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

Notes To The Consolidated Financial Statements

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.

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)

December 31, 2006, 2005 and 2004

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, 2005		December 31, 2004	
	%	*Maturity*	*%*	*Maturity*	*%*	*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	December 31, 2005	December 31, 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	December 31, 2005	December 31, 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)

December 31, 2006, 2005 and 2004

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)

December 31, 2006, 2005 and 2004

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)

December 31, 2006, 2005 and 2004

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)

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)

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)

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)

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)

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)

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)

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.