IMPORTANT NOTICE

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

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

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

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

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

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

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

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

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

HSBK (Europe) B.V.

(incorporated with limited liability in The Netherlands)

U.S.$500,000,000

9.25 per cent. Notes due 2013
Guaranteed by
JSC HALYK BANK

(organised in the Republic of Kazakhstan)

Issue Price 98.948 per cent.

The U.S.$500,000,000 9.25 per cent. Notes due 16 October 2013 (the "Notes") are issued by HSBK (Europe) B.V. (the "Issuer") and guaranteed by JSC Halyk Bank, a joint stock company organised in the Republic of Kazakhstan (the "Bank" or the "Guarantor"). Interest on the Notes will accrue from 16 April 2008 and will be payable semi-annually in arrear on 16 April and 16 October of each year, commencing on 16 October 2008. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 16 April 2008 (the "Trust Deed") among the Issuer, the Bank and Deutsche Trustee Company Limited as trustee for the holders of the Notes (the "Trustee"). See "Terms and Conditions of the Notes".

The Notes will be offered and sold in an offering in the United States to "qualified institutional buyers" (as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A and in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "Subscription and Sale" and "Form of Notes and Transfer Restrictions". The Notes may not be reoffered, resold, pledged, exchanged or otherwise transferred except in transactions exempt from or not subject to the registration requirements of the Securities Act and any other applicable securities laws. See "Form of Notes and Transfer Restrictions". This document is not a "prospectus" as such term is defined in section 2(a)(10) of the U.S. Securities Act, as amended.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") to approve this Prospectus as a prospectus, and this Prospectus constitutes a prospectus for the purposes of article 5 of Directive 2003/71/EC. Application has also been made to admit the Notes described in this Prospectus to listing on the official list of the UK Listing Authority (the "Official List") and to trading on the London Stock Exchange plc's (the "London Stock Exchange") Regulated Market (the "Regulated Market"). The Regulated Market is a Regulated Market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Application has also been made for the Notes to be designated as eligible for trading on The PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL").

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

The Notes are expected to be assigned on issue a rating of Baa3 by Moody's Investor Service and BB+ by Standard and Poor's Rating Service and Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

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

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "Unrestricted Global Note") in registered form, without interest coupons attached, which will be registered in the name of BT Globenet Nominees Limited as nominee for, and shall be deposited on or about 16 April 2008 (the "Closing Date") with Deutsche Bank A.G., as common depository for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "Restricted Global Note" and, together with the Unrestricted Global Note, the "Global Notes") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Deutsche Bank Trust Company Americas, as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). Notes, whether sold (i) in offshore transactions in reliance on Regulation S, or (ii) to qualified institutional buyers in reliance on Rule 144A, will be issued in minimum denominations of U.S.$100,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000. See "Terms and Conditions of the Notes". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "Form of Notes and Transfer Restrictions". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

JPMorgan **UBS Investment Bank**

The date of this Prospectus is 14 April 2008.

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

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

None of the Managers (as defined in "Subscription and Sale"), the Trustee nor any of their respective directors, affiliates, advisers or agents, has made an independent verification of the information contained in this Prospectus in connection with the issue and offering of the Notes and no representation or warranty, expressed or implied, is made by the Managers, the Trustee or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether relating to the past or the future, by the Managers, the Trustee or any of their respective directors, affiliates, advisers or agents in any respect. Furthermore, none of the Managers nor the Trustee makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes, the performance and observance by the Issuer and the Bank of their obligations in respect of the Notes or the recoverability of any sums due or to become due from the Issuer and the Bank under the Notes.

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

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

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

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

IN CONNECTION WITH THIS ISSUE, J.P. MORGAN SECURITIES LTD. (THE "STABILISING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL, BUT IN DOING SO THE STABILISING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION WILL BE CONDUCTED BY THE STABILISING MANAGER (OR PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES, ANY LOSS RESULTING FROM OVER-ALLOTMENT AND/OR STABILISATION WILL BE BORNE, AND ANY PROFIT ARISING FROM THEM SHALL BE BENEFICIALLY RETAINED EQUALLY BY J.P. MORGAN SECURITIES LTD. AND UBS LIMITED.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

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

NOTICE TO RESIDENTS OF NEW HAMPSHIRE

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

AVAILABLE INFORMATION

Neither the Issuer nor the Bank is currently required to file periodic reports under Sections 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the U.S. Securities and Exchange Commission ("SEC"). In order to preserve the exemption for resales and transfers under Rule 144A, the Issuer and the Bank have agreed that, so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Bank will, if they are not exempt from the reporting requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder and do not thereafter become subject to and comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act, provide to any holder of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder, upon the request of such holder or prospective purchaser, any information required to be provided by Rule 144A(d)(4) under the Securities Act. See "Terms and Conditions of the Notes – Condition 5.3".

ENFORCEMENT OF FOREIGN JUDGMENTS

The Bank is a joint stock company organised under the legislation of Kazakhstan and certain of its officers and directors and certain other persons referred to in this Prospectus are residents of Kazakhstan.

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

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

The financial information of the Bank set forth herein, has, unless otherwise indicated, been extracted from the audited consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity of the Bank as at and for the years ended 31 December 2007 and 2006, and for the years ended 31 December 2006 and 2005 (together, the "Audited Financial Statements"). The consolidated financial statements for the years ended 31 December 2006 and 2005 have been restated as discussed in Note 29 to the consolidated financial statements. See the Audited Financial Statements, including the relevant notes thereto, included elsewhere in this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Readers are advised that the financial information of the Bank set forth herein should be read together with the Audited Financial Statements and the notes thereto, contained in this Prospectus beginning on page F-1.

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

Solely for the convenience of the reader, this Prospectus presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate, in each case calculated in accordance with the exchange rates for U.S. Dollars on the KASE as reported by the NBK. On 31 December 2007, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 120.30 per U.S.$1.00 and the average exchange rate for the year ended 31 December 2007 as reported by the NBK was KZT 122.55 per U.S.$1.00. On 31 December 2006, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 127.00 per U.S.$1.00 and the average exchange rate for the year ended 31 December 2006 as reported by the NBK was KZT 126.09 per U.S.$1.00. On 31 December 2005, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 133.98 per U.S.$1.00 and the average exchange rate for the year ended 31 December 2005 as reported by the NBK was KZT 132.88 per U.S.$1.00. For further details of applicable exchange rates, see the Audited Financial Statements included herein.

