, or 2.0 per cent., in 2005 from KZT 3,520 million, in 2004. The increase in 2006 compared to 2005 resulted from a larger portfolio of securities, which rose as a consequence of excess liquidity as well as higher yields on domestic interest-earning instruments. The decrease in 2005 compared to 2004 was driven by decreases in average interest rates earned on the securities portfolio, especially on Government securities. (See "*Selected Statistical and Other Information — Investments — Financial Assets at Fair Value through Profit or Loss*".)

Interest on cash and cash equivalents and amounts due from credit institutions increased by KZT 2,617 million, or 188.8 per cent., to KZT 4,003 million in 2006, from KZT 1,386 million in 2005, after having increased by KZT 403 million, or 41.0 per cent., in 2005, from KZT 983 million in 2004. The increases in 2006 and 2005 were mainly attributable to excess liquidity being invested into short-term deposits and loans to credit institutions during the period.

The following table sets out the effective average annual interest rates[1] payable to the Bank on its interest-earning Tenge and foreign currency assets for the periods indicated:

	For the years ended 31 December								
	2006			2005			2004		
	(All currencies)	*(KZT)*	*(Foreign currency)*	*(All currencies)*	*(KZT) (per cent.)*	*(Foreign currency)*	*(All currencies)*	*(KZT)*	*(Foreign currency)*
Loans to customers	15.4	19.6	11.7	14.2	17.5	11.9	13.6	17.4	10.7
Amounts due from credit institutions	4.6	4.3	4.9	3.5	3.8	3.4	5.0	2.4	5.4
Financial assets at fair value through profit or loss	6.1	5.9	6.5	4.2	3.7	7.2	4.6	3.9	7.3
Available-for-sale investment securities	5.1	5.0	11.9	7.5	7.1	10.2	5.5	6.2	4.5
Average interest rates on interest-earning assets	**12.2**	**13.7**	**10.4**	**11.7**	**12.9**	**10.5**	**11.2**	**13.1**	**9.3**

Note:

(1) The rates set out in this table are calculated in a different manner from the rates in "Note 25. Financial Risk Management — Interest Rate Risk" to the Bank's audited consolidated financial statements as at and for the years ended 31 December 2006, 2005 and 2004. (For a description of how these rates were calculated, see "*Selected Statistical and Other Information — Average Balances*".)

Average interest rates on the loan portfolio increased to 15.4 per cent. in 2006 from 14.2 per cent. in 2005. The increase in average rates on the loan portfolio was primarily due to the increased share of longer term loans and KZT denominated loans in retail and SME portfolios. Average interest rates on the loan portfolio increased to 14.2 per cent. in 2005 from 13.6 per cent. in 2004 as a result of higher interest rates on consumer and mortgage loans, which are the fastest-growing segments of the Bank's overall loan portfolio. Average loans in foreign currencies represented 54 per cent. of the Bank's total average loan portfolio as at 31 December 2006, compared to 59 per cent. as at 31 December 2005 and 56 per cent. as at 31 December 2004. The share of foreign currency denominated loans in the total average loan portfolio in 2006 declined due to the increase of consumer loans which are KZT-denominated. In 2005, the amount of foreign currency-denominated loans in the Bank's loan portfolio increased as a result of customer demand, which resulted from the lower rates available on foreign currency loans, compared to Tenge-denominated loans.

Average annual rates on amounts due from credit institutions decreased from 5.0 per cent. in 2004 to 3.5 per cent. in 2005 and increased to 4.6 per cent. in 2006. The increase in average rates on amounts due from credit institutions in 2006 compared to 2005 was primarily due to increased interbank interest rates.

Average interest rates on financial assets at fair value through profit or loss decreased from 4.6 per cent. in 2004 to 4.2 per cent. in 2005 and increased to 6.1 per cent. in 2006. The increase in average rates on the financial assets at fair value through profit or loss in 2006 compared to 2005 was primarily due to increased interbank interest rates resulting from increases in Kazakhstan treasury rates. Average interest rates on the available-for-sale securities portfolio for 2006, 2005 and 2004 were 5.1 per cent., 7.5 per cent. and 5.5 per cent., respectively. The decrease in average rates on the available-for-sale securities portfolios in 2006 compared to 2005 was primarily caused by extensive purchases of 28-day National Bank Notes into this portfolio.

Interest expense

The following table sets out the principal components of the Bank's interest expense for the periods indicated:

	For the years ended 31 December			Variations			
	2006	2005	2004	2006/2005		2005/2004	
	(KZT millions)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Interest on amounts due to customers	18,492	11,873	8,026	6,619	55.7	3,847	47.9
Interest on debt securities issued	9,238	4,909	1,639	4,329	88.2	3,270	199.5
Interest on amounts due to credit institutions	6,453	4,375	3,094	2,078	47.5	1,281	41.4
Interest expense, total	**34,183**	**21,156**	**12,759**	**13,027**	**61.6**	**8,397**	**65.8**

Total interest expense increased by KZT 13,027 million, or 61.6 per cent., to KZT 34,183 million in 2006 from KZT 21,156 million in 2005, after having increased by KZT 8,397 million, or 65.8 per cent., in 2005 from KZT 12,759 million in 2004. Total interest expense increased during 2006 and 2005 due to the growth in the Bank's deposit base and increases in both borrowings from credit institutions and significant issuances of debt securities on the domestic market, partially offset by a slight reduction in 2005 in average interest rates paid on customer accounts and a reduction in 2006 in average interest rates paid on debt securities issued.

Interest expense on amounts due to customers increased by KZT 6,619 million, or 55.7 per cent., to KZT 18,492 million in 2006 from KZT 11,873 million in 2005, after having increased by KZT 3,847 million, or 47.9 per cent., in 2005 from KZT 8,026 million in 2004. The year on year increases for 2006 and 2005 resulted mainly from an overall increase in customer deposits. Average annual interest-bearing amounts due to customers (corporate and retail) increased by KZT 132,131 million, or 44.6 per cent., to KZT 428,379 million in 2006 from KZT 296,248 million in 2005, after having increased by KZT 103,074 million, or 53.4 per cent., in 2005 from KZT 193,174 million in 2004. The increase in amounts due to customers, including interest-bearing deposits, in both 2006 and 2005, the prior year-on-year period, respectively, was attributable to the improved economy, increased consumer confidence in banks generally and higher balances of customer term deposits. The Bank's amounts due to customers in foreign currencies are substantially denominated in U.S. Dollars and, to a lesser extent, in Euro. Average foreign currency amounts due to customers accounted for 46 per cent. in each of 2006 and 2005, and 42 per cent. in 2004, of the total average amounts due to customers for each year. (For an explanation of how average interest-bearing amounts due to customers, average foreign currency amounts due to customers and total average amounts due to customers were calculated in each period, see "*Selected Statistical and Other Information — Average Balances*".)

Interest expense on debt securities issued increased by KZT 4,329 million, or 88.2 per cent., to KZT 9,238 million in 2006 from KZT 4,909 million in 2005, after having increased by KZT 3,270 million, or 199.5 per cent., in 2005 from KZT 1,639 million in 2004, primarily as a result of increased issuances of debt securities.

Interest expense on amounts due to credit institutions increased by KZT 2,078 million, or 47.5 per cent., to KZT 6,453 million in 2006 from KZT 4,375 million in 2005, after having increased by KZT 1,281 million, or 41.4 per cent., in 2005 from KZT 3,094 million in 2004. The increase in interest expense on amounts due to credit institutions in 2006 was primarily attributable to increased levels of longer term deposits from other credit institutions. The increase in 2005 was primarily attributable to higher levels of borrowings from OECD-based banks, which amounted to KZT 97,540 million in 2005, compared to KZT 64,365 million in 2004, and an increase in interest paid on foreign currency borrowings. Average foreign currency balances on deposits and loans from credit institutions accounted for 12 per cent. in 2006, 18 per cent. in 2005 and 22 per cent. in 2004, of the total average interest-bearing liabilities for each year. (For an explanation of how average foreign currency balances on deposits and loans from credit institutions and total average interest-bearing liabilities were calculated in each period, see "*Selected Statistical and Other Information — Average Balances*".)

The following table sets out the average interest rates payable by the Bank on its Tenge and foreign currency interest-bearing liabilities for the periods indicated:

	For the years ended 31 December								
	2006			2005			2004		
	(All currencies)	*(KZT)*	*(Foreign currency)*	*(All currencies)*	*(KZT) (per cent.)*	*(Foreign currency)*	*(All currencies)*	*(KZT)*	*(Foreign currency)*
Amounts due to customers	4.3	4.3	4.4	4.0	4.3	3.7	4.2	3.9	4.5
Debt securities issued	8.3	7.5	9.4	9.3	9.5	9.1	6.1	7.3	5.4
Amounts due to credit institutions	6.4	5.3	6.8	5.3	2.8	5.5	4.4	1.1	4.7
Average interest rates on interest-bearing liabilities	**5.3**	**5.0**	**5.7**	**4.9**	**4.9**	**4.9**	**4.4**	**4.0**	**4.7**

The average interest rates paid on interest-bearing customer balances for 2006, 2005 and 2004 were 4.3 per cent., 4.0 per cent. and 4.2 per cent., respectively. However, average interest rates for Tenge-denominated amounts due to customers increased from 3.9 per cent. in 2004 to 4.3 per cent. in 2005 and 2006 due to increases in interest rates generally on Tenge- denominated deposits, while average interest rates on foreign currency-denominated amounts due to customers decreased from 4.5 per cent. in 2004 to 3.7 per cent. in 2005 and increased back to 4.4 per cent. in 2006 due to trends in the domestic market.

The average interest rates paid on deposits and loans from credit institutions increased from 4.4 per cent. in 2004 to 5.3 per cent. in 2005 and to 6.4 per cent. in 2006 due to increases in LIBOR and the increasing share of longer-tenor Tenge-denominated deposits within the deposit portfolio.

The average interest rate on securities issued increased in 2005 to 9.3 per cent. from 6.1 per cent. in 2004 due to issuance of domestic longer term subordinated debts, step-ups implemented on earlier issues and issuance of Eurobonds on the international market at the end of fourth quarter of 2006. The average interest rates on securities issued decreased to 8.3 per cent. in 2006 from 9.3 per cent. in 2005 primarily due to significant decreases in average interest rates on Tenge-denominated securities issued, which, in turn, was caused by the issuance of medium-term Tenge securities to international investors at a comparatively lower rate than those of previously issued Tenge-denominated securities.

Net interest income before impairment

The following table sets out certain data and ratios for the periods indicated:

	For the years ended 31 December			Variation			
	2006	2005	2004	2006/2005		2005/2004	
	(KZT millions, except percentages)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Interest income	80,647	52,385	32,950	28,262	54.0	19,435	59.0
Interest expense	(34,183)	(21,156)	(12,759)	13,027	61.6	8,397	65.8
Net interest income before impairment	**46,464**	**31,229**	**20,191**	**15,235**	**48.8**	**11,038**	**54.7**
Net interest income before impairment charge/operating income before impairment charge (per cent.)	63.7	61.4	62.0				
Net interest margin (per cent.)(1)	7.0	6.9	6.8				

Note:

(1) Net interest margin comprises (a) net interest income before impairment charge, divided by (b) average interest-earning assets.

Net interest income before impairment charge increased by KZT 15,235 million, or 48.8 per cent., to KZT 46,464 million in 2006 from KZT 31,229 million in 2005, after having increased by KZT 11,038 million, or 54.7 per cent., in 2005 from KZT 20,191 million in 2004. Net interest income before impairment charge increased both in 2005 and 2006 due to increases in the loan portfolio in respective years.

Impairment charge

The following table sets out certain data for the periods indicated:

	For the years ended 31 December			Variation			
	2006	2005	2004	2006/05		2005/04	
	(KZT millions, except percentages)			(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Impairment charge	(8,331)	(11,970)	(7,954)	3,639	(30.4)	(4,016)	50.5
Allowance for loan losses/total gross loans (per cent.)	5.3	5.9	6.1				
Impairment charge/operating income before impairment charge (per cent.)	11.4	23.5	24.4				

The Bank's impairment charge decreased by KZT 3,639 million, or 30.4 per cent., to KZT 8,331 million in 2006 from KZT 11,970 million in 2005 and increased by KZT 4,016 million, or 50.5 per cent., in 2005 from KZT 7,954 million in 2004. The reason for the decreases in impairment charge and allowance for loan losses as a percentage of total loans was a change in management's estimates with regards to individually significant loans and improved net recoveries. The reason for the decrease in impairment charge as a percentage of operating income before impairment charge in 2006 was the significant decrease of impairment charge, while the slight decrease in 2005 was attributable to the growth in fee and commission income, which resulted in increased operating income before impairment charge. In 2006, the Bank's net write-offs were KZT 543 million (representing gross write-offs of KZT 3,526 million less KZT 2,983 million in recoveries), compared to KZT 2,529 million in 2005 (representing gross write-offs of KZT 3,648 million less KZT 1,119 million in recoveries) and KZT 1,941 million in 2004 (representing gross write-offs of KZT 2,236 million less KZT 295 million in recoveries).

Fees and commissions

Net fee and commission income increased by KZT 5,887 million, or 38.6 per cent., to KZT 21,135 million in 2006 from KZT 15,248 million in 2005, primarily as a result of increases in fee and commission income from pension fund and asset management and bank transfers, while fee and commission expense remained stable. Net fee and commission income increased by KZT 5,930 million, or 63.6 per cent., in 2005 to KZT 15,248 million from KZT 9,318 million in 2004, primarily as a result of increases in fee and commission income from pension fund and asset management, bank transfers, cash operations and letters of credit and guarantees.

Fee and commission income

The following table sets out information on the Bank's fee and commission income for the periods indicated:

	For the years ended 31 December			Variations			
	2006	2005	2004	2006/05		2005/04	
	(KZT millions)			(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Pension fund and asset management	7,030	3,115	790	3,915	125.7	2,325	294.3
Bank transfers	5,898	4,312	2,381	1,586	36.8	1,931	81.1
Cash operations	2,714	2,225	1,860	489	22.0	365	19.6
Letters of credit and guarantees issued	1,357	1,796	1,195	(439)	(24.4)	601	50.3
Maintenance of customer accounts	1,104	894	753	210	23.5	141	18.7
Customers' pension payments	1,080	894	635	186	20.8	259	40.8
Utilities payments	765	861	724	(96)	(11.1)	137	18.9
Payment card maintenance	433	529	540	(96)	(18.1)	(11)	(2.0)
Foreign currency operations	232	781	647	(549)	(70.3)	134	20.7
Other	1,451	752	592	699	93.0	160	27.0
Fee and commission income, total	**22,064**	**16,161**	**10,117**	**5,903**	**36.5**	**6,044**	**59.7**

Fee and commission income increased by KZT 5,903 million, or 36.5 per cent., to KZT 22,064 million in 2006 from KZT 16,161 million in 2005, after having increased by KZT 6,044 million, or 59.7 per cent., in 2005 from KZT 10,117 million in 2004.

In 2006, the Bank earned KZT 7,030 million in pension fund and asset management fees and commissions, compared to KZT 3,115 million in 2005. The increase of KZT 3,915 million, or 125.7

per cent., was mainly attributable to increases in the market value and volume of funds under management. Fees from bank transfers increased by KZT 1,586 million, or 36.8 per cent., to KZT 5,898 million in 2006, compared to KZT 4,312 million in 2005, primarily as a result of an increase in the volume of bank transfers. Fees from cash operations increased by KZT 489 million, or 22.0 per cent., to KZT 2,714 million in 2006 from KZT 2,225 million in 2005, due to an increased volume of cash operations while, in the same period, fees from letter of credit and guarantees decreased by KZT 439 million, or 24.4 per cent., due to changes in customers' payments from documentary operations to open account transfers. Fees from foreign currency operations decreased by KZT 549 million, or 70.3 per cent., to KZT 232 million in 2006 from KZT 781 million in 2005 due to changes in fees policy whereby conversion fees were eliminated and incorporated into spreads on foreign exchange operations.

The increased fee and commission income in 2005, compared to 2004, was primarily attributable to increase in pension fund and asset management revenues and an increased volume of transactional banking operations. Fee and commission income earned on pension fund and asset management services increased significantly in 2005 to KZT 3,115 million compared to KZT 790 million in December 2004. This KZT 2,325 million, or 294.3 per cent., increase in 2005 was mainly attributable to an increase in asset management fees to KZT 2,323 million in 2005 from KZT 553 million in 2004 and an increase of fees from pension asset collection to KZT 792 million in 2005 from KZT 237 million in 2004. Fees from pension asset collection increased due to a significant increase in the fair value of pension assets in 2005 and an increase in the maximum collection fee for pension assets introduced by the Government of Kazakhstan effective 1 January 2005.

Fee and commission expense

The following table sets out information on the Bank's fee and commission expense for the periods indicated:

	For the years ended 31 December			Variations			
	2006	**2005**	**2004**	**2006/2005**		**2005/2004**	
	(KZT millions)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Payment cards	490	382	344	108	28.3	38	11.0
Bank transfers	148	126	83	22	17.5	43	51.8
Foreign currency operations	117	218	217	(101)	(46.3)	1	0.5
Other	174	187	155	(13)	(7.0)	32	20.6
Fee and commission expense, total	**929**	**913**	**798**	**16**	**1.8**	**115**	**14.4**

Fee and commission expense increased by KZT 16 million, or 1.8 per cent., to KZT 929 million in 2006 from KZT 913 million in 2005, after having increased by KZT 115 million, or 14.4 per cent., in 2005 from KZT 798 million in 2004.

Fee and commission expense increased in 2006 primarily as a result of an increase in fee expense from payment cards of KZT 108 million, or 28.3 per cent., to KZT 490 million in 2006 from KZT 382 million in 2005, due to increased volumes of transactions through payment card accounts, partially offset by a decrease in fee expenses from foreign currency operations of KZT 101 million, or 46.3 per cent., to KZT 117 million in 2006 from KZT 218 million in 2005 due to lower commissions paid to suppliers of foreign banknotes. The increase in fee and commission expense in 2005 was primarily attributable to increases in the number of payment cards issued and growth of transfer operations. (See "*Business of the Bank — Principal Business Activities*".)

Other non-interest income

The following table sets out certain information on the Bank's other non-interest income for the periods indicated:

	For the years ended 31 December			Variations			
				2006/2005		2005/2004	
	2006	2005	2004				
	(KZT millions)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Gains less losses from foreign currencies	3,440	1,894	1,991	1,546	81.6	(97)	(4.9)
(Losses less gains) Gains less losses from financial assets at fair value through profit or loss	(193)	1,363	165	(1,556)	(114.2)	1,198	726.1
Gains less losses from available-for-sale securities	202	342	104	(140)	(40.9)	238	228.8
Share of income of associate	167	249	196	(82)	(32.9)	53	27.0
Insurance underwriting income	664	—	—	664	—	—	—
Other non-interest income	1,025	571	608	454	79.5	(37)	(6.1)
Other non-interest income, total	**5,305**	**4,419**	**3,065**	**886**	**20.0**	**1,354**	**44.2**

Total other non-interest income increased by KZT 886 million, or 20.0 per cent., to KZT 5,305 million in 2006 from KZT 4,419 million in 2005, and by KZT 1,354 million, or 44.2 per cent., to KZT 4,419 million in 2005 from KZT 3,065 million in 2004.

Gains less losses from foreign currencies increased by KZT 1,546 million, or 81.6 per cent., to KZT 3,440 million in 2006 from KZT 1,894 million in 2005, after a decrease of KZT 97 million, or 4.9 per cent., to the 2005 amount from KZT 1,991 million in 2004. The increase in 2006 was mainly due to increases in volumes of foreign currency dealing and spreads on foreign exchange operations following elimination of conversion fees from fees charged for foreign currency operations. The decline in gains less losses from foreign currencies in 2005 reflects book losses from translation of the Bank's open foreign currency positions from foreign currency to Tenge, which outweighed foreign exchange gains from dealing operations.

Gains less losses from financial assets at fair value through profit or loss decreased by KZT 1,556 million, or 114.2 per cent., to a net loss of KZT 193 million in 2006 from KZT 1,363 million in 2005 and increased by KZT 1,198 million, or 726.1 per cent., in 2005 from KZT 165 million in 2004. The loss on financial assets at fair value through profit or loss during 2006 was incurred as the result of significant upward movements in U.S. and Kazakhstan treasury rates that negatively affected the value of those assets. The increase in gains less losses from financial assets at fair value through profit or loss in 2005 was mainly attributable to unrealised revaluation of Treasury securities with maturities of over one year.

Gains less losses from available-for-sale securities decreased by KZT 140 million, or 40.9 per cent., to KZT 202 million in 2006 from KZT 342 million in 2005 and increased by KZT 238 million, or 228.8 per cent., in 2005 from KZT 104 million in 2004. Gains less losses from available-for-sale securities in 2006 resulted primarily from sale of Treasury bills of the Ministry of Finance of the Republic of Kazakhstan purchased in 2005. The increase in 2005 was primarily due to sale of a large portfolio of U.S. Treasury securities at favourable prices which resulted in extraordinary high gains less losses from available-for-sale securities in 2005.

Share of income of associates decreased by KZT 82 million, or 32.9 per cent., to KZT 167 million in 2006 from KZT 249 million in 2005 and increased by KZT 53 million, or 27.0 per cent., in 2005 from KZT 196 million in 2004. The increase in 2005 was due to the growth in net income of JSC Kazakhinstrakh, which was accounted under the equity method as an associated company. The decrease in 2006 was attributable to losses at JSC National Processing Center and JSC Halyk Private Equity as well as derecognition of JSC Kazakhinstrakh as an associated company and its full consolidation starting from November 2006.

Insurance underwriting income added to other non-interest income in 2006 as a result of the consolidation of JSC Kazakhinstrakh after the acquisition of a controlling stake in October 2006.

Other non-interest income, comprising gains from disposals of fixed assets and other assets, increased by KZT 454 million, or 79.5 per cent., to KZT 1,025 million in 2006 from KZT 571 million in 2005 and decreased by KZT 37 million, or 6.1 per cent., to the 2005 amount from KZT 608 million in 2004.

Other non-interest expense

The following table sets out the composition of the Bank's other non-interest expense and certain ratios for the periods indicated:

	For the years ended 31 December			Variations			
	2006	2005	2004	2006/2005		2005/2004	
	(KZT millions, except percentages)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Salaries and other employee benefits	15,931	11,236	6,877	4,695	41.8	4,359	63.4
Administrative and operating expenses	8,558	5,242	4,513	3,316	63.3	729	16.2
Depreciation and amortisation expenses	2,371	1,330	1,112	1,041	78.3	218	19.6
Taxes other than income tax	1,257	1,255	1,042	2	0.2	213	20.4
Insurance claims incurred, net of reinsurance	103	—	—	103	—	—	—
Other provisions[(1)]	752	496	987	256	51.6	(491)	(49.7)
Other non-interest expense, total	**28,971**	**19,560**	**14,530**	**9,411**	**48.1**	**5,030**	**34.6**
Operating expense[(2)]/operating income before impairment charge (per cent.)	36.8	35.0	38.4				

Notes:

(1) Other provisions represent provision for off-balance sheet items, including letters of credit and guarantees issued.

(2) Operating expense includes salaries and other employee benefits, administrative and operating expenses and depreciation and amortisation expenses.

Other non-interest expense increased by KZT 9,411 million or 48.1 per cent. in 2006 to KZT 28,971 million from KZT 19,560 million in 2005, after having increased by 34.6 per cent. in 2005 from KZT 14,530 million in 2004. The increase in other non-interest expense for each year-on-year period was mainly attributable to increases in salaries and other employee benefits and in administrative and operating expenses.

Salaries and other employee benefits increased by KZT 4,695 million, or 41.8 per cent., in 2006 to KZT 15,931 million from KZT 11,236 million in 2005, after having increased by KZT 4,359 million, or 63.4 per cent., in 2005 from KZT 6,877 million in 2004. The increase in salaries and other employee benefits in 2006 was primarily attributable to an increase in head count and salary levels over the period, particularly for junior-level employees and the introduction of bonus programmes for front office staff. While the number of employees of the Bank did not significantly change in 2005, the increase in salaries and other employee benefits was primarily attributable to an average 30 per cent. increase in salaries of all employees of the Bank in 2005 with a view to bringing salary levels in the Bank closer to market rates, as well as increased levels of year-end bonuses.

Administrative and operating expenses increased by KZT 3,316 million, or 63.3 per cent., to KZT 8,558 million in 2006 compared to KZT 5,242 million in 2005, after having increased by KZT 729 million, or 16.2 per cent., in 2005 from KZT 4,513 million in 2004. Administrative and operating expenses increased in 2006 mainly due to increases in most expenses, particularly professional services, mainly resulting from the Eurobond issuance in May 2006 and the initial public offering in December 2006, and repair and maintenance, resulting from the upgrade of branches and establishment of four new personal service centres and "all for small business" centres, which were partially offset in 2006 by a decrease in expenses for stationery and office supplies. The increase in 2005 was attributable to increases in most expenses, particularly repair and maintenance and insurance of customer deposits, which were partially offset in 2005 by a decrease in professional service expense.

Depreciation and amortisation increased by KZT 1,041 million, or 78.3 per cent., in 2006 to KZT 2,371 million compared to KZT 1,330 million in 2005 and increased by KZT 218 million, or 19.6 per cent., in 2005 from KZT 1,112 million in 2004. The increase in 2006 was mainly attributable to an increase in depreciation and amortisation expense in buildings, transportation and other fixed assets in line with the increase in the Bank's fixed assets over the period. The increase in 2005 was attributable to a corresponding increase in the carrying value of capital assets in each respective year.

Taxes other than income taxes increased by KZT 2 million, or 0.2 per cent., in 2006 to KZT 1,257 million from KZT 1,255 million in 2005 and increased by KZT 213 million, or 20.4 per cent., in 2005 from KZT 1,042 million in 2004. Taxes other than income taxes include value added tax ("VAT"), property tax, auction and other taxes and duties due to the budget. The increase in 2005 mainly reflected an increase in property tax and other taxes.

Other provisions, comprising provision for off-balance sheet items, including letters of credit and guarantees issued, increased by KZT 256 million, or 51.6 per cent., to KZT 752 million in 2006, compared to KZT 496 million in 2005, primarily as a result of an increase in financial commitments and contingencies issued during the period.

Taxation

The Bank reported income tax expense of KZT 8,442 million in 2006, KZT 3,539 million in 2005 and KZT 1,998 million in 2004.

The Bank's effective tax rate was 23.7 per cent., 18.3 per cent. and 19.8 per cent. in 2006, 2005 and 2004, respectively. The Bank's effective tax rate in 2006 increased primarily due to change in tax legislation in 2006 causing removal of tax exemptions on income earned from long-term (more than three years) loans, while in 2005 it decreased, compared to 2004, due to increases in tax-exempt income from long term loans to modernise equipment, Government securities and other non-taxable income. The Bank's effective tax rate is not equivalent to the statutory tax rate because certain interest income, principally interest on mortgage loans and Government and other qualifying securities, is not taxable. See "*Key Factors Affecting the Bank's Results of Operations and Financial Condition — Taxes*".

The following tables set out certain information on the Bank's income tax expense and deferred tax assets and liabilities for the periods indicated:

	For the years ended 31 December		
	2006	2005	2004
	(KZT millions)		
Current tax charge	(6,337)	(3,564)	(1,721)
Deferred tax benefit (charge)	(2,105)	26	(276)
Income tax expense	**(8,442)**	**(3,539)**	**(1,998)**
Effective tax rate (per cent.)	23.7	18.3	19.8

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:

	For the years ended 31 December		
	2006	2005	2004
Income before income tax expense	35,601	19,366	10,091
Statutory tax rate (per cent.)	30	30	30
Theoretical 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 bank to modernise 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	*(290)*	*(112)*	*(32)*
Income tax expense	**(8,442)**	**(3,539)**	**(1,998)**

Deferred tax assets and liabilities comprise:

	As at 31 December		
	2006	2005	2004
	(KZT millions)		
Tax effect of deductible temporary differences:			
Loans to customers	—	342	—
Bonuses accrued	869	—	—
Deferred tax asset	**869**	**342**	**—**
Tax effect of taxable temporary differences:			
Loans to customers	(1,599)	—	—
Property and equipment	(1,801)	(767)	(451)
Deferred tax liability	(3,399)	(767)	(451)
Net deferred tax liability	(2,530)	(425)	(451)

Minority interest in net income

Minority interest in net income increased by KZT 300 million, or 150.0 per cent., to KZT 500 million for 2006, compared to KZT 200 million in 2005 and in 2005 by KZT 195 million, or 3,900 per cent., from KZT 5 million, in both cases primarily as a result of net income growth of JSC Accumulative Pension Fund of Halyk Bank Kazakhstan, of which the Bank owned 85 per cent.

Financial Condition as at 31 December 2006, 2005 and 2004

The following discussion of the Group's assets and liabilities and other balance sheet items should be read together with "Assets, Liabilities and Risk Management".

Total assets

The following table presents data regarding the Bank's assets at the dates indicated:

	As at 31 December					
	2006	Per cent. of total	2005	Per cent. of total	2004	Per cent. of total
	(KZT millions, except percentages)					
Assets:						
Cash and cash equivalents	127,799	12.9	57,102	10.2	33,123	8.4
Obligatory reserves	55,106	5.6	8,632	1.5	7,578	1.9
Financial assets at fair value through profit or loss	53,016	5.3	50,018	8.9	62,382	15.9
Amounts due from credit institutions	2,049	0.2	2,777	0.5	695	0.2
Available-for-sale investment securities	123,338	12.4	12,099	2.2	20,618	5.2
Loans to customers	596,216	60.1	411,097	73.5	254,590	64.7
Property and equipment	16,412	1.7	10,979	2.0	9,131	2.3
Insurance assets	5,626	0.6	—	—	—	—
Other assets	11,796	1.2	6,961	1.2	5,135	1.3
Total assets	**991,359**	**100.0**	**559,665**	**100.0**	**393,254**	**100.0**

As at 31 December 2006, the Bank had total assets of KZT 991,359 million, reflecting an increase of KZT 431,694 million, or 77.1 per cent., from 31 December 2005, which was mainly attributable to increases of KZT 185,119 million, or 45.0 per cent., in the net loan portfolio and KZT 111,239 million, or 919.4 per cent., in available-for-sale investment securities and, to a lesser extent, KZT 70,697 million, or 123.8 per cent., in cash and cash equivalents and KZT 46,474 million, or 538.4 per cent., in obligatory reserves.

As at 31 December 2005, the Bank had total assets of KZT 559,665 million, reflecting an increase of KZT 166,411 million, or 42.3 per cent., from KZT 393,254 million as at 31 December 2004, which was primarily attributable to a KZT 156,507 million, or 61.5 per cent., increase in the net loan portfolio and a KZT 23,979 million, or 72.4 per cent., increase in cash and cash equivalents.

The growth in the loan portfolio in each of these periods was attributable to an overall increase in lending activity, especially to retail and SME customers. Lending to retail customers increased in 2006 by

51.0 per cent.. and in 2005 by 95.0 per cent., while loans to SME customers grew 46.9 per cent. in 2006, and in 2005. Loans to corporate customers increased 39.7 per cent. in 2006 and in 2005 by 56.7 per cent. For more information see "*Selected Statistical and Other Information — The Bank's Loan Portfolio*".

The growth in investment securities to 31 December 2006 from 31 December 2005 was attributable to temporary excess liquidity experienced by the Bank in 2006 as a result of funding growing faster than the loan portfolio. The excess liquidity was typically invested in short-term deposits and loans to credit institutions and the financial assets at fair value through profit or loss portfolio.

The growth in obligatory reserves to 31 December 2006 from 31 December 2005 was attributable to a change in the NBK's minimum reserve requirements introduced in 2006 and stipulating generally higher obligatory reserve levels for the banks.

The growth in cash and cash equivalents to 31 December 2006 from 31 December 2005 was attributable to the excess liquidity referred to above.

Total liabilities

The following table presents data regarding the Bank's liabilities as at the dates indicated:

	As at 31 December					
	2006	**Per cent. of total**	**2005**	**Per cent. of total**	**2004**	**Per cent. of total**
	(KZT millions, except percentages)					
Liabilities:						
Amounts due to customers	597,935	68.7	323,515	65.3	231,930	64.8
Amounts due to credit institutions	118,719	13.6	107,284	21.7	76,493	21.4
Debt securities issued	134,413	15.4	58,814	11.9	44,940	12.6
Provisions	3,021	0.3	2,280	0.5	1,801	0.5
Deferred tax liability	2,530	0.3	425	0.1	451	0.1
Insurance liabilities	7,535	0.9	—	—	—	—
Other liabilities	6,579	0.8	2,903	0.6	2,071	0.6
Total liabilities	**870,732**	**100.0**	**495,221**	**100.0**	**357,686**	**100.0**

As at 31 December 2006, the Bank had total liabilities of KZT 870,732 million, reflecting an increase of KZT 375,511 million, or 75.8 per cent., as compared to 31 December 2005. The increase in total liabilities to 31 December 2006 from 31 December 2005 was primarily attributable to an increase in amounts due to customers of KZT 274,420 million, reflecting an increase in the corporate deposit base and, to a lesser extent, in the retail deposit base, an increase in debt securities issued of KZT 75,599 million, in particular U.S.$300 million in senior notes placed with international institutional investors in May 2006 and an increase in bank borrowings of KZT 11,435 million.

As at 31 December 2005, the Bank had total liabilities of KZT 495,221 million, reflecting an increase of KZT 137,535 million, or 38.5 per cent., compared to KZT 357,686 million as at 31 December 2004. The increase in total liabilities from 31 December 2004 to 31 December 2005 was primarily attributable to an increase in amounts due to customers of KZT 91,585 million, an increase in bank borrowings of KZT 30,791 million and an increase in debt securities issued of KZT 13,874 million.

Total equity

As at 31 December 2006, the Bank's total equity amounted to KZT 120,628 million (12.2 per cent. of total assets), reflecting an increase of KZT 56,184 million, or 87.2 per cent., over the total equity as at 31 December 2005. Total equity in 2006 increased due to an increase in share capital from KZT 29,016 million as at 31 December 2005 to KZT 60,684 million, as at 31 December 2006 and an increase in the retained earnings and other reserves from KZT 32,806 million as at 31 December 2005 to KZT 56,736 million as at 31 December 2006. On 19 April 2006 the Bank's general meeting of shareholders authorised 30,000,000 new common shares, fully issued and placed during 2006 for total consideration of KZT 7,500 million. In December 2006, the Bank offered 55,000,000 shares of common stock to its pre-IPO shareholders of which 45,531,122 common shares were placed in December 2006. During 2006 the Bank also issued and placed non-voting convertible preferred shares for total consideration of KZT 907.4 million.

As at 31 December 2005, the Bank's total equity amounted to KZT 64,444 million (11.5 per cent. of total assets), reflecting an increase of KZT 28,876 million, or 81.2 per cent., over the total equity of KZT 35,568 million as at 31 December 2004, or 9.0 per cent. of total assets. Total equity as at 31 December 2005 increased due to the issue of common shares and non-voting convertible preferred shares, and an increase in retained earnings and other reserves from KZT 17,417 million in 2004 to KZT 32,806 million as at 31 December 2005. Total equity increased in 2004 as a result of a new shares issue and an increase in retained earnings. In August 2005 the Bank announced a ten-to-one split of the common shares outstanding as of that date following a resolution of shareholders in May 2005. Subsequently, during the year ended 31 December 2005, shareholders authorised and issued 74,887,521 non-voting convertible preferred shares.

The Bank paid dividends on preferred shares in the aggregate amount of KZT 1,428 million and KZT 332 million for 2005 and 2004, respectively. For 2006, the Bank estimates that dividends on preferred shares will total KZT 1,579 million, which will be paid subject to approval of the Bank's annual shareholders' meeting.

The Bank paid no dividends on its common shares in 2005 and 2004. In June 2006, the Bank paid a dividend of KZT 1.35 per Share, for a total amount of KZT 1,331 million.

For more information, see "*Risk Factors — Risks Relating to the Bank — Any unavailability of adequate capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would adversely affect the Bank*".

Capital Expenditures

The following table provides information on the Bank's capital expenditures for the periods indicated:

	For the years ended 31 December		
	2006	**2005**	**2004**
	(KZT millions)		
Buildings	2,725	94	583
Computer and banking equipment	1,862	1,338	1,663
Vehicles	570	299	129
Other fixed assets	3,224	1,448	578
Intangible assets	1,211	399	173
Capital expenditures, total	**9,592**	**3.578**	**3,126**

Capital expenditures increased by KZT 6,014 million, or 168.1 per cent., to KZT 9,592 million for the year ended 31 December 2006 from KZT 3,578 million for the year ended 31 December 2005, primarily due to an increase in buildings expenditure of KZT 2,631 million, or 2,798.9 per cent., to KZT 2,725 million from KZT 94 million resulting from the opening of VIP centres for retail customers and "all for small business" centres for SME customers and the purchase of a new building for the Halyk Pension Fund. Investments in other fixed assets increased by KZT 1,776 million, or 122.7 per cent., to KZT 3,224 million for the year ended 31 December 2006 from KZT 1,448 million for the year ended 31 December 2005 primarily due to modernisation and expansion of the Bank's branch network. Expenditures in intangible assets increased by KZT 812 million, or 203.5 per cent., to KZT 1,211 million for the year ended 31 December 2006 from KZT 399 million for the year ended 31 December 2005, mainly due to expenses related to installation of the SAP data warehouse and purchase of the Temenos-supplied T-24 automated banking system. Expenditures in vehicles increased by KZT 271 million, or 90.6 per cent., to KZT 570 million for the year ended 31 December 2006 from KZT 299 million for the year ended 31 December 2005, due to renovation of the Bank's fleet.

Capital expenditures increased by KZT 452 million, or 14.5 per cent., to KZT 3,578 million for the year ended 31 December 2005 from KZT 3,126 million for the year ended 31 December 2004, primarily due to a KZT 870 million increase in investments in other fixed assets, including telecommunications equipment, furniture and security systems, a KZT 170 million increase in purchases of new armoured and passenger vehicles for the Bank's fleet, and a KZT 226 million increase in expenditures in intangible assets mainly due to the purchase of banking software such as SAP, Landocs and various Colvir software modules, partially offset by declines in investment in buildings, and in computer and banking equipment.

Off-Balance Sheet Arrangements

The Bank enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include guarantees and letters of credit, expose the Bank to credit risk and are not reflected in the Bank's consolidated balance sheet. The Bank's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

The table below provides details on the Bank's consolidated credit commitments, guarantees and commercial letters of credit as at the dates indicated:

	For the years ended 31 December		
	2006	**2005**	**2004**
	(KZT millions)		
Guarantees	39,897	29,330	44,595
Commercial letters of credit	18,326	16,107	15,526
Commitments to extend credit	21,629	17,000	104,964
Guarantees, commercial letters of credit and commitments to extend credit, gross	79,852	62,437	165,085
Less cash collateral against letters of credit	(132)	(766)	(762)
Less provisions	(3,021)	(2,280)	(1,801)
Credit commitments, guarantees and commercial letters of credit, net	**76,699**	**59,391**	**162,522**

Net credit commitments, guarantees and commercial letters of credit increased by KZT 17,308 million, or 29.1 per cent., to KZT 76,699 million for the year ended 31 December 2006 from KZT 59,391 million for the year ended 31 December 2005, due to increase in guarantees of KZT 10,567 million, in commercial letters of credit of KZT 2,219 million and in commitments to extend credit of KZT 4,629 million.