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

MARKET SHARE, INDUSTRY AND ECONOMIC DATA

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

OVERVIEW OF THE ISSUER AND THE BANK

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

The Issuer

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

The Bank

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

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

As at 31 December 2007, according to statistics published by the FMSA and the NBK, the Bank had the largest retail deposit base in Kazakhstan (with 24.1 per cent. market share), as well as the largest portfolio in the mortgage loan market (with a 21.9 per cent. market share) and had issued the largest number of payment cards (with 51.6 per cent. market share). As at 31 December 2007, the Bank was also the third largest bank in Kazakhstan based on total unconsolidated assets according to statistics published by the FMSA. As at 31 December 2007, the Bank had total consolidated assets of KZT 1,595,075 million and total equity of KZT 161,025 million. For the year ended 31 December 2007, the Bank's net income after income tax expense was KZT 40,525 million and operating income (net interest income plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance) was KZT 88,012 million. As at 31 December 2006, the Bank had total consolidated assets of KZT 991,359 million and total equity of KZT 120,627 million. For the year ended 31 December 2006, the Bank's net income after income tax expense was KZT 27,159 million and operating income (net interest income plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance) was KZT 64,469 million.

The Bank's core business is focused on retail, SME and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through, as at 31 December 2007, 22 regional branches, 125 district branches, 473 limited service branches, four VIP centres and 46 personal service centres. Other distribution channels used by the Bank include, as at 31 December 2007, 1,119 Automated Teller Machines ("ATMs"), the internet and mobile banking and in-store service points located at certain shopping centres and supermarkets in Kazakhstan. Through subsidiary companies, the Bank's operations also include pensions, general and life insurance, leasing, brokerage and asset management. According to the FMSA statistics, as at 31 December 2007, the Bank's pension fund business had the largest market share in Kazakhstan (29.1 per cent.) in terms of assets under management, and the management of the Bank believes its insurance business has the largest network in the country.

The Bank offers a wide range of retail banking products and services including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, internet and mobile banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services to corporate and SME business customers, financial institutions and Government entities. As at 31 December 2007, the Bank had approximately 5.9 million retail customers (the largest customer base among all banks in Kazakhstan), approximately 70,700 SME customers and 333 corporate customers.

Shares of the Bank have been listed on the KASE since 1998 and common shares in the form of global depositary receipts ("GDRs") on the London Stock Exchange since December 2006. As at 31 December 2007, Holding Group Almex JSC ("Almex") owned 62.1 per cent. of the Bank's equity. See "Principal Shareholders". The Bank's principal office is located at 97 Rozybakiev Street, Almaty 050046, Kazakhstan.

Business Strategy

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

- maintain the leading position in the Kazakhstan retail banking market and capture growth in Kazakhstan;
- expand the Bank's SME banking platform;
- further develop the Bank's corporate banking franchise through a wider product range;
- maintain and develop the Bank's leading distribution network;
- leverage the Bank's universal banking platform to maximise cross selling of products and services and to increase its customer base;
- selectively expand into attractive neighbouring markets; and
- continue to raise standards in the Bank to achieve operational excellence and efficiency.

Credit Ratings

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

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

It is expected that, on issue, Fitch and Standard & Poor's will assign a BB+ rating, and Moody's will assign a Baa3 rating, respectively, to the Notes. A security rating is not a recommendation to buy, sell or hold the securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

OVERVIEW OF THE OFFERING

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

Issuer:	HSBK (Europe) B.V., a wholly-owned subsidiary of the Bank incorporated under the laws of The Netherlands.
Guarantor:	JSC Halyk Bank, incorporated in the Republic of Kazakhstan under the Joint Stock Companies Law with registration number 3898-1900-AO.
Issue:	U.S.$500,000,000 9.25 per cent. Notes due 16 October 2013. The Notes are being offered, by the Issuer through the Managers, to (i) certain qualified institutional buyers ("QIBs") (as defined in Rule 144A under the Securities Act), in the United States in reliance on Rule 144A under the Securities Act; and (b) to certain non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. See "Subscription and Sale".
Issue Date:	16 April 2008
Issue Price:	98.948 per cent. of the principal amount of the Notes.
Form:	The Notes are issued in registered form, without interest coupons attached, in minimum denominations of U.S.$100,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000. The Notes will initially be represented by the Unrestricted Global Note and the Restricted Global Note, which will be exchangeable in the limited circumstances specified by their respective terms for Unrestricted Note Certificates and Restricted Note Certificates, respectively.
Governing Law:	The Notes, the Trust Deed, the Paying Agency Agreement and the Guarantee are governed by, and will be construed in accordance with, the laws of England.
Listing:	Application has been made to list the Notes described in this Prospectus on the Official List and for trading on the Regulated Market of the London Stock Exchange. Application has also been made for the Notes to be designated as eligible for trading on PORTAL.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in the United Kingdom and Kazakhstan. See "Form of Notes and Transfer Restrictions".
Use of Proceeds:	The proceeds of the offering, expected to amount to U.S.$493,040,000, will be deposited by the Issuer with the Bank.