As at 31 December 2006, the top 10 guarantees (by amount) amounted to approximately 63 per cent. of the Bank's total financial guarantees and represented approximately 21 per cent. of the Bank's total equity, compared to approximately 56 per cent. and approximately 25 per cent., respectively, for the year ended 31 December 2005 and approximately 33 per cent. and approximately 42 per cent., respectively, for the year ended 31 December 2004. The increase in the concentration of the guarantee portfolio in 2006 was due to two large guarantees issued and outstanding as of the year end in the oil and gas and pipeline construction sectors Increase in concentration of the guarantee portfolio in 2005 was due to decrease in the overall guarantee portfolio. As at 31 December 2006, the top 10 letters of credit (by amount) amounted to approximately 78 per cent. of the Bank's total commercial letters of credit and represented approximately 12 per cent. of the Bank's total equity, compared to approximately 74 per cent. and approximately 18 per cent., respectively, for the year ended 31 December 2005 and approximately 83 per cent. and approximately 36 per cent., respectively, for the year ended 31 December 2004.

The significant decrease in credit commitments in 2005 as compared with 2004 was attributable to the Bank's decision to introduce uncommitted facilities.

The following table sets out the residual maturity of the Bank's consolidated guarantees, commercial letters of credit and commitments to extend credit as at the dates indicated:

	As at 31 December 2006						
	Residual maturity of contingent liabilities						
	Total balance	**Up to 30 days**	**1 to 3 months**	**3 to 6 months**	**Up to 1 year**	**Over 1 year**	**Overdue contingent liabilities**
	(KZT millions)						
Guarantees	39,897	7,602	8,388	1,950	7,677	14,268	12
Commercial letters of credit	18,326	2,448	2,333	3,287	7,587	2,670	—
Commitments to extend credit	21,629	1,511	513	713	2,662	13,535	2,696
Total guarantees, commercial letters of credit and commitments to extend credit, gross	**79,852**	**11,562**	**11,233**	**5,950**	**17,926**	**30,473**	**2,708**

Provisions for contingent liabilities

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for its on-balance sheet operations. As at 31 December 2006, the provision for contingent liabilities was KZT 3,021 million, compared to KZT 2,280 million as at 31 December 2005 and KZT 1,801 million as at 31 December 2004.

Foreign currency position

The following table sets out the net open foreign currency position of the Bank as at the dates indicated:

	As at 31 December		
	2006	**2005**	**2004**
Net balance sheet position (U.S.$ millions)(1)	234.0	31.9	(97.5)
Net balance sheet position (expressed in KZT millions)(2)	29,715	4,280	(12,680)
/total capital(1)(3)	20.4	5.1	(27.8)
/total liabilities(2)	3.4	0.9	(3.5)
/foreign currency liabilities(2)	7.0	1.5	(6.5)
Net long/(short) position (U.S.$ millions)(1)	(40)	39	(78)
Net long/(short) position (expressed in KZT millions)(1)	(5,035)	5,262	(10,085)
/regulatory capital(1)(4)	(3.6)	6.6	(23.7)

Notes:

(1) Unaudited.

(2) Audited.

(3) Consolidated total capital (Tier I and Tier II, less investments) is calculated in accordance with BIS Guidelines. (See "*Capital Adequacy and Liquidity*".)

(4) Unconsolidated regulatory capital (Tier I and Tier II, less investments) is calculated in accordance with FMSA prudential requirements, not BIS Guidelines. As calculated under FMSA requirements, regulatory capital was KZT 139,297 million as at 31 December 2006 and KZT 80,293 million and KZT 42,509 million as at 31 December 2005 and 2004, respectively.

The FMSA regulates and closely monitors the net open foreign currency position of banks. According to the FMSA's requirements effective from 1 September 2006, a bank's aggregate net open foreign currency position may not exceed 25 per cent. of its regulatory capital and the open foreign currency position for any single currency of countries with a sovereign rating no lower than "A" assigned by Standard & Poor's may not exceed 12.5 per cent. of its regulatory capital. The open short and long positions for any currency of a country with a sovereign rating lower than "A" by Standard & Poor's are limited to 5 per cent. of the Bank's regulatory capital. At weekly Assets and Liabilities Management Committee meetings, the Bank monitors the size of net open foreign currency positions.

Capital adequacy and liquidity

The capital adequacy requirements currently in effect in Kazakhstan exceed guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements (the "BIS Guidelines"). (See "*Kazakhstan Currency and Banking Legislation*".) The FMSA requires banks to maintain a Tier I capital adequacy ratio of minimum 6 per cent. and total capital adequacy ratio of minimum 12 per cent. compared to 4 per cent. and 8 per cent., respectively, recommended by the BIS Guidelines. However, there are two major differences between FMSA capital adequacy methodology and BIS Guidelines: (i) Tier I capital is calculated over total on-balance sheet assets as opposed to risk-weighted assets as per BIS guidelines; and (ii) current period earnings are included in the Tier II part of total capital whereas BIS guidelines include those in Tier I capital. In addition, for a bank with a regulated banking holding company (that is, an entity holding more than 25.0 per cent. of its voting share capital, alone or together with affiliated companies) among its shareholders, the Tier I capital adequacy ratio is reduced to 5.0 per cent. and the total capital adequacy ratio is reduced to 10.0 per cent. (See "*Risk Factors — Risks Relating to the Bank — Any unavailability of adequate capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would adversely affect the Bank*".)

The following table sets out the Bank's capital adequacy ratios calculated in accordance with the requirements of the FMSA and the NBK as at the dates indicated:

	FMSA's minimum requirements	As at 31 December 2006	2005	2004
		(unaudited) *(share capital in KZT billions, ratios in per cent.)*		
Capital adequacy ratios				
Share capital	Not less than 2 billion	103.9	49.2	32.9
K1 — Tier I capital to total assets	5 per cent.(1)	9.5	8.5	6.3
K2 — Total capital to assets weighted for risk	10 per cent.(1)	16.6	15.7	12.7
K4 — Current liquidity ratio	Greater than 30 per cent.	157.6	90.9	111.1
K5 — Short-term liquidity ratio	Greater than 50 per cent.	104.7	71.6	109.0
K6 — Investments into fixed assets and non-financial assets to equity	Not more than 50 per cent. of bank's regulatory capital(2)	12.2	15.1	23.4
Maximum aggregate net long/(short) open foreign currency position(3)	25 per cent. of bank's regulatory capital	(3.6)	6.6	(23.7)
Maximum net long/(short) open position in U.S. Dollars(4)	12.5 per cent. of bank's regulatory capital	(5.8)	5.0	(24.5)
Maximum net long/(short) open position in Russian Roubles(5)	5 per cent. of bank's regulatory capital	0.2	0.6	0.3
Maximum net long open position in Kyrgyz Soms(5)	5 per cent. of bank's regulatory capital	0.5	0.2	—
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	Must not exceed regulatory capital	4.9	6.9	9.0
Maximum exposure to any single:				
— unrelated party	Not more than 25 per cent. of bank's regulatory capital	14.2	12.8	19.0
— related party	Not more than 10 per cent. of bank's regulatory capital	6.5	4.2	5.9
— on unsecured loans	Not more than 10 per cent. of bank's regulatory capital	0.06	2.5	0.9
Funds placement into internal assets ratio	Not less than 100 per cent.	115.7	131.1	131.5

Notes:

(1) Under new FMSA regulations, K1 and K2 ratios should be not less than 6 per cent. and 12 per cent., while for commercial banks whose shareholders have the status of a bank holding company under the FMSA rules, these ratios should exceed 5 per cent. and 10 per cent., respectively.

(2) The FMSA's definition of "regulatory capital" is the sum of Tier I, Tier II (to the extent it does not exceed Tier I capital) and Tier III (to the extent that Tier III does not exceed 250 per cent. of Tier I calculated to cover market risk) capital less equity investments. Tier I capital is the sum of share capital plus share premium plus revenue reserves plus paid-in perpetual financial instruments (to the extent that they do not exceed 15 per cent. of Tier I capital) less intangible assets. Tier II capital is the sum of current profit for the period plus revaluation reserves plus general provisions (to the extent that they do not exceed 1.25 per cent. of risk-weighted assets), subordinated debt (but not more than 50 per cent. of Tier I capital) plus paid-in perpetual financial

instruments not included in Tier I. Tier III is the sum of Tier III subordinated debt plus Tier II subordinated debt not included in the calculation of Tier II Capital.

(3) Effective September 2006, the FMSA tightened currency position regulations for the aggregate foreign currency position from 30 per cent. of regulatory capital down to 25 per cent. and for the hard currency (rated "A" or higher) position from 15 per cent. down to 12.5 per cent. For currencies rated below "A" by Standard & Poor's or an equivalent rating currency position was tightened earlier in February 2007 from 15 per cent. to 5 per cent.

(4) Open currency position (short or long) in currencies of countries rated "A" or higher by Standard & Poor's or an equivalent rating from another recognised international rating agency.

(5) Currency position in currencies of countries rated above "B" but lower than "A" by Standard & Poor's or an equivalent rating from another recognised international rating agency.

For purposes of the above ratios:

- Under Kazakhstan law, "share capital" includes paid-in common share capital and preferred share capital. A bank's share capital may only be formed with cash contributions. The sources of contributions to commercial banks' share capital are subject to certain limitations and specific disclosure requirements.

- The current liquidity ratio is the ratio of monthly average highly liquid assets to monthly average demand liabilities. For this purpose, "highly liquid assets" include cash, refined precious metals, certain securities issued by the Government, the NBK or certain other Kazakhstan entities, call deposits with the NBK and with banks with an appropriate credit rating, overnight loans to such banks and securities issued by foreign governments with an appropriate credit rating. Demand liabilities include call deposits, interbank overnight deposits and other specified short-term or undated liabilities.

- The short-term liquidity ratio is calculated as the ratio of average monthly assets with a maturity of not more than three months, including highly liquid assets, to average monthly liabilities with a term of not more than three months, including demand liabilities. A bank may include within its assets for this purpose certain securities issued by the Government or the NBK that are not included in the calculation of highly liquid assets if liabilities secured by those securities are included in the calculation of liabilities for this purpose.

- For purposes of calculating the current or short-term liquidity ratio, capital regulations provide that certain assets should not be included in the computation, including claims on non-residents established in jurisdictions that have not assumed information exchange obligations, and if a bank has outstanding unpaid obligations to its creditors or depositors or has violated Kazakhstan's legislation on payments and money transfers during the relevant reporting period, the liquidity ratios shall be deemed to be not satisfied, irrespective of the actual position.

- As from June 2006, the FMSA has introduced three new limits in relation to currency liquidity. The current currency liquidity limit (to be greater than 0.9) is calculated as foreign currency-denominated high liquidity assets averaged monthly divided by paid-on-demand liabilities in the same currency averaged monthly. The short-term currency liquidity limit is calculated similarly to the current currency liquidity limit by taking assets/liabilities with maturities less than three months; this ratio should be greater than 0.8. Similarly, the medium-term currency liquidity limit is calculated by taking assets/liabilities with maturities less than one year; this ratio should be greater than 0.6. Limits are calculated for each foreign currency where liabilities denominated in such currency exceed 1 per cent. of the monthly averaged liabilities of a bank.

- As from June 2006, the FMSA's limit on maximum aggregate credit exposure to related parties (including on-balance and off-balance sheet exposures) of 100 per cent. of regulatory capital has been replaced with the requirement that the sum of exposures to one borrower where each exposure exceeds 10 per cent. of regulatory capital should not exceed eight times the bank's regulatory capital.

The following table gives certain information regarding the Bank's Tier I and Tier II capital and its risk-weighted capital adequacy ratio as at the dates indicated based on BIS Guidelines and the consolidated financial statements of the Bank:

	As at 31 December		
	2006	2005	2004
	(KZT millions, except percentages)		
Tier I capital	119,205	62,622	32,253
Tier II capital	26,424	22,524	13,972
Gross Tier I and Tier II available capital	145,630	85,146	46,225
Less investments	(281)	(1,443)	(686)
Tier I and Tier II capital	145,349	83,703	45,539
Total risk-weighted assets	851,628	488,432	331,564
Tier I capital adequacy ratio (per cent.)	14.0	12.8	9.7
Total risk-weighted capital adequacy ratio(1) (per cent.)	17.1	17.1	13.7

Note:

(1) Tier I + Tier II/total risk-weighted assets.

ASSET, LIABILITY AND RISK MANAGEMENT

General

The principal risks inherent in the Bank's business are liquidity risk, interest rate risk, foreign currency exchange rate risk and credit risk. The Bank monitors and manages the mismatch of maturities, the size and degree of its interest rate and foreign currency exchange rate exposure and credit quality in order to minimise the effect of these risks on profitability, while ensuring sufficient liquidity and capital adequacy. Through its asset and liability management, the Bank aims to structure its balance sheet in light of liquidity, interest rate and foreign currency exchange risks, as well as demands for credit, existing asset-liability positions and general market conditions.

The Bank's asset, liability and risk management functions are divided among the Management Board, the Assets and Liabilities Management Committee ("ALCO"), credit committees located in branches and in the Head Office, the Risk Management function and the Treasury. The Bank's asset and liability management policy is formulated by the Management Board and approved by the Board of Directors. The ALCO establishes major balance sheet guidelines in asset and liability management and, with the assistance of the Risk Management function and the Treasury, monitors compliance with them. The Risk Management function is responsible for coordinating the establishment and development of the Bank's risk management systems in various departments, assessing and analysing associated risks, supervision of the Bank's compliance with the prudential standards established by the NBK and analysis of activities of other market participants. Until 2002, the responsibilities of the Risk Management function were performed by a division of the Financial Department; in 2002, these functions were transferred to the Risk Management Department.

The Risk Management function consists of two departments (Credit risks department and Financial risks and portfolio analysis department) reporting to the Head of Risk Management and to the Chairman of the Management Board through the line thus ensuring independence from business units. Units of the Risk Management function supervise different activities. The Financial Risks Unit is involved in management of market, interest rate, liquidity and counterparty credit risks (e.g. country and financial institutions). The Operational Risks Unit develops the framework for operational risk management in the Bank. The Methodology and Portfolio Analysis Unit is responsible for detailed credit portfolio analysis, reporting, certain portfolio limits and provisioning procedures. The Project Risks Unit, SME Credit Risks Unit and Standard Products Risks Units are engaged in the credit risk management process for large corporates, the SME sector and retail loan portfolio, respectively, and apart from reviewing credit applications made to the Head Office and applications which exceed the approval limit of branch credit committees, these units are closely involved in portfolio monitoring, policy-making activities and product development (advisery function).

Branch and Head Office credit committees are responsible for managing credit risk. Three credit committees are located in each of the 19 regional branches: one each for small and medium-sized businesses, with shared responsibilities depending on the complexity of products/applications, and the Retail Lending Credit Committee. The authority of branch credit committees is limited to certain amounts and conditions as approved by the Management Board. Four main credit committees exist within the Bank's Head Office: the Retail Lending Credit Committee, two Branch Network Credit Committees and the Head Office Credit Committee. The responsibilities of each Head Office credit committee include decision making on credit applications of large corporates (the Head Office Credit Committee) and processing corporate and individual loan applications that exceed the approval limit of the credit committees located in branches (the Branch Network Credit Committee and the Retail Credit Committee, respectively). The Bank's subsidiary banks in Russia and Kyrgyzstan have credit procedures and committee structure similar to those applied in the Bank with various authority levels delegated to each committee.

Asset and Liability Management Committee

The ALCO has seven members and is chaired by the Chairman of the Management Board. The ALCO reports directly to the Management Board. The ALCO is responsible for formulating and overseeing the implementation of the asset and liability management strategy of the Bank. The functions of the ALCO include regular monitoring of the Bank's balance sheet structure, capital adequacy, interest-sensitive assets and liabilities, maturity gap, liquidity position, certain characteristics of the loan portfolio, interest income and expense on various assets and liabilities and conditions in foreign currency and financial markets. The ALCO is also responsible for determining base interest rates on consumer and corporate loans and, together with the Head Office Credit Committee, sets overall interest rate levels and terms for both interest-earning assets and interest-bearing liabilities and makes decisions regarding maturities and pricing of assets and liabilities.

Funding and Liquidity

The Bank's funding and liquidity management policy is designed to deal with both the business-as-usual and contingency scenarios. Under the business-as-usual scenario, the Bank seeks to ensure that funding sources are well diversified and within internal funding targets. Under contingency scenarios, the Bank's policy seeks to ensure that the Bank has sufficient resources of liquidity (liquid assets and access to sources of liquidity) to withstand a range of potential liquidity crises without impairing its solvency and to maintain normal levels of customer business and cost of funding, access to customer and professional market funding and to comply with FMSA regulations. Customer accounts and deposits are the key sources of the Bank's funding, given the Bank's legacy of a former state owned savings bank (similar to Russia's Sberbank). As at 31 December 2006, the Bank had the largest market share (20.0 per cent.) in the retail deposit market, according to FMSA statistics. Amounts due to customers accounted for 68.7 per cent. of total liabilities as at 31 December 2006, 65.3 per cent. of total liabilities in 2005 and 64.8 per cent. of total liabilities in 2004. The Bank's international debt capital market financing aims to gradually reduce the Bank's most expensive liabilities and further diversify and lengthen the maturity of the Bank's funding base. For a more detailed breakdown of the Bank's sources of funds, see "*Selected Statistical and Other Information — The Bank's Funding Sources*".

The following table provides certain information as to the Bank's liquidity as at the dates indicated:

	As at 31 December		
	2006	**2005**	**2004**
		(per cent.)	
Loans/assets (excluding accrued income on loans)	62.2	76.6	67.4
Loans/amounts due to customers (excluding accrued income on loans)	103.2	132.5	114.3
Loans equity (excluding accrued income on loans)	511.6	665.0	745.2
Liquid assets[(1)]/total assets	36.4	23.3	31.6
Liquid assets[(1)]/total amounts owed to customers	60.4	40.4	53.6

Note:

(1) Liquid assets comprise available-for-sale investment and financial assets at fair value through profit or loss, cash and cash equivalents, obligatory reserves and amounts due from credit institutions.

Maturity analysis

The following tables summarise the Bank's monetary assets and monetary liabilities by remaining maturity as at the dates indicated and contain certain information regarding the liquidity risk facing the Bank:

	As at 31 December 2006						
	On demand	**Less than one month**	**One to three months**	**Three months to one year**	**One to three years**	**Over three years**	**Total**
				(KZT millions)			
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 profits 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	123,338
Loans to customers	2,405	24,267	49,929	251,183	144,508	123,925	596,216
Insurance assets	3,535	667	525	768	24	107	5,626
Other assets	—	2,751	264	1,032	—	293	4,340
Total monetary assets	**94,000**	**237,848**	**72,931**	**273,561**	**154,708**	**134,444**	**967,491**
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	26,956	134,413
Deferred tax liabilities	—	—	—	730	—	1,801	2,530
Provisions	3,021	—	—	—	—	—	3,021
Insurance liabilities	5,681	434	472	933	15	—	7,535
Other liabilities	—	366	1,002	4,712	110	—	6,190
Total monetary liabilities	**158,070**	**199,328**	**40,799**	**262,917**	**150,744**	**58,485**	**870,342**
Net position	(64,070)	38,520	32,131	10,644	3,964	75,959	97,149
Accumulated gap	(64,070)	(25,550)	6,582	17,226	21,190	97,149	

	As at 31 December 2005						
	On demand	**Less than one month**	**One to three months**	**Three months to one year**	**One to three years**	**Over three years**	**Total**
				(KZT millions)			
Monetary assets							
Cash and cash equivalents	29,104	26,231	1,766	—	—	—	57,102
Obligatory reserves	3,041	1,050	502	2,387	1,568	85	8,632
Financial assets at fair value through profit or loss	50,018	—	—	—	—	—	50,018
Amounts due from credit institutions	—	—	1,446	1,120	210	—	2,777
Available-for-sale investment securities	—	354	909	1,475	1,998	7,362	12,099
Loans to customers	1,411	13,212	27,435	129,749	179,407	59,882	411,097
Other assets	968	1,188	110	607	—	1,409	4,280
Total monetary assets	**84,542**	**42,035**	**32,168**	**135,339**	**183,184**	**68,737**	**546,005**
Monetary liabilities							
Amounts due to customers	112,967	38,991	21,516	88,642	58,250	3,148	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
Provisions	2,280	—	—	—	—	—	2,280
Deferred tax liability	—	—	—	425	—	—	425
Other liabilities	—	1,039	667	790	304	—	2,799
Total monetary liabilities	**115,851**	**54,968**	**36,758**	**128,152**	**96,629**	**62,759**	**495,116**
Net position	(31,309)	(12,933)	(4,589)	7,187	86,555	5,978	50,889
Accumulated gap	(31,309)	(44,242)	(48,831)	(41,644)	44,911	50,889	

	As at 31 December 2004						
	On demand	**Less than one month**	**One to three months**	**Three months to one year**	**One to three years**	**Over three years**	**Total**
				(KZT millions)			
Monetary assets							
Cash and cash equivalents	11,872	11,276	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	119	20,618
Loans to customers	2,104	13,854	32,563	78,083	98,252	29,734	254,590
Other assets	3,590	794	—	—	—	—	4,384
Total monetary assets	**82,455**	**29,148**	**44,392**	**84,280**	**113,117**	**29,980**	**383,372**
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	39,415	17,662	77	76,493
Debt securities issued	21	—	513	—	38,533	5,872	44,940
Provisions	1,801	—	—	—	—	—	1,801
Deferred tax liability	—	—	—	—	451	—	451
Other liabilities	1,612	15	70	183	191	—	2,071
Total monetary liabilities	**80,947**	**32,047**	**39,334**	**112,023**	**83,482**	**9,853**	**357,686**
Net position	1,507	(2,899)	5,058	(27,743)	29,636	20,127	25,686
Accumulated gap	1,507	(1,391)	3,667	(24,076)	5,559	25,686	

There was no accumulated negative liquidity gap up to one year as at 31 December 2006 in view of excess liquidity experienced by the Bank and which was placed into highly liquid short-term assets. The accumulated negative liquidity gaps up to one year at 31 December 2005 and 2004 were KZT 41,644 million and KZT 24,076 million, respectively.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. The principal objective of the Bank's interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements and increasing interest income by managing interest rate exposure. The Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments. This analysis includes any trading and investment securities, as well as commercial banking assets and liabilities.

The following table summarises the effective average interest rates by currency:

	As at 31 December					
	2006		2005		2004	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
			(per cent.)			
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

Management believes that the structure of its balance sheet, including the short-term structure of its major assets and liabilities, reduces the Bank's exposure to interest rate risk. Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the ability of the Bank to reprice its assets and liabilities. While the majority of its loans are at fixed interest rates, the Bank believes that its sensitivity to interest rate changes is largely reduced by the relatively short-term maturity (up to one year) of approximately 55 per cent. of its loan portfolio in 2006 and its ability under the majority of its loan agreements to change the applicable rate of interest under certain circumstances. Furthermore, in the event of material changes in circumstances, the Bank is also entitled to call for early repayment of loans and since early 2006 the standard loan agreement has contained a condition allowing the Bank to call for early loan repayment subject to an advance notice. Accordingly, a substantial portion of the Bank's assets are susceptible to repricing prior to maturity that mitigates interest rate risk. In addition, in October 2005, the Bank introduced an interest rate gap limit with ALCO ensuring compliance on a monthly basis. Nevertheless, as the average maturity of the Bank's loan portfolio increases, it will, without a matching increase in the average maturity of its liabilities, face increasing interest rate risk. Currently, the Bank does not use derivative instruments to reduce its interest rate exposure.

Foreign Currency Management

The Tenge/U.S. Dollar exchange rate has been subject to fluctuation in recent years. In 2005, the Tenge depreciated against the U.S. Dollar by 2.9 per cent. In 2006, the Tenge depreciated against the U.S. Dollar by 5.1 per cent.

The Bank is subject to exchange rate risk due to adverse movements in currency exchange rates in the currencies in which the Bank maintains assets or liabilities. As discussed below, the Bank is also exposed to the effects of fluctuations in the foreign currency exchange rates on its cash flows. The Bank's foreign currency position arises primarily through its purchases and sales of foreign exchange (primarily U.S. Dollars) on the spot market and the mismatch of foreign currency assets and liabilities. Currently, the

Bank does not use any derivative instruments to limit its foreign exchange risk. Since September 2004, the Bank has applied value at risk ("VaR") methodology to calculate its exposure to foreign exchange. The Risk Management function provides daily monitoring of internal VaR limits established for the Treasury Department. VaR calculations cover open foreign currency positions (currently U.S.$ and Euro) exceeding 5 per cent. of regulatory capital and the whole portfolio. Currently, the Bank does not hold any significant open positions in other currencies, and as soon as the position in some currency exceeds the established threshold it will automatically be included in VaR calculations. Regulation and monitoring of the open foreign currency position of banks is carried out by the FMSA. According to the current FMSA regulations, a bank's net open foreign currency position relative to its capital must not exceed 25 per cent. Also, there are regulations on the open currency position on each currency. Net open currency positions on the currencies of countries having a rating above "A" on Standard & Poor's scale or similar rating by other major rating agencies and Euro are limited to 12.5 per cent. of a bank's capital. For the currencies of countries having a rating below "A" on Standard & Poor's scale or a similar rating of other major rating agencies, net open currency positions are limited to 5 per cent. of a bank's capital. The FMSA defines an open currency position as an excess of a bank's liabilities over its assets in the same currency. When liabilities in one currency are larger than assets, the bank runs a short positions and vice versa. While position in each currency is calculated and monitored separately, the bank's net position is taken as a difference between the sum of all long positions and the sum of all short positions. On a weekly basis, the Bank furnishes to the FMSA a report on maintenance of positions in each currency and net currency position. For the net open foreign currency positions of the Bank at various dates, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations Overview — Foreign Currency Position*".

The following table sets out the Tenge-equivalent amount of monetary assets and liabilities denominated in different currencies as at the dates indicated:

	As at 31 December 2006			As at 31 December 2005		
	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total
			(KZT millions)			
Monetary assets						
Cash and cash equivalents	31,957	95,842	127,799	24,556	32,545	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	120	2,049	1,330	1,446	2,777
Available-for-sale investment securities	122,157	1,182	123,338	9,623	2,475	12,099
Loans to customers	291,007	305,209	596,216	168,663	242,434	411,097
Insurance assets	5,252	374	5,626	—	—	—
Other assets	2,925	1,416	4,340	3,850	430	4,280
	511,583	**455,909**	**967,491**	**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	28,084	30,729	58,814
Provisions	3,014	7	3,021	2,279	—	2,280
Deferred tax liability	2,525	6	2,530	425	—	425
Insurance liabilities	6,425	1,110	7,535	—	—	—
Other liabilities	5,757	432	6,190	2,026	773	2,799
	444,149	**426,193**	**870,342**	**212,733**	**282,383**	**495,116**
Net balance sheet position	**67,433**	**29,715**	**97,149**	**46,609**	**4,280**	**50,889**
Net off balance sheet position	**80,203**	**159,191**	**239,394**	**14,021**	**32,618**	**46,639**
Total open position	**147,637**	**188,906**	**336,543**	**60,630**	**36,898**	**97,528**

	As at 31 December 2004		
	KZT	Foreign currencies	Total
		(KZT millions)	
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	136,241	254,590
Other assets	3,693	691	4,384
	199,539	**183,833**	**383,372**
Monetary liabilities			
Due to customers	136,230	95,700	231,930
Due to credit institutions	6,570	69,923	76,493
Debt securities issued	15,206	29,734	44,940
Provisions	1,801	—	1,801
Deferred tax liability	451	—	451
Other liabilities	915	1,156	2,071
	161,173	**196,513**	**357,686**
Net balance sheet position	**38,366**	**(12,680)**	**25,686**
Net off balance sheet position	**14,393**	**31,934**	**46,327**
Total open position	**52,759**	**19,254**	**72,013**

Foreign currencies represent mainly U.S. Dollar amounts, but also include currencies from other OECD countries. The Bank's principal cash flows (revenues, operating expenses) are largely generated in Tenge and U.S. Dollars. As a result, future movements in the exchange rate between the Tenge and the U.S. Dollar will affect the carrying value of the Bank's U.S. Dollar-denominated monetary assets and liabilities.

Treasury Operations

The ALCO has delegated to the Treasury Department daily management of the Bank's liquidity, interest rate and foreign currency risks. There are two units within the Treasury Department. The Trading Desk is responsible for investment and trading securities portfolios of the Bank, daily management of liquidity in all currencies, open currency position and banknotes sales. The Sales Desk advises the Bank's corporate clients on cash management, FX and interest rate hedging issues and cash advisory.

In order to manage the Bank's positions and portfolios and help the Bank's clients with their cash and risk management requirements, the Treasury Department deals with various types of instruments ranging from plain vanilla to derivatives.

Credit Risk Management

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank limits the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or counterparty, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower, industry sector and region are established by the Management Board. Credit risk is monitored by the Management Board on a continuous basis and subject to annual or more frequent reviews. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are recommended by the Risk Management function and set by the Credit Committees. See "*Lending Policies and Procedures*", "*Selected Statistical and Other Information — Loan Classification and Provisioning Policy*" and "*Selected Statistical and Other Information — Portfolio Supervision and Non-Performing Loans*".

Systems Risk Management

Information technologies ("IT") and the impact of potential systems failures have become increasingly significant with the growth in the volume of transactions involving computers, servers and telecommunications networks; in particular the importance of online management information systems has increased. Accordingly, the Bank has devoted substantial resources to ensure the development and reliability of its computer and related systems. For example, the Bank maintains a "hot" reserve (as described below) of all of its crucially important servers. As part of its system risk management, the Bank prepares and stores backup files for all banking activities and conducts testing to monitor the functioning of its computer systems and backup procedures on a weekly basis. Although the Bank's management believes that existing systems allow the Bank to adequately measure and monitor its exposure to liquidity, interest rate, foreign exchange and other market risks, the Bank is currently upgrading its IT systems, which it expects to complete by the end of 2007, allowing it to centrally manage its customer database and to provide better quality data to assist in processing and analysing specific risks inherent to its operations. See "*Business of the Bank — Information Systems*".

The Bank intends to make large investments in IT to improve client service, and increase effectiveness and competitiveness. The Bank's budget for the development of IT was KZT 1.6 billion in 2004 and KZT 1.8 billion in 2005. In 2007, the Bank's budget included planned IT investments of KZT 3.5 billion, with an IT budget approximately 25 per cent. higher in 2007 than in 2006.

The Bank's IT connected activity is regulated by internal rules and procedures approved by the Management Board of the Bank. The Bank's IT systems administration is controlled by the Security Division which is independent from IT management. In 2006, the Bank launched the CobIT (IT governance support) and ITIL (IT service management) systems which were successfully completed in February 2007. The Bank believes that the introduction of these systems will increase the efficiency and transparency of its IT management. The Bank considers IT to be an integral component of its daily operations and is committed to continued investment in IT in order to support the efficient growth of its operations.

The Bank continues to upgrade its processes which will allow full integration of the banking and payment systems as well as centralisation of the customer database. In 2005, the Bank launched the Mobile Banking system for customers to manage their card accounts via their mobile phones, completed the introduction of a collateral monitoring and management system, successfully finished the pilot project for the implementation of a SAP BW data warehouse and developed an HP Open View used for management of IT infrastructure. In 2005, the Bank updated its Customer Contacts, Know Your Customer, the Integrated Database on Material Damages incurred by the Bank as a result of its operations and the Unified Database on Bank's contracts, systems and software. During 2006, the Bank completed the second stage of the implementation of its SAP BW data warehouse, which will allow it to compile various management reports. The Bank also plans to complete the introduction of fixed assets accounting, procurement and technical support, controlling, planning and budgeting system (SAP R/3, BPS). In 2005, the systems in its largest retail branch were fully centralised, and currently the Bank is finalising replication of the centralised retail system in most of its main branches. In 2006, a centralised Oracle CDH customer database was introduced.

The Bank uses a flexible, scalable and reliable information platform based on the industry database and UNIX servers with RISC processors. As the standard for the critically important applications, the Bank uses DBMS Oracle, servers of SUN and HP firms, operation systems Sun Solaris and HP UX. For other applications the Bank uses Intel servers with the Windows operating system. The Bank's main servers are supported by a "hot" reserve, which is a continuously operating backup server used to ensure minimum data loss in the event of a major failure of the main servers. There is an information back-up of the database on a magnetic carrier every day. Magnetic copies are stored in a separate building located approximately six to seven kilometres from the main and reserve servers. All main servers are supplied with electricity by two uninterruptible power supplies. The Bank has technical support for its Sun, HP equipment and Oracle software. The Bank's critical IT systems have "hot" reserve systems. In case of main server failures or building destruction, two recovery systems based in Almaty will be activated without losing transactions. Currently, there is another recovery system being constructed in Astana.

The Bank believes it has the largest and most developed multi-service corporate network among the second tier banks of Kazakhstan. The network uses the IP protocol, which is built on the equipment of Cisco Systems.

Money Laundering Risk Management

The existence of "black" and "grey" market economies in Kazakhstan, the presence of organised crime in the economy, loopholes in legislation (including, but not limited to, tax legislation) and the lack of administrative guidance on its interpretation increase the risk of Kazakhstan's financial institutions being used as vehicles for money laundering. The Bank has implemented measures aimed at preventing it being used as a vehicle for money laundering, such as new AML policy and proceedings to detect suspicious transactions.

Lending Policies and Procedures

General

The FMSA has strict guidelines applicable to the credit process of banks. FMSA regulations limit the exposure to any single borrower or group of borrowers to 10 per cent. of a bank's equity for related parties, to 25 per cent. of a bank's equity for non-related parties and to 10 per cent. of a bank's equity for unsecured loans irrespective of whether the borrower is a related or non-related party. The Bank's credit approval process is based on NBK and FMSA regulations and internal procedures established by the Management Board and approved by the Board of Directors.

Corporate and SME customers

All applications for credit by corporate and SME customers must be submitted to the Bank on standard forms. Depending on the amount and the borrower, the application is reviewed and approved by a credit committee located in either a branch, the Branch Network Credit Committee or the Head Office Credit Committee. The Credit Analysis Department based in the Head Office prepares credit proposals based on applications made to the Head Office, applications above U.S.$3 million (or equivalent) made to the branches and performs the preliminary review of any application above U.S.$1 million (or equivalent) before being submitted to the relevant credit decision making body. The Risk Management function with its staff located in both the Head Office and branches undertakes a thorough analysis of each credit applicant, including carrying out feasibility studies, financial analysis, financial standing and reputation and experience of the potential borrower. Once such analysis is completed, the Risk Management function prepares its recommendation on each application in terms of overall risks related to the project, the borrower and the related industry sector. The credit analysis takes a number of items into consideration, including (i) the ability to repay, (ii) financial condition of the borrower, (iii) value of the collateral, (iv) management of the borrower, (v) purpose of the loan and (vi) the industry of the borrower. Information is obtained from various external sources including the state taxation authorities where appropriate. If the loan is collateralised and as required by the Bank's policy, the Legal Department makes a legal assessment of the collateral being offered, including valuation, legality and enforceability. The Bank also employs independent legal advisers and appraisers, from time to time, to review the loan agreements and other legal documentation involved in the lending process and to make an independent assessment of the collateral value. The Bank's subsidiary banks in Russia and Kyrgyzstan have credit procedures and committee structure similar to those applied in the Bank with various authority levels delegated to each committee.

At the moment the Bank is reviewing rating systems designed by leading international suppliers and plans to select a vendor by the end of 2007. The purchase and implementation of a new advanced rating system is expected in mid-2007 and in the intervening period the Bank will continue to use its own system. This new credit rating model will rank the Bank's corporate and SME customers in accordance with their financial creditworthiness and allow for improvements in the Bank's credit decision-making process. In the future such rating model will enable the Bank to differentiate the pricing for various risk categories.

All credit limits for each of the credit committees are established by the Management Board based on the recommendation of the Risk Management function.

Retail clients

Loan applications from individuals (which require information on income, collateral provided, purpose and terms of lending as well as information as to the co-borrowers if applicable) primarily are initiated by retail managers, who introduce credit requests to Branch Retail Credit Committees, normally consisting of five members representing the Risk Management function, the Sales Department, the Legal Department and the Collateral Assessment Department, chaired by a branch deputy head for retail business. There is a special procedure for micro-credit applications (named "Narodnaya" and "Narodnaya +"), where the relevant heads of Branch Retail Departments are authorised to approve individual loans for amounts not exceeding branch limits (in the range of KZT 0.5-1.0 million depending on the programme and other criteria) without approval of the relevant credit committee. Otherwise, such credit applications are submitted to Branch Retail Credit Committees and further on to the Retail Credit Committee of the Head Office in case the branch limit is exceeded or conditions deviate from the standard ones.

Depending on the amount of the credit application, the terms of credit and the collateral, the Branch Retail Credit Committee is permitted to make decisions of up to KZT 8 million on individual loans and up to KZT 40 million on mortgage loans. In other cases (e.g. when either the terms of the requested facility are not in compliance with the requirements of the Retail Lending Policy, or requested amounts exceed a limit set for a branch) the branch must submit an application to the Retail Credit Committee of the Head Office requesting credit approval.

Whether an application is forwarded to the Retail Credit Committee of the Head Office, or a bank's employee makes an application for lending (depending on the programme), or a client of a certain (e.g. VIP) category applies for a loan, or particular alteration of procedures and/or limits for branches concerning the retail business of the Bank is considered necessary, the Retail Credit Committee of the Head Office reviews such applications. Currently, retail products are offered as various lending programs with certain criteria set for each type. The Bank plans to introduce score cards for consumer lending programmes by the end of 2007.

Collateralisation

The Bank seeks to reduce its credit risk by requiring collateral from most of its borrowers. In particular, all corporate loans under the Bank's Business Medium and Business Light Programmes (see "*Business of the Bank — Principal Business Activities — Corporate Banking*") (and all the retail bank loans excluding consumer loans made under the salary programme) are collateralised. Collateral on loans extended by the Bank includes, but is not limited to, real estate, machinery and motor vehicles, marine ships, industrial equipment, industrial goods, food-stock and other commercial goods, receivables and individual property rights, as well as cash deposits, securities and individual third party and corporate guarantees. The Bank estimates the net realisable value of the collateral provided and regularly monitors the quality and safekeeping of the collateral taken as security. In certain cases, additional collateral may be sought from the borrower. The following table sets out the loan amount as a percentage of collateral value based on the type of collateral:

Collateral categories	Loan/collateral value
Cash	100 per cent.
Guarantees from financial institutions	100 per cent.
Government debt securities	100 per cent.
Real estate	70-80 per cent.
Commodities	50-70 per cent.
Fixed assets	50-70 per cent. less amortisation
Equity securities	100 per cent., at market value
Receivables	10-50 per cent.
Third party and corporate guarantees	On a case-by-case basis

The Bank believes that it has a satisfactory record in enforcing its securities and attempts to resolve security enforcement through out-of-court procedures where possible. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any pledged collateral either in reliance on its legal rights or with the co-operation of the borrower. If necessary, the Bank will seek to obtain repayment by sequestration of a debtor's property or funds held in accounts with other banks in a court of law.