	The Bank will use such proceeds to fund loans to its customers and for other general corporate purposes. The expenses and combined management, underwriting and selling commission incurred with the issue of the Notes will be paid by the Bank and/or by the Issuer.
Trustee:	Deutsche Trustee Company Limited
Principal Paying Agent and Transfer Agent:	Deutsche Bank AG, London Branch
NY Paying Agent, Registrar and Transfer Agent:	Deutsche Bank Trust Company Americas
Registrar:	Deutsche Bank Luxembourg S.A.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 9.25 per cent. per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 16 April and 16 October of each year, commencing on 16 October 2008.
Maturity Date:	16 October 2013
Guarantee:	The Bank will, on or prior to the Closing Date, enter into the Guarantee under a deed of guarantee pursuant to which the Bank will unconditionally guarantee the due and punctual payment of all sums payable by the Issuer in respect of the Notes.
Status:	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 4.1 (Negative Pledge – Negative Pledge of the Issuer)), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (save for such exceptions as may be provided by mandatory provisions of applicable law) with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. The obligations of the Bank under the Guarantee constitute direct, general, unconditional and (subject to Condition 4.2 (Negative Pledge of the Guarantor)) unsecured obligations of the Bank which rank and will at all times rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Bank, save only for such obligations as may be preferred by mandatory provisions of applicable law of general application. See Condition 3.2 (Status – Status of the Guarantee).
Negative Pledge:	Each of the Issuer and the Bank has agreed that, so long as any Notes remain outstanding, it shall not, and shall not permit any of its Material Subsidiaries (as defined in Condition 5 (Covenants)) to, create or permit to subsist any mortgage, charge, lien, pledge, security interest or other encumbrance (other than a Permitted Security Interest as defined in Condition 5 (Covenants)) upon or with respect to any of their respective undertakings, assets or revenues to secure any Financial Indebtedness (as defined in Condition 5 (Covenants)) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Financial Indebtedness or are otherwise given the benefit of such other arrangements as shall be approved. See Condition 4 (Negative Pledge).

Certain Covenants:	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on payment of dividends, (ii) limitations on transactions at less than the fair market value, (iii) limitations on merger and consolidation and (iv) limitations on transfers of interests in the Issuer by the Bank. See Condition 5 (Covenants).
Taxation:	All payments of principal and interest in respect of the Notes will be made free and clear of any taxes imposed by or within The Netherlands or Kazakhstan or any jurisdiction from or through which payment is made, unless withholding or deduction thereof is required by law. See Condition 9 (Taxation). In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by The Netherlands or Kazakhstan upon or as a result of such payment, will not be less than the amount provided for in such Note to be then due and payable. See Condition 9 (Taxation). Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15 per cent. to 20 per cent. unless reduced or made exempt by an applicable double taxation treaty. See "Taxation – Kazakhstan Taxation".
Tax Redemption:	The Notes are subject to redemption in whole at the option of the Issuer, in the event of certain changes in taxation in Kazakhstan or the Netherlands. See Condition 6.2 (Redemption, Purchase and Cancellation – Redemption for Taxation Reasons).
Substitution:	The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Guarantor and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as the Trustee may direct in the interests of the Noteholders, substitute (once or more than once) any entity (the "Substituted Obligor") in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, or substitute any entity in place of the Guarantor, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Guarantor or the substitute Guarantor as the case may be (unless the Substituted Obligor is the Guarantor) and (ii) all other relevant conditions of the Trust Deed having been complied with. See Condition 11.4 (Substitution).
Optional Exchange or Redemption:	In the event of an exchange offer (the "Exchange Offer") for the Notes being accepted by holders of 90 per cent. in principal amount of Notes for the time being outstanding, the Guarantor shall, subject to the receipt of any required certification, have the option to require the exchange of such outstanding Notes for the securities offered by way of the Exchange Offer. The Guarantor shall have the option to redeem Notes held by holders of Notes who are unable to provide such certification at their principal amount together with accrued interest. See Condition 6.5 (Optional Exchange or Redemption).

Payment and Settlement:	The identification numbers for the Notes are as follows: Regulation S Notes: ISIN: XS0358156510 Common Code: 035815651 Rule 144 Notes: ISIN: US40430AAC71 Common Code: 035833536 CUSIP: 40430AAC7
Risk Factors:	For a discussion of certain investment considerations relating to Kazakhstan, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see “Risk Factors”.

RISK FACTORS

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

General risk relating to emerging markets

Investors in emerging markets, such as in Kazakhstan, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets, such as in Kazakhstan, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Risk factors relating to the Republic of Kazakhstan

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

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

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

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

According to figures compiled by the NSA, gross domestic product ("GDP") has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.8 per cent. in 2002, 9.2 per cent. in 2003, 9.4 per cent. in 2004, 9.4 per cent. in 2005, 10.6 per cent. in 2006 and 8.5 per cent. in 2007 (source: the NSA). However, there can be no assurance that GDP will continue to grow and any decrease in GDP or in the rate of GDP growth in subsequent years could adversely affect Kazakhstan's economic development which could, in turn, materially and adversely affect the Bank's business and financial condition or results of operations.

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

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

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

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

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

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

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

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

The Tenge is convertible for current account transactions, although it is not a fully convertible currency for capital account transactions outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses of foreign currency reserves. In response to these pressures, the authorities instituted a number of expenditure cuts and took revenue increasing measures and, in April 1999, the NBK adopted a floating rate exchange policy for the Tenge. The Tenge fell by 64.6 per cent. against the

U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7 per cent. in the year ended 31 December 1998. From 2003 the Tenge started appreciating in value against the U.S. Dollar and in 2006 and 2007 appreciated by another 5.2 per cent. and 5.3 per cent. respectively against the U.S. Dollar. (See "Presentation of Financial and Certain Other Information".) As at 31 December 2006 and 31 December 2007 the official KZT/U.S. Dollar exchange rate reported by the NBK was KZT 127.00 per U.S.$1.00 and KZT 120.30 per U.S.$1.00, respectively. Exchange rates may also be affected by the levels of inflation in Kazakhstan as high rates of inflation tend, over time, to lead to a depreciation of currency.

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

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

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

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

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

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

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

Risk factors relating to operating within the Kazakhstan banking sector

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

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

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

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

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

The Bank depends on its banking and other licences

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

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

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

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

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally, or specific economic sectors within it, or corporate or financial information relating to companies or other economic enterprises, is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Bank as well as other Kazakhstan banks relating to its prospective and existing corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining and collateralisation requirements, the difficulties associated with the inability to accurately assess the post–enforcement value of collateral may reduce the accuracy of the Bank's assessments of credit risk.