Loan Classification and Provisioning Policy

General

The Head Office Credit Committee is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto based on reports provided by the Risk Management function. In order to establish adequate allowances, loans are classified by their perceived risk criteria in accordance with the Bank's policy and the requirements of IFRS. The Risk Management function also conducts evaluations of other assets and off-balance sheet contingent liabilities.

NBK/FMSA classification and provisioning guidelines

Until 2003, banks classified their portfolio and established allowances for loan losses under an FMSA policy based on event-oriented criteria relying primarily on the timeliness of a borrower's payment of interest and principal. Effective 2003, the FMSA revised its policies regarding loan classifications and requirements for provisions. In order to establish adequate allowances for the impairment of loans, other assets and off-balance sheet risks in accordance with applicable regulatory requirements, the Bank uses impairment rates based on FMSA regulations. Provisioning policies under IFRS differ from those under FMSA requirements. Specifically, for IFRS purposes, the Bank makes provisions for losses on individually significant loans on a case-by-case basis and makes provisions for losses made on pools of homogeneous loans and pools of individually significant loans that are not specifically impaired based on historical loss data. Actual provisions established take into account the value of specified collateral or third party guarantees. Accordingly, the actual provision levels recorded in IFRS financial statements may differ from the provisioning rates used for regulatory purposes.

Pursuant to revised FMSA guidelines, the Head Office Credit Committee, in classifying the Bank's loans and off-balance sheet exposures, performs detailed credit reviews and assesses the borrower's financial condition, its rating (if any) and operating results, whether these have deteriorated since the origination of the loan, the current performance of the borrower with regard to the timely repayment of principal and interest, if there have been any extensions of interest or principal payments granted or whether other modifications have been made to the original loan agreement, the quality and quantity of any collateral provided, the basic fundamentals of the purpose of the loan and whether there has been any unauthorised use of the loan proceeds.

Based on these assessments and other analytical procedures, the respective business units classify loans according to their risk and the exposure that they potentially present to the Bank, which classification is verified by the Risk Management function. At present, the Risk Management function uses classifications as set out in the NBK regulations that are broadly as follows:

Standard loans — The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Bank has confidence that the borrower will be able to cope with such (temporary) difficulties. Interest and principal are repaid in full and in a timely fashion. The borrower is considered as having the capability of repaying the loan in accordance with its terms and conditions. Security provided for the loan must cover at least 100 per cent. of the outstanding amount, not less than 75 per cent. in case of highly liquid collateral (which may include a Government guarantee, bank guarantee with an individual rating not lower than AA- from one of the rating agencies, corporate guarantee with an individual rating not lower than AA, cash collateral, Government securities or precious metals, the value of which covers 100 per cent. of the exposure).

Doubtful 1st category — There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower is repaying the loan principal and the interest without delay and in full. The value of collateral covers at least 50 per cent. of the Bank's exposure.

Doubtful 2nd category — There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. However, due to temporary difficulties the borrower is repaying the loan with delays and/or not in full. The value of collateral covers at least 50 per cent. of the Bank's exposure.

Doubtful 3rd category — There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and the interest in full. However, despite severe deterioration of financial health the borrower manages to repay the loan and interest in full and without a delay. The value of collateral covers at least 50 per cent. of the Bank's exposure.

Doubtful 4th category — There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to stabilise and improve its current financial performance and impairs the borrower's ability to repay the loan and the interest in full. The borrower is repaying the loan with delays and/or not in full. The value of collateral covers at least 50 per cent. of the Bank's exposure.

Doubtful 5th category — The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral can be classified as satisfactory (normally not highly liquid but covering not less than 100 per cent. of the borrower's outstanding debt) and unsatisfactory (the value of which covers nearly but not less than 50 per cent. of the borrower's outstanding debt).

Loss — In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralised or the value of the collateral covers less than 50 per cent. of the borrowers' outstanding debt.

The loan classifications described above are used to determine the adequacy of the allowance for impairment of loans and the adequacy of the allowance for other assets and off-balance sheet risks for regulatory purposes in accordance with NBK and FMSA requirements. The following provisioning rates are used by the Bank to establish regulatory allowances:

Classification categories	Provisioning Rate(s)
Standard loans	—
Doubtful 1st category	5 per cent.
Doubtful 2nd category	10 per cent.
Doubtful 3rd category	20 per cent.
Doubtful 4th category	25 per cent.
Doubtful 5th category	50 per cent.
Loss loans	100 per cent.

For IFRS reporting purposes the Bank makes necessary adjustments to its Kazakhstan statutory loan loss allowances in accordance with IAS standards. For further details of the loan classification, see "*Selected Statistical and Other Information — The Bank's Loan Portfolio — Analysis of Loan Portfolio Quality*".

Portfolio Supervision and Non-Performing Loans

The Risk Management function provides monthly reports to the Management Board detailing all aspects of the Bank's credit activity.

Non-performing loans comprise principal or interest which is past due for more than 30 days. Problem loans comprise loans where the payment of principal is past due or interest is past due for more than 60 days. A non-performing loan is restored to accrual status when all arrears have been paid and it is considered likely that the customer will continue timely performance. A non-performing loan may also be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured of collection, such as is the case when all amounts due under a loan are fully collateralised by cash or marketable securities and actions have commenced to foreclose on the collateral.

Write-off Policy

The Bank writes off loans, net of the realisable value of the collateral, when it is evident that a loss has been sustained and no amounts will be collected.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical information and ratios for the Bank as at and for the periods indicated. Accordingly, the information below should be read in conjunction with the consolidated financial statements, including the notes thereto, prepared in accordance with IFRS and included elsewhere in this Prospectus and the information included in "*Management's Discussion and Analysis of Financial Condition and Results of Operations Overview*".

Certain of the information included below has been derived from management accounts, being the unaudited accounts prepared from the Bank's accounting records, and used by the Bank's management for monitoring and control purposes.

Average Balances

The following tables set out the average balances of assets and liabilities of the Bank for the periods indicated. For purposes of the following tables, the average balances represent the unconsolidated and unaudited average of monthly balances for the years ended 31 December 2006 and 2005. Average balances represent the average of the opening and closing balances for the year ended 31 December 2004. Calculation of these balances on a "weighted average" or "daily" basis could result in differences and such differences could be material.

	For the years ended 31 December								
	2006			2005			2004		
	Average balance	Interest	Average rate (per cent.)(1)	Average balance	Interest	Average rate (per cent.)(1)	Average balance	Interest	Average rate (per cent.)(1)
Assets									
Interest-earning assets									
Loans to customers									
KZT	215,134	42,201	19.6	137,843	24,102	17.5	91,606	15,899	17.4
Foreign currency	248,147	29,090	11.7	196,228	23,447	11.9	117,634	12,548	10.7
Total	**463,281**	**71,292**	**15.4**	**334,071**	**47,549**	**14.2**	**209,239**	**28,447**	**13.6**
Amounts due from credit institutions(2)									
KZT	43,559	1,879	4.3	13,882	527	3.8	2,634	64	2.4
Foreign currency	43,678	2,124	4.9	25,550	859	3.4	16,980	919	5.4
Total	**87,237**	**4,003**	**4.6**	**39,432**	**1,386**	**3.5**	**19,614**	**983**	**5.0**
Securities									
KZT	94,531	4,427	4.7	60,259	2,750	4.6	48,423	2,749	5.7
Foreign currency	17,527	925	5.3	15,892	700	4.4	17,872	771	4.3
Total	**112,058**	**5,352**	**4.8**	**76,150**	**3,450**	**4.5**	**66,295**	**3,520**	**5.3**
Total interest-earning assets									
KZT	353,224	48,508	13.7	211,984	27,379	12.9	142,662	18,712	13.1
Foreign currency	309,352	32,139	10.4	237,669	25,006	10.5	152,486	14,238	9.3
Total interest-earning assets	**662,576**	**80,647**	**12.2**	**449,653**	**52,385**	**11.7**	**295,148**	**32,950**	**11.2**

	For the years ended 31 December								
	2006			2005			2004		
	Average balance	Interest	Average rate(1)	Average balance	Interest	Average rate(1)	Average balance	Interest	Average rate(1)
Non-interest earning assets									
Cash and non-interest deposits	34,401			17,435			7,649		
Obligatory reserves	8,468			1,247			6,395		
Property and equipment	12,238			9,832			8,227		
Other non-interest earning assets	12,909			9,014			3,970		
Total non-interest earning assets	**68,016**			**37,528**			**26,241**		
Total assets	**730,591**			**487,180**			**321,389**		

Notes:

(1) Average rates on foreign currency assets and liabilities are based on U.S. Dollar rates. Foreign currency assets and liabilities mainly include U.S. Dollars, but the Bank also has foreign currency assets and liabilities denominated in other OECD and non-OECD-based currencies.

(2) Including overnight deposits and correspondent accounts.

	For the years ended 31 December								
	2006			2005			2004		
	Average balance	Interest	Average rate (per cent.)(1)	Average balance	Interest	Average rate (per cent.)(1)	Average balance	Interest	Average rate (per cent.)(1)
				(KZT millions, except percentages)					
Liabilities									
Interest-bearing liabilities									
Amounts due to credit institutions(2)									
KZT	24,941	1,328	5.3	5,594	154	2.8	5,805	62	1.1
Foreign currency	75,896	5,126	6.8	76,471	4,221	5.5	63,879	3,032	4.7
Total	**100,837**	**6,453**	**6.4**	**82,065**	**4,375**	**5.3**	**69,684**	**3,094**	**4.4**
Amounts due to customers									
KZT	229,575	9,783	4.3	158,908	6,827	4.3	111,991	4,369	3.9
Foreign currency	198,804	8,709	4.4	137,340	5,046	3.7	81,182	3,657	4.5
Total	**428,379**	**18,492**	**4.3**	**296,248**	**11,873**	**4.0**	**193,174**	**8,026**	**4.2**
Debt securities issued									
KZT	61,335	4,571	7.5	24,287	2,308	9.5	9,810	721	7.3
Foreign currency	49,639	4,667	9.4	28,515	2,601	9.1	16,951	918	5.4
Total	**110,973**	**9,238**	**8.3**	**52,802**	**4,909**	**9.3**	**26,761**	**1,639**	**6.1**
Total interest-bearing liabilities									
KZT	315,851	15,682	5.0	188,790	9,289	4.9	127,607	5,152	4.0
Foreign currency	324,339	18,502	5.7	242,326	11,868	4.9	162,013	7,607	4.7
Total interest-bearing liabilities	**640,190**	**34,183**	**5.3**	**431,115**	**21,156**	**4.9**	**289,619**	**12,759**	**4.4**

	For the years ended 31 December								
	2006			2005			2004		
	Average balance	Interest	Average rate(1)	Average balance	Interest	Average rate(1)	Average balance	Interest	Average rate(1)
				(KZT millions)					
Tax liabilities	227			67			317		
Provisions	2,696			1,882			1,361		
Other non-interest bearing liabilities	12,556			10,019			1,409		
Total non-interest bearing liabilities	**15,480**			**11,968**			**3,087**		
Total liabilities	**655,670**			**443,084**			**292,706**		

Notes:

(1) Average rates on foreign currency assets and liabilities are based on U.S. Dollar rates. Foreign currency assets and liabilities mainly include U.S. Dollars, but the Bank also has foreign currency assets and liabilities denominated in other OECD and non-OECD-based currencies.

(2) Including amounts due to the Government.

Interest-earning Assets, Yields, Margins and Spreads

The following table shows the net interest income, yields, margins and spreads for the Bank for the periods indicated:

	For the years ended 31 December		
	2006	2005	2004
	(KZT millions)		
Net interest income before impairment			
KZT	32,826	18,091	13,560
Foreign currency	13,637	13,138	6,631
Total	**46,464**	**31,229**	**20,191**
Yield[(1)] (per cent.)			
KZT	13.7	12.9	13.1
Foreign currency	10.4	10.5	9.3
Average	**12.2**	**11.7**	**11.2**
Margin[(2)] (per cent.)			
KZT	9.3	8.5	9.5
Foreign currency	4.4	5.5	4.3
Average	**7.0**	**6.9**	**6.8**
Spread[(3)] (per cent.)			
KZT	8.8	8.0	9.1
Foreign currency	4.7	5.6	4.6
Average	**6.8**	**6.7**	**6.8**

Notes:

(1) Yield represents interest income as a percentage of average interest-earning assets taken as monthly averages for 2006 and 2005 and annual averages for 2004.

(2) Margin represents net interest income as a percentage of average interest-earning assets.

(3) Spread represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities.

Analysis of Changes in Net Interest Income

The following table presents certain information regarding changes in interest income and interest expense of the Bank during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume (changes in average outstanding balances multiplied by the prior period's average interest rate) and (2) changes in interest rate (changes in average interest rate multiplied by the average outstanding balances at the end of the period). Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate:

	For the years ended 31 December					
	2006/2005			2005/2004		
	Increase/(Decrease) due to changes in			Increase/(Decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Loans to customers						
KZT	13,514	4,585	18,099	8,025	178	8,203
Foreign currency	6,204	(561)	5,643	8,384	2,515	10,899
Amounts due from credit institutions						
KZT	1,128	224	1,352	273	191	464
Foreign currency	609	656	1,265	464	(524)	(60)
Securities						
KZT	1,564	113	1,677	672	(671)	1
Foreign currency	72	153	225	(85)	14	(71)
Total interest income	**23,091**	**5,170**	**28,261**	**17,733**	**1,703**	**19,436**
Interest expenses						
Amounts due to credit institutions						
KZT	533	641	1,174	(2)	94	92
Foreign currency	(32)	937	905	598	591	1,189
Amounts due to customers						
KZT	3,035	(79)	2,956	1,830	628	2,458
Foreign currency	2,259	1,404	3,663	2,530	(1,141)	1,389
Debt securities issued	5,408	(1,079)	4,329	1,595	1,675	3,270
Total interest expenses	**11,203**	**1,824**	**13,027**	**6,551**	**1,847**	**8,398**
Net changes in net interest income	**11,888**	**3,346**	**15,235**	**11,182**	**(144)**	**11,038**

Return on Assets and Equity

The following table sets out certain selected financial ratios of the Bank for the periods indicated:[(1)]

	For the years ended 31 December		
	2006	2005	2004
	(KZT millions, except percentages)		
Net income after income tax expense	27,159	15,828	8,093
Average total assets	730,591	487,180	321,389
Average common equity	60,029	38,132	25,929
Average common equity/average total assets (per cent.)	8.2	7.8	8.1
Net income/			
average total assets (per cent.)	3.7	3.2	2.5
average common equity (per cent.)	45.2	41.5	31.2
Dividends to preferred shareholders	1,579	1,427	332
Net income attributable to common shareholders	25,080	14,201	7,756
Dividends paid to common shareholders	—	1,208	—
Dividend payout ratio (per cent.)	—	8.5	—

Note:

(1) Average amounts and ratios are based on monthly averages for 2006 and 2005 and annual averages for 2004.

The Bank's Loan Portfolio

Loans to customers

Loans to customers represent the largest part of the Bank's assets. As at 31 December 2006, the Bank had total loans to customers, net of allowance for loan impairment, of KZT 596,216 million, or 60.1 per cent. of total assets, an increase of KZT 185,119 million, or 45.0 per cent., from the 31 December 2005 amount. As at 31 December 2005, the Bank had total loans to customers, net of allowance for loan impairment, of KZT 411,097 million, or 73.5 per cent. of total assets, an increase of KZT 156,507 million, or 61.5 per cent., from the 31 December 2004 amount of KZT 254,590 million, or 64.7 per cent. of total assets. Loans to the Bank's 10 largest borrowers represented approximately 15 per cent. of the gross loan portfolio as at 31 December 2006, compared to approximately 12 per cent. as at 31 December 2005 and 16 per cent., as at 31 December 2004. As at 31 December 2006, the Bank's exposure to the single largest borrower was KZT 14,104 million, constituting 2.2 per cent. of total gross loans to customers, compared to 2.4 per cent. in 2005 and 3.0 per cent. in 2004.

Average interest rates on the loan portfolio increased to 15.4 per cent. for the year ended 31 December 2006, from 14.2 per cent. in 2005 and 13.6 per cent. in 2004, due to the increased share of longer-term loans and KZT denominated loans in retail and SME portfolios.

The average balance of the Bank's net loans to customers for the year ended 31 December 2006 was KZT 463,281 million, compared to KZT 334,071 million in 2005 and KZT 209,239 million in 2004.

The following table provides a breakdown of gross loans granted by the Head Office and by the branches as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Head Office	334,004	53.0	244,186	55.9	154,895	57.1
Branches	286,322	45.5	192,142	44.0	116,059	42.8
Subsidiaries	9,544	1.5	690	0.2	174	0.1
Gross loans, total	**629,870**	**100**	**437,018**	**100**	**271,128**	**100**

Distribution of loans by sector

During the past few years, the Bank has focused on increasing the share of lending to retail and SME customers, as well as diversifying its loan portfolio (apart from retail loans) by industries and regions.

The following table sets out the composition of the Bank's gross loan portfolio by economic sector as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Retail loans						
— mortgage loans	110,274	17.5	78,680	18.0	36,664	13.5
— consumer loans	86,907	13.8	51,922	11.9	30,320	11.2
Wholesale trade	113,510	18.0	60,924	13.9	26,917	9.9
Construction	70,064	11.1	54,461	12.5	35,851	13.2
Agriculture	47,474	7.5	38,019	8.7	34,043	12.6
Retail trade	42,098	6.7	33,909	7.8	8,673	3.2
Services	23,213	3.7	13,866	3.2	7,798	2.9
Real estate	14,896	2.4	12,494	2.9	9,133	3.4
Energy	14,745	2.3	7,279	1.7	6,892	2.5
Oil and gas	13,532	2.1	16,380	3.8	26,191	9.7
Transportation	11,503	1.8	8,440	1.9	4,587	1.7
Food industry	10,359	1.6	3,743	0.9	5,809	2.1
Hotel industry	5,811	0.9	3,323	0.8	—(1)	—(1)
Metallurgy	5,638	0.9	3,968	0.9	4,362	1.6
Mining	4,835	0.8	6,587	1.5	4,566	1.7
Consumer goods and automobile trade	4,639	0.7	2,149	0.5	4,373	1.6
Research and development	2,444	0.4	8,307	1.9	8,018	3.0
Machinery	2,194	0.3	2,708	0.6	—(1)	—(1)
Communication	1,888	0.3	1,433	0.3	1,558	0.6
Other	43,846	7.0	28,427	6.5	15,373	5.7
Gross loans, total	**629,870**	**100**	**437,018**	**100**	**271,128**	**100**

Note:

(1) For this period included in "Other".

As at 31 December 2006, consumer and mortgage loans, wholesale trade, construction, agriculture and retail trade accounted for 13.8 per cent., 17.5 per cent., 18.0 per cent., 11.1 per cent., 7.5 per cent. and 6.7 per cent., respectively, of the total gross loan portfolio. Growth in the loan portfolio in recent years was mainly driven by growth in mortgage and consumer loans, as well as increased lending to customers in the wholesale trade and construction sectors. Management plans to increase the funding of the construction sector.

Distribution of loans by type of borrower

The Bank serves a large number of small, medium and large Kazakhstan businesses, as well as individuals.

The following table (derived from management accounts) sets out certain information relating to the Bank's gross loan portfolio by reference to the type of borrower as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Large corporations	338,761	53.8	242,496	55.5	154,784	57.1
Small and medium sized businesses	93,928	14.9	63,920	14.6	49,360	18.2
Individuals	197,181	31.3	130,602	29.9	66,984	24.7
Gross loans, total	**629,870**	**100**	**437,018**	**100**	**271,128**	**100**

Loans to large corporations increased by KZT 96,265 million, or 39.7 per cent., to KZT 338,761 million as at 31 December 2006 from KZT 242,496 million, as at 31 December 2005. Loans to large corporations increased by KZT 87,712 million, or 56.7 per cent., to KZT 242,496 million as at 31 December 2005 from KZT 154,784 million as at 31 December 2004.

Loans to SMEs increased by KZT 30,008 million or 46.9 per cent., to KZT 93,928 million as at 31 December 2006 from the 31 December 2005 amount. Loans to SMEs increased by KZT 14,560 million, or 29.5 per cent., to KZT 63,920 million as at 31 December 2005 from KZT 49,360 million as at 31 December 2004.

Loans to individuals increased by KZT 66,579 million, or 50.9 per cent., to KZT 197,181 million as at 31 December 2006 from the 31 December 2005 amount. Loans to individuals increased by KZT 63,618 million, or 94.9 per cent., to KZT 130,602 million as at 31 December 2005 from KZT 66,984 million as at 31 December 2004.

Collateralisation of loan portfolio

The following table sets out certain information relating to the collateralisation of the Bank's gross loan portfolio as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Collateralised	628,486	99.8	434,096	99.3	269,065	99.2
Loans collateralised by securities and precious metals	51	—	—	—	518	0.2
Loans collateralised by real estate	349,737	55.5	237,924	54.4	103,077	38.0
Loans collateralised by deposits	26,788	4.3	19,832	4.5	6,929	2.6
Loans collateralised by guarantees	36,387	5.8	46,912	10.7	19,630	7.2
Loans collateralised by other assets (including future cash receivables)	215,523	34.2	129,428	29.6	138,911	51.2
Uncollateralised	1,384	0.2	2,922	0.7	2,063	0.8
Gross loans, total	**629,870**	**100**	**437,018**	**100**	**271,128**	**100**

Collateral on loans extended by the Bank includes, but is not limited to, real estate, machinery and motor vehicles, industrial equipment, industrial goods, food-stock, commodities and other commercial goods, as well as cash deposits, securities and personal third party and corporate guarantees. (See "*Asset, Liability and Risk Management — Lending Policies and Procedures — Collateralisation*".)

Composition by maturity

The following table sets out certain information relating to the maturity profile of the Bank's net loan portfolio as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
On demand	2,405	0.4	1,411	0.3	2,104	0.8
Less than one month	24,267	4.1	13,212	3.2	13,854	5.4
Between one and three months	49,929	8.4	27,435	6.7	32,563	12.8
Between three months and one year	251,183	42.1	129,749	31.6	78,083	30.7
Between one and three years	144,508	24.2	179,407	43.6	98,252	38.6
Over three years	123,925	20.8	59,882	14.6	29,734	11.7
Net loans, total	**596,216**	**100**	**411,097**	**100**	**254,590**	**100**

The increase of KZT 64,042 million, or 106.9 per cent., in loans maturing over three years to KZT 123,925 million, or 20.8 per cent. of the total loan portfolio, as at 31 December 2006, from KZT 59,882 million, or 14.6 per cent. of the total loan portfolio, as at 31 December 2005, and the increase of KZT 30,148 million, or 101.4 per cent., to the 31 December 2005 amount from KZT 29, 734 million, or 11.7 per cent. of the total loan portfolio, as at 31 December 2004, were primarily attributable to the significant growth of the mortgage portfolio, where average maturities are generally longer, as well as increasing volumes of longer-term lending to existing corporate and SME customers. The Bank expects the maturity profile to increase further also as the result of more competition in the sector, especially with respect to corporate and SME customers. The decrease of KZT 34,899 million, or 19.5 per cent., in loans with maturities of between one and three years to KZT 144,508 million, or 24.2 per cent. of the total loan portfolio, as at 31 December 2006, from KZT 179,407 million, or 43.6 per cent. of the total loan portfolio, as at 31 December 2005, was primarily attributable to the introduction into the Bank's standard credit documentation of an unconditional right for the Bank to call for early repayment of loans. Since the early repayment is subject to 10 months' prior notice from the Bank, these loans are classified into the "between three months and one year" category. The increase of KZT 81,155 million, or 82.6 per cent., in loans with maturities of between one and three years to the 31 December 2005 amount from KZT 98,252 million, or 38.6 per cent. of the total loan portfolio, as at 31 December 2004, was primarily attributable to the significant growth of the retail portfolio in 2005, as well as increasing volumes of longer-term lending to corporate and SME customers.

The increase of KZT 121,434 million, or 93.6 per cent. in loans with maturities of between three months and one year to KZT 251,183 million, or 42.1 per cent. of the total loan portfolio, as at 31 December 2006, from KZT 129,749 million, or 31.6 per cent. of the total loan portfolio, as at 31 December 2005, was primarily due to reclassification of certain longer-tenor loan facilities into short-term as described in the paragraph above. Loans with maturities of between three months and one year increased by KZT 51,666 million, or 66.2 per cent., to the 31 December 2005 amount from KZT 78,083 million, or 30.7 per cent. of the total loan portfolio, as at 31 December 2004, while the share of such loans in the total loan portfolio remained relatively stable.

Composition of loan portfolio by currency

As at 31 December 2006, non-Tenge loans comprised 51.2 per cent. of the Bank's loan portfolio, compared to 59.0 per cent. as at 31 December 2005 and 53.5 per cent. as at 31 December 2004. U.S. Dollar obligations are the most significant element of non-Tenge denominated loans. The general trend of growth in the Tenge-denominated part of the loan portfolio in recent years is attributable to the Bank's policy of promoting lending in Tenge resulting from higher liquidity and higher net interest margin earned on Tenge assets.

The following table sets forth an analysis of the exposure by currency of the Bank's net loan portfolio as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Tenge	291,007	48.8	168,663	41.0	118,350	46.5
Foreign currencies	305,209	51.2	242,434	59.0	136,241	53.5
Net loans, total	**596,216**	**100**	**411,097**	**100**	**254,590**	**100**

Analysis of Loan Portfolio Quality

The following table provides information on the Bank's gross loan portfolio by credit quality classification(1) as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Standard loans	278,831	44.3	267,019	61.1	201,438	74.3
Doubtful 1st category	295,399	46.9	125,959	28.8	39,242	14.5
Doubtful 2nd category	2,333	0.4	3,530	0.8	5,905	2.2
Doubtful 3rd category	25,075	4.0	20,615	4.7	3,765	1.4
Doubtful 4th category	2,815	0.4	1,031	0.2	6,781	2.5
Doubtful 5th category	9,417	1.5	6,003	1.4	3,064	1.1
Loss loans	16,002	2.5	12,861	2.9	10,933	4.0
Gross loans, total	**629,870**	**100**	**437,018**	**100**	**271,128**	**100**

Note:

(1) See "*Asset, Liability and Risk Management — Loan Classification and Provisioning Policy — NBK/FMSA Classification and Provisioning Guidelines*".

During 2006 and 2005, the Bank followed conservative FMSA classification requirements, which generally resulted in a growing share of loans provided for at a rate of 5.0 per cent (included in Doubtful first category).

The increases of Doubtful first category loans to KZT 295,399 million, or 46.8 per cent. of total gross loans, as at 31 December 2006, from KZT 125,959 million, or 28.8 per cent. of total gross loans, as at 31 December 2005, and to the 31 December 2005 amount from KZT 39,242 million, or 14.5 per cent. of total gross loans, as at 31 December 2004, were due to the adoption of stricter loan classification/ provisioning policies under FMSA regulations by the Bank during 2005, prescribing minimum 5.0 per cent. allowances for all partially (less than 50 per cent.) collateralised loans on which the borrowers experience temporary financial difficulties, but nevertheless are repaying their loan principal and interest without delay and in full.

The following table provides information on the Bank's loan loss reserves for each credit quality classification as at the dates indicated:

	As at 31 December								
	2006			2005			2004		
	Total exposure	**Total reserves**	**Reserves/ exposure**	**Total exposure**	**Total reserves**	**Reserves/ exposure**	**Total exposure**	**Total reserves**	**Reserves/ exposure**
	(KZT millions)		*(per cent.)*	*(KZT millions)*		*(per cent.)*	*(KZT millions)*		*(per cent.)*
Standard loans	278,831	—	—	267,019	—	—	201,438	—	—
Doubtful 1st category	295,399	14,343	4.9	125,959	6,083	4.8	39,242	1,923	4.9
Doubtful 2nd category	2,333	231	9.9	3,530	350	9.9	5,905	563	9.5
Doubtful 3rd category	25,075	4,842	19.3	20,615	4,012	19.5	3,765	659	17.5
Doubtful 4th category	2,815	676	24.0	1,031	252	24.4	6,781	1,642	24.2
Doubtful 5th category	9,417	4,550	48.3	6,003	2,907	48.4	3,064	1,328	43.3
Loss loans	16,002	15,466	96.7	12,861	12,317	95.8	10,933	10,423	95.3
Net IFRS adjustment	—	(6,455)	—	—	—	—	—	—	—
Gross loans, total	**629,870**	**33,654**	**5.3**	**437,018**	**25,921**	**5.9**	**271,128**	**16,538**	**6.1**

Note:

(1) This table contains provisions established in accordance with FMSA guidelines, as adjusted to comply with IAS 39 requirements. (See "*Key Factors Affecting the Bank's Results of Operations and Financial Conditions — Provisioning Policies*".) As at 31 December 2006 such difference amounted to KZT 6,455 million.

Net IFRS adjustment results from the differences between loan allowances created in accordance with IFRS and those created in accordance with FSMA. For requirements details see "*Assets, Liabilities and Risk Management*".

NPLs and write-offs

As at 31 December 2006, the aggregate amount of non-performing loans amounted to KZT 7,194 million, or 1.1 per cent. of total loans. As at 31 December 2005 and 2004, such loans amounted to KZT 6,163 million and KZT 5,203 million, respectively, and represented 1.4 per cent. and 2.0 per cent., respectively. The percentage of non-performing loans to total loans decreased in 2006 also due to the reorganisation of the Problem Loans function of the Bank in 2005, which resulted in improved early reaction and increase of recoveries. (See "*Asset, Liability and Risk Management — Portfolio Supervision and Non-performing Loans*".)

The following table sets out an analysis of the Bank's allowance for interest-earning and other assets for the periods indicated:

	For the years ended 31 December		
	2006	**2005**	**2004**
	(KZT millions)		
Beginning balance of allowance for interest-earning and other assets	26,055	16,614	10,601
Impairment charge	8,331	11,970	7,954
Write-offs	(3,526)	(3,648)	(2,236)
Recoveries	2,983	1,119	295
Net write-offs	(543)	(2,529)	(1,941)
Acquisition of subsidiaries	(35)	—	—
Ending balance of allowance for interest-earning and other assets	**33,877**	**26,055**	**16,614**

The reason for the decrease in impairment charge in 2006 versus 2005 was a change in the Management's estimates with regard to loss ratios in accordance with IAS 39. Write-offs decreased by 3.3 per cent. in 2006, compared to 2005, and increased by 63.1 per cent. in 2005, compared to 2004. The increase in write-offs in 2005 was primarily attributable to comparable 61 per cent. growth of the loan portfolio in 2005 and a more conservative approach to such write-offs. Although the level of gross write-offs in 2006 was KZT 122 million lower than in 2005, the level of recoveries in 2006 increased substantially compared to 2005 due to an increase in recoveries relating to write-offs during 2006 and prior periods. Since 2004, the percentage of net write-offs to gross loans and the percentage of net write-offs to the opening allowance balance have noticeably decreased throughout 2005 and 2006.

The following table provides information as to amounts past due as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Period past due						
Up to 1 month	1,183	14.1	742	10.7	1,029	16.5
1-3 months	632	7.5	1,249	18.1	508	8.2
3-6 months	547	6.5	2,721	39.4	1,884	30.2
6-9 months	5,971	71.3	2,162	31.3	2,795	44.8
9-12 months	11	0.1	13	0.2	—	—
1-5 years	25	0.3	18	0.3	16	0.3
More than 5 years	8	0.1	—	—	—	—
Past due, total	**8,377**	**100**	**6,905**	**100**	**6,232**	**100**

The following table shows the allocation of the allowances for loan losses between legal entities and individuals, both in nominal terms and as a percentage of the Bank's gross customer loan portfolio as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Legal entities	30,750	91.4	23,692	91.4	16,081	97.2
Individuals	9,359	27.8	2,229	8.6	456	2.8
IFRS adjustments	(6,455)	(19.2)	—	—	—	—
Allowances for interest-earning assets, total	**33,654**	**100**	**25,921**	**100**	**16,538**	**100**

The following table provides information on the movements in other provisions between the dates indicated:

	Guarantees and commitments
	(KZT millions)
31 December 2003	921
Charge	987
Write-offs	(106)
Recoveries	—
31 December 2004	1,801
Charge	496
Write-offs	(18)
Recoveries	—
31 December 2005	2,280
Charge	752
Write-offs	(10)
Recoveries	—
31 December 2006	3,021

Allowances for impairment of assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

In 2005, the Bank restructured the Bad Loans Department and revised its monitoring and collection procedures, as a result of which the Bank's ratio of recoveries to write-offs improved significantly in 2005 and 2006.

The following table sets out certain ratios in respect of write-offs as at the dates indicated:

	As at 31 December		
	2006	2005	2004
		(per cent.)	
Net write-offs/gross loans	0.1	0.6	0.7
Net write-offs/opening allowance balance	(2.1)	(15.2)	(18.3)
Recoveries[1]/write-offs	(84.6)	(30.7)	(13.2)

Note:

(1) Recoveries may relate to write-offs in more than one period.

Amounts due from credit institutions

Loans to and deposits with other financial institutions represent a relatively small percentage of the Bank's total assets (0.2 per cent. as at 31 December 2006, 0.5 per cent. as at 31 December 2005 and 0.2 per cent. as at 31 December 2004). Term deposits with other credit institutions reflect the Bank's use of the interbank market as placements of excess liquidity for a relatively short period of time. In general, deposits with other financial institutions are made for liquidity management purposes.

The following table provides a breakdown of amounts due from credit institutions as at the dates indicated:

	As at 31 December		
	2006	2005	2004
		(KZT millions)	
Term deposits	1,885	2,085	695
Loans to local financial institutions	170	691	—
Gross loans to, and deposits with, credit institutions, total	2,055	2,777	695
Less allowance for impairment	(6)	—	—
Net loans to, and deposits with, credit institutions, total	**2,049**	**2,777**	**695**

The following table sets out information on interest rates and maturities of the Bank's amounts due from credit institutions at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(per cent.)	(Maturity)	(per cent.)	(Maturity)	(per cent.)	(Maturity)
Term deposits	4.1-10.6	2007-2008	4.0-12.0	2006-2008	4.1-14.5	2005
Loans to local financial institutions	13.0-15.0	2007-2011	4.1	2006	—	—

Investments

Overview

As at 31 December 2006, the Bank's aggregate securities portfolio amounted to KZT 176,355 million, an increase of KZT 114,238 million, or 183.9 per cent., from the 31 December 2005 amount, due to placement of excess liquidity into NBK notes, T-bills of the Ministry of Finance of the Republic of Kazakhstan, corporate bonds and Eurobonds of Kazakhstan banks including bonds of the Development Bank of Kazakhstan. As at 31 December 2005, the Bank's aggregate securities portfolio amounted to KZT 62,117 million, a decrease of KZT 20,884 million, or 25.2 per cent., from the 31 December 2004 amount of KZT 83,001 million. The Bank manages its securities portfolio as per the following main purposes: (i) invest a certain percentage of customer current accounts that management believes will continue to be held with the Bank into long-term fixed income securities, (ii) meet contingency liquidity needs of the Bank, including unforeseen liquidity shortages, (iii) use as a collateral asset in the Bank's repo transactions, and (iv) provide securities as a pledge in favor of KASE to meet its margin requirements for transactions done by the Bank.

Starting December 2002, the Bank classified its securities portfolio as (i) trading securities, (ii) investment securities available-for-sale and (iii) investment securities held-to-maturity. From 1 January 2005, due to revision of IAS 39, a new category of financial instruments has been introduced, "Financial assets at fair value through profit or loss", which includes trading financial assets as well as any financial assets assigned to this category at initial recognition that are measured on a fair value basis. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations Overview — Critical Accounting Policies — Valuation of Trading and Investment Securities*".

The following table shows a breakdown of securities held by the Bank as at the dates indicated:

	As at 31 December		
	2006	**2005**	**2004**
	(KZT millions)		
Financial assets at fair value through profit or loss	53,016	50,018	62,382
Investment securities available-for-sale	123,338	12,099	20,618
Securities, total	**176,355**	**62,117**	**83,000**

Financial assets at fair value through profit or loss

Securities purchased with the intention of recognising short-term profits (held for trading) are classified as trading portfolio and financial assets that are designated on initial recognition as those to be measured at fair value with fair value changes in profit or loss (designated) are classified as financial assets at fair value through profit or loss. After initial recognition, those assets are measured at fair value with gains or losses on re-measurement recognised at fair value in net profit or loss. Changes in the estimated fair value are included in the accompanying consolidated statements of income within gains less losses from securities. In determining fair value, financial assets at fair value through profit or loss are valued at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management estimates of the amounts that can be realised.

The following table shows a breakdown of the Bank's portfolio of financial assets at fair value through profit or loss as at the dates indicated:

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

As at 31 December 2006, the Bank's financial assets at fair value through profit or loss were KZT 53,016 million, an increase of KZT 2,998 million, or 6.0 per cent., from the 31 December 2005 amount, due to increased investments, mainly in highly liquid securities, including T-bills of the Ministry of Finance of the Republic of Kazakhstan, corporate bonds, sovereign bonds of the Republic of Kazakhstn and bonds of Kazakhstan banks including the Development Bank of Kazakhstan. As at 31 December 2005, the Bank's financial assets at fair value through profit or loss were KZT 50,018 million, a decrease of

KZT 12,364 million, or 19.8 per cent., from the 31 December 2004 amount of KZT 62,382 million, due to sale of a large portfolio of Ministry of Finance treasury bills.

The following table sets out information on interest rates and maturities of the Bank's financial assets at fair value through profit or loss as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
Treasury bills of the Ministry of Finance of the Republic 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 the Republic 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 Kazakh 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

Investment portfolio

The Bank classifies its investment securities into two categories: (i) securities that are not classified by the Bank as held-to-maturity or financial assets at fair value through profit or loss are included in the available-for-sale portfolio; and (ii) securities with fixed maturities and fixed or determinable payments that the Bank's management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity. The Bank classifies investment securities depending upon the intent of the Bank's management at the time of the purchase. The Bank classified investment securities as held-to-maturity up to the financial year ended 31 December 2003. In 2004, such securities in the amount of KZT 14,211 million were transferred from held-to-maturity investment securities to the available-for-sale grouping, following a change of intent with regard to the underlying securities.

After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised 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 recognised in the consolidated statements of income. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, referenced to the current market value of another instrument which is substantially the same, and discounted cash flow analysis.

Securities held-to-maturity are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Securities available-for-sale

The following tables give a breakdown of the Bank's portfolio of available-for-sale securities, and interest rates and maturities, as at the dates indicated:

	As at 31 December		
	2006	2005	2004
	(KZT millions)		
NBK notes	107,856	—	472
Corporate bonds	10,166	6,548	4,758
Bonds of Kazakh banks	3,085	2,625	820
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,061	2,644	—
Equity securities of Kazakh corporations	971	—	—
Local municipal bonds	85	—	357
Treasury bills of the Kyrgyz Republic	114	282	—
US Treasury bills	—	—	14,211
Available-for-sale investment securities	**123,338**	**12,099**	**20,618**
Subject to repurchase agreements	29,500	—	3,652

	As at 31 December					
	2006		2005		2004	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(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 Kazakh 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 the Republic of Kazakhstan	3.5-5.7	2008-2014	2.8-3.5	2006-2008	—	—
Local municipal bonds	8.5	2008	—	—	6.0-8.5	2005-2008
Treasury bills of the Kyrgyz Republic	5.2-16.0	2007-2008	4.5-7.3	2007-2013	—	—
U.S. Treasury bills	—	—	—	—	1.7-4.7	2005-2012

The Bank's Funding Sources

Amounts due to customers represent the largest part of the Bank's funding sources. The availability of amounts due to customers is influenced by factors such as prevailing interest rates, market conditions and levels of competition, although the Bank believes that its customer base is relatively insensitive to short-term fluctuations in interest rates and more dependent on the Bank's ability to provide a good level of customer service and a range of banking products and services. As at 31 December 2006, the Bank's total amount due to customers was KZT 597,935 million. According to FMSA statistics the Bank's total amount due to customers represented 20.0 per cent. of the total amounts due to customers in the Kazakhstan banking system as of that date. The Bank has a large number of corporate customers, including many of the country's leading industrial and natural resource sector companies and trading corporations as well as a number of SMEs and individuals. Other sources of funding include foreign and local interbank borrowings, and placement of debt securities domestically and on the international market.

The issuance of the Notes is one of the steps being taken by the Bank's management in an effort to diversify and lengthen the maturity of its funding sources.

The following table sets out information relating to the Bank's sources of funding as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Amounts due to customers						
Current accounts	148,844	17.1	112,967	22.8	79,378	22.2
Term deposits	448,381	51.5	206,896	41.8	151,361	42.3
Guarantee and other restricted accounts	711	0.1	3,651	0.7	1,191	0.3
Total amounts due to customers	**597,935**	**68.7**	**323,515**	**65.3**	**231,930**	**64.8**
Amounts due to credit institutions	118,719	13.6	107,284	21.7	76,493	21.4
Debt securities issued	134,413	15.4	58,814	11.9	44,940	12.6
Other[(1)]	19,665	2.3	5,608	1.1	4,323	1.2
Liabilities, total	**870,732**	**100**	**495,221**	**100**	**357,686**	**100**

Note:

(1) Comprising tax, provisions and other liabilities.

Customer accounts

The Bank's amounts due to customers consist of customer current accounts and term deposits, amounting to 68.7 per cent. of the Bank's total liabilities as at 31 December 2006. Customer current accounts generally bear no interest and can be withdrawn upon demand. For term deposits, different interest rates are paid on the various types of deposits offered by the Bank.

Deposits by account and customer type

The following table sets out a breakdown of the Bank's current and term deposits as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Current accounts						
Commercial entities	66,809	11.2	64,588	20.0	37,010	16.0
Individuals	52,597	8.8	37,913	11.7	30,892	13.3
Government entities	29,438	4.9	10,466	3.2	11,476	4.9
Current accounts, total	**148,844**	**24.9**	**112,967**	**34.9**	**79,378**	**34.2**
Term deposits						
Individuals	157,281	26.3	97,444	30.1	81,413	35.1
Commercial entities	263,192	44.0	92,026	28.4	69,949	30.2
Government entities	27,908	4.7	17,427	5.4	—	—
Term deposits, total	**448,381**	**75.0**	**206,896**	**64.0**	**151,361**	**65.3**
Guarantee and other restricted accounts	711	0.1	3,651	1.1	1,191	0.5
Customer accounts, total	**597,935**	**100**	**323,515**	**100**	**231,930**	**100**

Customer accounts by currency

The following table sets out certain information relating to the amounts due to customers in Tenge and foreign currency as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Amounts due to customers in Tenge	303,199	50.7	161,796	50.0	136,230	58.7
Amounts due to customers in foreign currencies	294,736	49.3	161,719	50.0	95,700	41.3
Customer accounts, total	**597,935**	**100**	**323,515**	**100**	**231,930**	**100**

Customer accounts by maturity

The following table sets out information on the maturity profile of the Bank's term deposits as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
On demand	148,844	24.9	112,967	34.9	76,565	33.0
Less than one month	149,704	25.0	38,991	12.1	25,099	10.8
Between one and three months	27,941	4.7	21,516	6.7	27,294	11.8
Between three months and one year	219,707	36.7	88,642	27.4	72,424	31.2
Between one and three years	41,981	7.0	58,250	18.0	26,645	11.5
Over three years	9,758	1.6	3,148	1.0	3,903	1.7
Customer accounts, total	**597,935**	**100**	**323,515**	**100**	**231,930**	**100**

Deposits by sector

The following table sets out the composition of the Bank's customer accounts, by reference to the economic sector of the deposit, as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Individuals and entrepreneurs	209,877	35.1	135,357	41.8	112,305	48.4
Metallurgy	102,345	17.1	636	0.2	2,701	1.2
Construction	81,319	13.6	22,891	7.1	5,363	2.3
Oil and gas	67,540	11.3	99,769	30.8	42,857	18.5
Financial sector	44,168	7.4	5,422	1.7	678	0.3
Other transportation	17,291	2.9	4,760	1.5	3,659	1.6
Wholesale trade	15,800	2.6	5,908	1.8	2,090	0.9
Energy	12,843	2.1	10,391	3.2	11,858	5.1
Transportation of oil and gas	1,794	0.3	6,267	1.9	20,694	8.9
Other	44,958	7.5	32,113	9.9	29,727	12.8
	597,935	**100**	**323,515**	**100**	**231,930**	**100**

As at 31 December 2006, total deposits of individuals and entrepreneurs represented 35.1 per cent. of total amounts due to customers. In addition, customers in the metallurgy, construction and oil and gas sectors customers represented 17.1 per cent., 13.6 per cent. and 11.3 per cent. of total deposits, respectively. As at 31 December 2006, the Bank's 10 largest customers accounted for approximately 52 per cent. of total amounts due to customers compared to approximately 39 per cent. as at 31 December 2005 and approximately 32 per cent. as at 31 December 2004. The largest single customer as of the same date accounted for approximately 19 per cent. of total amounts due to customers compared to 27 per cent. as of 31 December 2005 and 13 per cent. as at 31 December 2004. The Bank believes that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to arrange for the necessary funds to enable repayment.

Other Sources of Funding

Amounts due to credit institutions

The following table sets out the composition of the Bank's amounts due to credit institutions outstanding as at the dates indicated, by reference to the currency of such borrowings:

	As at 31 December		
	2006	2005	2004
	(KZT millions)		
Tenge	55,042	18,122	6,570
Foreign currencies	63,677	89,162	69,923
Amounts due to credit institutions, total	**118,719**	**107,284**	**76,493**

The following table sets out certain information relating to balances due to credit institutions by type of account, as at the dates indicated:

	As at 31 December		
	2006	2005	2004
	(KZT millions)		
Loans and deposits from OECD based banks	73,126	97,540	64,365
Loans and deposits from Kazakh 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 European Bank for Reconstruction and Development ("EBRD")	—	679	658
Loans due to Small Business Development Fund	—	—	800
Overnight deposits	3,338	3,851	900
Correspondent accounts	524	557	948
Amounts due to credit institutions	**118,719**	**107,284**	**76,493**

The following table sets out information on interest rates and maturities of the Bank's amounts due to credit institutions as at the dates indicated:

	As at 31 December					
	2006		2005		2004	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(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 Kazakh 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 EBRD	—	—	6-month LIBOR + 4.25	2006	6-month LIBOR + 4.25	2006
Loans due to Small Business Development Fund	—	—	—	—	7.8	2005
Overnight deposits	2.5-4.8	2007	4.0-5.0	2006	2.0-2.5	2005

Trade Finance Facilities

The Bank in the course of its ordinary banking activities regularly borrows from international banks under trade-related loan facilities. The tenor of such trade-related facilities typically varies from 1 month up to 10 years depending on the nature of the underlying trade transaction. Some of these trade-related facilities financing import of equipment and capital goods are partially covered by Export Credit Agencies of OECD countries, including Euler Hermes Kreditversicherungs-AG of Germany, COFACE of France, US Exim Bank, SACE S.p.a. of Italy and others. As at 31 December 2006, the aggregate amount outstanding under such trade-related facilities was KZT 57,528 million, compared to KZT 80,505 million as at 31 December 2005 and KZT 67,872 million as at 31 December 2004.

Outstanding senior notes

In May 2004, the Bank registered with the FMSA a KZT 35 billion senior note facility, and, as of the date of this Prospectus, the Bank has issued senior notes under this programme in the aggregate principal amount of KZT 14 billion. In 2006, the Bank registered a further KZT 70 billion issue under this programme with the FMSA, and, as of the date of this Prospectus, the Bank has issued senior notes under this programme in the aggregate amount of KZT 27 billion. In October 2004, the Bank issued its first Eurobonds for a principal amount of U.S.$200 million. These Eurobonds are listed on the Luxembourg Stock Exchange and the KASE, are repayable in October 2009 and have a coupon rate of 8.125 per cent. per annum. In May 2006, HSBK (Europe) B.V., a wholly-owned subsidiary of the Bank, issued notes in a principal amount of U.S.$300 million, unconditionally and irrevocably guaranteed by the Bank. These notes are listed on the Luxembourg Stock Exchange, are redeemable in October 2013 and have a coupon rate of 7.75 per cent. per annum.

The following tables give a breakdown of the Bank's senior debt securities, and investments and maturities, as at the dates indicated:

	As at 31 December		
	2006	2005	2004
	(KZT millions)		
U.S.$ denominated bonds	64,154	26,918	26,019
KZT denominated bonds	41,002	5,106	4,752
RUR denominated bonds	—	48	21
Unsubordinated debt securities issued	105,156	32,072	30,792
Less: unsubordinated debt securities held	(1,451)	(1,314)	—
Unsubordinated debt securities issued, total	**103,705**	**30,758**	**30,792**

	As at 31 December					
	2006		2005		2004	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
U.S.$ 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 bonds	—	On demand	—	On demand	—	On demand

Covenants in financing documents

Under various financing documents, the Bank is obliged to maintain certain financial ratios and observe certain covenants, particularly with regard to capital adequacy, financial indebtedness, creation of security interests and distributions of dividends to common shareholders. As at the date of this Prospectus, the Bank is in compliance with these covenants.

Subordinated debt securities

In May 2004, the Bank registered with the FMSA its first bond programme for an aggregate principal amount of KZT 35 billion, under which the Bank has issued subordinated bonds denominated in Tenge in the aggregate principal amount of KZT 21 billion. In March 2006, the Bank registered its second bond programme in the aggregate principal amount of KZT 70 billion, under which the Bank has issued subordinated bonds in the aggregate principal amount of KZT 4 billion. The subordinated bonds are unsecured obligations of the Bank and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Bank. In addition to these issuances, the Bank has issued additional Tenge and U.S. Dollar-denominated subordinated notes in recent years.

The following tables give a breakdown of the Bank's subordinated debt securities, and interest rates and maturities, as at the dates indicated:

	As at 31 December		
	2006	2005	2004
	(KZT millions)		
Fixed rate KZT denominated bonds	20,139	20,608	12,080
Reverse inflation-indexed KZT denominated bonds	4,049	3,675	—
Inflation indexed KZT denominated bonds	5,005	—	—
U.S.$ denominated bonds	3,742	3,790	2,068
Subordinated debt securities issued	32,935	28,073	14,148
Less subordinated debt securities held by the Bank	(2,227)	(17)	—
Subordinated debt securities issued, total	**30,708**	**28,056**	**14,148**

	As at 31 December					
	2006		2005		2004	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
Fixed rate KZT denominated bonds	7.5-9.6	2007-2015	7.5-9.6	2007-2015	7.5-9.0	2007-2014
Reverse inflation indexed KZT denominated bonds	15.0 less inflation rate	2015	15.0 less inflation rate	2015	—	—
Inflation indexed KZT denominated bonds	inflation rate plus 1	2014	—	—	—	—
U.S.$ denominated bonds	8.0-11.8	2007	8.0-11.8	2007	11.8	2007

BUSINESS OF THE BANK

Overview

The Bank's core business is focused on retail, SME and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through 19 regional branches, 127 district branches, 428 limited service branches, 4 VIP centres and 39 personal service centres. In addition, based on agency agreements with Kazpochta JSC ("Kazpost"), the Bank offers certain basic banking services, including accepting some utility payments and repayments of consumer loans, through outlets operated by Kazpost to the Bank's customers in certain remote areas. Other distribution channels used by the Bank include 700 ATMs, the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan.

The Bank offers a wide range of retail banking products and services including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, Internet banking and ATM services. The corporate banking business provides a range of wholesale banking products and services to corporate and small and medium-sized business customers, financial institutions and Government entities. As at 31 December 2006, the Bank had approximately 5.9 million retail customers (the largest customer base in Kazakhstan), approximately 63 thousand SME customers and 323 corporate customers.

The Bank is also one of the leading participants in the fixed-income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both treasury bills and short-term notes of the NBK and, in 2006, the Bank's combined purchases of treasury bills and notes represented 23.1 per cent. of total issued volume. In 2006, the Bank was the most active trader of Government securities on the KASE, generating 24.4 per cent. of trading volume in those securities. Since sovereign eurobonds were listed on the KASE in 1998, the Bank became an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three eurobond issues made by the Republic of Kazakhstan in 1997, 1999 and 2000 and as co-manager of the Development Bank of Kazakhstan's eurobond issue in 2006.

Principal business activities

The Bank operates through three core business lines: retail, SME and corporate banking and, in addition, it offers pension, insurance, leasing, brokerage and asset management services through its subsidiary companies. The following table sets out a breakdown of interest income and fee and commission income for the periods indicated:

Activity	For the years ended 31 December 2006	2005	2004
	(KZT millions)		
Retail banking	39,347	23,042	11,206
SME banking(1)(2)	14,422	9,477	—
Corporate banking(2)(3)	37,462	30,726	29,453
Other(2)(4)	11,479	5,301	2,408
Total	**102,711**	**68,546**	**43,067**

Notes:

(1) Segment information for SME banking was not available for the year ended 31 December 2004.

(2) SME banking, corporate banking and other are combined into corporate banking in the Bank's audited consolidated financial statements as at and for the years ended 31 December 2006, 2005 and 2004.

(3) Includes SME banking for the year ended 31 December 2004.

(4) Includes the income of all of the Bank's subsidiaries, principally in relation to its pensions, insurance, leasing, brokerage and asset management businesses.

Distribution Network

One of the Bank's main strengths is its distribution network. As at 31 December 2006, the Bank's branch network consisted of 617 outlets, comprising 19 regional branches, which reported to the Head

Office, 127 district branches, 428 limited services branches, distributed across all regions of Kazakhstan, each of which reported to its respective regional branch, 4 VIP centres and 39 personal service centres. In addition, as at 31 December 2006, the Bank operated a network of approximately 700 ATMs and had over 2,800 in-store point of sale terminals located at shopping centres and supermarkets in Kazakhstan. The Bank's distribution network development strategy focuses on selective expansion, upgrading existing sales outlets and developing remote banking service channels. Each regional and district branch provides a broad range of banking services. In comparison to branches, Limited service branches provide a limited number of banking services, such as deposits, utility payments, cash withdrawals, currency exchange, pension collection and money transfers. Small loans of up to KZT 1 million may also be obtained from limited service branches. Other distribution channels used by the Bank include the Internet and mobile banking. In addition, the Bank also uses the distribution channels established by some of the Bank's other business lines, principally its pension fund and insurance businesses. Large corporate customers are generally customers of the Head Office in Almaty. The Bank's Head Office is responsible for the co-ordination of the branch network operations, marketing strategy and asset and liability management, management of the Bank's financial position and development of its international operations.

Retail Banking

Overview

The Bank's retail banking operations include deposit taking activities (current and term deposits in KZT and foreign currencies), money transfers (including utility payments), credit and debit card services, consumer lending, mortgages and personal banking services. The Bank also provides paying agency services for state pension payments and other social security payments. As at 31 December 2006, the Bank had approximately 5.9 million retail customers, and retail loans represent 31.3 per cent. of its gross loan portfolio. Retail banking accounted for 40.7 per cent. of the Bank's interest income and 29.6 per cent. of the Bank's fee and commission income for the year ended 31 December 2006.

Customer Segmentation

In order to better serve the individual needs of its retail customers and to enable the Bank to identify its most profitable customers, the Bank divides its retail customers into the following three segments based on annual income levels: (i) "mass-market" comprises individuals such as production workers, public servants, students and pensioners; (ii) "mid-market" customers are primarily owners of small-sized businesses, mid-level management and specialists, as well as mid-level public servants; and (iii) "VIP" customers who are largely owners and management of large and mid-size companies. The Bank uses this customer segmentation to offer its customers services and products tailored to their individual needs. VIP customers have access to VIP centres with personal fund managers appointed to assist them, and VIP customers also benefit from the private banking department located at the Head Office as well as from brokerage and asset management services. Mid-market customers also benefit from personal service centres, while mass-market customers are served through the Bank's extensive branch network.

Products and Services

Amounts due to retail customers: As at 31 December 2006, the Bank had approximately 7.5 million retail customer accounts, comprising current accounts, term deposit accounts and card accounts. As at 31 December 2006, the Bank had amounts due to retail customers of KZT 209,877 million of which KZT 157,281 million were term deposits and KZT 52,597 million were current accounts, having terms generally ranging from 30 days to five years. In terms of volume, KZT denominated and foreign currency denominated deposits were divided almost evenly. According to statistics published by the FMSA the Bank's total market share in amounts due to retail customers was 20.0 per cent. as at 31 December 2006. Amounts due to retail customers represented 35.1 per cent. of the Bank's total amounts due to customers as at 31 December 2006 compared to 41.8 per cent. as at 31 December 2005 and 48.4 per cent. as at 31 December 2004.

Lending: The Bank is active in both the mortgage and consumer lending markets. Loans to individuals represented 31.3 per cent. of the Bank's gross loan portfolio as at 31 December 2006 compared to 29.9 per cent. as at 31 December 2005 and 24.7 per cent. as at 31 December 2004. Of this, mortgage lending represented 17.5 per cent. and consumer lending represented 13.8 per cent. of the Bank's gross loan portfolio as at 31 December 2006. As at 31 December 2006, according to NBK statistics, the Bank's total market share in retail lending was 15.8 per cent.

The Bank offers three residential mortgage products: regular mortgages, “Ipoteka Light” mortgages and mortgages under the KMC (“Kazakhstan Mortgage Company”) programme. “Ipoteka Light” mortgages were launched by the Bank in April 2004. Under the terms of this product, a borrower must make a deposit of at least 15 per cent. of the principal amount of the loan with the Bank, which is pledged with the Bank, along with security over the property. The Bank pays no interest on the deposit and it is recorded as collateral in the Bank’s accounts. Regular mortgages generally have only security over the property. The tenor of the Bank’s mortgage products ranges from 7 to 20 years. They are all offered at a fixed rate of interest; however the Bank has the right to vary rates in accordance with market conditions. Some mortgages are also offered at special rates for employees of the Bank. As at 31 December 2006, 76 per cent. of the Bank’s mortgage portfolio had been issued under the Ipoteka Light programme and close to 23 per cent. had been issued as regular mortgages with the balance made under the KMC programme. The Government-sponsored KMC mortgage funding programme in which the Bank participates is designed for public servants. Under the programme, the Bank (along with other banks in Kazakhstan) accepts applications for Tenge denominated mortgages, processes the applications (including reviewing eligibility) and advances funds. According to statistics published by the FMSA, as at 31 December 2006 the Bank had a 21.7 per cent. share in the mortgage market of Kazakhstan and 27.3 per cent. market share, excluding KMC and other specialised mortgage companies.

Consumer loans are to a large extent (90 per cent. of aggregate consumer loans as at 31 December 2006) represented by salary-backed loans with a maturity of up to three years, targeting the Bank’s mass- and mid-market retail customer base and introduced in 2002. In addition, the Bank offers revolving loans (card overdrafts) to its retail customers. Salary-backed and revolving loans are general purpose loans and are only available to employees of those companies which have a payroll agreement with the Bank and the service is accessible through the customer’s salary card. (See “*Corporate Banking — Corporate Payroll Schemes*”). These loans are backed by the borrower’s incoming monthly salary.

Other consumer loans (including car loans) together represent a small portion of the Bank’s aggregate loan portfolio, although the Bank expects to introduce an expanded car loan programme in the medium term once its new information technology systems are fully integrated. At present the Bank does not advance consumer loans to finance the purchase of “white” goods (household appliances, etc.), though the Bank may enter this market in the future.

Retail Card Services: The Bank has been instrumental in developing the retail card market in Kazakhstan. The Bank was the first bank in Kazakhstan to start issuing cards and to develop a point-of-sale terminal system and is also a 25 per cent. owner of JSC National Processing Centre which provides payment clearing and card processing services to clients in Kazakhstan. As at 31 December 2006, though 20 banks in Kazakhstan now offer cards, the Bank had issued 51.2 per cent. of all cards in circulation and owned 26.3 per cent. of point-of-sale terminals, according to FMSA statistics. In addition to its own cards, the Bank distributes cards for VISA, MasterCard, American Express, VISA Electron, Cirrus and Maestro and provides card processing services for other Kazakhstan banks. As at 31 December 2006, the Bank had issued a total of approximately two million cards, over 90 per cent. of which were salary cards. Some salary cards include an overdraft facility and are issued by the Bank primarily to employees of companies for which it administers payroll schemes. See “*— Corporate Banking — Products and Services — Corporate Payroll Schemes*”. The Bank’s Management believes that it will be able to expand the issuance of credit cards when it implements an automated credit scoring system, which depends on the full implementation of services by Kazakhstan’s recently created national consumer credit bureau of which the Bank is a founding member.

ATM services: The Bank operates the largest ATM network in Kazakhstan, consisting of approximately 700 operating ATMs, as at 31 December 2006. In addition, customers of the Bank may use ATMs of other Kazakhstan banks for a small fee per withdrawal. The volume of cash withdrawals through the Bank’s ATM network was KZT 398 billion for the year ended 31 December 2006, compared to KZT 287 billion for the year ended 31 December 2005, and KZT 202 billion for the year ended 31 December 2004.

In November 2004, the Bank introduced a new service called “Card to Card”, which enables real time transfer of funds between holders of the Bank’s cards using an ATM. Eligible cardholders may also now obtain a credit line via an ATM application. During 2005, the Bank introduced a number of new products for cardholders, including mobile banking services that allow the Bank’s customers to access account information and transfer money using mobile phones and other wireless communication units. By introducing new products and expanding its customer base the Bank increased its total earnings generated from payment card services by 41 per cent. to KZT 5,639 million for the year ended 31 December 2006 compared to KZT 4,007 million for the year ended 31 December 2005 and to KZT 2,465 million for the year ended 31 December 2004.

The Bank believes that it is currently the only bank in the former Soviet Union to have entered into an agreement with the China Union Pay international payment system ("China Union Pay") enabling the Bank to offer services to China Union Pay cardholders on the Bank's network. The agreement also allows the Bank's cardholders to access China Union Pay's services in China.

Sales, Service and Distribution Channels

In addition to its branch and ATM networks, its Internet and mobile banking services, and in-store point of sale terminals, the Bank also takes advantage of the JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan's and JSC Kazakhinstrakh's network of agents throughout Kazakhstan to promote and cross sell its retail services.

SME Banking

Overview

The Bank's SME banking operations include providing loans to SMEs as well as payroll services, transactional services, leasing, insurance, pensions, cards and trade finance. In order to direct its services more accurately to the SME sector, the Bank separated its SME business from its corporate business in 2004. The Bank believes that the SME sector will represent one of the most important growth areas in the Kazakhstan economy. As at 31 December 2006, the Bank had approximately 63 thousand SME customers, representing approximately 14.9 per cent. of its gross loan portfolio. SME business contributed 12.8 per cent. of the Bank's interest income and 18.5 per cent. of its fee and commission income for the year ended 31 December 2006. The Management of the Bank believes that as at 31 December 2006 the Bank had an approximate 17 per cent. market share.

Customer Segmentation

The Bank classifies its SME customers as those businesses that have a total credit exposure to the Bank of up to U.S.$5-7 million (depending on the region). In order to better serve the needs of its SME customers, the Bank further classifies those customers with loan exposures over KZT 75 million (approximately U.S.$600,000) as being medium-sized enterprises and those with loan exposures of under KZT 75 million as being small-sized enterprises, although limits vary from region to region.

Products and Services

Lending: Most loans to SMEs are secured by real estate, other fixed assets, inventory and future receivables and have maturities ranging from one month to 10 years. The Bank has continued to increase its lending to SMEs and as at 31 December 2006, its loans to SMEs amounted to KZT 93,928 million, an increase of 46.9 per cent. from KZT 63,920 million as at 31 December 2005, which was in turn an increase of 29.5 per cent. from KZT 49,360 million as at 31 December 2004. The Bank offers its SME customers standardised lending programmes which are designed to meet different business requirements and depend on the collateral available and the tenor of the loan. In addition, some SME loans are granted under Government-sponsored budgetary and agricultural co-financing programmes. The Bank's dedicated programme for small businesses originally evolved from the micro-lending programmes developed by the EBRD for the top banks in Kazakhstan. During the last two years the Bank has been developing its own small business programmes to include, among other things, start-up companies. The Bank is also continuing developing its trade finance services to its SME customers. See "— *Corporate Banking — Products and Services — Trade Finance*". The FMSA does not publish statistics showing SME lending as separate from corporate lending and therefore there is no official market share information available for the SME business.

SME card services: To promote card product sales for SMEs, a new Card Products Sales Department was created at the Bank's Head Office in February 2005, with card sales centres in some of the Bank's branches. As of 31 December 2006, approximately 3,000 corporate cards were issued to SME customers, majority of which are extended small overdraft limits. The Bank intends to extend the issue of its corporate cards to the majority of its medium business customers by the end of 2007. One of the successful card products offered to medium business customers is a system whereby customs payments can be made using

Bank's payment cards at one of the 137 specially adapted POS terminals located at customs stations countrywide. The Bank initially introduced this service in 2003 and hold a monopoly position in this market. The size of customs payments through the Bank's POS terminals has gradually increased to KZT 8 billion per month on average in 2006. The Bank charges its standard fee for using its POS terminals at the customs stations and had generated KZT 120 million in revenues in 2006. The Bank intends to enhance and further develop the customs payment card project to include, among other things, payment of cargo declaration and inspection charges.

Sales, Service and Distribution Channels

Both medium sized and small business customers are serviced at the Bank's branches. In 2004, the Bank created a specialised department, the main function of which is to further develop the Bank's SME business. In 2005, the department was divided into two units, focusing on small businesses and medium-sized businesses, respectively. In 2006, the Bank opened its first "all for small business" centres in Almaty, Shymkent and Pavlodar. These centres focus on providing all types of financial services for small businesses, including relevant consultancy, small business lending, notary and retail services. The entire SME network is engaged in cross-selling the Bank's pension, insurance, payroll, card and leasing services.

Corporate Banking

Overview

The Bank's corporate banking operations include lending, trade finance, transactional services, payroll services, underwriting, liquidity and asset management. The Bank has historically had a very strong corporate banking franchise, having close relationships with many of Kazakhstan's leading private and state-owned companies, including NC KazMunayGas JSC, Kazakhmys JSC, NC Kazakhstan Temir Zholy JSC, Petrokazakhstan JSC and NC Kazakhtelecom JSC. One of the Bank's strengths has been its strong deposit base which has enabled it to provide competitive corporate lending. As at 31 December 2006, the Bank had 323 corporate customers, representing 53.8 per cent. of its gross loan portfolio. Corporate customers contributed 40.9 per cent. of total interest income and 20.3 per cent. of total fee and commission income during the year ended 31 December 2006. According to statistics published by the NBK (which include lending to SMEs), as at 31 December 2006, the Bank had a share of 10.8 per cent. of the Kazakhstan corporate lending market.

Customer Segmentation

The Bank classifies its corporate customers (as opposed to SME customers) as those whose businesses: (i) have a total credit exposure above U.S.$5-7 million (depending on the region); or (ii) have an annual turnover exceeding U.S.$25 million; or (iii) are part of a larger business group.

Products and Services

Corporate Deposit Accounts: As at 31 December 2006, the Bank had some KZT 96.2 billion in its corporate current accounts and as at the same date, the Bank had approximately KZT 291.1 billion of term deposits, having terms generally ranging from overnight to 365 days. According to statistics published by the FMSA, the Bank's corporate deposits (including those of SMEs) of KZT 414,445 million represented 11.3 per cent. of the total market share for Kazakhstan banks as at 31 December 2006. Amounts due to corporate customers represented 64.8 per cent. of the Bank's total amounts due to customers as at 31 December 2006, compared with 57.0 per cent. as at 31 December 2005 and 51.1 per cent. as at 31 December 2004.

Corporate Lending: Loans to large corporate customers consist principally of secured loans with maturities ranging from one month to 10 years. The Bank has continued to increase its lending to corporates and its loans to its corporate customers amounted to KZT 338,761 million as at 31 December 2006, an increase of KZT 96,265 million or 39.7 per cent. from KZT 242,496 million as at 31 December 2005, which was in turn an increase of KZT 87,712 million, or 56.7 per cent. from KZT 154,784 million as at 31 December 2004. Major sectors of corporate lending are: residential and commercial construction, agriculture, energy and mining. Loan portfolio quality is monitored regularly by the Bank's Risk Management Department (which reports to the Bank's Management Board) to ensure adequate provisioning ratios. (See "*Asset, Liability and Risk Management*".) Unsecured loans account for less than 1 per cent. of the Bank's corporate loan portfolio. Corporate loans are usually secured by real estate, other fixed assets, inventory and cash receivables. The largest single exposure to any one borrower as at

31 December 2006 was 2.2 per cent. of the Bank's gross loan portfolio, or KZT 14,104 million, and the top 10 exposures amounted to 14.8 per cent. of the gross loan portfolio or KZT 93,394 million. According to statistics published by the NBK (which include lending to SMEs), as at 31 December 2006, the Bank had a share of 10.8 per cent. in the Kazakhstan corporate lending market.

Trade finance: The Bank intends to expand its trade finance business, including documentary operations such as issuing letters of credit and guarantees. The Bank's trade finance facilities include (i) short-term trade financing (up to 12 months) and (ii) long-term facilities (up to 10 years), principally covered by Export Credit Agencies (including Euler Hermes Kreditversicherungs-AG, COFACE, Export-Import Bank of the United States and SACE S.p.a.), for financing the import of capital goods. As at 31 December 2006, the aggregate amount drawn by the Bank and outstanding under its on-lending trade finance facilities was KZT 57,528 million, compared to KZT 80,505 million as at 31 December 2005 and KZT 67,872 million as at 31 December 2004.

Corporate payroll services: The Bank provides payroll services to approximately 1.5 million employees of over 5,000 entities including NC KazMunayGas JSC, Kazakhmys JSC and NC Kazakhstan Temir Zholy JSC, as well as the Bank's own employees. Employees taking part in this service are issued with salary cards and can take advantage of the various programmes on offer to salary cardholders. Generally, the Bank charges fees and commissions to the employers taking part in this service, and the employees themselves are not charged for the service, other than transaction costs and interest charges when using their cards.

Other corporate banking products and services: The Bank's main growth areas in the corporate sector are cash management, interest rate, commodity and foreign exchange hedging and investment banking. The Bank believes it was the first bank in Kazakhstan to create a separate business unit responsible for cash management. The bank's corporate relationship managers are also responsible for cross-selling pension, insurance and leasing services. See "*Other Business Activities*".

Corporate Card Services: Corporate cards are issued to corporate customers for payment of general and administrative expenses. At the customer's option, various limits and restrictions on the use of the corporate card account can be set for security purposes. Customs payment cards are also available to corporate customers. See "*SME Banking — Products and Services — SME Card Services*". Salary cards are issued to employees of large corporates having corporate payroll schemes with the Bank. See "*Corporate Payroll Schemes*".

Sales, Service and Distribution Channels

The Bank, as part of its strategic plans, aims to maintain and develop its customer base in the corporate banking sector and to this end has introduced a relationship management service with two dedicated departments located at its Head Office in Almaty, through which companies are able to obtain a broad range of corporate banking services from a dedicated relationship management officer or team. The relevant relationship managers are responsible for agreeing commercial terms with their corporate customers, and managers at branch level provide technical support.

Other Business Activities

Pension Fund

The Bank's pensions arm, JSC Accumulative Pension Fund of Halyk Bank of Kazakhstan ("Halyk Pension Fund") was established on 8 January 1998. In 1998, a statutory pension scheme was introduced in Kazakhstan, and there are currently 14 pension funds (including one state-owned fund) providing pension fund services. All employees in Kazakhstan are required to pay 10 per cent. of their wages/salary into a fund of their choosing, with payments being withheld at source. The pensions benefits are based solely on contribution and the relevant fund's gains and no defined benefit pensions are available.

Halyk Pension Fund, an 85 per cent.-owned subsidiary of the Bank, is authorised to collect pension contributions, provide pension payments, manage pension assets and develop pension programmes for its customers in Kazakhstan. As at 31 December 2006, Halyk Pension Fund had over 1.7 million customers and had pension assets under management of KZT 254 billion which, according to FMSA statistics, represented 27.8 per cent. of the aggregate pension assets of the Kazakhstan pension system, making it the largest pension fund in Kazakhstan, with its next largest competitor having an 18 per cent. market share. As of 31 December 2006, Halyk Pension Fund equity was KZT 6,375 million, and it had net income of KZT 3,355 million for the year ended 31 December 2006.

At present there is a shortage of financial instruments in Kazakhstan suitable for investment by Halyk Pension Fund, thus restricting investment opportunities. Liberalisation of permitted pension asset investments is currently under way, along with the development of new instruments (for example, securitisations, public and private partnerships, derivatives and state and municipal securities).

The organisations whose employees' funds are invested with Halyk Pension Fund include Government entities, corporates and the Bank itself. Employees are free to move their pension accruals to a new pension fund provider up to twice a year without a penalty. Also, according to the Bank's internal estimate, 60 per cent. of customers of the Bank using the Bank's payroll services are at the same time using pension asset management services provided by Halyk Pension Fund. Halyk Pension Fund has the largest branch network in Kazakhstan, with 17 branches, 12 regional offices, 39 services centres located in branches of the Bank, 30 service centres located in the offices of its main corporate customers, 41 agencies and 470 agents selling their pension fund products. Halyk Pension Fund is focused on introducing and developing innovative technologies and cross-selling package products, such as discounted Halyk Bank mortgage rates and beneficial saving rates on large deposits, to certain Halyk Pension Fund customers.

Insurance

The Bank's insurance arm, JSC Kazakhinstrakh ("Kazakhinstrakh"), is a non-life insurance company providing a full package of general insurance services to all types of legal entities and individuals across a broad range of industry sectors. A majority interest in Kazakhinstrakh was acquired by the Bank from Almex in October 2006, taking its holding to some 98 per cent., of which 10.0 per cent. is held by Halyk Pension Fund. Up to 30 September 2006, the Bank owned 42 per cent. of Kazakhinstrakh and was accounted in the Bank's consolidated financial statements using the equity method. Kazakhinstrakh has the biggest branch and agency network among insurance companies in Kazakhstan with 15 branches and 77 agencies located throughout Kazakhstan and more than 2,000 agents, some of whom are located within the Bank's branch network. According to the FMSA, at 31 December 2006, Kazakhinstrakh was the third largest general insurance company in Kazakhstan with a 9.11 per cent. market share and over 300,000 corporate and individual customers.

Kazakhinstrakh is a successor of the former Soviet Union's insurance system in Kazakhstan, which was created as a separate legal entity in 1995 and privatised in 2001. As at 31 December 2006, Kazakhinstrakh had total assets of KZT 10,774 million, net income for the year ended 31 December 2006 of KZT 890 million, with KZT 4,945 million of net premiums written (reflecting high levels of re-insurance), KZT 7,937 million in liabilities and KZT 2,837 million as equity.

Following the Bank's acquisition of the controlling stake in Kazakhinstrakh in October 2006, the financial statements of Kazakhinstrakh were consolidated proportionately.

The Kazakhstan insurance market has been growing at between 40 and 50 per cent. per annum for the last six years, reflecting the growth in the Kazakhstan economy and the increasing penetration of financial products.

In November 2005, Kazakhinstrakh created a wholly-owned life insurance company — JSC Halyk Life ("Halyk Life") — which began operations in April 2006. For regulatory reasons Halyk Life was later in 2006 transferred to the Bank and is now wholly owned by the Bank. Halyk Life offers various types of personal insurance products, including life, annuity and casualty insurance products. Halyk Life intends to sell its products through the Bank's branch network.

Leasing

Through its wholly-owned subsidiary, JSC Halyk Leasing ("Halyk Leasing"), the Bank provides operating lease financing to most industrial sectors of the Kazakhstan economy, including construction, oil and gas, mining, transport, agriculture and food processing. As at 31 December 2006, Halyk Leasing had a leasing portfolio of KZT 5,545 million, which it believes to be one of the largest in Kazakhstan. It is headquartered in Almaty and has representative offices in Aktau and Atyrau. It also takes advantage of the "Leasing Classic" programme, which it runs jointly with the Bank, allowing it to make use of the Bank's wide branch network throughout Kazakhstan.

A large portion of Halyk Leasing's customers are corporate (SMEs and large companies) customers of the Bank and the Bank is actively engaged in selling Halyk Leasing's products, particularly to SMEs. The average lease term is four years, at the end of which the ownership title of the leased property is transferred to the lessee for no further payment. The Kazakhstan tax regulations applicable to leasing are beneficial to the clients in that the leased asset is recorded on the client's balance sheet and full amortisation/depreciation is tax deductible during the lease term. The client also benefits from not having to provide additional collateral other than the leased equipment itself. It has the advantage for Halyk Leasing that it retains legal title to the leased equipment throughout the lease term. The customer also derives a tax benefit because value added tax is not chargeable in Kazakhstan on certain equipment imported for leasing purposes.

All income which Halyk Leasing receives from its leasing business is based on a margin charged on the lease payments made by customers above the funding costs charged to Halyk Leasing by the Bank. Interest income received from certain leases is exempt from corporate income tax. In the case of customers who default on their lease payments, the leased assets are taken back, though for the year ended 31 December 2006 this occurred in respect of only 0.6 per cent. of the lease portfolio.

Brokerage and Asset Management

The Bank provides brokerage, advisery, capital markets, investment banking and asset management services through its subsidiary JSC Halyk Finance ("Halyk Finance"). Halyk Finance, a wholly-owned subsidiary of the Bank, was established on 10 November 2004 and operates from the Bank's Head Office. As at 31 December 2006, Halyk Finance had total assets of KZT 6,996 million, equity of KZT 2,634 million, and net income for the year ended 31 December 2006 of KZT 679 million.