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

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

Risk factors relating to the Bank

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

The Bank's loans to customers increased by 74.5 per cent. to KZT 1,040,273 million as at 31 December 2007 from KZT 596,216 million as at 31 December 2006. In 2006 there was a 45.0 per cent. increase in the Bank's loans to customers from KZT 411,097 million as at 31 December 2005. The significant and rapid increase in the loan portfolio size has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels through the Bank's credit risk management programme. The anticipated increase in the overall level of lending and, in particular, in the level of lending to SMEs as well as to retail customers, may further increase the credit risk faced by the Bank. SMEs and retail customers typically have less financial strength than large companies, historically the Bank's core lending customer base, and negative developments in the Kazakhstan economy could affect these borrowers more significantly than large companies.

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

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

Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector due to its extensive branch network and customer base, it faces competition from a number of existing and prospective participants in the Kazakhstan banking sector. The Bank is subject to competition from both domestic and foreign banks. As at 31 December 2007, there were a total of 35 banks operating in Kazakhstan (excluding NBK and the Development Bank of Kazakhstan ("DBK") both of which are government owned). Although foreign owned banks do not currently provide significant domestic competition, some of these institutions have significantly greater resources and cheaper funding sources than the Bank. Foreign banks also have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. In addition, regulatory changes may make it easier for foreign banks to increase their market penetration in Kazakhstan, and this may be more likely in connection with any eventual World Trade Organisation accession by Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate banking sector (and possibly in the retail banking sector) in the longer term. The Bank also expects that DBK, established in 2001, while not licensed to accept deposits or provide transactional services, may become an important competitor in the corporate lending sector. The large number of corporate lenders in Kazakhstan has led banks to find other sources of revenue, primarily in SME and retail banking, where the barriers to entry are lower and a number of the smaller banks are seeking to grow their market share. Moreover, there are relatively few large corporate customers that do not have established banking relationships, which means that competition in this sector is intense. Increased competition may have a material adverse effect on the Bank's financial condition or results of operations. (See "Overview of the Bank – Competition" and "The Banking Sector in Kazakhstan".)

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

As at 31 December 2007, the Bank's Tier I and total capital adequacy ratios calculated in accordance with FMSA rules were 7.0 per cent. and 12.0 per cent., respectively, compared to the minimum levels of 5 per cent. for Tier I and 10 per cent. for total capital required under the FMSA rules for commercial banks whose shareholder has the status of the parent company of a "conglomerate" under the FMSA rules, as is the case with the Bank. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations Overview – Capital Adequacy and Liquidity" and "The Banking Sector in Kazakhstan".)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank's loan portfolio shows industry and borrower concentration. Loans to the Bank's 10 largest borrowers represented 15 per cent. of the Bank's gross loan portfolio as at 31 December 2007.

As at 31 December 2007, the Bank's exposure to its single largest borrower was KZT 24,768 million, which constituted 2.3 per cent. of the Bank's loans to customers before allowance for loan impairment.

In terms of industry concentration, as at 31 December 2007, mortgages, consumer loans, wholesale trade, construction and retail trade accounted for 15 per cent., 15 per cent., 20 per cent., 13 per cent. and 8 per cent., respectively, of the Bank's loans to customers before allowance for loan impairment.

The Bank's 10 largest depositors accounted for some 45 per cent. of amounts due to customers as at 31 December 2007. Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the Bank's financial condition or results of operations.

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

The Bank may not be successful in implementing its strategic plans

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

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

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

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

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

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

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

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

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

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

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

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

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

Similar to many other companies in emerging markets, the Bank had in the past identified areas of its internal controls over financial reporting that needed improvement. In connection with the audit by Ernst & Young, the Bank's previous auditor (the "Previous Auditor"), of the Bank's consolidated financial statements for the year ended 31 December 2006, material weaknesses in the Bank's internal controls were reported to the Bank's management and recommendations were proposed to improve the Bank's internal controls.

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

The Bank's Previous Auditor considered these deficiencies in determining the nature, timing and extent of the procedures performed as part of the audit of the IFRS Financial Statements. Such deficiencies did not affect their audit opinion on the consolidated financial statements. However, the existence of a material weakness could result in material errors in the Bank's financial statements or could delay the Bank's preparation of timely and reliable financial statements.

The Bank's Previous Auditor (i) identified weakness in the Bank's controls, specifying that the Bank's account systems were not as sophisticated as those of banks in jurisdictions with a longer history of compliance with IFRS and (ii) expressed a concern relating to the Bank's methodology used to assess the allowances for loan impairment, which had not been updated to comply with the then recent requirements of IAS 39 "Financial Instruments – Recognition and Measurement" introduced in 2005.

The Bank has taken steps to address these items. The Bank has recently established a dedicated IFRS reporting function. However, this function is still limited by the amount of experience of the relevant personnel and, accordingly, the Bank's processes of coordination and review of the information collected for the preparation of IFRS financial statements may require further improvement. Additionally, during 2007 the Bank introduced a revised methodology to assess the allowances for loan impairment which it considers to be compliant with IAS 39.

The Bank's management considers that the previously identified material weaknesses in the financial reporting processes have been adequately addressed. However, the increasing complexity and volume of IFRS and interpretations thereof, together with the increasing sophistication of products and services of the Bank, mean that there is a risk that the Bank's financial reporting processes and data gathering procedures may not sufficiently keep pace to avoid potential material weaknesses in the future. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

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

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

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

Changes in tax regulations can affect the Bank's financial position

Taxes in Kazakhstan to which the Bank is subject include value added tax, income tax, social taxes, and other taxes. The current statutory income tax rate in Kazakhstan is 30 per cent. The Bank's effective tax rate was 20.8 per cent., 23.7 per cent. and 18.3 per cent. for the years ended 31 December 2007, 2006 and 2005, respectively. The Bank's effective tax rate is generally less than the statutory rate because not all of the Bank's income is taxable. For example, interest received on Government and mortgage loan (more than three years) securities is currently not taxable. However, following changes in Kazakhstan tax legislation, especially with respect to cancelled exemption on income earned from long-term (more than three years) loans for investment purposes, the Bank's effective rate increased in 2006. Tax legislation may change in the future and, if it does, there is no assurance that the Bank's effective tax rate could not increase substantially.