As at 31 December 2006, the assets under management and the brokerage portfolio of Halyk Finance had a marked-to-market value of KZT 3,111 million and KZT 26,395 million respectively. Halyk Finance also engages in proprietary trading for the Bank, within the limits prescribed by the FMSA. In addition, it has also acted as an underwriter on several domestic bond issues and believes that it is the leading underwriter on the domestic market. At 31 December 2006, it had 59 brokerage clients, comprising 16 corporate clients and 43 individuals. Halyk Finance is actively working with the Bank to offer its products to the Bank's retail customers as well as to its SME and corporate customers and is currently engaged in a training programme for branch staff to assist in the selling of mutual funds. As of the year end 2006 Halyk Finance managed nine public mutual funds.

Other Banking and Financial Services

The Bank through its treasury department is also an active participant in the foreign exchange markets and has a licence to engage in certain precious metal transactions in Kazakhstan and abroad.

International Banking

The Bank provides services for customers engaged in international trading. Currently, the Bank has representative offices in Beijing, London and Moscow, through which it intends to diversify its clientele and the range of banking products it offers in international trade finance.

In addition, the Bank has two foreign subsidiaries, OJSC Halyk Bank Kyrgyzstan ("Halyk Bank Kyrgyzstan") and JSC Bank Khlebny ("Bank Khlebny"). The Bank believes that these two subsidiaries are an important part of its strategy of building a regional financial service group and of leveraging its experience gained in Kazakhstan and among other things it is planning training programmes for the staff of the two banks.

Halyk Bank Kyrgyzstan, is a commercial bank incorporated in the Kyrgyz Republic, and specialises in SME banking services. In September 2004, the Bank acquired OJSC Kairat Bank for a total consideration of U.S.$1.3 million and renamed the bank as Halyk Bank Kyrgyzstan. As at 31 December 2006, Halyk Bank Kyrgyzstan had total assets of SOM 1,386 million (U.S.$37 million) and equity of SOM 257 million (U.S.$7 million), and net income for the year ended 31 December 2006 of SOM 34 million (U.S.$0.9 million). The Bank has successfully introduced a number of retail and SME banking products in the Kyrgyz market. The Bank intends to replicate the same strategy in other countries in the Central Asian region.

JSC Bank Khlebny, is a regional Russian bank in the Chelyabinsk industrial region, which has strong links to the Kazakhstan industrial sector due to its location along the Russia-Kazakhstan border. The Bank acquired a 76.9 per cent. interest in Bank Khlebny in April 2004 for a total consideration of approximately U.S.$1.2 million. In 2005 and 2006, the Bank made additional contributions of RUR 56 million and RUR 111.2 million, respectively, to the share capital of Bank Khlebny. In December 2006, the Bank increased its holding in Bank Khlebny to approximately 99.99 per cent. As at 31 December 2006, Bank Khlebny had total assets of RUR 200 million (U.S.$8 million) and equity of RUR 187 million (U.S.$7 million) and net income for the year ended 31 December 2006 of RUR 3 million (U.S.$0.1 million). The Bank's management believes that this acquisition will allow the Bank to take advantage of the growing levels of trade between the Chelyabinsk region and Kazakhstan, especially in the construction, mining and oil and gas sectors.

The Bank is currently considering an acquisition of a Moscow based commercial bank in Russia focused on SME and retail operations with regional branch network. The planned acquisition would not exceed 5-10 per cent. of the Bank's equity and would be developed organically.

The Bank is also considering further expansion into other countries in the Central Asia, including Tadjikistan, Uzbekistand, Mongolia and Western China.

Subsidiaries

The following table shows the Bank's principal subsidiaries as of the date of this Prospectus:

	Holding as at 31 December 2006 (per cent.)	Country	Industry
JSC Halyk Leasing	100	Kazakhstan	Leasing
JSC Kazteleport	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of Eurobonds
OJSC Halyk Bank Kyrgyzstan	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	Kazakhstan	Broker and dealer activities
LLP Halyk Inkassatsiya	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	Kazakhstan	Pension assets accumulation and management
JSC Bank Khlebny	99.99	Russia	Banking
LLP ARIR	—	Kazakhstan	Financial markets research

Properties

As at 31 December 2006, the total net book value of the fixed assets (comprising land, buildings, computer hardware and others) of the Bank and its consolidated subsidiaries was KZT 16,412 million, with the Bank's property assets being revalued in 1997. The Bank leases 30.6 per cent. of its branch offices and retail outlets from third parties pursuant to long-term renewable leases and owns the remaining 69.4 per cent. of its offices. As at 31 December 2006, 2005 and 2004, the Bank has paid a total amount of approximately KZT 547 million, KZT 293 million and KZT 140 million, respectively, under its leases. There are no charges on any of the Bank's properties securing indebtedness of the Bank. The Bank's properties are maintained by the Property Management Division of the Bank.

Information Systems

The Bank has made substantial investments in technology with the aim of improving customer service, increasing its operating efficiencies, imposing risk control systems and enhancing its overall competitive position. In 2006, the Bank's information technology related capital expenditures were approximately KZT 2,800 million, compared to approximately KZT 1,800 million in 2005. The Bank has budgeted approximately KZT 3,500 million in capital expenditures for information technology in 2007. This budget includes expenses for software and software licences, mainly from SAP and Microsoft, which are expected to amount to approximately KZT 1,474 million, representing approximately 42 per cent. of the total budgeted amount, approximately KZT 1,162 million (33 per cent.) for both computers and servers and approximately KZT 870 million (25 per cent.) for telecommunication equipment and other (printers, scanners etc.). (See "*Business of the Bank — Strategy — Continue to raise standards to achieve operational excellence and efficiency*".)

Currently, the Bank's operating software is not fully integrated and certain data/information from its branches is still processed manually and sent to the Head Office for processing. In 2005, the Bank launched the Mobile Banking system for customers to manage their card accounts via their mobile phones, completed the introduction of a collateral monitoring and management system, successfully completed a pilot project for the implementation of an SAP BW data warehouse, and developed an HP Open View used for management of IT infrastructure. In 2005, the Bank updated the following systems and software: Customer Contacts, Know Your Customer, its Integrated Database on Material Damages incurred by the Bank as a result of its operations and the Unified Database on Contracts. By the end of April 2007, the Bank plans to complete the second and third stages of the implementation of the SAP BW data warehouse, which will allow compiling various management and regulatory reports. The Bank plans to complete the introduction of a fixed-assets accounting, procurement and technical support, controlling, planning and budgeting system (SAP R/3, BPS). In 2005, the systems in the largest retail branch were fully centralised and the Bank is currently in the final stages of replicating its centralised retail system in most of its main branches. In 2006, a centralised Oracle CDH customer database was introduced.

In 2006, the Bank launched the CobIT (IT governance support) and ITIL (IT service management) systems. The Bank believes that the introduction of these systems will increase the efficiency and transparency of its IT management. The Bank has recently acquired a new T-24 system provided by Temenos, which will be installed over the next two years and will replace the entire IT platform for the Bank, integrating all of its banking and operational functions. The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in information technology to support the efficient growth of its operations. The Bank's management believes that this upgrade will significantly improve its risk management capabilities, asset and liability management, liquidity management and monitoring of lending activities. The Bank's management also expects that the improvements to its IT systems will enable it to improve overall management and business efficiency. The Bank's critical IT systems have "hot" reserve systems. In case of main server failures or building destruction, two recovery systems based in Almaty will be activated with no loss of transaction data. A further recovery system is currently under construction in Astana.

Security and Anti-Money Laundering

The Bank has implemented security procedures and policies for all of its locations. Each new branch is initially reviewed by the Bank's Legal, Security, Risk Management and Internal Audit Departments to ensure compliance with the Bank's procedures and policies. All of the Bank's branches contain video surveillance systems and most of its ATMs are monitored by cameras.

The Bank maintains a strict anti-money laundering policy in relation to all of its customers. The Bank interviews most applicants and performs background investigations. All applicants are required to provide the Bank with identification documents, as well as their Kazakhstan tax identification number.

Insurance Cover

The Bank has a number of insurance policies provided by Kazakhinstrakh, including obligatory employers' liability insurance (coverage KZT 4,981 million), voluntary employees' medical insurance (coverage varies depending on package), accident insurance (coverage KZT 6,030 million), voluntary insurance of entrepreneurship risk (coverage KZT 293 million) and obligatory vehicle owners insurance (coverage varies). In April 2007 the Bank has entered into employees' collective insurance agreement with Halyk Life (coverage KZT 14,819 million).

In addition, the Bank carries group insurance for the Bank's cardholders provided by AIG Kazakhstan Insurance Company (coverage varies).

All policies are generally renewable annually.

Legal Proceedings

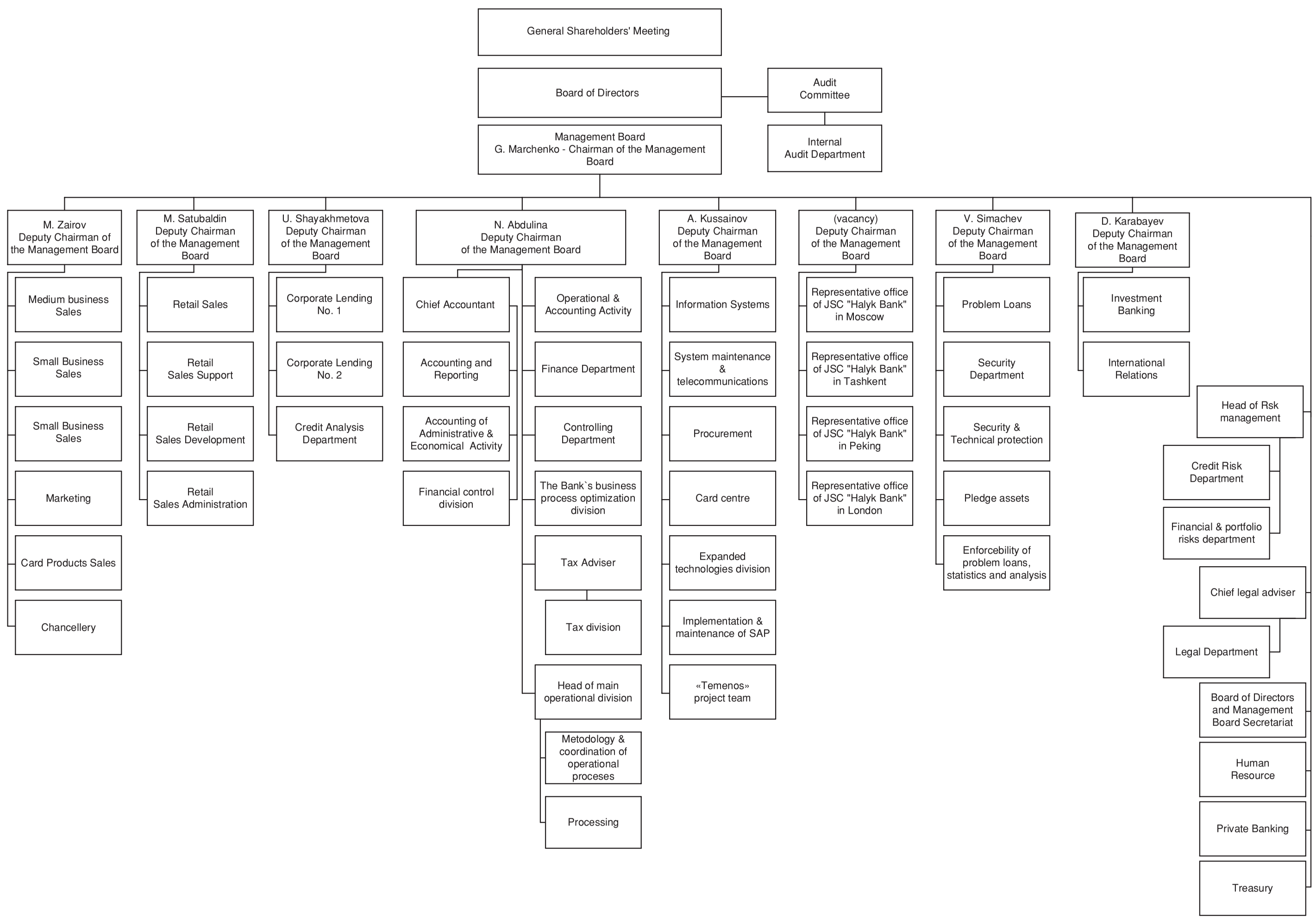
From time to time and in the normal course of business, the Bank is subject to legal actions and complaints.

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Bank.

MANAGEMENT AND EMPLOYEES

Organisation Chart

The following organisation chart sets out the management reporting lines and principal business units of the Bank:



General

Pursuant to the laws of Kazakhstan and the Bank's charter adopted by the General Shareholders' Meeting on 20 December 2006 and approved by the FMSA on 26 January 2007 (the "Charter"), the control and management of the Bank is divided among the shareholders, the Board of Directors and the Management Board. The shareholders have the exclusive authority to approve certain material issues of the Bank, including the election of the Board of Directors. The shareholders participate in the control and management of the Bank through actions taken at general meetings of shareholders. The Board of Directors supervises the Management Board. The Management Board is headed by a Chairman who is responsible for the day-to-day management of the Bank. In addition, the Bank has various collegial decision-making bodies, including a number of credit committees in Head Office and branches, a problem loan recovery committee, and the ALCO.

In January 2005, the general meeting of shareholders appointed Mr. Grigoriy Marchenko, formerly Chairman of the NBK and Chairman of the National Securities Commission of Kazakhstan, as Chairman of the Management Board. Since joining the Bank, Mr. Marchenko has appointed a number of new members to the senior management team of the Bank.

The Bank's registered office is located at 97 Rozybakiev Street, Almaty 050046, Kazakhstan, and its telephone number is +7 327 259 00 00. The Bank is registered with the Registration Services Committee of the Ministry of Justice of the Republic of Kazakhstan and its registration number is 3898-1900-AO.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors and the Management Board to the Bank on the one hand and their private interests and/or other duties on the other hand.

Board of Directors

In accordance with the Charter, the members of the Bank's Board of Directors are elected at the annual general meeting of shareholders and must be approved by the FMSA. Members of the Board of Directors may not be members of the Management Board, except for the Chairman of the Management Board.

The Board of Directors is responsible for setting strategic policy for the Bank, nominating members of the Management Board, determining and overseeing the remuneration of the Management Board members and convening annual and extraordinary General Meetings of Shareholders. Subject to special arrangements, the directors are elected at each annual General Shareholders' Meeting and generally serve a one-year term. As at the date of this Prospectus, the Board of Directors consists of the following members:

Name	Position(s)	Year Born
Alexander Pavlov	Chairman of the Board, Independent Non-Executive Director(1)	1953
Kamilya Arstanbekova	Chairwoman of Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC	1963
Kairat Satylganov	General Director, Holding Group Almex JSC	1965
Grigoriy Marchenko	Chairman of Management Board of the Bank	1959
Kadyrzhan Damitov	Independent Non-Executive Director(1)	1959

Note:

(1) Non-executive directors are considered to be independent in accordance with the Law on Joint Stock Companies dated 13 May 2003 (but may not necessarily be so considered under the UK Combined Code).

Alexander Pavlov, Chairman of the Board, Independent Non-Executive Director. Mr. Pavlov has an MBA degree from Rutgers University. Between 1994 and 2004 he worked as a government official for the Republic of Kazakhstan. He started as Minister of Finance and later became Deputy Prime Minister, progressing to First Deputy Prime Minister. From 2000 to 2004, he served as Vice President and Vice Chairman of the Board of Directors of Kazakhmys. In 2004, Mr. Pavlov became an external consultant to the Bank and has since then acted as Chairman of the Board of Directors of the Bank.

Kamilya Arstanbekova, Chairwoman of JSC Accumulative Pension Fund of Halyk Bank of Kazakhstan. Ms. Arstanbekova studied at the Almaty Institute of People's Economy where she obtained a degree in Finance and Lending. From 1991 to 1995, she worked at Alem Bank, Kazakhstan where she was Deputy Head of the Foreign Debt Service Department, Head of the Lending Department, an Economist and Senior Specialist. From May to September 1995, she was Head of the Foreign Debt Service Department at

Eximbank Kazakhstan. From October 1995 to August 1998, she was Head of the Commercial Department and Deputy Chairman of the Management Board for Almaty Merchant Bank (ATF Bank). Ms. Arstanbekova has held her present position as Chairwoman of the Management Board of JSC Accumulative Pension Fund of Halyk Bank of Kazakhstan since September 1998.

Kairat Satylganov, General Director, Holding Group Almex JSC. Mr. Satylganov studied at the Kazakhstan State Academy of Administration where he earned a degree in Economics. Between 1992 and 1993 he worked as Chief Accountant at the Embassy of Kazakhstan in the United States. From 1993 to 1997 he was the Chief Economist at Bank TuranAlem, before becoming Deputy Chairman of the Management Board of Bank TuranAlem in 1997. Between 1997 and 2002 he acted as Deputy Chairman and then Chairman of the Management Board of ATF Bank. In 2002, Mr. Satylganov became Chairman of the Management Board of the Bank. In 2004, he took up the role of General Director of the Board of Directors of the Bank, representing Almex.

Grigoriy Marchenko, Chairman of the Management Board of the Bank. Mr. Marchenko graduated from Moscow State Institute of International Relations in 1984 with honours. Between 1992 and 1994, he was an assistant to the Vice President of the Republic of Kazakhstan. In 1994, he was appointed as Deputy Chairman of the NBK. In 1996, he became the Chairman of the National Securities Commission of the Republic of Kazakhstan. Mr. Marchenko was the President of DB Securities (Kazakhstan) JSC from 1997 to 1999. From 1999 to 2004, he served as Governor of the NBK. In 2004, he was appointed as First Deputy Prime Minister of the Republic of Kazakhstan and then Advisor to the President of the Republic of Kazakhstan. Mr. Marchenko has been in his current position since January 2005.

Kadyrzhan Damitov, Independent Non-Executive Director. Mr. Damitov holds a PhD from the Moscow Finance Institute. Between 1994 and 1997 he served as Deputy Chairman of the Central Bank in Kazakhstan, before becoming First Deputy Minister of Economy and later Advisor to the Minister of Economy. He held this position until 1998, at which time he became Chairman of the NBK. He held this position until 1999. From 1999 to 2000, Mr. Damitov acted as Advisor to the President of the Republic of Kazakhstan. Between 2000 and 2004, he served as Deputy Chairman of ABN AMRO Kazakhstan before becoming adviser to the CEO of UK TMK Mining Company between 2004 and 2006.

Management Board

The Management Board, which meets weekly, is responsible for the day-to-day management of the Bank and implements the decisions of the General Meetings of Shareholders and the Board of Directors. The Management Board consists of nine members, who are elected by the Board of Directors for a period of three years. As at the date of this Prospectus, the Management Board consists of the following members:

Name	Position(s)	Year Born
Grigoriy Marchenko . . .	Chairman of the Management Board	1959
Nailiya Abdulina	Deputy Chairman, Finance and Accounting	1946
Dauren Karabayev	Deputy Chairman, Investment Banking, International Activity	1978
Marat Zairov	Deputy Chairman, SME Banking	1968
Marat Satubaldin	Deputy Chairman, Retail Banking	1964
Umut Shayakhmetova . .	Deputy Chairman, Corporate Banking	1969
Askar Kussainov	Deputy Chairman, Information Technologies	1962
Vasiliy Simachev	Deputy Chairman, Security	1950

Grigoriy Marchenko, Chairman of the Management Board. See biography above.

Nailiya Abdulina, Deputy Chairman of the Management Board. Ms. Abdulina graduated from Almaty Institute of People's Economy in 1981 with a degree in accounting. Between 1998 and 2005, she served as the Deputy Chairman of the Management Board of the NBK. She joined the Bank in 2005 as Advisor to Chairman of the Management Board. In March 2006, she was appointed as Deputy Chairman of the Management Board.

Dauren Karabayev, Deputy Chairman, Investment Banking and International Activity. Mr. Karabayev graduated from Almaty Institute of People's Economy in 1999 with a degree in economics. In 2001, he received a master's degree in finance from the University of Texas, USA. In 2001, he joined ABN AMRO Bank Kazakhstan and held various positions in credit analysis and project finance. From November 2004 to February 2007, Mr. Karabayev worked as a Managing Director of Invest Banking and International Department. He was appointed as a Deputy Chairman of the Bank with effect from 1 March 2007.

Marat Zairov, Deputy Chairman, Client Relationships. Mr. Zairov graduated from Moscow State University in 1992 with a bachelor's degree in economics and from Kazakhstan State Law Academy in 2000 with a degree in law. Between 1993 and 1994, he held various positions in Kazpisheprom Kazakhstan State Cooperation Association, the Ministry of Finance of the Republic of Kazakhstan and Alemsystem Financial and Investment Corporation. From 1994 to 1997, Mr. Zairov worked in Alem Bank Kazakhstan, Exim Bank and Kazkommertsbank. Prior to joining the Bank in August 2000, Mr. Zairov worked as a Deputy Chairman of Bank TuranAlem and held management positions in OJSC Temirbank. Mr. Zairov has been in his current position since August 2000.

Marat Satubaldin, Deputy Chairman, Retail Sales. Mr. Satubaldin graduated from the Almaty Institute of People's Economy in 1985. He has worked in the Kazakhstan banking system since 1994. He worked as Head of the Payment Cards Department in Bank TuranAlem JSC from February 1997 to February 1999. From March 1999 until January 2001, he served as President of Kurmet Pension Fund. In February 2001, Mr. Satubaldin was appointed as a Director of the Retail Sales Support Department at Kazkommertsbank. He joined the Bank in January 2002 as Managing Director and has been a Deputy Chairman of the Bank since February 2005.

Umut Shayakhmetova, Deputy Chairman, Lending. Ms. Shayakhmetova graduated in 1993 from the University of People's Friendship in Moscow. In 1996, she received an MBA from Rutgers University, New Jersey. In 1997, she joined ABN AMRO Bank Kazakhstan and held various positions in project finance teams and later became Chairman of the Management Board of ABN AMRO Asset Management. From March 2001 to November 2004, Ms. Shayakhmetova worked as Deputy Chairman of the Management Board of ABN AMRO Bank. She has been a Deputy Chairman of the Bank since November 2004.

Askar Kussainov, Deputy Chairman, Information Technologies. Mr. Kussainov graduated in 1984 from Moscow State University. In 1990, he received a degree in physics and mathematics. From December 1997 to July 1998, Mr. Kussainov was a professor at Washington State University, USA. From 1998 to 2003, he worked as Executive Director of Kazakhtelecom and, from 2003 to 2005, he was a representative of Kazakhtelecom in Russia. He has been a Deputy Chairman of the Bank since February 2005.

Vasiliy Simachev, Deputy Chairman, Security. Mr. Simachev graduated from Kazakhstan State University with a bachelor's degree in law in 1973. From 1995 to 2001, he served as the First Deputy Minister of Internal Affairs of the Republic of Kazakhstan. From 2001 to 2002, he worked as executive director of Kazkommertsbank. In 2002, Mr. Simachev was reappointed as the First Deputy Minister of Internal Affairs of the Republic of Kazakhstan, which position he held until January 2004, when he joined the Bank as a Managing Director responsible for supervision of security issues. Mr. Simachev has held his current position since May 2004.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors and the Management Board to the Bank on the one hand and their private interests and/or other duties on the other hand.

Major Committees

Assets and Liabilities Management Committee

As at the date of this Prospectus, the ALCO members were as follows:

Name	Position(s)
Grigoriy Marchenko	Chairman of the Management Board
Nailiya Abdulina	Deputy Chairman
Umut Shayakhmetova	Deputy Chairman
Aliya Karpykova	Managing Director, Risks
Askar Smagulov	Director of the Treasury
Dauren Karabayev	Deputy Chairman
Evgeny Usatov	Director of the Financial & portfolio risks Department
Maulet Sabanshiev	Director of the Operations Department

For a description of the duties of the ALCO, see "*Asset, Liability and Risk Management — Asset and Liability Management Committee*".

Credit Committees

The following committees located at the Head Office of the Bank are responsible for administering the Bank's internal credit policy:

- Head Office Credit Committee — responsible for credit decisions with respect to risk exposure to corporate clients.
- Branch Network Credit Committee — responsible for credit decisions with respect to risk exposure to SME clients in excess of the established limits of each branch.
- Retail Lending Credit Committee — responsible for credit decisions with respect to risk exposure to retail customers.

In addition, each district and regional branch has its own retail lending credit committees. Such committees are permanent committees of the Bank that are responsible for the implementation of the internal credit policy of the Bank on retail lending through branches. These regional credit committees report to the Branch Network Credit Committee. (See also "*Asset, Liability and Risk Management — Lending Policies and Procedures*".)

Disciplinary Committee

The Disciplinary Committee is responsible for monitoring the Bank's and its employees' compliance with applicable laws of Kazakhstan and with the Bank's internal policies and regulations. If any violations are found, the Disciplinary Committee takes appropriate disciplinary action. The Disciplinary Committee reports to the Management Board.

Service Contracts

All members of the Management Board have entered into service agreements with the Bank, which, among other things, provide standard employment terms. Under the service agreements, employment can typically be terminated upon a 30-day notice period. Such service agreements do not provide for any severance benefits upon termination of employment.

Management Compensation

In accordance with the Charter, the amount of remuneration to be paid to members of the Board of Directors is subject to approval by the general shareholders' meeting, and the amount of remuneration to be paid to members of the Management Board and its Chairman is subject to determination and approval by the Board of Directors. In 2006, the Bank paid a total amount in remuneration to the members of its Board of Directors and Management Board of KZT 974 million.

Management Loans

The following table sets out the principal amounts of outstanding loans and guarantees extended to members of the Management Board and Board of Directors as at 31 December 2006.

	As at 31 December 2006
	(KZT thousands)
Payable on demand	—
One to three years	—
Over three years	45,415
Total	**45,415**

As at 31 December 2006, the total amount of outstanding loans extended to members of the Management Board and Board of Directors comprised 0.04 per cent. of the Bank's total equity. There are no outstanding loans, guarantees (or other contingent liabilities) extended by the Bank to any member of the Management Board or the Board of Directors other than those discussed above.

Share Ownership by Management

As at 31 December 2006 (being the latest practicable date before the date of this Prospectus), none of the members of the Board of Directors or the Management Board owned shares of the Bank nor have any options been granted. The management of the Bank is contemplating establishing a share-based incentive programme but such programme has yet to be finalised and is subject to approval of the Board of Directors and shareholders.

Employees

As at 31 December 2006, the Bank had 9,249 employees, of whom 84.9 per cent. were employed in the branches and retail outlets in Kazakhstan. As at 31 December 2006, the Bank employed 8,916 full-time employees and 333 part-time employees. As at the same date, the average age of the Bank's employees was approximately 35 years. Salaries and other employee benefits increased by KZT 4,695 million, or 41.8 per cent., in 2006 to KZT 15,931 million from KZT 11,236 million in 2005, after having increased by KZT 4,359 million, or 63.4 per cent., in 2005 from KZT 6,877 million in 2004. The increase in salaries and other employee benefits in 2006 was primarily attributable to an increase in head count and salary levels over the period, particularly for junior-level employees and the introduction of bonus programmes for front-office staff.

The following table sets out the number of employees of the Bank as at the dates indicated:

	As at 31 December		
	2006	**2005**	**2004**
Head office	1,397	959	1,010
Branches and retail outlets	7,852	7,422	7,446
Total	**9,249**	**8,381**	**8,456**

Although there are currently no labour unions in the Bank or its subsidiaries, some employees of the Bank are members of some local labour unions. The Bank has never experienced any industrial action or other work stoppages resulting from labour disputes.

The Bank does not provide pension, retirement, health or similar benefits to its employees in Kazakhstan, though it does make some small payments to employees of its non-Kazakhstan subsidiaries.

Training Programmes

The Bank traditionally uses internal and external training programmes to improve the skills of its personnel and to incorporate modern management approaches and technologies into its day-to-day operations. In 2006, more than 2,700 employees participated in external seminars and conferences, including programmes for regional specialists in Kazakhstan, CIS and Europe, and in-house corporate training sessions.

While the Bank's specific training programmes have been adjusted to reflect the Bank's strategy recently adopted by the new management team, the Bank intends to continue to offer employees training on client relations and customer service issues, risk management, IT and banking products. Employees of regional branches remain an important target group for training activity.

The Bank's "Halyk Training Centre" was opened in Almaty in March 2006 to provide training to all of the Bank's employees.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to the ownership of the Bank's outstanding common shares as at 1 January 2007:

Shareholder	Number of Common Shares as at 1 January 2007	Percentage of Common Shares as at 1 January 2007
Holding Group Almex JSC	624,414,814	64.34 per cent.
Merix International Ventures Ltd.	68,860,770	7.10 per cent.
Others, including Central Depository	277,157,836	28.56 per cent.
Outstanding common shares, total	**970,433,420**	**100 per cent.**

Almex

Based on information available to the Bank, as at the date of this Prospectus, Mr Timur A. Kulibayev, together with his family, beneficially owns 100 per cent. of Almex and, accordingly, Mr and Mrs Kulibayev indirectly hold the controlling stake in the Bank. Mr. Kulibayev is a son-in-law of the President of Kazakhstan. The controlling shareholder has the ability to influence significantly the Bank's business through his ability to control all actions that require shareholder approval, including any increase of share capital and appointment of members of the Board of Directors; however, the controlling shareholder is not entitled to interfere in the day-to-day management of the Bank and has the same voting rights per share as other shareholders. Mr. Kulibayev currently serves as a first vice president of JSC Kazakhstan Holding Company on Managing State Assets Samruk ("Samruk"), which holds government stakes in such national companies as NC KazMunayGas JSC, NC Kazakhstan Temir Zholy JSC, NC Kazakhtelecom JSC and others. As a consequence of Mr. Kulibayev's recent appointment, Samruk is now reported as an entity influenced by controlling shareholder of the Bank. See "*Transactions with Related Parties*".

Almex is a holding company, which, in addition to its controlling interest in the Bank, has interests in Kazakhstan companies also engaged in insurance activities, such as AON Kazakhstan LLP, and in another holding company, Caspian Financial Industrial Group LLP. Almex's interest in the Bank accounts for over 95 per cent. of its total assets.

In December 2006, Almex sold 187,000,000 shares of the Bank's common stock in the form of Global Depositary Receipts ("GDRs") on the London Stock Exchange (the "IPO") (included into "Others" in the above table). The GDRs were sold at a price of U.S.$16.00 per GDR, and each GDR represents four shares of common stock. The selling shareholder committed to use the proceeds from the IPO to subscribe for new shares of common stock offered domestically to the Bank's pre-IPO shareholders in the Rights Issue (defined below). In the second stage of the IPO, the Bank offered 55,000,000 shares of common stock to its pre-IPO shareholders (the "Rights Issue"). The Bank completed the Rights Issue in February 2007, and raised approximately U.S.$220 million in new capital.

Almex's business address is 58, Azerbayev street, 050059 Almaty, Kazakhstan.

Other

The common shares referred to in the "Others, including Central Depository" line in the table above are owned by various minority shareholders in Kazakhstan and offshore and represent shares in free float.

For a discussion on the history of the ownership of the Bank see "*Business of the Bank — Overview — History — Incorporation, Recapitalisation and Change of Ownership of the Bank*".

TRANSACTIONS WITH RELATED PARTIES

For a description of the definition of related parties under IAS 24 "Related Party Disclosures", see Note 28 to the audited consolidated financial statements included elsewhere in this Prospectus.

The following table provides information on the Bank's related party transactions as at the dates or for the periods indicated:

	For the years ended 31 December							
	2006				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
	(KZT millions)							
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	8,843	—	114
Loans outstanding, gross, ending of the period	230	4,971	—	45	681	—	—	72
Less: allowance for impairment	—	(959)	—	—	—	—	—	—
Loans outstanding, net, ending	230	4,012	—	45	681	—	—	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	295,729	44	32
Deposits and current accounts, ending of the period	101,025	116,306	238	423	807	—	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	—

	For the year ended 31 December 2004			
	Controlling shareholder and Entities Under Common Control	Entities influenced by the Controlling Shareholder	Associates	Key Management Personnel
		(KZT millions)		
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	—	6
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	51	—
Payments of deposits and current accounts during the period	—	799,345	45	—
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	—

In the above table, "Shareholders" transactions for the year ended 31 December 2006 comprised both "Entities influenced by the Controlling Shareholder" transactions (mostly transactions with Samruk (including its subsidiaries), where Mr. Kulibayev, one of the controlling shareholders of Almex, has served as a first vice-president since January 2006) and "Controlling shareholder and Entities Under Common Control" transactions (mostly transactions with entities controlled by Almex's shareholders). Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As a result of establishment of Samruk in 2005, a group of entities, including NC KazMunayGas, NC Kazakhstan Temir Zholy JSC, NC Kazakhtelecom JSC and others, which use cash management services of the Bank, became treated as "Entities influenced by the Controlling Shareholder". During the year ended 31 December 2006, the Bank received deposits and current accounts of KZT 5,108 million from and paid out deposits and current accounts of KZT 5,007 million to entities influenced by the controlling shareholder. The Bank does not rely upon such transactions from entities influenced by the controlling shareholder when considering its funding programme since in effect the Bank is only providing cash management services for such entities. "Management" transactions comprised loans to and deposits from members of the Management Board and the Board of Directors.

Kazakhstan law, including the Law On Joint Stock Companies (JSC Law) and Law On Banks and Banking Activities (Banking Law), requires that related party transactions are made at market terms and conditions. In accordance with JSC Law, decisions with respect to related party transactions (i) shall be made by the board of directors, and (ii) directors that may have a conflict of interest shall not vote with respect to such decisions. In addition, state-owned companies, including Samruk, are subject to the State Procurement Law, which requires all state-owned companies to conduct a public tender for any purchase of goods or services with a contract size exceeding approximately 4,000 times the monthly calculation index (established annually by the budget law (currently 1,030 Tenge) or approximately U.S.$32,000 at current exchange rates) aimed at ensuring that state-owned companies enter transactions only on market terms and conditions.

As of 31 December 2004, balances and transactions with related parties included transactions with NC KazMunayGas JSC, where Mr. Kulibayev, one of the controlling shareholders of Almex, served as a senior officer.

FMSA regulation has set a threshold of 10 per cent. of capital for loans to a single related party and the Bank is currently in compliance with the requirements of the FMSA. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations Overview — Capital Adequacy and Liquidity*".

See "*Management and Employees*" for a discussion of loans to members of the Bank's Board of Directors and Management Board.

In October 2006, Almex sold its 57 per cent. stake in Kazakhinstrakh to the Bank for consideration of KZT 4.8 billion.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

Since mid-1994, Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates.

The Government, the NBK and the FMSA have also undertaken significant structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system.

The National Bank of Kazakhstan and the FMSA

The NBK is the central bank of Kazakhstan and although it is an independent institution, it is subordinate to the President. The President has the power, among other things, to appoint (with the approval of Parliament) and remove the NBK's Chairman, to appoint and remove the NBK's Deputy Governors, to confirm the annual report of the NBK on the recommendation of the Chairman, to confirm the concept and design of the national currency, and to request information from the NBK. Anvar Saydenov was appointed Governor of the NBK in 2004. The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Chairman, five other representatives of the NBK, a representative of the President and two representatives of the Government.

Currently, the principal task of the NBK is to ensure price stability in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, organise banking settlement systems, conduct currency regulation and control, assist in ensuring stability of the financial system and protect the interests of depositors with commercial banks. Following legislative changes in July 2003, the FMSA was formed and, on 1 January 2004, took responsibility for most of the supervisory and regulatory functions in the financial sector, which were previously performed by the NBK.

The FMSA is an independent institution reporting directly to the President. The President appointed Arman Dunayev, former Minister of Finance of Kazakhstan, as the Chairman of the FMSA in January 2006. The principal task of the FMSA is to regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds and pension asset management companies, as well as professional participants of the securities market. The FMSA is empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions and to monitor the activities of, to apply sanctions where necessary, and to participate in the liquidation of, financial institutions.

Banking

Structure of the banking system of Kazakhstan

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the FMSA, or prior to 2004, by the NBK.

Banking reform and supervision

Reform of the banking sector started in 1995 with the introduction of international prudential standards, including capital adequacy requirements and liquidity ratios to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, harmonisation of local accounting practices to IFRS, and personnel training programmes.

In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices, the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were established for bank inspections and for periodic reporting by commercial banks to the NBK, now the FMSA. In 2003, all banks were requested to develop and install internal risk management systems.

The FMSA monitors compliance with capital adequacy standards (in compliance with international standards set by the Basel Committee), current liquidity ratios, maximum credit exposures to single borrowers and related parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions. Additionally, the FMSA applies regulations on problem asset classification and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and loan loss reserves.

The objective of these reforms was to bring supervisory practices closer to international standards to allow for a more transparent view of banks' levels of capitalisation and exposure to financial risks. The FMSA, which currently includes what was the NBK's Banking Supervision Department, will continue to focus on ensuring financial solvency and protection of depositors while encouraging banks to diversify their activities in the financial services sector (for example, by managing pension and investment funds and establishing leasing and insurance companies).

In September 1995, the NBK introduced international prudential standards such as capital adequacy requirements and liquidity ratios to regulate and protect the banking system. On 30 September 2005, the FMSA adopted a resolution (as amended in November 2005, May 2006 and June 2006) to set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions. Currently, the approval of prudential rules as well as supervision of their fulfilment is the responsibility of the FMSA. The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system.

In December 1999, a self-funded domestic deposit insurance scheme was established and as at 31 December 2006, 33 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal term deposits in any currency and current accounts up to a maximum amount per customer (KZT700,000) at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

Current legislation requires the FMSA to approve any acquisition of a shareholding of 10.0 per cent. or more (whether held independently or jointly with another legal entity) in a Kazakhstan bank. Furthermore, a foreign entity holding 10.0 per cent. or more of a Kazakhstan bank must have a minimum required credit rating from one of the rating agencies.

In November 2005, new regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represent a substantial step towards the implementation of the Basel II accord. In particular, the new regulations introduce the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks, and include rules for calculating risk with respect to derivatives. Further, the new regulations establish reduced capital adequacy ratios for banks one of whose shareholders is a bank holding company. Such reduced rates are 5.0 per cent. for the K1 ratio (compared to a generally applicable ratio of 6.0 per cent.) and 10.0 per cent. for the K2 ratio (compared to a generally applicable ratio of 12.0 per cent.). A bank holding company is an entity, whether domestic or foreign, that owns more than 25.0 per cent. of the voting shares of a Kazakhstan bank and has received the FMSA's permission to be a bank holding company. Separately, the FMSA introduced more stringent requirements for internal risk management and supervision on a consolidated basis (for banks and bank holding companies).

Effective as of 14 July 2006, the FMSA has implemented new measures to raise reserve requirements for Kazakhstan banks in an effort to limit foreign currency debt issuances amid concerns among currency mismatches among second tier banks who have significant liabilities in dollars although they lend predominantly in Tenge. The new rules will increase reserve requirements for currency borrowings from non-residents and borrowings through issuance of notes and subordinated debt instruments (regardless of residence) to 8.0 per cent. from 6.0 per cent., although domestic borrowings from residents except as mentioned above will remain at 6.0 per cent.

In addition, effective as of 30 June 2006 the FMSA implemented new measures to restrict banks in Kazakhstan from having outstanding external short-term financings which exceed a bank's regulatory capital by a ratio of greater than 1. However, banks not meeting the requirements as of 1 July 2006 will have until 1 October 2006 to comply. To address concerns about currency mismatches and more precisely, to manage banks' liquidity, the FMSA has also tightened requirements to open/net currency positions and introduced various limits of currency liquidity.

On 23 February 2007, to reduce the risks associated with rapid growth in the external debt of Kazakhstan banks, the FMSA made an amendment to the prudential norms mandatory for the second tier banks of Kazakhstan. The purpose of the new amendments is to limit the total amount of foreign borrowings or "external liabilities" which a bank can incur to a multiple of such bank's "regulatory capital". This amendment sets forth the following ratios of "external bank liabilities" to "regulatory capital" (capitalisation ratios) in relation to the liabilities to non-residents:

- Bank capitalisation ratio in relation to the external liabilities (k8);
- Bank capitalisation ratio in relation to the external liabilities and securities issued by this bank (k9)

k8 capitalisation ratio is applied to all liabilities to non-residents, except for (i) securities issued by special purpose subsidiaries of a bank and is guaranteed by such bank; (ii) correspondent accounts and current accounts held by foreign companies and individuals that are recognised as non-residents of Kazakhstan for the tax purposes; (iii) external liabilities of the international organisations of which Kazakhstan is a member. The maximum k8 ratio will range between two and four, depending on the size of a bank's "regulatory capital".

k9 capitalisation ratio is applied to all liabilities to non-residents, except for (i) debt securities directly issued by such bank which are held by non-residents; (ii) correspondent accounts and current accounts held by foreign companies and individuals that are recognised as non-residents of Kazakhstan for the tax purposes; (iii) external liabilities of the international organisations of which Kazakhstan is a member. The maximum k9 ratio will range between four and six, depending on the size of a bank's "regulatory capital".

The following chart shows the maximum k8 and k9 ratios for banks categorised by "regulatory capital" size:

	Ratios	
"regulatory capital"	**k8**	**k9**
Less than KZT 50 billion	2	4
KZT 50 to KZT 100 billion	2.5	4.5
KZT 100 to KZT 150 billion	3	5
KZT 150 to KZT 200 billion	3.5	5.5
More than KZT 200 billion	4	6

The amendment that came into full effect on 1 April 2007 sets out several time limits for compliance. Banks in Kazakhstan will have until 1 January 2008 to bring their capitalisation ratios to within intermediate capitalisation ratios established by the amendment and, by 1 March 2008, to comply with the maximum capitalisation ratios. In accordance with regulatory reporting submitted as at 1 April 2007, the Bank had been in compliance with the new requirements and does not expect any breach going forward including after issuance of the Notes.

The proposed amendment may result in banks exceeding the prescribed ratios and needing to take steps to either repay foreign-sourced debt or increase their "regulatory capital" in order to avoid being in breach of the new regulations. Accordingly, the Bank's access to the foreign loan and capital markets to support their operations may be curtailed.

The FMSA has also suggested amendments to the rules of classification of loans issued by local banks by shifting the emphasis from valuation of collateral to the financial soundness of the borrowers.

Almaty Regional Financial Centre

The Almaty Regional Financial Centre ("RFCA") was established in June 2006 for the purpose of developing Kazakhstan's securities market, integrating it into the international capital markets and attracting investments into Kazakhstan's economy. The RFCA is governed by regulations regarding the relations between its participants and relations between foreign and local participants. The Agency for Regulation of the Operations (the "ARA RFCA") controls and supervises the activities of the RFCA, as well as registering its participants. The inaugural trade on the special trade platform (the "Special Trade Platform") of the KASE functioning at the RFCA occurred on 27 February 2007. As of 23 February 2007, the Special Trade platform included shares of seven different companies, which offered 24 different types of securities, according to the KASE. As at the date of this Prospectus, 19 companies are registered as RFCA participants.

Commercial banks

According to the FMSA, as at 31 December 2006, there were 33 commercial banks in Kazakhstan, excluding the DBK and the NBK, compared to 38 as at the end of 2002 and 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small- and medium-sized banks.

The financial standing of Kazakhstan's banks varies. As at 31 December 2006, 22 of the 33 commercial banks (excluding DBK) had registered capital of over KZT 2 billion, 11 banks had registered capital of KZT 1 billion to KZT 2 billion. There are no banks with registered capital of less than KZT 1 billion; any bank whose capital falls below KZT 500 million is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

In 2001, the Government established the DBK to provide medium-term and long-term financing and otherwise facilitate industrial projects in Kazakhstan. DBK was established with a charter fund of KZT 30 billion. Within the commercial banking sector, DBK is not considered a competitor of the Bank as it is not licensed to accept commercial or retail deposits or to provide corporate settlement services. The Bank expects that DBK may become an important competitor in the corporate lending sector. The DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Prospectus.

Whilst foreign-owned banks do not currently provide significant domestic competition and are not active in the retail banking sector, the Bank believes that such banks, some of which may have significantly greater resources and a cheaper funding base than the Bank, will, together with the larger local banks, become the Bank's primary long-term competitors in the corporate banking sector.

Foreign banks, which include Citibank and ABN AMRO Bank, also bring international experience in customer service and target the best corporate customers of the Kazakhstan banks as well as foreign companies operating in Kazakhstan.

Foreign capital in the banking sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to operate as a bank in Kazakhstan.

As at 31 December 2006, there were 14 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Bank Kazakhstan. Under relevant legislation, a bank "with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank AG, Deutsche Bank AG, American Express Bank Ltd., Commerzbank AG, Citibank N.A., ING Bank N.V., Bankgesellschaft Berlin and Societe Generale.

Industry trends

According to the FMSA, the total capital of commercial banks increased 44.9 per cent. in 2003, 62.4 per cent. in 2004, 69.3 per cent. in 2005 and 99.8 per cent. in 2006, amounting to approximately KZT 1,168.6 billion. During such period, the total assets of such banks increased by 68.0 per cent. as at 31 December 2005 and 96.5 per cent. as at 31 December 2006, amounted to approximately KZT 4,515 billion and KZT 8,872 billion, respectively. In 2005, the aggregate liabilities of such banks increased by 68.6 per cent. and amounted to approximately KZT 4,073 billion as at 31 December 2005 and their aggregate net income increased by 131.2 per cent. in 2005, amounting to KZT 73 billion in 2005. The aggregate liabilities of banks increased by 96.4 per cent. as at 31 December 2006 and amounted KZT 8,001.6 billion. Total net income increased by 39.4 per cent. in 2006 and amounted to KZT 101.9 billion.

KAZAKHSTAN CURRENCY AND BANKING LEGISLATION

Prudential Norms

In 2005, the FMSA issued new Instructions on Normative Values and Method of Calculation of Prudential Norms (the "Prudential Norms"), which replaced Prudential Norms adopted in 2002. New Prudential Norms establish certain capital adequacy requirements for Tier I, Tier II and Tier III capital of Kazakhstan banks, limitations on a single borrower exposure, short and long-term liquidity requirements, limitations on currency exposure and limitations on investment by Kazakhstan banks into fixed and other non-financial assets. The Prudential Norms are fully applicable to the Bank.

Claims in Bankruptcy

Article 74-2 of the Banking Law provides that proceeds of the bankruptcy estate of an insolvent bank should be distributed among its creditors in the following order: (i) claims by individuals for compensation for wrongful death or damage to health; (ii) claims for payment under employment contracts; (iii) claims by the organisations which conducted mandatory deposit insurance in amount it compensated for the insured deposits according to calculations provided by the insolvent bank; (iv) claims by individual depositors with respect to their accounts held and money transfers made with the insolvent bank as well as claims under deposits made on account of pension assets of pension funds; deposits of insurance companies that were made of assets acquired under "life insurance" policy; (v) claims by charitable organisations with respect to their accounts held with the insolvent bank; (vi) claims of secured creditors; (vii) tax claims and payments under loans provided by the Government; (viii) all other creditors' claims. Accordingly, unless Kazakhstan bankruptcy laws are amended, in the event of the bankruptcy of the Bank, claims with respect to the repayment by the Bank of the Deposit made with the Bank using proceeds of placement of the Notes (as defined in the Prospectus) and claims with respect to the repayment by the Bank of the Subordinated Loan shall be treated *pari passu* with claims of creditors identified in item (viii) above.

Exchange Controls

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a law on currency regulation was adopted by the Kazakhstan Parliament in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be conducted without restriction. Only certain out-flowing capital account operations are required to be licensed by or registered with the NBK. Capital in-flows are registered and monitored for statistical purposes only, but are not restricted.

In 2005, a new law on currency regulation was adopted by the Kazakhstan Parliament replacing the previous law which was adopted in 1996. The new law has significantly simplified rules applicable to currency operations. Under this new law, only particular types of currency operations require licensing, registration or notification. Particularly, with respect to most banks' cross-border operations, banks are only obliged to provide respective notification to the NBK, without the need to register such operations.

Capital in-flows are registered and monitored for statistical purposes only, but are not restricted. New licensing rules adopted in implementation of the currency regulation law in 2005 liberalised the treatment of the outflow of capital. One of the purposes of liberalisation is to avoid the pressure caused by the influx of U.S. Dollars into Kazakhstan due to high market prices for Kazakhstan export goods by directing export revenues abroad. No NBK licence is currently required to open accounts in foreign banks for a Kazakhstan financial organisation in connection with transactions with financial instruments on international securities markets or a Kazakhstan legal entity for the purposes of securing its obligations towards non-resident lenders, for certain Kazakhstan financial organisations or other residents acting through a licensed professional securities market participant, to acquire foreign securities or to enter into derivative transactions with non-residents

The following table sets out certain average and period-end Tenge/U.S. Dollar exchange rates on the KASE as reported by the NBK:

Year	**Average**	**Period-end**
	(KZT per U.S. Dollar)	
1999	119.52	138.20
2000	142.13	145.40
2001	146.74	150.20
2002	153.28	155.60
2003	149.58	144.22
2004	136.04	130.00
2005	132.88	133.98
2006	126.09	127.00
2007 (to 31 March 2007)	124.85	123.84

Source: NBK

FORM OF NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes.

1. Form of Notes

All Notes will be in fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Deutsche Bank AG, London Branch, as common depository for Euroclear and Clearstream, Luxembourg, and registered in the name of BT Globenet Nominees Limited, as nominee for such common depository in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note, in fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with Deutsche Bank Trust Company Americas, as custodian (the "Custodian") for, DTC. The Restricted Global Note (and any Note Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set out under item 2 below.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "Note Certificates" or "Note Certificates" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Note or, as the case may be, the Unrestricted Global Note and interests therein.

2. Transfer Restrictions

On or prior to the fortieth day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction it being understood, however, that the Issuer has been advised that neither Euroclear nor Clearstream, Luxembourg will monitor compliance with these Transfer Restrictions nor provide certification of non-U.S. beneficial ownership. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) The purchaser (A) is a qualified institutional buyer within the meaning of Rule 144A, (B) is acquiring Notes for its own account or for the account of such a qualified institutional buyer and (C) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A.

(ii) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below.

(iii) The Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Issuer and the Guarantor determine otherwise in accordance with applicable law:

"NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER AND THE GUARANTOR THAT (A) THIS NOTE (AND ANY INTERESTS HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, THE GUARANTOR OR A SUBSIDIARY OF THE GUARANTOR, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

(iv) If the purchaser is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgment, representations and agreements on behalf of each such account.

(v) The Issuer, the Bank, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the 40th day after the closing date (the "distribution compliance period"), by accepting delivery of this Prospectus and the Notes, will be deemed to have represented and agreed as follows:

(i) It is, or will be at the time Notes are purchased, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or the Bank or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes and the Guarantee have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or the account of a qualified institutional buyer or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any State of the United States.

(iii) The Issuer, the Bank, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

3. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable for Note Certificates in definitive form ("Restricted Note Certificates") if DTC or any successor depository on behalf of which the Notes evidenced by the Restricted Global Note may be held (a) notifies the Issuer and the Guarantor that it is no longer willing or able to discharge its responsibilities as depository with respect to the Notes, or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depository, (b) an Event of Default (as defined and set out in Condition 10 of the Terms and Conditions of the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form of an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for Note Certificates. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer and the Guarantor will procure that the Registrar notify the holders as soon as practicable after the occurrence of any event specified in (a), (b), or (c).

The Unrestricted Global Note will become exchangeable for Note certificates in definitive form ("Unrestricted Note Certificates") if (a) either Euroclear or Clearstream, Luxembourg or any successor depository on behalf of which the Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so, (b) an Event of Default (as defined and set out in Condition 10 of the Terms and Conditions of the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form of an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for Note Certificates. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a), (b) or (c).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together "Note Certificates") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer, the Guarantor and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) a fully completed, signed certification substantially in the form contained in the Agency Agreement to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, a certification that the transfer is being made in compliance with the provisions of Rule 144A or, as the case may be, Regulation S. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions". Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under "Transfer Restrictions", the holder of a Note may transfer such Note only in accordance with the provisions of Condition 2 of the Terms and Conditions of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantor and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of the Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

4. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depository is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantor, the Trustee, any Agent or the Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg or their common depository or its nominee from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC or its nominee from the Principal Paying Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Principal Paying Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the fifteenth day before the due date for such payment (the "Record Date"). Trading between the Restricted Global Note and the Unrestricted Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) BT Globenet Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 5 p.m. Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (i) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Trustee, any Agent or any of the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Dresdner Bank AG London Branch (together, the "Joint-Lead Managers" or the "Managers") have, pursuant to a subscription agreement dated 2 May 2007 (the "Subscription Agreement"), agreed with the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Bank has agreed to pay certain costs and expenses in connection with the issue of the Notes.

The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Bank. The Bank has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Subscription Agreement provides that each Manager may through its agents or affiliates arrange for the resale of Notes in the United States solely to qualified institutional buyers pursuant to Rule 144A.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes or the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer, whether or not it is participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank, and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Kazakhstan

Each Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

General

No action has been, or will be, taken by the Issuer, the Bank or the Managers that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither the Prospectus nor any circular, prospectus, form of application, advertisement or other material, may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws or regulations.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

Except as otherwise indicated, this description only addresses tax legislation, as in effect and in force at the date hereof, as interpreted in published case law, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

United States Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of the Notes by a holder thereof. This description only applies to the Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, holders that have a functional currency other than the U.S. Dollar, tax exempt organisations, certain former citizens and long-term residents of the United States, holders that will hold the Notes through a partnership or other pass through entity, dealers or traders in securities or foreign currencies, or holders that will hold a Note as part of a straddle, a hedging, conversion or other integrated transaction for U.S. federal income tax purposes.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Notes and only addresses the U.S. federal income tax treatment of holders that acquire the Notes as part of the initial distribution at their initial issue price (which will equal the first price paid by the public, not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers, at which a substantial amount of the Notes is sold for money). Each prospective purchaser should consult its own tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of the Notes.

This description is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes that, for U.S. federal income tax purposes, is: (i) a citizen or resident of the United States; (ii) a corporation (or an entity treated as a corporation for U.S. federal income tax purposes) organised in or under the laws of the United States or any State or political subdivision thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of the Notes that is neither a U.S. Holder nor a partnership (or an entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to its consequences of acquiring, owning or disposing of the Notes.

U.S. Internal Revenue Service Circular 230 Disclosure

Pursuant to U.S. Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing (within the meaning of U.S. Internal Revenue Service Circular 230) of the Notes. This description

is limited to the U.S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U.S. federal tax treatment of the Notes, or the matter that is the subject of the description noted herein, and this description does not consider or provide any conclusions with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

Interest

Interest on the Notes will be treated as foreign source income for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, for taxable years beginning before 1 January 2007, interest on the Notes should generally constitute "passive income", or in the case of certain U.S. Holders, "financial services income", and, for taxable years beginning after 31 December 2006, interest on the Notes should generally constitute "passive category income", or in the case of certain U.S. Holders, "general category income." Prospective investors should consult their own tax advisers as to foreign tax credit implications of interest paid or accrued in respect of a Note.

Subject to the discussion below under "— U.S. Backup Withholding Tax and Information Reporting," payments of interest on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Sale, Exchange, Retirement or Other Disposition

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, retirement or other disposition (other than accrued but unpaid interest which will be taxable as such) and the U.S. Holder's adjusted tax basis in the Note. The U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such U.S. Holder, and any such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if the U.S. Holder's holding period for the Notes exceeds one year (i.e., such gain is long-term capital gain). Any gain or loss realised on the sale, exchange, retirement or other disposition of a Note by a U.S. Holder generally would be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations. If any gain from the sale or exchange of the Notes is subject to Dutch or Kazakhstan tax, U.S. Holders may not be able to credit such taxes against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code, because such gain generally would be U.S. source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Subject to the discussion below under "— U.S. Backup Withholding Tax and Information Reporting," any gain realised by a Non-U.S. Holder, upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States or (ii) in the case of any gain recognised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of the Notes that are U.S. persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal, interest and proceeds of sale to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding rate is 28 per cent. for taxable years through 2010.

Backup withholding is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Notes. Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

Kazakhstan Taxation

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than individuals, will be subject to Kazakhstan income tax. In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax. However, any gains in relation to Notes which are admitted to the Special Trade Platform of the Almaty Regional Financial Centre are expected to be subject to Kazakhstan income tax except for gains from a sale made on the Special Trade Platform by Kazakhstan Holders and Individual Non-Kazakhstan Holders.

Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15 per cent. Such withholding tax may be reduced under the Kazakhstan Netherlands Tax Treaty to a rate of 10 per cent., although there can be no assurance that such relief will be obtained.

Payments of interest to Non-Kazakhstan Holders under the Guarantee, other than under the Notes purchased on the Special Trade Platform, will be subject to withholding tax at a rate of 15 per cent. and payment of fees and commissions will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. respectively, unless reduced by an applicable double taxation treaty. The Bank will agree in the Trust Deed and the Guarantee to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 10 (Taxation). See "*Terms and Conditions of the Notes*". Payments to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

Gains realised by Kazakhstan Holders from the disposal, sale, exchange or transfer of the Notes are subject to Kazakhstan income tax. Gains realised from the disposal, sale, exchange or transfer of the Notes are not subject to Kazakhstan income tax if the Notes are included as of the date of sale in one of the two highest categories of listings on the KASE and the sale is made through an open auction on the KASE.

The Netherlands Taxation

Withholding tax

All payments made by the Issuer under the Notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

This paragraph does not describe the Dutch tax consequences of the acquisition, holding and disposal of the Notes if a holder of Notes or, in the event the holder is an individual, individuals related to such holder (statutorily defined term) and certain of their relatives by blood or marriage in the direct line (including foster children) have a substantial interest or deemed substantial interest (statutorily defined terms) in the Issuer.

Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder, alone or, in the case of individuals, together with his/her partner (statutorily defined term), directly or indirectly, holds (i) an interest of 5 per cent. or more of the total issued and outstanding capital of that company or of 5 per cent. or more of the issued and outstanding capital of a certain class of shares of that company or (ii) holds rights to acquire, directly or indirectly, such interest or (iii) holds certain profit sharing rights in that company that relate to 5 per cent. or more of the company's annual profits and/or to 5 per cent. or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Residents of The Netherlands

Generally speaking, if the holder of the Notes is an entity that is a resident or deemed to be resident of The Netherlands for Dutch corporate income tax purposes, any payment under the Notes or any gain realised on the disposal or deemed disposal of the Notes is subject to a 25.5 per cent. corporate income tax rate (a corporate income tax rate of 20.0 per cent. applies with respect to taxable profits up to EUR 25,000 and 23.5 per cent. over the following EUR 35,000, the first two brackets for 2007).

A Dutch qualifying pension fund is in principle not subject to Dutch corporate income tax. A qualifying Dutch investment fund (in Dutch "iscale beleggingsinstelling") is subject to corporate income tax at a special rate of zero per cent.

If a holder of the Notes is an individual, resident or deemed to be resident of The Netherlands for Dutch income tax purposes (including the non-resident individual holder who has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands), any payment under the Notes or any gain realised on the disposal or deemed disposal of the Notes is taxable at the progressive income tax rates (with a maximum of 52 per cent.), if:

(a) the Notes are attributable to an enterprise from which the holder of the Notes derives a share of the profit, whether as an entrepreneur or as a person who has a co-entitlement to the net worth of such enterprise, without being a shareholder, as defined in the Dutch Income Tax Act 2001; or

(b) the holder of the Notes is considered to perform activities with respect to the Notes that go beyond ordinary asset management (in Dutch "normaal vermogensbeheer") or derives benefits from the Notes that are (otherwise) taxable as benefits from other activities (in Dutch "resultaat uit overige werkzaamheden").

If the above-mentioned conditions (a) and (b) do not apply to the individual holder of the Notes, such holder will be taxed annually on a deemed income of 4 per cent. of his or her net investment assets for the year at an income tax rate of 30 per cent. The net investment assets for the year is the average of the fair market value of the investment assets less the allowable liabilities at the beginning of that year and the fair market value of the investment assets less the allowable liabilities at the end of that year. The Notes are included as investment assets. A tax free allowance may be available. Actual benefits derived from the Notes are as such not subject to Dutch income tax.

Non-residents of The Netherlands

A holder of the Notes will not be subject to Dutch taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain realised on the disposal or deemed disposal of the Notes, provided that:

(a) such holder is neither resident nor deemed to be resident of The Netherlands nor has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands;

(b) such holder does not have an interest in an enterprise or deemed enterprise (statutorily defined term) which, in whole or in part, is either effectively managed in The Netherlands or carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and

(c) in the event the holder is an individual, such holder does not carry out any activities in The Netherlands with respect to the Notes that go beyond ordinary active asset management (in Dutch "normaal vermogensbeheer") and does not derive benefits from the Notes that are (otherwise) taxable as benefits from other activities in The Netherlands (in Dutch "resultaat uit overige werkzaamheden").

A holder of the Notes will not become subject to taxation on income and capital gains in The Netherlands by reason only of the execution, delivery and/or enforcement of the Notes or the performance by the Issuer of its obligations under the Notes.

Gift and estate taxes

Residents of The Netherlands

Gift, estate or inheritance taxes will arise in The Netherlands with respect to a transfer of the Notes by way of a gift by, or on the death of, a holder of such Notes who is resident or deemed resident of The Netherlands at the time of the gift or his or her death.

Non-residents of The Netherlands

No Dutch gift, estate or inheritance taxes will arise on the transfer of Notes by way of gift by, or on the death of, a holder of Notes who is neither resident nor deemed to be resident in The Netherlands, unless:

(a) such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that, in whole or in part, is or was either effectively managed in The Netherlands or carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the Notes are or were attributable; or

(b) in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

For purposes of Dutch gift, estate and inheritance taxes, amongst others, a person that holds the Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. Additionally, for purposes of Dutch gift tax, amongst others, a person not holding the Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift. Applicable tax treaties may override deemed residency.

Other taxes and duties

No Dutch VAT and no Dutch registration tax, customs duty, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by the holders of the Notes in respect of or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

European Union Directive on Taxation on Savings Income

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 EU member states are required to provide to the tax authorities of other EU member states details of payments of interest and other similar income paid by a person to an individual in another EU member state, except that Austria, Belgium and Luxembourg impose a withholding system for a transitional period (unless during such period they elect otherwise). A number of third countries and territories have adopted similar measures.

GENERAL INFORMATION

1. The Bank's registered office is located at 97 Rozybakiev Street, Almaty 050046, Kazakhstan (which is also the business address for members of the board of directors of the Bank), and its telephone number is +7 327 259 00 00. The Bank is registered with the Registration Services Committee of the Ministry of Justice of the Republic of Kazakhstan and its registration number is 3898-1900-AO. The Issuer's registered office is located at Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands, and its telephone number is +31 10224 5333. The Issuer is registered with the trade register in Rotterdam and its registration number is 33302782.

2. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code 029893128 and ISIN XS0298931287. The Restricted Global Note has been accepted for clearance through DTC, Euroclear and Clearstream Luxembourg. The CUSIP number for the Restricted Global Note is 40430AAB9, the ISIN is US40430AAB98 and the Common Code is 029893187. The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, 1855 Luxembourg; and the address of DTC is 55 Water Street, 49th Floor, New York, New York 10041, United States of America.

3. The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in The Netherlands and Kazakhstan in connection with the issue, offer and sale of, and the performance of the Notes and the Guarantee. The issue of the Notes was authorised by a decision of a duly convened meeting of the Managing Board of the Issuer dated 1 May 2007 and by a decision of the Bank as sole shareholder of the Issuer adopted in a duly convened shareholders' meeting dated 1 May 2007. The Guarantee was authorised by a duly adopted resolution of the Board of Directors of the Bank dated 25 April 2007.

4. Neither the Bank, nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position or profitability of the Bank and its subsidiaries. The Issuer is not or has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position or profitability of the Issuer.

5. There has been no significant change in the financial or trading position of the Bank and its subsidiaries taken as a whole since 31 December 2006 and no material adverse change in the prospects of the Bank and its subsidiaries taken as a whole since 31 December 2006. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer since 31 December 2006.

6. Neither the Issuer nor the Bank has entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.

7. Application has been made for the Notes to be listed on the Official List and traded on the Regulated Market and for the Notes issued and sold in reliance on Rule 144A to be designated as eligible for trading on PORTAL. In addition, after their issue, the Bank will use its best efforts to cause the Notes to be listed on the KASE.

8. Copies of the following documents (and English translations thereof where the documents in question are not in English) may be inspected at, are available from and may be obtained free of charge upon request from the specified offices of the Paying and Transfer Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes are outstanding:

   (a) a copy of this Prospectus, together with any supplement to this Prospectus;

   (b) the Guarantee;

   (c) the Trust Deed, which includes the forms of the Global Notes and the Note Certificates;

   (d) the Agency Agreement;

(e) the Bank's Charter and the Issuer's Articles of Association; and

(f) the Auditors' Report of the Bank, together with the consolidated financial statements of the Bank as at and for the years ended 31 December 2006, 2005 and 2004.

9. The Bank's independent auditors are Ernst & Young, acting as auditors under the licence No. 0000003 dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan. The Bank's consolidated financial statements for the years ended 31 December 2006, 2005 and 2004 were audited by Ernst & Young. The Bank does not publish non-consolidated financial statements or interim financial statements. Ernst & Young's audit reports are included in this Prospectus.

10. The Issuer's independent auditors are Ernst & Young Accountants, a company with certified accountants, who are registered in the Netherlands with Royal NIVRA (*koninklijk Netherlands Instituut van Registeraccountants*) or NOvAA (*Nederlandse Orde van Accountants-Administratieconsulenten*).

11. The yield of the notes is 7.369 per cent.

12. The total fees and expenses in connection with the admission of the Notes to trading on the Regulated Market of the London Stock Exchange and PORTAL are expected to be approximately U.S.$5,463.

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements of JSC Halyk Bank as at and for the Years Ended 31 December 2006, 2005 and 2004

Report of Independent Auditors F-4
Consolidated Balance Sheets F-5
Consolidated Statements of Income F-6
Consolidated Statements of Changes in Equity F-7
Consolidated Statements of Cash Flows F-10
Notes to the Consolidated Financial Statements F-11

Joint Stock Company Halyk Bank
Consolidated Financial Statements

Years ended December 31, 2006, 2005 and 2004
together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

Consolidated Balance Sheets **1**
Consolidated Statements of Income **2**
Consolidated Statements of Changes in Equity **3**
Consolidated Statements of Cash Flows **6**

Notes To The Consolidated Financial Statements

1. Principal Activities 7
2. Basis of Preparation 7
3. Summary of Accounting Policies 9
4. Significant Accounting Judgements and Estimates 18
5. Cash and Cash Equivalents 19
6. Obligatory Reserves 20
7. Financial Assets at Fair Value through Profit or Loss 20
8. Amounts Due from Credit Institutions 21
9. Available-for-Sale Investment Securities 21
10. Loans to Customers 22
11. Allowances for Impairment and Provisions 22
12. Property and Equipment 24
13. Insurance Assets and Liabilities 25
14. Taxation 26
15. Amounts Due to Customers 28
16. Amounts Due to Credit Institutions 28
17. Debt Securities Issued 29
18. Equity 30
19. Commitments, Contingencies and Derivative Financial Instruments 31
20. Fees and Commissions 32
21. Insurance Underwriting Income 32
22. Administrative and Operating Expenses 33
23. Earnings per Share 33
24. Business Combination 33
25. Financial Risk Management 36
26. Segment Analysis 43
27. Fair Values of Financial Instruments 48
28. Related Party Transactions 48
29. Capital Adequacy 50

ERNST & YOUNG

■ Ernst & Young LLP
Furmanov Street, 240 G
Almaty 050059, Kazakhstan
Tel.: 7 (3272) 58-5960
Fax: 7 (3272) 58-5961
www.ey.com/kazakhstan

■ ТОО "Эрнст энд Янг"
Казахстан, 050059 Алматы
ул. Фурманова, 240 Г
Тел.: 7 (3272) 58-5960
Факс: 7 (3272) 58-5961

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Halyk Bank

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity, and consolidated statements of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits 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 auditors' 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 JSC Halyk Bank and subsidiaries as at December 31, 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

March 15, 2007

CONSOLIDATED BALANCE SHEETS

As of December 31, 2006, 2005 and 2004

(Thousands of Kazakhstani tenge)

	Notes	*December 31,* 2006	2005	2004
Assets				
Cash and cash equivalents	5	**127,799,159**	57,101,691	33,123,369
Obligatory reserves	6	**55,106,408**	8,632,311	7,578,394
Financial assets at fair value through profit or loss	7	**53,016,334**	50,017,958	62,382,235
Amounts due from credit institutions	8	**2,048,705**	2,776,941	695,379
Available-for-sale investment securities	9	**123,338,407**	12,098,639	20,618,422
Loans to customers	10,11	**596,216,250**	411,097,223	254,590,193
Property and equipment	12	**16,411,916**	10,979,050	9,131,311
Insurance assets	13	**5,625,886**	–	–
Other assets		**11,796,175**	6,960,895	5,134,597
Total assets		**991,359,240**	559,664,708	393,253,900
Liabilities				
Amounts due to customers	15	**597,935,085**	323,514,827	231,930,284
Amounts due to credit institutions	16	**118,718,574**	107,284,147	76,492,760
Debt securities issued	17	**134,412,686**	58,813,594	44,939,974
Provisions	11	**3,021,276**	2,279,508	1,801,039
Deferred tax liability	14	**2,530,363**	425,144	450,824
Insurance liabilities	13	**7,534,906**	–	–
Other liabilities		**6,578,729**	2,903,443	2,070,822
Total liabilities		**870,731,619**	495,220,663	357,685,703
Equity				
Share capital	18	**60,684,073**	29,016,188	15,759,351
Share premium reserve		**2,183,493**	2,192,147	2,191,170
Treasury shares		**(38,587)**	(16,336)	(16,665)
Retained earnings and other reserves		**56,736,295**	32,806,031	17,417,312
		119,565,274	63,998,030	35,351,168
Minority interest		**1,062,347**	446,015	217,029
Total equity		**120,627,621**	64,444,045	35,568,197
Total liabilities and equity		**991,359,240**	559,664,708	393,253,900

Signed and authorized for release on behalf of the Management Board of the Bank:

Grigory A. Marchenko Chairman of the Board

Pavel A. Cheussov Chief Accountant

March 15, 2007

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2006, 2005 and 2004

(Thousands of Kazakhstani tenge)

	Notes	*2006*	*2005*	*2004*
Interest income				
Loans to customers		**71,291,696**	47,548,528	28,446,733
Debt securities		**5,351,810**	3,450,002	3,519,988
Amounts due from credit institutions		**4,003,336**	1,386,093	983,336
		80,646,842	52,384,623	32,950,057
Interest expense				
Amounts due to customers		**(18,491,804)**	(11,872,599)	(8,025,633)
Debt securities issued		**(9,238,172)**	(4,908,743)	(1,639,153)
Amounts due to credit institutions		**(6,453,365)**	(4,374,605)	(3,093,971)
		(34,183,341)	(21,155,947)	(12,758,757)
Net interest income before impairment		**46,463,501**	31,228,676	20,191,300
Impairment charge	11	**(8,331,166)**	(11,969,525)	(7,954,045)
Net interest income		**38,132,335**	19,259,151	12,237,255
Fee and commission income	20	**22,063,796**	16,160,708	10,116,897
Fee and commission expense	20	**(929,015)**	(912,517)	(798,476)
Fees and commissions, net		**21,134,781**	15,248,191	9,318,421
(Losses less gains) gains less losses from financial assets at fair value through profit or loss		**(193,001)**	1,362,905	165,389
Gains less losses from available-for-sale investment securities		**202,081**	342,380	104,204
Gains less losses from dealing in foreign currencies		**5,173,586**	1,963,951	1,219,216
(Losses less gains) gains less losses from translation of foreign currencies		**(1,734,105)**	(69,831)	771,912
Insurance underwriting income	21	**664,386**	–	–
Share of income of associates		**166,913**	248,841	196,153
Other income		**1,024,770**	570,604	607,877
Non interest income		**5,304,630**	4,418,850	3,064,751
Salaries and other employee benefits		**(15,930,558)**	(11,236,334)	(6,876,651)
Administrative and operating expenses	22	**(8,558,163)**	(5,242,155)	(4,512,977)
Depreciation and amortization expenses		**(2,370,595)**	(1,329,848)	(1,111,526)
Taxes other than income tax		**(1,256,761)**	(1,255,001)	(1,041,779)
Other provisions	11	**(751,713)**	(496,378)	(986,679)
Insurance claims incurred, net of reinsurance	13	**(102,875)**	–	–
Non interest expense		**(28,970,665)**	(19,559,716)	(14,529,612)
Income before income tax expense		**35,601,081**	19,366,476	10,090,815
Income tax expense	14	**(8,441,807)**	(3,538,576)	(1,997,780)
Net income after income tax expense		**27,159,274**	15,827,900	8,093,035
Attributable to:				
Equity holders of the parent		**26,658,916**	15,628,180	8,088,143
Minority interest in net income		**500,358**	199,720	4,892
Net income		**27,159,274**	15,827,900	8,093,035
Basic and diluted earnings per share (in Kazakhstani tenge)	23	**27.29**	20.24	10.50

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2006, 2005 and 2004

(Thousands of Kazakhstani tenge)

	Share Capital-Common Shares	*Share Capital-Non-Convertible Preferred Shares*	*Share Capital-Convertible Preferred Shares*	*Share Premium Reserve*	*Treasury Shares*	*Revaluation reserve of available-for-sale investment securities*	*Other Reserves*	*Retained Earnings*	*Total*	*Minority Interest*	*Total Equity*
December 31, 2005	14,221,769	2,474,200	12,320,219	2,192,147	(16,336)	301,100	290,039	32,214,892	63,998,030	446,015	64,444,045
Fair value change of available-for -sale investment securities, net of tax	–	–	–	–	–	159,021	–	–	159,021	173	159,194
Realized fair value change of available-for-sale investment securities	–	–	–	–	–	(202,081)	–	–	(202,081)	–	(202,081)
Release of property and equipment revaluation reserve on disposal of previously revalued assets	–	–	–	–	–	–	(5,129)	5,129	–	–	–
Total income for the year recognized directly in equity	–	–	–	–	–	(43,060)	(5,129)	5,129	(43,060)	173	(42,887)
Net income	–	–	–	–	–	–	–	26,658,916	26,658,916	500,358	27,159,274
Total income	–	–	–	–	–	(43,060)	(5,129)	26,664,045	26,615,856	500,531	27,116,387
Common shares issued	30,754,967	–	–	–	–	–	–	–	30,754,967	–	30,754,967
Preferred shares issued	–	–	912,918	–	–	–	–	–	912,918	–	912,918
Treasury shares purchased	–	–	–	(8,654)	(22,251)	–	–	–	(30,905)	–	(30,905)
Dividends – common shares	–	–	–	–	–	–	–	(1,330,631)	(1,330,631)	–	(1,330,631)
Dividends – preferred shares	–	–	–	–	–	–	–	(1,354,961)	(1,354,961)	–	(1,354,961)
Dividends of subsidiaries	–	–	–	–	–	–	–	–	–	(58,200)	(58,200)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	174,001	174,001
December 31, 2006	44,976,736	2,474,200	13,233,137	2,183,493	(38,587)	258,040	284,910	56,193,345	119,565,274	1,062,347	120,627,621

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

For the years ended December 31, 2006, 2005 and 2004

(Thousands of Kazakhstani tenge)

	Share Capital-Common Shares	*Share Capital-Non-Convertible Preferred Shares*	*Share Capital-Convertible Preferred Shares*	*Share Premium Reserve*	*Treasury Shares*	*Revaluation reserve of available-for-sale investment securities*	*Other Reserves*	*Retained Earnings*	*Total*	*Minority Interest*	*Total Equity*
December 31, 2004	13,285,151	2,474,200	–	2,191,170	(16,665)	223,932	295,530	16,897,850	35,351,168	217,029	35,568,197
Fair value change of available-for -sale investment securities, net of tax	–	–	–	–	–	419,548	–	–	419,548	29,266	448,814
Realized fair value change of available-for-sale investment securities	–	–	–	–	–	(342,380)	–	–	(342,380)	–	(342,380)
Release of property and equipment revaluation reserve on disposal of previously revalued assets	–	–	–	–	–	–	(5,491)	5,491	–	–	–
Total income for the year recognized directly in equity	–	–	–	–	–	77,168	(5,491)	5,491	77,168	29,266	106,434
Net income	–	–	–	–	–	–	–	15,628,180	15,628,180	199,720	15,827,900
Total income	–	–	–	–	–	77,168	(5,491)	15,633,671	15,705,348	228,986	15,934,334
Common shares issued	936,618	–	–	–	–	–	–	–	936,618	–	936,618
Preferred shares issued	–	–	12,320,219	–	–	–	–	–	12,320,219	–	12,320,219
Treasury shares sold	–	–	–	977	329	–	–	–	1,306	–	1,306
Dividends – preferred shares	–	–	–	–	–	–	–	(316,629)	(316,629)	–	(316,629)
December 31, 2005	14,221,769	2,474,200	12,320,219	2,192,147	(16,336)	301,100	290,039	32,214,892	63,998,030	446,015	64,444,045

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

For the years ended December 31, 2006, 2005 and 2004

(Thousands of Kazakhstani tenge)

	Share Capital- Common Shares	*Share Capital- Non-Convertible Preferred Shares*	*Share Capital- Convertible Preferred Shares*	*Share Premium Reserve*	*Treasury Shares*	*Revaluation reserve of available-for-sale investment securities*	*Other Reserves*	*Retained Earnings*	*Total*	*Minority Interest*	*Total Equity*
December 31, 2003 (restated)	7,422,600	2,474,200	–	2,191,872	(15,739)	60,088	307,863	9,152,310	21,593,194	203,256	21,796,450
Fair value change of available-for-sale investment securities, net of tax	–	–	–	–	–	268,048	–	–	268,048	–	268,048
Realized fair value change of available-for-sale investment securities	–	–	–	–	–	(104,204)	–	–	(104,204)	–	(104,204)
Total income for the year recognized directly in equity	–	–	–	–	–	163,844	–	–	163,844	–	163,844
Net income	–	–	–	–	–	–	–	8,088,143	8,088,143	4,892	8,093,035
Total income	–	–	–	–	–	163,844	–	8,088,143	8,251,987	4,892	8,256,879
Common shares issued	5,862,551	–	–	–	–	–	–	–	5,862,551	–	5,862,551
Treasury shares purchased	–	–	–	(702)	(926)	–	–	–	(1,628)	–	(1,628)
Dividends – preferred shares	–	–	–	–	–	–	–	(354,936)	(354,936)	–	(354,936)
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	8,881	8,881
Transfers	–	–	–	–	–	–	(12,333)	12,333	–	–	–
December 31, 2004	13,285,151	2,474,200	–	2,191,170	(16,665)	223,932	295,530	16,897,850	35,351,168	217,029	35,568,197

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2006, 2005 and 2004

(Thousands of Kazakhstani tenge)

	Notes	2006	2005	2004
Cash flows from operating activities:				
Income before income tax expense		**35,601,081**	19,366,476	10,090,815
Adjustments for:				
Impairment charge and other provisions	11	**9,082,879**	12,465,903	8,940,724
Depreciation and amortization		**2,370,595**	1,329,848	1,111,526
(Gain) loss from disposal of property and equipment and other assets		**(276,656)**	(27,562)	57,354
Change in reserves for claims and change in unearned premiums reserves		**1,046,332**	–	–
Losses less gains (gains less losses) from financial assets at fair value through profit and loss		**193,001**	(1,362,905)	(165,389)
Share of income of associate		**(166,913)**	(248,841)	(196,153)
Unrealized foreign exchange (gain) loss		**(365,599)**	(67,347)	554,586
Operating income before changes in net operating assets		**47,484,720**	31,455,572	20,393,463
(Increase) decrease in operating assets:				
Obligatory reserves		**(48,471,211)**	(1,053,917)	(2,366,344)
Financial assets at fair value through profit or loss		**(3,664,528)**	13,501,513	(22,302,518)
Amounts due from credit institutions		**1,399,367**	(2,092,207)	4,707,199
Loans to customers		**(197,456,196)**	(161,451,640)	(109,610,929)
Insurance assets		**(521,273)**	–	–
Other assets		**(1,944,988)**	(2,386,523)	(1,651,451)
Increase (decrease) in operating liabilities:				
Amounts due to customers		**282,260,237**	87,731,520	84,482,030
Amounts due to credit institutions		**10,286,476**	28,396,708	21,055,808
Insurance liabilities		**888,560**	–	–
Other liabilities		**2,937,116**	701,508	(258,069)
Net cash flows from operating activities before income taxes		**93,198,280**	(5,197,466)	(5,550,811)
Income tax paid		**(5,791,565)**	(2,843,162)	(2,337,895)
Net cash flows used in operating activities		**87,406,715**	(8,040,628)	(7,888,706)
Cash flows from investing activities:				
Acquisition of subsidiaries, net of cash acquired		**(5,218,642)**	–	219,902
Purchase of property and equipment		**(8,584,158)**	(3,179,634)	(2,952,895)
Proceeds from sale of property and equipment		**1,100,605**	119,067	141,672
Proceeds from sale of available-for-sale investment securities		**899,802**	14,560,294	4,382,311
Purchase of available-for-sale investment securities		**(109,629,773)**	(6,238,850)	(21,156,320)
Proceeds from redemption of held-to-maturity investment securities		**–**	–	5,355,185
Net cash flows from (used in) investing activities		**(121,432,166)**	5,260,877	(14,010,145)
Cash flows from financing activities:				
Proceeds from common shares issued		**30,754,967**	936,618	5,862,551
Proceeds from preferred shares issued		**912,918**	12,320,219	–
Purchase of treasury shares		**(30,905)**	–	(1,628)
Sale of treasury shares		–	1,306	–
Dividends paid		**(2,743,792)**	(316,629)	(354,936)
Debt securities issued		**79,991,244**	13,910,257	36,357,370
Purchase of debt securities issued		**(2,347,242)**	(950,367)	–
Net cash flows from financing activities		**106,537,190**	25,901,404	41,863,357
Effects of exchange rate changes on cash and cash equivalents		**(1,814,271)**	856,669	(256,484)
Net change in cash and cash equivalents		**70,697,468**	23,978,322	19,708,022
Cash and cash equivalents at the beginning of the year		**57,101,691**	33,123,369	13,415,347
Cash and cash equivalents at the end of the year	5	**127,799,159**	57,101,691	33,123,369
Supplementary information:				
Interest received		**76,069,988**	49,437,638	33,792,367
Interest paid		**27,790,559**	19,418,270	8,441,702
Commission received		**20,158,777**	15,440,890	10,109,693

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements.