Risk factors relating to the Notes

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

The Bank is organised in Kazakhstan and is subject to bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Bank from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

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

Changes in respect of the credit ratings of the Notes may materially and adversely affect the trading price of the Notes

The Notes are expected to be rated BB+ by Standard & Poor's, Baa3 by Moody's and BB+ by Fitch. Outstanding Eurobonds of the Republic of Kazakhstan are rated "BBB-/A-3" by Standard & Poor's, "Baa2" by Moody's and "BBB" by Fitch. These public ratings affect the Bank's ability to raise debt. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any downwards change in the credit rating of either the Bank or the Republic of Kazakhstan could affect the trading price of the Notes.

An active trading market for the Notes may not develop

There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell their Notes or the price at which such Noteholders would be able to sell Notes.

Application has been made for the listing of the Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange and to have the Notes declared eligible for trading on PORTAL.

There can be no assurance that either such listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Risks relating to the Issuer

Limited resources of the Issuer may affect its ability to meet its obligations under the Notes

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

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a duly authorised issue of U.S.$500,000,000 9.25 per cent. Notes due 2013 (the "Notes", which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 17 (Further Notes) and forming a single series with the Notes) issued by HSBK (Europe) B.V. (the "Issuer") and guaranteed by JSC Halyk Bank (the "Guarantor") pursuant to a deed of guarantee dated 16 April 2008 (the "Guarantee"). The issue of the Notes was approved by resolution of the Managing Board of the Issuer passed on 4 January 2008. The giving of the Guarantee was approved by resolution of the Board of Directors of the Guarantor passed on 15 January 2008. The Notes are constituted by a trust deed dated 16 April 2008 (the "Trust Deed", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "Trustee", which expression shall include all Persons from time to time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed and of the paying agency agreement (the "Paying Agency Agreement") dated 16 April 2008 relating to the Notes between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, London Branch (the "Principal Paying and Transfer Agent", which expression shall include any successor principal paying and transfer agent under the Paying Agency Agreement), Deutsche Bank Trust Company Americas (the "Registrar, Paying and Transfer Agent", which expression shall include any successor registrar, paying and transfer agent under the Paying Agency Agreement) and together with the Principal Paying and Transfer Agent being referred to below as the "Paying and Transfer Agents", which expression shall include their successors as Paying and Transfer Agents under the Paying Agency Agreement, and Deutsche Bank Luxembourg S.A. in its capacity as Registrar (the "Registrar", which expression shall include any successor registrar under the Paying Agency Agreement), are available for inspection during usual business hours at the principal office of the Trustee (presently at Winchester House, Great Winchester Street, London EC2N 2DB) and at the specified offices of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Paying Agency Agreement applicable to them.

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

Capitalised terms used but not defined in these Conditions shall have the meanings given to them in the Trust Deed.

1. Form and Denomination

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

2. Title, Registration and Transfer

2.1 *Title*

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

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

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

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

2.2 ***Registration***

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

2.3 ***Transfer***

2.3.1 *Transfer*

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

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

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

2.3.2 *Formalities Free of Charge*

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

2.3.3 *Closed Periods*

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

2.3.4 *Business Day*

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

2.3.5 *Regulations Concerning Transfer and Registration*

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

3. Status

3.1 *Status of the Notes*

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

3.2 *Status of the Guarantee*

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

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

4. Negative Pledge

4.1 ***Negative Pledge of the Issuer***

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

4.2 ***Negative Pledge of the Guarantor***

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

5. Covenants

For so long as any Note remains outstanding:

5.1 ***Limitations on Certain Transactions***

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

5.2 ***Limitation on Payment of Dividends***

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

5.3 ***Provision of Financial Information***

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

5.4 ***Maintenance of Capital Adequacy***

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

5.5 ***Merger and Consolidation***

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

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

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

For the purposes of these Conditions:

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

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

"**Financial Indebtedness**" means any Indebtedness of any Person for or in respect of (i) Indebtedness for Borrowed Money; or (ii) Indebtedness Guarantees in respect of any of the foregoing Indebtedness.

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

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

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

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

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

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

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

"**Permitted Security Interest**" means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary of the Guarantor to secure Financial Indebtedness owed by such Subsidiary to the Guarantor; (ii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, including without limitation, any rights of set off with respect to demand or term deposits maintained with financial institutions and bankers' liens with respect to property of the Guarantor held by financial institutions; (iv) arising in the ordinary course of the Guarantor's or any of its Subsidiaries' business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers; (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease; (vi) arising pursuant to any agreement (or other applicable terms and conditions), which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary of the Guarantor other than on a short-term basis as part of the Guarantor's or such Subsidiary's liquidity management activities), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's and its Subsidiary's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos; (vii) granted upon or with regard to any property hereafter acquired by the Guarantor or any Subsidiary of the Guarantor to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property; (viii) created or outstanding upon any property or assets of the Guarantor or any Subsidiary of the Guarantor including without limitation any Security Interest on or in respect of any present or future credit card, debit card, cheque, cash remittance, worker's remittances, trade payments rights, mortgage receivables, receivables, payment rights, instruments or other assets arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Financial Indebtedness secured by such property or assets is limited to such property or assets, provided that the amount of Financial Indebtedness so secured pursuant to this clause (viii) at any one time shall not exceed an amount in any currency or currencies equivalent to 18 per cent. of the Guarantor's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with IFRS); (ix) granted by the Guarantor or any Subsidiary of the Guarantor in favour of a Development Organisation to secure Financial Indebtedness owed by the Guarantor or such Subsidiary to such a Development Organisation pursuant to any loan agreement or other credit facility entered into between the Guarantor or any Subsidiary of the Guarantor and such Development Organisation, provided, however, that the amount of Financial Indebtedness so secured pursuant to this clause (ix) shall not exceed in aggregate an amount in any currency or currencies equivalent to 10 per cent. of the Guarantor's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the

Guarantor prepared in accordance with IFRS); (x) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest; (xi) granted in favour of any noteholders or any trustee acting for them by the Issuer over any proceeds of any Indebtedness incurred by the Issuer and on-lent by it to the Guarantor, to secure any indebtedness owed by the Issuer to such noteholders or such trustee; and (xii) not included in any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding the greater of U.S.$55 million (or its equivalent in other currencies) and 5 per cent. of the Guarantor's equity (calculated by reference to the most recent audited financial statements of the Guarantor prepared in accordance with IFRS) at that time.