December 31, 2006, 2005 and 2004

1. Principal Activities

Joint Stock Company Halyk Bank (the "Bank") and its subsidiaries (together the "Group") mainly provide retail and corporate banking services in Kazakhstan, Russia and Kyrgyzstan, and pension and asset management and insurance services in Kazakhstan. The parent company of the Group, Joint Stock Company Halyk Bank was incorporated in 1995 and is domiciled in the Republic of 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 September 30, 2005. The Bank also possesses licences for securities operations and custody services from the FMSA renewed on February 19, 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, Republic of Kazakhstan. The Bank has a primary listing in the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on Luxembourg and London Stock Exchanges.

In December 2006 the Bank listed its Global Depository Receipts ("GDRs") through an initial public offering ("IPO") made on the London Stock Exchange. The Bank's controlling shareholder JSC Holding Group Almex ("Almex") placed its shares and obtained all of the IPO proceeds.

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

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

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Kazakhstani tenge ("KZT"), except per share amounts and unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following revision of IAS 39.

According to the revised IAS 39, an entity may designate financial assets and liabilities as at fair value through profit or loss only upon initial recognition when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 Related Party Disclosures (revised 2003)), for example the entity's Board of Directors and Chief executive officer.

The adoption of the above pronouncement did not have a significant impact on the Group's consolidated financial statements.

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

2. Basis of Preparation (continued)

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";
- IFRS 8 "Operating Segments";
- Amendment to IAS 1 "Presentation of Financial Statements" – "Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Group's financial instruments, the nature and extent of risks arising from those financial instruments, and the Group's objectives, policies and processes for managing capital.

Consolidated Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	***Holding, %***			***Country***	***Industry***
	December 31, 2006	***December 31, 2005***	***December 31, 2004***		
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

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

2. Basis of Preparation (continued)

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	25.01	Kazakhstan	Processing	(28,253)	737,081	19,120	717,961	46,133

Associate	***Holding, %***	***Country***	***Activity***	***Share in net income***	***Total assets***	***Total liabilities***	***Equity***	***Total revenue***
2005								
JSC Kazakhinstrakh	41.69	Kazakhstan	Insurance	248,841	3,826,349	1,760,802	2,065,547	2,751,802

Associate	***Holding, %***	***Country***	***Activity***	***Share in net income***	***Total assets***	***Total liabilities***	***Equity***	***Total revenue***
2004								
JSC Kazakhinstrakh	41.69	Kazakhstan	Insurance	196,153	3,507,509	2,033,750	1,473,759	1,698,358

Investments in associates are classified within other assets.

Reclassifications

The following reclassifications have been made to 2005 balances to conform to the 2006 presentation.

Amount	**Previously reported**	**As reclassified**	**Comment**
Amounts due to customers	320,629,650	323,514,827	Reclassification of prepaid principal and interest on loans to customers and other customer funds
Other liabilities	5,788,620	2,903,443	Reclassification of prepaid principal and interest on loans to customers and other customer funds

The following reclassifications have been made to 2004 balances to conform to the 2006 presentation.

Amount	***Previously reported***	***As reclassified***	***Comment***
Amounts due to customers	231,501,361	231,930,284	Reclassification of prepaid principal and interest on loans to customers and other customer funds
Other liabilities	2,499,745	2,070,822	Reclassification of prepaid principal and interest on loans to customers and other customer funds

3. Summary of Accounting Policies

Subsidiaries

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 unrealised gains on transactions between group companies are eliminated in full; unrealised 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.

3. Summary of Accounting Policies (continued)

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 recognised directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

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 recognised 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 recognised in the consolidated statement of income, and its share of movements in reserves is recognised 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 recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Obligatory Reserves

Obligatory reserves represent funds on 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.

3. Summary of Accounting Policies (continued)

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 recognised 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 recognised 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 and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair values basis, in accordance with a documented risk management or investment strategy.

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 "Gains less losses 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 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 amortised cost using the effective interest method.

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 amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised 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 amortised cost, gains and losses are recognised 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, transferred or exercised a put option on more than an insignificant portion of held-to-maturity investments before their maturity.

3. Summary of Accounting Policies (continued)

Financial Assets (continued)

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 recognised as a separate component of equity until the investment is derecognised 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 recognised in the consolidated statements of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Financial guarantees

Financial guarantee contracts are recognized initially at fair value and subsequently remeasured 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 balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase and Reverse Repurchase Agreements and Securities Lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the 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 sale and repurchase price 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 gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

3. Summary of Accounting Policies (continued)

Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. 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. Gains and losses resulting from these instruments are included 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 unrealised gains and losses reported in 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 Customers and to Credit Institutions

Amounts due to customers and credit institutions are initially recognised 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 recognised 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 credit institutions and due to customers.

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 amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised 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 recognised in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised 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 most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. 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.

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

When an asset is uncollectible, is it written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of income.

3. Summary of Accounting Policies (continued)

Allowances for Impairment of Financial Assets (continued)

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 recognised in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

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 derecognised 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.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

December 31, 2006, 2005 and 2004

3. Summary of Accounting Policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan, the Russian Federation, and the Republic of Kyrgyzstan.

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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised 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 also has 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 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. An impairment is recognized in the respective period and is included in administrative and operating expenses, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for property and equipment.
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".

3. Summary of Accounting Policies (continued)

Goodwill (continued)

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 recognised. 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, 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 benefits in consolidated statement of income. The Group contributes social tax to the budget of the Republic of Kazakhstan for its employees. In addition, the Group has no post-retirement benefits.

Share Capital

Share capital

Common shares, non-redeemable non-convertible preferred shares, and non-redeemable preferred shares convertible into common shares with discretionary dividends are classified as equity. 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 May 13, 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognised as additional paid-in capital. Effective May 13, 2003, the date of the new edition to the Law concerning "Joint Stock Companies" nominal amount concept was restricted to placement of shares only between the founder of an entity. For all other investors share capital is recorded at placement value being the consideration received by an entity for its shares. Preferred shares convertible into common shares are redeemable only at the issuer's option.

Treasury shares

Where the Bank or its subsidiaries purchase their own shares, the consideration paid, including any attributable transaction costs, net of income taxes, 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 recognised 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 financial statements are authorised for issue.

Contingencies

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

Trust Activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

3. Summary of Accounting Policies (continued)

Income and Expense Recognition

Interest income and expense are recognised 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 recognised 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 Bank's functional and presentation currency. 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 recognised in the consolidated statement of income as gains less losses from foreign currencies. 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 December 31, 2006, was KZT 127.00 to USD 1 (2005 – 133.98 to USD 1, 2004 – 130.00 to USD 1).

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, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

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 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 income as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within other expenses 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 deferred, recorded in the accompanying consolidated balance sheets within insurance assets, and are amortized over the period in which the related written premiums are earned.

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.

Due to the absence of prior experience, the reserve for incurred but not reported claims was established as being equal to the expected loss ratio for each line of business times the value of coverage, 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 current income.

3. Summary of Accounting Policies (continued)

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of business, 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.

Reinsurance assets are recorded gross unless a right of offset exists and are included in the consolidated balance sheet within other 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, both are transferred by the Group to the re-insurer.

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 Judgements and Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Allowances for impairment of assets and other provisions
- Taxation
- Claims liability arising from insurance contracts
- Goodwill impairment testing

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh 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. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

As of December 31, 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.

(Thousands of Kazakhstani tenge)

4. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Claims liability 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 claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Goodwill impairment testing

The management of the Group believes that JSC Kazakhinstrakh as a whole represents the appropriate level within the Group at which the goodwill is monitored for management purposes; and, therefore, should be considered as the cash-generating unit for impairment testing purposes. The recoverable amount of a cash-generating unit has been determined based on a value in use calculation. The cash flow projections for the years 2007, 2008 and 2009 were based on the financial budgets approved by the Management Board. The discount rate applied to cash flow projections is 20%; and, the estimated future cash flows, based on a conservative approach beyond the three-year period, are estimated to be equal to the cash flows of the year 2009. The carrying amount of goodwill allocated to the cash-generating unit comprises KZT 3,102,110 as of December 31, 2006 and is included in other assets.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	December 31,		
	2006	***2005***	***2004***
Cash on hand	**14,930,613**	14,911,746	10,447,241
Correspondent accounts with OECD based banks	**6,328,432**	3,669,426	992,268
Correspondent accounts with non-OECD based banks	**1,099,517**	1,147,804	432,402
Correspondent accounts with the NBK	–	9,375,422	–
Overnight deposits with OECD based banks	**81,495,332**	20,081,011	11,275,787
Overnight deposits with Kazakh banks	**381,191**	–	–
Short-term deposits with Kazakh banks	**23,564,074**	7,916,282	9,905,777
Short-term deposits with non-OECD based banks	–	–	69,894
Cash and cash equivalents	**127,799,159**	57,101,691	33,123,369

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

	December 31, 2006		***December 31, 2005***		***December 31, 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 Kazakh banks	**6.0%**	**–**	–	–	–	–
Short-term deposits with Kazakh 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%

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

6. Obligatory Reserves

Obligatory reserves comprise:

	December 31, 2006	2005	2004
Due from NBK allocated to obligatory reserves	**48,317,774**	8,632,311	7,578,394
Cash on hand allocated to obligatory reserves	**6,788,634**	–	–
Obligatory reserves	**55,106,408**	8,632,311	7,578,394

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 December 31, 2006.

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprise:

	December 31, 2006	2005	2004
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**29,161,636**	19,527,405	27,747,456
Sovereign bonds of the Republic of Kazakhstan	**6,289,747**	4,674,276	4,882,958
Corporate bonds	**5,278,671**	–	–
Bonds of the Development Bank of Kazakhstan	**4,545,470**	992,040	1,191,266
Eurobonds of Kazakh banks	**3,010,865**	1,664,640	1,549,334
NBK notes	**2,496,950**	23,159,597	27,005,789
Mutual investment funds shares	**1,452,051**	–	–
Equity securities of Kazakh banks	**428,294**	–	–
Equity securities of Kazakh corporations	**352,650**	–	–
Equity securities of Kyrgyz corporations	–	–	5,432
Financial assets at fair value through profit or loss	**53,016,334**	50,017,958	62,382,235
Subject to repurchase agreements	**1,000,000**	–	200,000

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

As of December 31, 2006, NBK notes amounting to KZT 31,120 and Treasury bills of the Ministry of Finance of the Republic of Kazakhstan amounting to KZT 1,084 were restricted as collateral for certain of the Bank's borrowings (2005 – KZT 521,820 and nil, 2004 − nil). On January 3, 2007, the pledges on these securities were removed.

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

	December 31, 2006 %	December 31, 2006 Maturity	December 31, 2005 %	December 31, 2005 Maturity	December 31, 2004 %	December 31, 2004 Maturity
Treasury bills of the Ministry of Finance of the Republic 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 the Republic 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 Kazakh 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

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

8. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	December 31,		
	2006	***2005***	***2004***
Term deposits	**1,884,729**	2,085,446	695,379
Loans to Kazakh credit institutions	**169,790**	691,495	–
	2,054,519	2,776,941	695,379
Less Allowance for impairment (Note 11)	**(5,814)**	–	–
Amounts due from credit institutions	**2,048,705**	2,776,941	695,379

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

	December 31, 2006		*December 31, 2005*		*December 31, 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 local credit institutions	**13.0%-15.0%**	**2007-2011**	4.1%	2006	–	–

9. Available-for-Sale Investment Securities

Available-for-sale investment securities comprise:

	December 31,		
	2006	***2005***	***2004***
NBK notes	**107,856,248**	–	472,475
Corporate bonds	**10,166,256**	6,548,074	4,758,103
Bonds of Kazakh banks	**3,084,955**	2,624,828	820,062
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**1,061,272**	2,644,113	–
Equity securities of Kazakh corporations	**970,763**	–	–
Treasury bills of the Kyrgyz Republic	**113,962**	281,624	–
Local municipal bonds	**84,951**	–	356,684
US Treasury bills	**–**	–	14,211,098
Available-for-sale investments securities	**123,338,407**	12,098,639	20,618,422
Subject to repurchase agreements	**29,500,001**	–	3,652,001

As of December 31, 2004, US Treasury bills were pledged as security for loans advanced by another financial institution to a third party. The Bank was exposed to credit risk in relation to these loans which amounted to KZT 13,992,772 (December 31, 2005: nil). During the year ended December 31, 2005 the pledge has been removed and the related securities were liquidated.

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

	December 31, 2006		*December 31, 2005*		*December 31, 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 Kazakh 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 the Republic 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

(Thousands of Kazakhstani tenge)

10. Loans to Customers

Loans to customers comprise:

	December 31, 2006	2005	2004
Loans to customers	**625,566,128**	431,150,873	264,767,912
Overdrafts	**2,743,229**	1,499,532	2,240,582
Promissory notes	**1,560,998**	4,288,256	3,498,427
Factoring	**–**	79,328	620,958
	629,870,355	437,017,989	271,127,879
Less – Allowance for loan impairment (Note 11)	**(33,654,105)**	(25,920,766)	(16,537,686)
Loans to customers	**596,216,250**	411,097,223	254,590,193

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

As of December 31, 2006, the Group had a concentration of loans of KZT 93,394 thousand from the ten largest borrowers that comprised 15% of the Group's total gross loan portfolio (2005 – KZT 52,972 thousand; 12%, 2004 – KZT 42,037 thousand; 16%) and 77% of the Group's total equity (2005 – 84%, 2004 – 119%). An allowance for impairment amounting to KZT 2,643 thousand was made against these loans (2005 – KZT 1,675 thousand, 2004 - KZT 9,197 thousand).

Loans are made to the following sectors:

	December 31, 2006	%	*December 31, 2005*	%	*December 31, 2004*	%
Retail loans:						
- mortgage loans	**110,274,311**	**17%**	78,680,146	18%	36,663,656	13%
- consumer loans	**86,906,930**	**14%**	51,921,731	12%	30,320,051	11%
Wholesale trade	**113,510,424**	**18%**	60,924,208	14%	26,916,946	10%
Construction	**70,063,797**	**11%**	54,461,305	12%	35,851,122	13%
Agriculture	**47,473,587**	**8%**	38,018,719	9%	34,043,299	13%
Retail trade	**42,097,716**	**7%**	33,909,256	8%	8,673,253	3%
Services	**23,213,285**	**4%**	13,865,515	3%	7,798,393	0%
Real estate	**14,895,874**	**2%**	12,493,907	3%	9,132,720	3%
Energy	**14,745,114**	**2%**	7,278,666	2%	6,892,073	3%
Oil and gas	**13,531,870**	**2%**	16,380,276	4%	26,191,423	10%
Transportation	**11,502,853**	**2%**	8,439,726	2%	4,586,565	2%
Food industry	**10,359,328**	**2%**	3,742,509	1%	5,809,073	2%
Hotel industry	**5,810,523**	**1%**	3,323,331	1%	–	0%
Metallurgy	**5,637,675**	**1%**	3,968,204	1%	4,362,369	2%
Mining	**4,834,996**	**1%**	6,587,252	2%	4,565,767	2%
Consumer goods and automobile trading	**4,639,410**	**1%**	2,148,880	0%	4,372,743	2%
Research and development	**2,444,390**	**0%**	8,307,104	2%	8,017,513	3%
Machinery	**2,194,102**	**0%**	2,707,749	1%	–	0%
Communication	**1,888,424**	**0%**	1,432,723	0%	1,557,895	0%
Other	**43,845,746**	**7%**	28,426,782	7%	15,373,018	8%
	629,870,355	**100%**	437,017,989	102%	271,127,879	100%

The amount of accrued interest on impaired loans comprised KZT 5,719,267 (2005 – KZT 5,006,104, 2004 – KZT 2,695,056).

(Thousands of Kazakhstani tenge)

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	*Due from credit institutions*	*Other assets*	*Total*
December 31, 2003	(10,529,346)	(15,764)	(55,753)	(10,600,863)
Impairment charge	(7,470,495)	(426,476)	(57,074)	(7,954,045)
Write-offs	1,740,723	457,009	38,297	2,236,029
Recoveries	(278,568)	(14,769)	(1,492)	(294,829)
December 31, 2004	(16,537,686)	–	(76,022)	(16,613,708)
Impairment charge	(11,838,690)	–	(130,835)	(11,969,525)
Write-offs	3,572,889	–	75,094	3,647,983
Recoveries	(1,117,279)	–	(2,049)	(1,119,328)
December 31, 2005	(25,920,766)	–	(133,812)	(26,054,578)
Impairment charge	**(8,179,078)**	**(5,814)**	**(146,274)**	**(8,331,166)**
Write-offs	**3,427,458**	**–**	**98,907**	**3,526,365**
Recoveries	**(2,981,719)**	**–**	**(1,525)**	**(2,983,244)**
Acquisition of subsidiaries	–	**–**	**(34,758)**	**(34,758)**
December 31, 2006	**(33,654,105)**	**(5,814)**	**(217,462)**	**(33,877,381)**

The movements in provisions were as follows:

	Provisions
December 31, 2003	(920,576)
Provision	(986,679)
Write-offs	106,216
Recoveries	–
December 31, 2004	(1,801,039)
Provision	(496,378)
Write-offs	17,909
Recoveries	–
December 31, 2005	(2,279,508)
Provision	**(751,713)**
Write-offs	**10,011**
Recoveries	**(66)**
December 31, 2006	**(3,021,276)**

Allowances for impairment of assets are deducted from the related assets. Provisions represent provisions against letters of credit and guarantees issued.

(Thousands of Kazakhstani tenge)

12. Property and Equipment

The movements in property and equipment were as follows:

	Buildings and constructions	***Vehicles***	***Computers and banking equipment***	***Other***	***Total***
Cost					
Beginning of the year	4,762,823	654,220	6,987,065	4,200,090	16,604,198
Additions	**2,724,939**	**570,152**	**1,862,162**	**3,223,594**	**8,380,847**
Disposals	**(86,770)**	**(124,717)**	**(436,710)**	**(961,116)**	**(1,609,313)**
Acquisition of subsidiaries	**54,343**	**32,787**	**35,314**	**80,867**	**203,311**
Transfers	**(16,891)**	**–**	**–**	**16,891**	**–**
December 31, 2006	**7,438,444**	**1,132,442**	**8,447,831**	**6,560,326**	**23,579,043**
Accumulated depreciation					
Beginning of the year	497,121	221,892	3,398,941	1,507,194	5,625,148
Charge	**402,034**	**166,290**	**977,913**	**562,481**	**2,108,718**
Disposals	**(3,367)**	**(61,794)**	**(387,806)**	**(113,772)**	**(566,739)**
Transfers	**(1,167)**	**–**	**–**	**1,167**	**–**
December 31, 2006	**894,621**	**326,388**	**3,989,048**	**1,957,070**	**7,167,127**
Net book value:					
December 31, 2006	**6,543,823**	**806,054**	**4,458,783**	**4,603,256**	**16,411,916**
December 31, 2005	4,265,702	432,328	3,588,124	2,692,896	

	Buildings and constructions	***Vehicles***	***Computers and banking equipment***	***Other***	***Total***
Cost					
Beginning of the year	4,221,196	606,360	5,848,676	3,293,922	13,970,154
Additions	94,401	299,316	1,338,271	1,447,646	3,179,634
Disposals	(14,998)	(251,456)	(199,882)	(79,254)	(545,590)
Transfers	462,224	–	–	(462,224)	–
December 31, 2005	4,762,823	654,220	6,987,065	4,200,090	16,604,198
Accumulated depreciation					
Beginning of the year	406,567	320,165	2,866,781	1,245,330	4,838,843
Charge	97,854	60,508	696,506	320,976	1,175,844
Disposals	(7,300)	(158,781)	(164,346)	(59,112)	(389,539)
December 31, 2005	497,121	221,892	3,398,941	1,507,194	5,625,148
Net book value:					
December 31, 2005	4,265,702	432,328	3,588,124	2,692,896	10,979,050
December 31, 2004	3,814,629	286,195	2,981,895	2,048,592	

(Thousands of Kazakhstani tenge)

12. Property and Equipment (continued)

	Buildings and constructions	*Vehicles*	*Computers and banking equipment*	*Other*	*Total*
Cost					
Beginning of the year	3,656,288	513,942	4,372,749	2,771,148	11,314,127
Additions	582,693	129,168	1,662,595	578,439	2,952,895
Disposals	(44,138)	(38,842)	(233,172)	(67,567)	(383,719)
Acquisition through business combinations	26,353	2,092	46,504	11,902	86,851
December 31, 2004	4,221,196	606,360	5,848,676	3,293,922	13,970,154
Accumulated depreciation					
Beginning of the year	333,951	260,370	2,244,194	1,153,122	3,991,637
Charge	107,798	62,742	705,048	131,749	1,007,337
Disposals	(35,182)	(2,947)	(82,461)	(39,541)	(160,131)
December 31, 2004	406,567	320,165	2,866,781	1,245,330	4,838,843
Net book value:					
December 31, 2004	3,814,629	286,195	2,981,895	2,048,592	9,131,311
December 31, 2003	3,322,337	253,572	2,128,555	1,618,026	

13. Insurance Assets and Liabilities

Insurance assets comprised the following at December 31:

	2006	*2005*	*2004*
Unearned insurance premium reserve, reinsurance share	**2,608,865**	–	–
Reserves for claims, reinsurance share	**188,697**	–	–
	2,797,562	–	–
Premiums receivable	**2,828,324**	–	–
Insurance assets	**5,625,886**	–	–

Insurance liabilities comprised the following at December 31:

	2006	*2005*	*2004*
Gross unearned insurance premium reserve	**5,289,606**	–	–
Reserves for claims	**390,997**	–	–
	5,680,603	–	–
Payables to reinsurers and agents	**1,854,303**	–	–
Insurance liabilities	**7,534,906**	–	–

Insurance reserves comprised the following at December 31:

	2006	*2005*	*2004*
Unearned insurance premium reserve, reinsurance share	**2,608,865**	–	–
Reserves for claims, reinsurance share	**188,697**	–	–
	2,797,562	–	–
Gross unearned insurance premium reserve	**(5,289,606)**	–	–
Reserves for claims	**(390,997)**	–	–
	(5,680,603)	–	–
Net insurance reserves	**(2,883,041)**	–	–

(Thousands of Kazakhstani tenge)

13. Insurance Assets and Liabilities (continued)

Reserves have been established on the basis of information currently available, including potential outstanding loss notifications, experience with similar claims and case law. The reserve for claims incurred but not reported is actuarially determined by lines of business and is based on statistical claims' data for the period typical for loss development of the classes and sub-classes of business, the Group's previous experience and availability of data. While management considers that the gross reserve for claims and the related reinsurance recoveries are fairly stated on the basis of the information available to them, the ultimate liability may vary as a result of subsequent information and events and may result in adjustments to the amounts provided. 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.

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

	2006	*2005*	*2004*
Reserves for claims, October 27	**(330,802)**	–	–
Reserves for claims, reinsurance share, October 27	**62,894**	–	–
Net reserves for claims, October 27	**(267,908)**	–	–
Plus claims incurred	**(102,875)**	–	–
Less claims paid	**168,483**	–	–
Net reserves for claims, December 31	**(202,300)**	–	–

The movements on unearned insurance premium reserve during 2006 were as follows:

	2006	*2005*	*2004*
Gross unearned insurance premiums reserve, October 27	**(4,595,965)**	–	–
Unearned insurance premiums reserve, reinsurance share, October 27	**2,858,681**	–	–
Net unearned insurance premiums reserve, October 27	**(1,737,284)**	–	–
Change in unearned insurance premiums reserve	**(741,537)**	–	–
Change in unearned insurance premiums reserve, reinsurance share	**(201,920)**	–	–
Change in unearned insurance premiums reserve, net	**(943,457)**	–	–
Net unearned insurance premiums reserve, December 31	**(2,680,741)**	–	–

14. 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 the Republic of 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 Kyrgyz Republic.

The income tax expense comprises:

	2006	*2005*	*2004*
Current tax charge	**(6,336,588)**	(3,564,256)	(1,721,348)
Deferred tax (charge) benefit	**(2,105,219)**	25,680	(276,432)
Income tax expense	**(8,441,807)**	(3,538,576)	(1,997,780)

Kazakh 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.

(Thousands of Kazakhstani tenge)

14. Taxation (continued)

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:

	2006	*2005*	*2004*
Income before income tax expense	**35,601,081**	19,366,476	10,090,815
Statutory tax rate	**30%**	30%	30%
Theoretical income tax expense at the statutory rate	**(10,680,324)**	(5,809,943)	(3,027,245)
Tax exempt interest income on mortgage loans and long-term loans issued by the Bank to modernize equipment	**2,449,117**	1,812,360	915,576
Tax exempt interest income and other related income on state and other qualifying securities	**897,797**	1,222,634	881,592
Income of subsidiaries taxed at different rates	**89,537**	11,391	113,760
Other tax exempt income	**–**	–	24,175
Non deductible expenditures:			
- other provisions	**(345,323)**	**–**	(127,940)
- general and administrative expenses	**(270,578)**	–	–
- withholding tax on interest	**(237,498)**	(311,506)	(543,585)
- charity	**(27,406)**	(33,065)	(25,088)
- interest on deposits to non-residents	**(27,145)**	(317,990)	(177,160)
- other	**(289,984)**	(112,457)	(31,865)
Income tax expense	**(8,441,807)**	(3,538,576)	(1,997,780)

Deferred tax assets and liabilities as of December 31 comprise:

	2006	*2005*	*2004*
Tax effect of deductible temporary differences:			
Loans to customers, up-front fees	**–**	341,564	–
Bonuses accrued	**868,858**	–	–
Deferred tax asset	**868,858**	341,564	–
Tax effect of taxable temporary differences:			
Loans to customers	**(1,598,505)**	–	–
Property and equipment	**(1,800,716)**	(766,708)	(450,824)
Deferred tax liability	**(3,399,221)**	(766,708)	(450,824)
Net deferred tax liability	**(2,530,363)**	(425,144)	(450,824)

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 Bank 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.

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

15. Amounts Due to Customers

Amounts due to customers include the following:

	2006	December 31, *2005*	*2004*
Term deposits:			
Commercial entities	**263,191,798**	92,026,122	69,948,527
Individuals	**157,280,753**	97,443,587	81,412,794
Governmental entities	**27,908,098**	17,426,543	–
	448,380,649	206,896,252	151,361,321
Current accounts:			
Commercial entities	**66,808,709**	64,587,543	37,009,691
Individuals	**52,596,721**	37,913,417	30,892,155
Governmental entities	**29,438,229**	10,466,124	11,475,743
	148,843,659	112,967,084	79,377,589
Restricted accounts	**710,777**	3,651,491	1,191,374
Amounts due to customers	**597,935,085**	323,514,827	231,930,284

As of December 31, 2006, the Bank's ten largest customers accounted for approximately 52% of the total amounts due to customers (2005 – 39%, 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:

	December 31, 2006	*%*	*December 31, 2005*	*%*	*December 31, 2004*	*%*
Individuals and entrepreneurs	**209,877,474**	**35%**	135,357,004	42%	112,304,949	48%
Metallurgy	**102,344,584**	**17%**	636,449	0%	2,700,819	1%
Construction	**81,318,813**	**14%**	22,890,735	7%	5,362,613	2%
Oil and gas	**67,540,089**	**12%**	99,769,084	31%	42,856,652	19%
Financial sector	**44,167,795**	**7%**	5,422,340	2%	677,553	1%
Other transportation	**17,291,464**	**3%**	4,760,271	1%	3,658,668	1%
Wholesale trade	**15,799,824**	**3%**	5,907,904	2%	2,090,423	1%
Energy	**12,842,882**	**2%**	10,390,969	3%	11,857,510	5%
Transportation of oil and gas	**1,794,306**	**0%**	6,267,139	2%	20,694,005	9%
Other	**44,957,854**	**7%**	32,112,932	10%	29,727,092	13%
	597,935,085	**100%**	323,514,827	100%	231,930,284	100%

16. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2006	December 31, *2005*	*2004*
Loans and deposits from OECD based banks	**73,126,089**	97,539,596	64,364,550
Loans and deposits from Kazakh banks	**36,007,235**	1,099,582	5,310,820
Loans and deposits from non-OECD based banks	**5,073,042**	2,144,841	3,453,432
Loans from other financial institutions	**649,956**	1,413,908	58,121
Loans due to the European Bank for Reconstruction and Development ("EBRD")	**–**	679,153	657,617
Loans due to the Small Business Development Fund	**–**	–	800,426
Overnight deposits	**3,338,158**	3,850,541	900,053
Correspondent accounts	**524,094**	556,526	947,741
Amounts due to credit institutions	**118,718,574**	107,284,147	76,492,760

(Thousands of Kazakhstani tenge)

16. Amounts Due to Credit Institutions (continued)

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

	December 31, 2006		*December 31, 2005*		*December 31, 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 Kazakh 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

Financial covenants

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

As of December 31, 2006 and 2005, management believes that the Bank was in compliance with the covenants of the various debt agreements the Bank has with other banks and financial institutions.

17. Debt Securities Issued

Debt securities issued consisted of the following:

		December 31,	
	2006	*2005*	*2004*
Fixed rate KZT denominated bonds	**20,138,773**	20,608,349	12,079,918
Reverse inflation indexed KZT denominated bonds	**4,049,388**	3,674,782	–
Inflation indexed KZT denominated bonds	**5,005,152**	–	–
USD denominated bonds	**3,741,629**	3,789,579	2,068,461
Subordinated debt securities issued	**32,934,942**	28,072,710	14,148,379
Less: subordinated debt securities held by the Group	**(2,227,391)**	(17,057)	–
Subordinated debt securities issued	**30,707,551**	28,055,653	14,148,379
USD denominated bonds	**64,154,310**	26,918,359	26,018,775
KZT denominated bonds	**41,001,916**	5,106,234	4,751,601
RUR denominated promissory notes	**62**	47,593	21,219
Unsubordinated debt securities issued	**105,156,288**	32,072,186	30,791,595
Less: unsubordinated debt securities held by the Group	**(1,451,153)**	(1,314,245)	–
Unsubordinated debt securities issued	**103,705,135**	30,757,941	30,791,595
Debt securities issued	**134,412,686**	58,813,594	44,939,974

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

17. Debt Securities Issued (continued)

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

	December 31, 2006		*December 31, 2005*		*December 31, 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%	2007-2014
Reverse inflation indexed KZT denominated bonds	**15% less inflation rate**	**2015**	15.0% less inflation rate	2015	–	–
Inflation indexed KZT denominated bonds	**inflation rate plus 1%**	**2014**	–	–	–	–
USD denominated bonds	**8.0%-11.8%**	**2007**	8.0%-11.8%	2007	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	–	On demand

Subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

In accordance with the terms of the USD denominated bonds, the Bank 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. Furthermore, the terms of the USD denominated bonds include covenants restricting the Bank's ability to create security interests over its assets. In addition, should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. Management believes that as of December 31, 2006 and 2005, the Bank was in compliance with the other covenants of the agreements the Bank has with the notes' trustee and holders.

18. Equity

Authorized and issued share capital as of December 31, 2006, consisted of 970,905,778 common shares, 24,742,000 non-convertible preferred shares and 80,215,187 convertible preferred shares (2005 – 897,383,050, 24,742,000 and 74,887,521, respectively, 2004 – 87,160,237, 24,742,000 and nil, respectively). All shares are KZT denominated. Each common share is entitled to one vote and is equal for dividends. Effective May 13, 2003, the date of the new edition to the Law concerning "Joint Stock Companies" nominal amount concept has been 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.

In accordance with IAS 32 "Financial Instruments: Disclosure and Presentation", preferred shares are classified as part of equity as these shares are not redeemable. The terms of the preferred shares require that the Bank pay a nominal dividend amount of 0.01 KZT per share to comply with the Kazakh legislation with regard to preferred shares which requires joint stock companies to pay a certain amount of preferred dividends. The remainder of the dividends on preferred shares is linked to the Bank's profitability and is paid out only if the Bank is profitable. Preferred shares do not have any voting rights, unless payment of preferred dividends has been delayed for three months or more from the date they became due. The dividend to the preferred shareholders is paid only if declared and approved by the Board of Directors and the Annual General Meeting of the Shareholders.

On May 18, 2005, in accordance with the resolution of the shareholders, the Bank announced a one-to-ten split of common shares outstanding as of that date. Subsequently shareholders authorized and issued 74,887,521 preferred shares that, by the decision of the Board of Directors of the Bank authorized by the shareholders, can subsequently be converted into common shares.

(Thousands of Kazakhstani tenge)

18. Equity (continued)

Movements of shares authorized, fully paid and outstanding follow:

	Number of shares			Nominal (placement) amount		
	Common	*Non-convertible preferred*	*Convertible preferred*	*Common*	*Non-convertible preferred*	*Convertible preferred*
December 31, 2003	74,068,613	24,742,000	–	7,406,861	2,474,200	–
Capital contributions	13,100,888	–	–	5,862,551	–	–
Purchase of treasury shares	(9,264)	–	–	(926)	–	–
December 31, 2004	87,160,237	24,742,000	–	13,268,486	2,474,200	–
Capital contributions	2,574,778	–	74,887,521	936,618	–	12,320,219
Sale of treasury shares	3,290	–	–	329	–	–
December 31, 2005 (before share split)	89,738,305	24,742,000	74,887,521	14,205,433	2,474,200	12,320,219
One-to-ten share split	807,644,745	–	–	–	–	–
December 31, 2005	897,383,050	24,742,000	74,887,521	14,205,433	2,474,200	12,320,219
Capital contributions	**75,531,122**	**–**	**5,327,666**	**30,754,967**	**–**	**912,918**
Purchase of treasury shares	**(2,008,394)**	**–**	**–**	**(30,905)**	**–**	**–**
December 31, 2006	**970,905,778**	**24,742,000**	**80,215,187**	**44,929,495**	**2,474,200**	**13,233,137**

At December 31, 2006, the Group held 3,858,746 of the Bank's shares as treasury shares at KZT 38,587 (2005 – 1,663,610 at KZT 16,336, 2004 –166,651 at KZT 16,665).