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

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

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

6. Redemption, Purchase and Cancellation

6.1 *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 October 2013. The Notes may not be optionally redeemed other than in accordance with Condition 6.2 (Redemption for Taxation Reasons) or 6.5 (Optional Exchange or Redemption).

6.2 *Redemption for Taxation Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 (Taxation) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 April 2008 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 9 (Taxation) or the Guarantee, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 9 (Taxation) or in the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 16 April 2008, as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 April 2008, and (ii) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts (as defined in Condition 9) or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Amounts or (as the case may be) the Guarantor has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a)(i) and (a)(ii) above or (as the case may be) (b)(i) and (b)(ii) above, in which event they shall be conclusive and binding on the holders of the Notes. Upon expiry of any such notice as referred to in this Condition 6.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 6.2.

6.3 ***Notice of Redemption***

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

6.4 ***Purchase***

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

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

6.5 ***Optional Exchange or Redemption***

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

6.6 ***Cancellation***

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

7. Interest

The Notes bear interest from 16 April 2008 (the "Issue Date") at the rate of 9.25 per cent. per annum, payable semi-annually in arrears on 16 April and 16 October in each year (each an "Interest Payment Date"), beginning on 16 October 2008, unless such Interest Payment Date is not a business day (as defined in Condition 8.8 (Business Days), in which case the relevant Interest Payment Date shall be the succeeding business day, unless such business day is in the next calendar month, in which case, the relevant Interest Payment Date shall be the immediately preceding business day, in each case, with the same force and effect as if made on such date.) Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period". Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period other than an Interest Period, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

8. Payments

8.1 ***Principal***

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

8.2 ***Interest and Other Amounts***

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

8.3 ***Record Date***

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

8.4 ***Payments***

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

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

8.5 ***Agents***

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

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

8.6 ***Payments Subject to Fiscal Laws***

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

8.7 ***Delay in Payment***

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

8.8 ***Business Days***

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

9. Taxation

All payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee and any payments by the Issuer or Guarantor under the Trust Deed) shall be made free and clear of, and without deduction or withholding for or on account of, any taxes, duties, assessments, or governmental charges (each a "Tax", collectively "Taxes") imposed, levied, collected, withheld or assessed by or in The Netherlands, Kazakhstan or any other jurisdiction from or through which payment is made, or, in any case, any political subdivision or any authority thereof or therein having power to tax (each, a "Taxing

Jurisdiction"), unless such deduction or withholding is required by law. In such event, the Issuer or (as the case may be) the Guarantor shall, subject to certain exceptions and limitations set out below, pay such additional amounts (the "Additional Amounts") to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of any such Tax imposed by any Taxing Jurisdiction upon or as a result of such payment, will not be less than the amount such holder would have received without such withholding or deduction.

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

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

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

(iii) where such Taxes are imposed on a payment to an individual and are required to be made pursuant to any law implementing Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; nor shall Additional Amounts be paid with respect to any payment on a Note or under the Guarantee to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

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

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

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

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

10. Events of Default

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

10.1 ***Non-payment***

The Issuer is in default with respect to the payment of interest or Additional Amounts on any of the Notes and such default in respect of interest or Additional Amounts continues for a period of 10 business days;

10.2 ***Breach of other Obligations***

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

10.3 ***Cross-default***

(i) Any Financial Indebtedness of the Issuer, the Guarantor or any Material Subsidiary becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of any default by the Issuer or the Guarantor, or is not repaid at maturity as extended by the period of grace, if any, applicable thereto; provided that the aggregate principal amount of such Financial Indebtedness exceeds U.S.$10 million (or its equivalent in other currencies (as determined by the Trustee)); or

(ii) any Indebtedness Guarantee given by the Issuer, the Guarantor or any Material Subsidiary in respect of Financial Indebtedness of any other Person is not honoured when due and called; provided that the aggregate principal amount of such Indebtedness Guarantee, exceeds U.S.$10 million (or its equivalent in other currencies (as determined by the Trustee));

10.4 ***Bankruptcy***

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

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

10.5 ***Substantial Change in Business***

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

10.6 ***Maintenance of Business***

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

10.7 ***Material Compliance with Applicable Laws***

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

10.8 ***Invalidity or Unenforceability***

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

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

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

10.9 ***Government Intervention***

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

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

11. Meetings of Noteholders, Modification and Waiver

11.1 *Meetings of Noteholders*

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

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

11.2 *Modification and Waiver*

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

11.3 ***Entitlement of the Trustee***

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

11.4 ***Substitution***

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

12. Trustee and Agents; Indemnification of the Trustee

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

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

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

13. Warranties

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

14. Enforcement

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

15. Prescription

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

16. Replacement of Note Certificates

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

17. Further Notes

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

18. Notices

18.1 *To the Noteholders*

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

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in the *Financial Times* may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that, so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market: (i) such notice is also delivered to the London

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

18.2 ***To the Issuer and the Guarantor***

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

18.3 ***To the Trustee and Registrar***

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

19. Contracts (Rights of Third Parties) Act 1999

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

20. Governing Law and Jurisdiction

20.1 ***Governing Law***

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

20.2 ***Jurisdiction***

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

20.3 ***Appropriate Forum***

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

20.4 ***Agent for Service of Process***

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

20.5 ***Consent to Enforcement, etc.***

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

20.6 ***Waiver of Immunity***

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

20.7 ***Arbitration***

20.7.1 *Disputes*

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

20.7.2 *UNCITRAL Arbitration Rules*

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

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

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

1. Meetings

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

2. Cancellation

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

3. Payment

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

4. Notices

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

5. Exchange of Interests

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

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

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

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

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

6. Transfers

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

USE OF PROCEEDS

The proceeds of the offering, expected to amount to U.S.$493,040,000, will be deposited by the Issuer with the Bank. The Bank will use such proceeds to fund loans to its customers and for other general corporate purposes. The expenses and combined management, underwriting and selling commission incurred in relation to the issue of the Notes (estimated to be not more than U.S.$1,700,000) will be deducted from the proceeds of the issuance of the Notes.

OVERVIEW OF THE ISSUER

General

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

The authorised share capital of the Issuer is €90,800 (U.S.$142,674[1]), divided into ordinary shares with a par value of €454 each. As at the date of this Prospectus, the Issuer's total capitalisation is €18,160 (U.S.$26,896[1]) consisting of 40 ordinary shares which have been issued and fully paid at par and are directly owned by the Bank. In May of 2006, as a result of the debut Eurobond issue of the Issuer for the amount of U.S.$300 million, the Bank increased the Issuer's total paid-in capital by €2 million upon the issuance and sale of the notes by way of a payment of an additional share premium. The Bank will continue to use its best endeavours to give the Issuer the management and financial support it may require to pay its creditors.

Business

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

Apart from the indebtedness incurred in respect of the Issuer's two Eurobonds issues, the U.S.$400 million loan agreement and the U.S.$300 million loan agreement described in "Selected Statistical and Other Information – Outstanding Senior Notes" and "Other sources of funding", respectively, which are secured by a pledge of the deposit in favour of the Bank, the Issuer has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Prospectus.

Financial Statements

The Issuer publishes annual financial statements in accordance with Dutch law. To comply with an FMSA requirement (which came into effect in December 2005) that the accounts of a banking conglomerate and its subsidiaries be independently audited by the same auditor, the Issuer engaged Ernst & Young Rotterdam, The Netherlands, to conduct annual audits of its statutory financial statements 2006 and 2005. Due to the change of the external auditor by the Bank in the second quarter of 2007 from Ernst & Young to Deloitte, in January 2008 the Issuer resolved to engage Deloitte to conduct an annual audit of its statutory financial statements for the year ended 31 December 2007. The Issuer's results are consolidated in the Bank's consolidated financial statements contained in this Prospectus.

Management

On 28 February 2005, the Bank, the Issuer and Equity Trust Co. N.V. entered into a management agreement appointing Equity Trust Co. N.V. as a managing director of the Issuer for an indefinite term. Under this agreement Equity Trust Co. N.V. is responsible for providing the registered office of the Issuer, maintaining the Issuer's corporate and accounting records, checking, filing and forwarding correspondence and documents. Equity Trust Co. N.V. is regulated in The Netherlands by the Dutch central bank. The registered address of Equity Trust Co. N.V. is Strawinskylaan 3105 Atrium, 1077 ZX, Amsterdam, The Netherlands. Equity Trust Co. N.V. has one of its business addresses at Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The business address of each of its directors is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands.

1 U.S. Dollars amounts have been translated from the Euro amounts at the rate of Euro 0.6364 = U.S. $1.00, which is the rate published by Bloomberg L.P. on 7 April 2008.

Currently, the Issuer has two managing directors, Mr. Dauren Karabayev, age 29, and Equity Trust Co. N.V., a company incorporated with limited liability in The Netherlands. The directors of Equity Trust Co. N.V. are F. van der Rhee, R.G.A. de Schutter and J.C.W. van Burg (each a managing director) and W.P. Ruoff, J. P. Everwijn and W.H. Kamphuijs (each a deputy director), each jointly authorised to represent Equity Trust Co. N.V. as a managing director of the Issuer. Equity Trust Co. N.V. may also be represented by each of its (managing or deputy) directors and each of its registered proxyholders jointly.

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

Except as disclosed in the immediately preceding paragraph, there are no potential conflicts of interest between any duties of Mr. Dauren Karabayev or Equity Trust Co. N.V. as the members of the Board of Directors or between any of the members of the Board of Directors of Equity Trust Co. N.V. towards the Issuer and their private interests and/or other duties.

General information

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

OVERVIEW OF THE BANK

General

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

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

As at 31 December 2007, according to statistics published by the FMSA and the NBK, the Bank had the largest retail deposit base in Kazakhstan (with a 24.1 per cent. market share), as well as the largest portfolio in the mortgage loan market (with a 21.9 per cent. market share) and had issued the largest number of payment cards (with 51.6 per cent. market share). The Bank was also the third largest bank in Kazakhstan based on total unconsolidated assets according to statistics published by FMSA as at 31 December 2007. As at 31 December 2007, the Bank had total consolidated assets of KZT 1,595,075 million and total equity of KZT 161,025 million. For the year ended 31 December 2007, the Bank's net income after income tax expense was KZT 40,525 million and operating income (net interest income plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance) was KZT 88,012 million. As at 31 December 2006, the Bank had total assets of KZT 991,359 million and total equity of KZT 120,627 million. For the year ended 31 December 2006, the Bank's net income after income tax expense was KZT 27,159 million and operating income (net interest income plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance) was KZT 64,469 million.

The Bank's core business is focused on retail, SME and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through, as at 31 December 2007, 22 regional branches, 125 district branches, 473 limited service branches, four VIP centres and 46 personal service centres. Other distribution channels used by the Bank include, as at 31 December 2007, 1,119 ATMs, the internet and mobile banking and in-store service points located at certain shopping centres and supermarkets in Kazakhstan. Through subsidiary companies, the Bank's operations also include pensions, general and life insurance, leasing, brokerage and asset management. According to the FMSA statistics, as at 31 December 2007, the Bank's pension fund business had the largest market share in Kazakhstan (29.1 per cent.) in terms of assets under management, and the management of the Bank believes its insurance business has the largest network in the country.

The Bank offers a wide range of retail banking products and services including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, internet and mobile banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services to corporate and SME business customers, financial institutions and Government entities. As at 31 December 2007, the Bank had approximately 5.9 million retail customers (the largest customer base among all banks in Kazakhstan), approximately 70,700 SME customers and 333 corporate customers.

Shares of the Bank were first listed on the KASE in 1998 and common shares in the form of GDRs on the London Stock Exchange in December 2006. As at 31 December 2007, Almex owned 62.1 per cent. of the Bank's common and preferred shares. See "Principal Shareholders".

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

The Bank's history dates back to the opening of a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe in 1923, followed by the establishment of a branch in Almaty of the Soviet

Sberbank in 1936. The Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1993 and, in 1998, reorganised into an open joint stock company with an unlimited duration. In 2003, the Bank completed its re-registration as a joint stock company in accordance with the Law on Joint Stock Companies adopted on 13 May 2003.