19. Commitments, Contingencies and Derivative Financial Instruments

Financial Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	December 31,		
	2006	*2005*	*2004*
Guarantees issued	**39,897,391**	29,329,513	44,595,481
Commitments to extend credit	**21,629,356**	17,000,292	104,963,613
Commercial letters of credit	**18,325,517**	16,107,316	15,526,268
	79,852,264	62,437,121	165,085,362
Less: cash collateral against letters of credit	**(131,788)**	(766,314)	(762,451)
Less: provisions	**(3,021,276)**	(2,279,508)	(1,801,039)
Financial commitments and contingencies	**76,699,200**	59,391,299	162,521,872

As of December 31, 2006, the ten largest guarantees accounted for 63% of the Bank's total financial guarantees (2005 – 56%, 2004 − 33%) and represented 21% of the Group's total equity (2005 – 25%, 2004 − 42%).

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

The Group provides fiduciary services to third parties which involve the Group making allocation, purchase and sales decisions in relation to the securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As of December 31, 2006, such securities not reported in the consolidated balance sheet amounted to KZT 254,340 thousand (2005 – KZT 168,343 thousand, 2004 − KZT 121,174 thousand).

(Thousands of Kazakhstani tenge)

19. Commitments, Contingencies and Derivative Financial Instruments (continued)

Derivative Financial Instruments

The Group enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments and trading liabilities are as follows:

	December 31, 2006		
	Notional principal	Fair values Asset	Liability
Interest rate contracts			
Forwards and Swaps – domestic	2,146,875	47,795	–
Foreign exchange contracts			
Forwards and Swaps – domestic	178,973,259	102,916	–
Total derivative asset/liabilities	181,120,134	150,711	–

As of December 31, 2005 and 2004, the Group did not have any derivative financial instruments.

20. Fees and Commissions

Fee and commission income was derived from the following sources:

	2006	2005	2004
Pension fund and asset management	**7,030,027**	3,114,774	790,216
Bank transfers	**5,897,823**	4,312,469	2,381,350
Cash operations	**2,713,941**	2,224,997	1,860,360
Letters of credit and guarantees issued	**1,356,635**	1,796,337	1,195,213
Maintenance of customer accounts	**1,103,912**	894,204	752,638
Customers' pension payments	**1,080,312**	894,006	634,653
Utilities payments	**764,531**	861,427	723,648
Plastic cards maintenance	**433,029**	529,438	539,694
Foreign currency operations	**232,432**	780,755	647,011
Other	**1,451,154**	752,301	592,114
Fee and commission income	**22,063,796**	16,160,708	10,116,897

Fees and commission expense comprised the following:

	2006	2005	2004
Plastic cards	**(490,231)**	(382,442)	(344,222)
Bank transfers	**(147,876)**	(125,577)	(83,076)
Foreign currency operations	**(117,166)**	(217,919)	(216,517)
Other	**(173,742)**	(186,579)	(154,661)
Fee and commission expense	**(929,015)**	(912,517)	(798,476)

21. Insurance Underwriting Income

Insurance underwriting income comprised:

	2006	2005	2004
Insurance premiums written, gross	**2,420,475**	–	–
Ceded reinsurance share	**(812,632)**	–	–
Change in unearned insurance premiums, net	**(943,457)**	–	–
Insurance underwriting income	**664,386**	–	–

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

22. Administrative and Operating Expenses

Administrative and operating expenses comprised:

	2006	*2005*	*2004*
Repair and maintenance	**(1,206,600)**	(826,175)	(693,855)
Professional services	**(907,447)**	(90,108)	(514,474)
Deposit insurance	**(884,869)**	(691,765)	(593,749)
Advertisement	**(789,108)**	(525,879)	(391,806)
Rent	**(644,342)**	(293,328)	(140,104)
Communication	**(643,746)**	(437,553)	(400,507)
Stationery and office supplies	**(539,344)**	(347,548)	(257,139)
Business trip expenses	**(531,619)**	(412,462)	(302,916)
Security	**(509,988)**	(183,342)	(143,542)
Information services	**(375,730)**	(207,088)	(65,733)
Hospitality expenses	**(210,578)**	(75,912)	(87,624)
Transportation	**(209,115)**	(159,230)	(158,692)
Charity	**(96,637)**	(105,718)	(90,594)
Social events	**(94,513)**	(91,121)	(43,953)
Other	**(914,527)**	(794,926)	(628,289)
Administrative and operating expenses	**(8,558,163)**	(5,242,155)	(4,512,977)

23. 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. Participating shares comprise common and preferred shares as, in accordance with Kazakhstan legislation, preferred shareholders are entitled to at least the same amount of per share dividends as common shareholders.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31:

	2006		*2005*		*2004*	
Net income attributable to equity holders of the parent	**26,658,916**		15,628,180		8,088,143	
Weighted average number of participating shares	**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**	20.24	20.24	10.50	10.5(

There are no potentially dilutive instruments, therefore, diluted earnings per share equal basic earnings per share.

(Thousands of Kazakhstani tenge)

24. Business Combination

During 2006, the Bank acquired 56.7% of the share capital of JSC Kazakhinstrakh for KZT 4,782,346 bringing its share in the Company to 98.4%. The consideration was paid in two tranches on October 27, 2006 and October 30, 2006 and control was obtained on October 27, 2006.

On October 27, 2006, the estimated fair value of the net assets of JSC Kazakhinstrakh comprised:

Cash and cash equivalents	268,853
Amounts due from credit institutions	439,564
Available-for-sale investment securities	3,732,749
Unearned premiums, reinsurance share	2,858,681
Insurance reserves, reinsurance share	62,894
Insurance receivables	1,113,000
Other assets	485,548
Unearned premiums	(4,595,965)
Insurance reserves	(330,802)
Other creditors	(1,071,143)
Net assets	2,963,379
Group's share of the fair value of net assets	1,680,236
Goodwill	(3,102,110)
Consideration paid in cash	(4,782,346)

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

From the date of the combination, JSC Kazakhinstrakh contributed KZT 45,570 to the net income of the Group.

During 2006, the Bank acquired 100% of the share capital of JSC Halyk Life for KZT 559,836. The consideration was paid in two tranches on September 1, 2006 and September 8, 2006 and control was obtained on September 1, 2006.

On September 1, 2006, the estimated fair value of the net assets of JSC Halyk Life comprised:

Amounts due from credit institutions	360,409
Available-for-sale investment securities	204,224
Other assets	6,568
Liabilities	(39,949)
Net assets	531,252
Group's share of the fair value of net assets	531,252
Goodwill	(28,584)
Consideration paid in cash	(559,836)

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

From the date of the combination, JSC Halyk Life contributed a net loss of KZT 20,569 to the net income of the Group.

If the combinations had taken place at the beginning of the year, the net income of the Group would have been KZT 27,747,969 and revenue would have been KZT 110,714,496.

During 2004, the Bank acquired 77% of the share capital of JSC Bank Khlebny for KZT 163,378. The consideration was paid and control was obtained on April 15, 2004.

(Thousands of Kazakhstani tenge)

24. Business Combination (continued)

On April 15, 2004, the estimated fair value of the net assets of JSC Bank Khlebny comprised:

Cash and cash equivalents	93,245
Loans to customers	87,145
Property and equipment	53,395
Other assets	10,561
Liabilities	(151,453)
Net assets	92,893
Less minority interest	(21,476)
Net assets less minority interest	71,417
Group's share of the fair value of net assets	54,905
Goodwill	(108,473)
Consideration paid in cash	(163,378)

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

From the date of the combination, JSC Bank Khlebny contributed a net loss of KZT 1,992 to the net income of the Group.

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

At June 30, 2004, the estimated fair value of the net liabilities of LLP ARIR comprised:

Cash and cash equivalents	38,218
Accounts receivable	19,686
Property and equipment	45,801
Other assets	17,404
Liabilities	(170,274)
Net liabilities	(49,165)
Consideration paid in cash	(87)
Goodwill	(49,252)

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

From the date of the combination, LLP ARIR contributed a net loss of KZT 48,246 to the net income of the Group.

During 2004, the Bank acquired 100% of the share capital of JSC Kairat Bank for KZT 180,448 (re-registered under name OJSC Halyk Bank Kyrgyzstan on December 31, 2004). The consideration was paid and control was obtained on September 30, 2004.

On September 30, 2004, the estimated fair value of the net assets of JSC Kairat Bank comprised:

Cash and cash equivalents	453,910
Amounts due from credit institutions	87,509
Investment securities	448,834
Other assets	45,347
Liabilities	(885,883)
Net assets	149,717
Consideration paid in cash	(180,448)
Goodwill	(30,731)

24. Business Combination (continued)

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

From the date of the combination, JSC Kairat Bank contributed a net income of KZT 6,750 to the net income of the Group.

If the combinations had taken place at the beginning of the year, the net income of the Group would have been KZT 8,049,547 and revenue would have been KZT 45,455,092.

25. Financial Risk Management

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, 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 Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Geographical Concentration

All assets and liabilities, except for those located in OECD and non-OECD countries, as presented in Notes 5, 8 and 16, are located in Kazakhstan.

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

25. Financial Risk Management (continued)

Currency Risk

The Bank 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 Bank's exposure to foreign currency exchange rate risk follows:

	December 31, 2006			*December 31, 2005*		
	KZT	*Foreign currencies*	*Total*	*KZT*	*Foreign currencies*	*Total*
Monetary assets:						
Cash and cash equivalents	**31,956,899**	**95,842,260**	**127,799,159**	24,556,199	32,545,492	57,101,691
Obligatory reserves	**18,873,001**	**36,233,407**	**55,106,408**	8,632,311	–	8,632,311
Financial assets at fair value through profit or loss	**37,484,042**	**15,532,292**	**53,016,334**	42,687,002	7,330,956	50,017,958
Amounts due from credit institutions	**1,928,399**	**120,306**	**2,048,705**	1,330,465	1,446,476	2,776,941
Available-for-sale investment securities	**122,156,877**	**1,181,530**	**123,338,407**	9,623,288	2,475,351	12,098,639
Loans to customers	**291,006,980**	**305,209,270**	**596,216,250**	168,663,129	242,434,094	411,097,223
Insurance assets	**5,251,838**	**374,048**	**5,625,886**	–	–	–
Other assets	**2,924,550**	**1,415,501**	**4,340,051**	3,849,947	430,402	4,280,349
	511,582,586	**455,908,614**	**967,491,200**	259,342,341	286,662,771	546,005,112
Monetary liabilities:						
Amounts due to customers	**303,198,772**	**294,736,313**	**597,935,085**	161,796,192	161,718,635	323,514,827
Amounts due to credit institutions	**55,041,674**	**63,676,900**	**118,718,574**	18,122,429	89,161,718	107,284,147
Debt securities issued	**68,188,176**	**66,224,510**	**134,412,686**	28,084,365	30,729,229	58,813,594
Provisions	**3,013,846**	**7,430**	**3,021,276**	2,279,070	438	2,279,508
Deferred tax liability	**2,524,826**	**5,537**	**2,530,363**	425,144	–	425,144
Insurance liabilities	**6,424,573**	**1,110,333**	**7,534,906**	–	–	–
Other liabilities	**5,757,293**	**432,225**	**6,189,518**	2,025,850	772,680	2,798,530
	444,149,160	**426,193,248**	**870,342,408**	212,733,050	282,382,700	495,115,750
Net balance sheet position	**67,433,426**	**29,715,366**	**97,148,792**	46,609,291	4,280,071	50,889,362
Net off balance sheet position	**80,203,382**	**159,190,837**	**239,394,219**	14,020,533	32,618,311	46,638,844
Total open position	**147,636,808**	**188,906,203**	**336,543,011**	60,629,824	36,898,382	97,528,206

(Thousands of Kazakhstani tenge)

25. Financial Risk Management (continued)

Currency Risk (continued)

	December 31, 2004		
	KZT	*Other foreign currencies*	*Total*
Monetary assets:			
Cash and cash equivalents	10,142,361	22,981,008	33,123,369
Obligatory reserves	7,578,394	–	7,578,394
Financial assets at fair value through profit or loss	54,753,245	7,628,990	62,382,235
Amounts due from credit institutions	–	695,379	695,379
Available-for-sale investment securities	5,022,324	15,596,098	20,618,422
Loans to customers	118,349,626	136,240,567	254,590,193
Other assets	3,693,084	691,092	4,384,176
	199,539,034	183,833,134	383,372,168
Liabilities:			
Due to customers	136,230,229	95,700,055	231,930,284
Due to credit institutions	6,569,529	69,923,231	76,492,760
Debt securities issued	15,206,003	29,733,971	44,939,974
Provisions	1,801,039	–	1,801,039
Deferred tax liability	450,824	–	450,824
Other liabilities	914,996	1,155,826	2,070,822
	161,172,620	196,513,083	357,685,703
Net balance sheet position	38,366,414	(12,679,949)	25,686,465
Net off balance sheet position	14,392,980	31,933,855	46,326,835
Total open position	52,759,394	19,253,906	72,013,300

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:

	December 31, 2006		December 31, 2005		December 31, 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%

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

25. Financial Risk Management (continued)

Interest Rate Risk (continued)

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual repricing date.

	December 31, 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	7,427,949	86,031,177	19,409,420	–	–	–	112,868,546
Financial assets at fair value through profit or loss	2,496,950	247,246	518,945	11,668,411	13,544,737	24,540,045	53,016,334
Amounts due from credit institutions	–	–	162,002	148,000	1,710,918	27,785	2,048,705
Available-for-sale investment securities	–	108,664,460	68,597	246,207	4,853,244	9,505,899	123,338,407
Loans to customers	2,404,547	24,266,841	49,929,380	251,182,874	144,508,059	123,924,549	596,216,250
	12,329,446	219,209,724	70,088,344	263,245,492	164,616,958	157,998,278	887,488,242
Monetary liabilities:							
Amounts due to customers	34,427,651	149,703,540	27,941,147	219,707,172	41,981,194	9,758,373	483,519,077
Amounts due to credit institutions	524,094	48,824,037	11,383,631	32,908,704	5,108,060	19,970,048	118,718,574
Debt securities issued	62	–	–	12,796,169	94,475,516	27,140,939	134,412,686
	34,951,807	198,527,577	39,324,778	265,412,045	141,564,770	56,869,360	736,650,337
Net interest sensitivity gap	(22,622,361)	20,682,147	30,763,566	(2,166,553)	23,052,188	101,128,918	150,837,905
Cumulative interest sensitivity gap	(22,622,361)	(1,940,214)	28,823,352	26,656,799	49,708,987	150,837,905	

(Thousands of Kazakhstani tenge)

25. Financial Risk Management (continued)

Interest Rate Risk (continued)

	December 31, 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	14,192,652	26,231,346	1,765,947	–	–	–	42,189,945
Financial assets at fair value through profit or loss	–	–	413,192	1,492,144	9,458,065	15,494,960	50,017,958
Amounts due from credit institutions	–	104,673	1,446,476	1,130,465	200,000	–	2,776,941
Available-for-sale investment securities	1,410,590	13,212,057	875,437	1,485,038	1,803,974	7,829,517	12,098,639
Loans to customers	15,603,242	62,707,673	27,435,465	129,749,429	179,407,412	59,882,270	411,097,223
	14,192,652	26,231,346	31,936,517	133,857,076	190,869,451	83,206,747	518,180,706
Monetary liabilities:							
Amounts due to customers	31,964,990	38,991,242	21,515,976	88,641,854	58,250,210	3,148,461	242,512,733
Amounts due to credit institutions	556,526	14,937,940	14,575,018	38,974,122	29,677,157	8,563,384	107,284,147
Debt securities issued	47,593	–	–	3,674,782	7,718,616	47,372,603	58,813,594
	32,569,109	53,929,182	36,090,994	131,290,758	95,645,983	59,084,448	408,610,474
Net interest sensitivity gap	(16,965,867)	8,778,491	(4,154,477)	2,566,318	95,223,468	24,122,299	109,570,232
Cumulative interest sensitivity gap	(16,965,867)	(8,187,376)	(12,341,853)	(9,775,535)	85,447,933	109,570,232	

	December 31, 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	1,424,670	11,275,787	9,975,671	–	–	–	22,676,128
Financial assets at fair value through profit or loss	–	28,884,574	515,332	1,860,997	11,796,068	19,325,264	62,382,235
Amounts due from credit institutions	–	23,149	413,467	258,763	–	–	695,379
Available-for-sale investment securities	–	178,383	1,491,915	2,530,792	3,074,320	13,343,012	20,618,422
Loans to customers	2,103,916	13,854,221	32,563,164	78,082,803	98,252,337	29,733,752	254,590,193
	3,528,586	54,216,114	44,959,549	82,733,355	113,122,725	62,402,028	360,962,357
Monetary liabilities:							
Amounts due to customers	17,094,192	25,098,797	27,293,699	72,424,208	26,644,969	3,903,318	172,459,183
Amounts due to credit institutions	947,741	6,933,062	11,457,470	40,072,910	17,004,078	77,499	76,492,760
Debt securities issued	21,219	–	513,232	–	38,533,163	5,872,360	44,939,974
	18,063,152	32,031,859	39,264,401	112,497,118	82,182,210	9,853,177	293,891,917
Net interest sensitivity gap	(14,534,566)	22,184,255	5,695,148	(29,763,763)	30,940,515	52,548,851	67,070,440
Cumulative interest sensitivity gap	(14,534,566)	7,649,689	13,344,837	(16,418,926)	14,521,589	67,070,440	

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

25. Financial Risk Management (continued)

Interest Rate Risk (continued)

The above tables do not include the effect of cash on hand, obligatory reserves, insurance assets, other assets, non-interest bearing current accounts due to customers, provisions, deferred tax liability, insurance liabilities and other liabilities.

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.

	December 31, 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	**22,358,562**	**86,031,177**	**19,409,420**	**–**	**–**	**–**	**127,799,159**
Obligatory reserves	**13,717,608**	**13,796,856**	**2,575,089**	**20,248,474**	**3,869,037**	**899,344**	**55,106,408**
Financial assets at fair value through profit or loss	**51,984,130**	**1,032,204**	**–**	**–**	**–**	**–**	**53,016,334**
Amounts due from credit institutions	**–**	**–**	**162,002**	**148,000**	**1,710,918**	**27,785**	**2,048,705**
Available-for-sale investment securities	**–**	**109,302,338**	**66,310**	**181,588**	**4,596,547**	**9,191,624**	**123,338,407**
Loans to customers	**2,404,547**	**24,266,841**	**49,929,380**	**251,182,874**	**144,508,059**	**123,924,549**	**596,216,250**
Insurance assets	**3,534,929**	**667,306**	**524,878**	**768,078**	**23,501**	**107,194**	**5,625,886**
Other assets	**–**	**2,751,036**	**263,518**	**1,032,049**	**–**	**293,448**	**4,340,051**
	93,999,776	**237,847,758**	**72,930,597**	**273,561,063**	**154,708,062**	**134,443,944**	**967,491,200**
Monetary liabilities:							
Amounts due to customers	**148,843,659**	**149,703,540**	**27,941,147**	**219,707,172**	**41,981,194**	**9,758,373**	**597,935,085**
Amounts due to credit institutions	**524,094**	**48,824,037**	**11,383,631**	**32,908,704**	**5,108,060**	**19,970,048**	**118,718,574**
Debt securities issued	**62**	**–**	**–**	**3,926,352**	**103,530,003**	**26,956,269**	**134,412,686**
Provisions	**3,021,276**	**–**	**–**	**–**	**–**	**–**	**3,021,276**
Deferred tax liability	**–**	**–**	**–**	**729,647**	**–**	**1,800,716**	**2,530,363**
Insurance liabilities	**5,680,603**	**433,967**	**472,332**	**933,117**	**14,887**	**–**	**7,534,906**
Other liabilities	**–**	**365,976**	**1,002,229**	**4,711,737**	**109,576**	**–**	**6,189,518**
	158,069,694	**199,327,520**	**40,799,339**	**262,916,729**	**150,743,720**	**58,485,406**	**870,342,408**
Net position	**(64,069,918)**	**38,520,238**	**32,131,258**	**10,644,334**	**3,964,342**	**75,958,538**	**97,148,792**
Accumulated gap	**(64,069,918)**	**(25,549,680)**	**6,581,578**	**17,225,912**	**21,190,254**	**97,148,792**	

(Thousands of Kazakhstani tenge)

25. Financial Risk Management (continued)

Liquidity Risk (continued)

	December 31, 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	29,104,398	26,231,346	1,765,947	–	–	–	57,101,691
Obligatory reserves	3,041,412	1,049,761	501,597	2,386,504	1,568,270	84,767	8,632,311
Financial assets at fair value through profit or loss	50,017,958	–	–	–	–	–	50,017,958
Amounts due from credit institutions	–	–	1,446,476	1,120,332	210,133	–	2,776,941
Available-for-sale investment securities	–	354,126	909,311	1,475,459	1,998,033	7,361,710	12,098,639
Loans to customers	1,410,590	13,212,057	27,435,465	129,749,429	179,407,412	59,882,270	411,097,223
Other assets	967,541	1,187,625	109,542	607,021	–	1,408,620	4,280,349
	84,541,899	42,034,915	32,168,338	135,338,745	183,183,848	68,737,367	546,005,112
Monetary liabilities:							
Amounts due to customers	112,967,084	38,991,242	21,515,976	88,641,854	58,250,210	3,148,461	323,514,827
Amounts due to credit institutions	556,526	14,937,940	14,575,018	38,294,969	30,356,310	8,563,384	107,284,147
Debt securities issued	47,593	–	–	–	7,718,616	51,047,385	58,813,594
Provisions	2,279,508	–	–	–	–	–	2,279,508
Deferred tax liability	–	–	–	425,144	–	–	425,144
Other liabilities	–	1,038,532	666,520	789,596	303,882	–	2,798,530
	115,850,711	54,967,714	36,757,514	128,151,563	96,629,018	62,759,230	495,115,750
Net position	(31,308,812)	(12,932,799)	(4,589,176)	7,187,182	86,554,830	5,978,137	50,889,362
Accumulated gap	(31,308,812)	(44,241,611)	(48,830,787)	(41,643,605)	44,911,225	50,889,362	

(Thousands of Kazakhstani tenge)

25. Financial Risk Management (continued)

Liquidity Risk (continued)

	December 31, 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	11,871,911	11,275,787	9,975,671	–	–	–	33,123,369
Obligatory reserves	2,506,430	821,630	879,441	2,370,868	872,246	127,779	7,578,394
Financial assets at fair value through profit or loss	62,382,235	–	–	–	–	–	62,382,235
Amounts due from credit institutions	–	23,149	413,467	258,763	–	–	695,379
Available-for-sale investment securities	–	2,379,606	559,985	3,567,244	13,992,772	118,815	20,618,422
Loans to customers	2,103,916	13,854,221	32,563,164	78,082,803	98,252,337	29,733,752	254,590,193
Other assets	3,590,316	793,860	–	–	–	–	4,384,176
	82,454,808	29,148,253	44,391,728	84,279,678	113,117,355	29,980,346	383,372,168
Monetary liabilities:							
Amounts due to customers	76,565,293	25,098,797	27,293,699	72,424,208	26,644,969	3,903,318	231,930,284
Amounts due to credit institutions	947,741	6,933,062	11,457,470	39,415,293	17,661,695	77,499	76,492,760
Debt securities issued	21,219	–	513,232	–	38,533,163	5,872,360	44,939,974
Provisions	1,801,039	–	–	–	–	–	1,801,039
Deferred tax liability	–	–	–	–	450,824	–	450,824
Other liabilities	1,612,077	15,052	69,569	183,021	191,103	–	2,070,822
	80,947,369	32,046,911	39,333,970	112,022,522	83,481,754	9,853,177	357,685,703
Net position	1,507,439	(2,898,658)	5,057,758	(27,742,844)	29,635,601	20,127,169	25,686,465
Accumulated gap	1,507,439	(1,391,219)	3,666,539	(24,076,305)	5,559,296	25,686,465	

26. 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 December 31, 2006, 2005 and 2004 is set out below:

(Thousands of Kazakhstani tenge)

26. Segment Analysis (continued)

	Retail banking	***Corporate banking***	***Other***	***Total***
2006				
External revenues	47,462,946	58,854,086	1,698,236	108,015,268
Total revenues	**47,462,946**	**58,854,086**	**1,698,236**	**108,015,268**
Total revenues comprise:				
- Interest income	33,024,709	47,622,133	–	80,646,842
- Losses less gains from financial assets at fair value through profit or loss	–	–	(193,001)	(193,001)
- Gains less losses from available-for-sale investment securities	–	–	202,081	202,081
- Share of income of associate	–	166,913	–	166,913
- Gains less losses from foreign currencies	1,042,584	2,396,897	–	3,439,481
- Fee and commission income	13,395,653	8,668,143	–	22,063,796
- Other operating income	–	–	1,689,156	1,689,156
Total revenues	**47,462,946**	**58,854,086**	**1,698,236**	**108,015,268**
- Interest expense on amounts due to customers	(8,160,677)	(10,331,127)	–	(18,491,804)
- Impairment charge	(2,862,011)	(5,469,155)	–	(8,331,166)
- Fee and commission expense	(328,979)	(600,036)	–	(929,015)
- Salaries and other employee benefits	(3,735,911)	(12,194,647)	–	(15,930,558)
- Deposit insurance and advertisement expenses	(1,673,977)	–	–	(1,673,977)
- Other provisions	–	(751,713)	–	(751,713)
Segment result	**30,701,391**	**29,507,408**	**1,698,236**	**61,907,035**
Unallocated costs				**(26,305,954)**
Unallocated costs comprise:				
- Interest expense on debt securities issued and amounts due to credit institutions				(15,691,537)
- Administrative and operating expenses excluding deposit insurance and advertisement				(6,884,186)
- Depreciation and amortization expense				(2,370,595)
- Taxes other than income tax				(1,256,761)
- Insurance claims incurred, net of reinsurance				(102,875)
Total unallocated costs				**(26,305,954)**
Income before income tax expense				**35,601,081**
Income tax expense				(8,441,807)
Net income				**27,159,274**
Segment assets	**212,907,763**	**513,436,876**	**176,354,741**	**902,699,380**
Total segment assets	**212,907,763**	**513,436,876**	**176,354,741**	**902,699,380**
Obligatory reserves				55,106,408
Premises and equipment				16,411,916
Other unallocated assets				17,141,536
Total assets	**212,907,763**	**513,436,876**	**176,354,741**	**991,359,240**
Segment liabilities	(210,476,273)	(390,480,088)	–	**(600,956,361)**
Total segment liabilities	**(210,476,273)**	**(390,480,088)**	–	**(600,956,361)**

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

26. Segment Analysis (continued)

Debt securities issued				(134,412,686)
Amounts due to credit institutions				(118,718,574)
Other unallocated liabilities				(16,643,998)
Total liabilities	**(210,476,273)**	**(390,480,088)**	–	**(870,731,619)**
Other segment items				
Impairment charge to statement of income				(9,082,879)
Capital expenditure				(8,584,158)
Depreciation and amortization expense				(2,370,595)
Other non-cash expenses				(430,165)

	Retail banking	*Corporate banking*	*Other*	*Total*
2005				
External revenues	24,582,671	46,105,621	2,275,889	72,964,181
Total revenues	**24,582,671**	**46,105,621**	**2,275,889**	**72,964,181**
Total revenues comprise:				
- Interest income	18,687,639	33,696,984	–	52,384,623
- Gains less losses from financial assets at fair value through profit or loss	–	–	1,362,905	1,362,905
- Gains less losses from available-for-sale investment securities	–	–	342,380	342,380
- Share of income of associate	–	248,841	–	248,841
- Gains less losses from foreign currencies	927,974	966,146	–	1,894,120
- Fee and commission income	4,967,058	11,193,650	–	16,160,708
- Other operating income	–	–	570,604	570,604
Total revenues	**24,582,671**	**46,105,621**	**2,275,889**	**72,964,181**
- Interest expense on amounts due to customers	(5,636,519)	(6,236,080)	–	(11,872,599)
- Impairment charge	(2,657,185)	(9,312,340)	–	(11,969,525)
- Fee and commission expense	(235,059)	(677,458)	–	(912,517)
- Salaries and other employee benefits	(3,799,511)	(7,436,823)	–	(11,236,334)
- Deposit insurance and advertisement expenses	(1,217,644)	–	–	(1,217,644)
- Other provisions	–	(496,378)	–	(496,378)
Segment result	**11,036,753**	**21,946,542**	**2,275,889**	**35,259,184**
Unallocated costs	**–**	**–**	**–**	**(15,892,708)**
Unallocated costs comprise:				
- Interest expense on debt securities issued and amounts due to credit institutions				(9,283,348)
- Administrative and operating expenses excluding deposit insurance and advertisement				(4,024,511)
- Depreciation and amortization expense				(1,329,848)
- Taxes other than income tax				(1,255,001)
Total unallocated costs				**(15,892,708)**
Income before income tax expense				**19,366,476**
Income tax expense				(3,538,576)
Net income				**15,827,900**
Other segment assets	136,753,241	335,665,379	62,116,597	534,535,217
Total segment assets	**136,753,241**	**335,665,379**	**62,116,597**	**534,535,217**

(Thousands of Kazakhstani tenge)

December 31, 2006, 2005 and 2004

26. Segment Analysis (continued)

Obligatory reserves				8,632,311
Premises and equipment				10,979,050
Other unallocated assets				5,518,131
Total assets	**136,753,241**	**335,665,379**	**62,116,597**	**559,664,708**
Segment liabilities	(134,332,107)	(191,462,228)	–	(325,794,335)
Total segment liabilities	**(134,332,107)**	**(191,462,228)**	**–**	**(325,794,335)**
Debt securities issued				(58,813,594)
Amounts due to credit institutions				(107,284,147)
Other unallocated liabilities	–	–	–	(6,213,764)
Total liabilities	**(134,332,107)**	**(191,462,228)**	–	**(498,105,840)**
Other segment items				
Impairment charge to statement of income	(2,657,185)	(9,808,718)	–	(12,465,903)
Capital expenditure				(3,179,634)
Depreciation and amortization expense				(1,329,848)
Other non-cash income				1,512,589

	Retail banking	***Corporate banking***	***Other***	***Total***
2004				
External revenues	11,964,526	33,289,709	877,470	46,131,705
Total revenues	**11,964,526**	**33,289,709**	**877,470**	**46,131,705**
Total revenues comprise:				
- Interest income	7,927,442	25,022,615	–	32,950,057
- Gains less losses from financial assets at fair value through profit or loss	–	–	165,389	165,389
- Gains less losses from available-for-sale investment securities	–	–	104,204	104,204
- Share of income of associate	–	196,153	–	196,153
- Gains less losses from foreign currencies	647,932	1,343,196	–	1,991,128
- Fee and commission income	3,389,152	6,727,745	–	10,116,897
- Other operating income	–	–	607,877	607,877
Total revenues	**11,964,526**	**33,289,709**	**877,470**	**46,131,705**
- Interest expense on amounts due to customers	(5,401,689)	(2,623,944)	–	(8,025,633)
- Impairment charge	(57,437)	(7,896,608)	–	(7,954,045)
- Fee and commission expense	(2)	(798,474)	–	(798,476)
- Salaries and other employee benefits	(1,987,501)	(4,889,150)	–	(6,876,651)
- Deposit insurance and advertisement expenses	(985,555)	–	–	(985,555)
- Other provisions	–	(986,679)	–	(986,679)
Segment result	**3,532,342**	**16,094,854**	**877,470**	**20,504,666**
Unallocated costs	**–**	**–**	**–**	**(10,413,851)**
Unallocated costs comprise:				
- Interest expense on debt securities issued and amounts due to credit institutions				(4,733,124)
- Administrative and operating expenses excluding deposit insurance and advertisement				(3,527,422)
- Depreciation and amortization expense				(1,111,526)
- Taxes other than income tax				(1,041,779)
Total unallocated costs				**(10,413,851)**

(Thousands of Kazakhstani tenge)

26. Segment Analysis (continued)

Income before income tax expense				**10,090,815**
Income tax expense				(1,997,780)
Net income				**8,093,035**
Segment assets	85,254,508	203,840,473	83,000,657	372,095,638
Total segment assets	**85,254,508**	**203,840,473**	**83,000,657**	**372,095,638**
Obligatory reserves				7,578,394
Premises and equipment				9,131,311
Other unallocated assets				4,448,557
Total assets	**85,254,508**	**203,828,436**	**83,000,657**	**393,253,900**
Other segment liabilities	(112,665,555)	(121,065,768)	–	(233,731,323)
Total segment liabilities	**(112,665,555)**	**(121,065,768)**	**–**	**(233,731,323)**
Debt securities issued				(44,939,974)
Amounts due to credit institutions				(76,492,760)
Other unallocated liabilities				(2,950,569)
Total liabilities	**(112,665,555)**	**(121,065,768)**	**–**	**(358,114,626)**
Other segment items				
Impairment charge to statement of income	(57,437)	(8,883,287)	–	(8,940,724)
Capital expenditure				(2,952,895)
Depreciation and amortization expense				(1,111,526)
Other non-cash income				249,011

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

	Kazakhstan	***OECD***	***Non OECD***	***Total***
2006				
Total assets	**892,585,719**	**97,124,376**	**1,649,145**	**991,359,240**
External revenues	**104,810,979**	**3,164,748**	**39,541**	**108,015,268**
Capital expenditure	**(8,584,158)**	**–**	**–**	**–**
Credit related commitments	**21,629,356**	**–**	**–**	**–**
2005				
Total assets	526,619,948	31,535,829	1,508,931	559,664,708
External revenues	71,456,677	1,442,136	65,368	72,964,181
Capital expenditure	(3,179,634)	–	–	(3,179,634)
Credit related commitments	17,000,292	–	–	17,000,292
2004				
Total assets	359,834,727	32,911,445	507,728	393,253,900
External revenues	44,707,576	1,402,493	21,636	46,131,705
Capital expenditure	(2,952,895)	–	–	(2,952,895)
Credit related commitments	104,963,613	–	–	104,963,613

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.

(Thousands of Kazakhstani tenge)

27. 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 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:

	December 31, 2006		***December 31, 2005***		***December 31, 2004***	
	Carrying Amount	***Fair Value***	***Carrying Amount***	***Fair Value***	***Carrying Amount***	***Fair Value***
Financial assets						
Amounts due from credit institutions	**2,048,705**	**2,048,705**	2,776,941	2,776,941	695,379	695,379
Loans to customers	**596,216,250**	**597,849,275**	411,097,223	438,905,326	254,590,193	257,640,717
Financial liabilities						
Amounts due to customers	**597,935,085**	**598,248,932**	323,514,827	325,584,598	231,930,284	231,204,662
Amounts due to credit institutions	**118,718,574**	**122,911,095**	107,284,147	109,982,877	76,492,760	74,697,414
Debt securities issued	**134,412,686**	**134,867,140**	58,813,594	58,550,320	44,939,974	45,531,403

28. 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, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Kazakhstani Tenge)

28. Related Party Transactions (continued)

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

	Year ended December 31, 2006				*Year ended December 31, 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	**681,394**	**1,156,582**	**–**	**71,998**	930,476	4,909,332	–	130,016
Loans issued during the period	**602,234**	**7,918,708**	**–**	**46,990**	308,883	3,933,218	–	55,864
Loan repaid during the period	**1,053,582**	**4,104,224**	**–**	**73,573**	557,965	8,842,550	–	113,882
Loans outstanding, gross, ending of the period	**230,046**	**4,971,066**	**–**	**45,415**	681,394	–	–	71,998
Less: allowance for impairment	**–**	**(958,846)**	**–**	**–**	–	–	–	–
Loans outstanding, net, ending	**230,046**	**4,012,220**	**–**	**45,415**	681,394	–	–	71,998
Interest income on loans	**72,736**	**384,779**	**–**	**5,986**	277,379	16,647	–	7,060
Deposits and current accounts, beginning of the period	**806,883**	**15,447,350**	**182,786**	**239,794**	51,000	72,828,663	101,000	–
Receipts of deposits and current accounts during the period	**1,000,938,824**	**5,108,430,784**	**11,168,522**	**588,947**	8,991,368	222,900,437	125,336	271,329
Payments of deposits and current accounts during the period	**900,720,833**	**5,007,571,913**	**11,112,903**	**406,193**	8,235,485	295,729,100	43,550	31,535
Deposits and current accounts, ending of the period	**101,024,874**	**116,306,221**	**238,405**	**422,548**	806,883	–	182,786	239,794
Interest expense on deposits	**1,944,285**	**2,695,620**	**4,444**	**19,584**	92,842	3,204,076	14,589	13,270
Commitments and guarantees issued	**–**	**585,509**	**6,692**	**–**	2,561,568	–	–	–
Fee and commission income	**9,052**	**109,000**	**7,962**	**–**	9,041	110,800	3,339	–

(Thousands of Kazakhstani Tenge)

December 31, 2006, 2005 and 2004

28. Related Party Transactions (continued)

	Year ended December 31, 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	**1,552,483**	2,601,118	–	2,472
Loans issued during the period	**682,569**	10,724,394	–	133,492
Loan repaid during the period	**1,304,576**	8,416,180	–	5,948
Loans outstanding, gross, ending of the period	**930,476**	4,909,332	–	130,016
Less: allowance for impairment	–	–	–	–
Loans outstanding, net, ending	**930,476**	4,909,332	–	130,016
Interest income on loans	**131,348**	294,956	–	2,794
Deposits and current accounts, beginning of the period	–	17,265,773	95,000	–
Receipts of deposits and current accounts during the period	**51,000**	854,907,949	50,500	–
Payments of deposits and current accounts during the period	–	799,345,059	44500	–
Deposits and current accounts, ending of the period	**51,000**	72,828,663	101,000	–
Interest expense on deposits	**99**	896,818	382	–
Commitments and guarantees issued	**13,950**	–	–	–
Fee and commission income	**12,838**	267,494	7,351	–

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):

	2006	*2005*	*2004*
Salaries and bonuses	**973,761**	819,128	640,763
Social tax	**69,370**	59,386	46,903
Total key management compensation	**1,043,131**	878,514	687,666

29. Capital Adequacy

The FMSA requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2006, 2005 and 2004, the Bank's capital adequacy ratios complied with the FMSA requirements in that regard.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of December 31, 2006, 2005 and 2004, was 17%, 17% and 14%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

REGISTERED OFFICE OF THE ISSUER

HSBK (Europe) B.V.
Schouwburgplein 30-34
3012 CL Rotterdam
The Netherlands

REGISTERED OFFICE OF THE BANK

JSC Halyk Bank
97 Rozybakiev Street
Almaty 050046
Kazakhstan

AUDITORS OF THE BANK

Ernst & Young LLP
240 Furmanov Street
Almaty 050059
Kazakhstan

LEGAL ADVISORS

To the Managers as to English and United States law and to the Trustee as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
England

To the Managers as to Kazakhstan law

Denton Wilde Sapte
96 Baitursynov Street
Almaty 050022
Republic of Kazakhstan

To the Bank as to Kazakhstan and United States law

Bracewell & Giuliani LLP
57 Amangeldy Street
Almaty 050012
Kazakhstan

To the Issuer as to The Netherlands law

NautaDutilh N.V.
Weena 750
3014 DA Rotterdam
The Netherlands

PRINCIPAL PAYING AGENT AND LONDON TRANSFER AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
England

REGISTRAR AND NY PAYING AGENT AND NY TRANSFER AGENT

Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
U.S.A.

REGISTRAR

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

TRUSTEE

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
England