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

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

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

In December 2006, Almex sold 187,000,000 shares of the Bank's common stock in the form of GDRs on the London Stock Exchange (the "IPO"). The GDRs were sold at a price of U.S.$16.00 per GDR, and each GDR represents four shares of common stock. In the second stage of the IPO, the Bank offered domestically 55,000,000 new shares of common stock to its pre-IPO shareholders (the "Rights Issue"). Almex used the proceeds of the IPO to subscribe for shares of common stock in the Rights Issue. The Bank completed the Rights Issue in March 2007, and raised approximately KZT 28,156 million in new capital.

As at 31 December 2007, Almex, which is a regulated banking holding company in accordance with new banking legislation in Kazakhstan, owned a 62.1 per cent. share in the Bank's equity. See "Principal Shareholders".

Competitive Strengths

The Bank has the following competitive strengths, which it believes will enable it to retain and strengthen its position as a leading Kazakhstan universal financial services group, offering a broad range of products to retail and corporate (large corporate and SME) customers and to benefit from the growth of the Kazakhstan economy while maintaining high profitability. In particular, the Bank believes that its branch network spread throughout Kazakhstan, its diversified sources of funding, its significant portion of customer deposits and its strength in retail banking will allow it to differentiate itself from its two larger competitors and maintain its position as a leading retail bank.

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

The Bank believes that it is the pre-eminent retail bank in Kazakhstan and is the largest in terms of the number of retail customers and amounts of retail deposits, which were, respectively, approximately 5.9 million customers (compared to the total population of Kazakhstan of approximately 15 million), KZT 357,672 million of retail deposits (current accounts and term deposits from individuals) as at 31 December 2007. As at the same date, according to statistics published by the FMSA and the NBK, the Bank had a market share of 24.1 per cent. in the retail deposits market and 15.7 per cent. in the retail loans market, respectively. The Bank enjoys leading positions across the full range of other retail banking products, including demand deposits (34.1 per cent. market share), consumer loans (12.7 per cent. market share) and mortgages (21.9 per cent. market share, excluding non-bank mortgage companies). The Bank has also issued the largest number of debit or payment cards (having a 51.6 per cent. market share) and is the leading bank in terms of number of card transactions. As the leading retail bank and provider of payment cards, the Bank generates a relatively high percentage of fee and commission income as compared to its main competitors.

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

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

As at 31 December 2007, the Bank's branch network consisted of 670 outlets in over 200 areas throughout Kazakhstan, representing the largest network in Kazakhstan; it is almost four times the size of the branch network of Kazkommertsbank and more than twice the size of the branch network of Bank TuranAlem. The Bank's network provides coverage in all 14 regions of Kazakhstan. The Bank believes that the main centres of Almaty and Astana are relatively mature markets for financial services and that growth in the relatively "under banked" regions is likely to be stronger and therefore the reach of the Bank's large network provides a competitive advantage to better service increasing demand for banking services.

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

Leading universal financial services group offering a broad product range

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

Demonstrated ability to manage growth while achieving high returns on equity

In addition to its ability to successfully manage a compound annualised asset growth rate of 59 per cent. per annum over the period from 31 December 2004 to 31 December 2007, the Bank has achieved an average annual return on equity of about 37.6 per cent. for the three years to 31 December 2007. This high level of profitability is in part a result of its ability to obtain cheaper funding from its large and relatively stable current account base as well as its high proportion (some 26.8 per cent.) of its total income derived from fee and commission income, which is less costly than interest income.

High quality assets balanced with well diversified funding sources

Despite the high growth it has experienced in recent years, the Bank has maintained strength on both sides of its balance sheet. Among its peers its loan portfolio is relatively well diversified by industry and maturity and the percentage of its non-performing loans to its total loans has decreased over the last three years.

The Bank's strength and size in retail banking has also provided it with a high share of cheaper deposit funding. As at 31 December 2007, the Bank had the largest market share (24.1 per cent.) in the retail deposit market, according to FMSA statistics. Amounts due to customers accounted for 65.2 per cent. of total liabilities, while amounts due to credit institutions, borrowings from domestic and international capital markets and all other liabilities accounted for 34.8 per cent. as at 31 December 2007. In addition, the Bank's financial strength and high level of profitability has enabled it to access the international capital markets on favourable terms, also assisted by its credit ratings from internationally recognised rating agencies, which are better than those of other commercial banks in Kazakhstan as of the date of this Prospectus. Despite the recent credit squeeze in the international credit markets and downgrading of Kazakhstan's rating by Standard & Poor's, the Bank did not have the same funding problems as some of its competitors. In particular, the

Bank did not seek short-term funding from the NBK, which was offered to Kazakhstan banks to fund their maturing obligations. The Bank also maintains relatively strong capitalisation ratios. The Bank's financial strength is also a significant factor in attracting and retaining customers.

Experienced management team with a proven track record

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

Widely recognised and trusted brand

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

Corporate Strategy

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

Maintain the leading position in the Kazakhstan retail banking market and capture growth in Kazakhstan

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

Expand the Bank's high margin SME banking platform

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

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

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

Maintain and develop the Bank's leading distribution network

As at 31 December 2007, the Bank has the largest distribution network in Kazakhstan with 670 banking sales outlets as well as over 100 additional outlets distributing and/or administering pension and insurance products. In addition, the Bank has a network of 1,119 ATMs and 3,375 point of sale terminals. The Bank is continuing to improve its distribution network by upgrading its IT system as well as optimising its productivity by increasing the number of products sold and clients covered per sales outlet. The Bank's strategy also includes the expansion of its online and mobile phone banking services and increasing its number of ATMs (already the largest in Kazakhstan) throughout the country. Through a targeted distribution strategy, with branches segmented into mass market, middle market and VIP banking centres, the Bank is seeking to maximise cross selling of retail banking and other retail financial products and services, for instance by converting large retail banking deposits into higher margin asset management products. The Bank is, in particular, continuing to further enhance training for its branch staff and sales agents.

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

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

Selectively expand into attractive neighbouring markets

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

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

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

Competition

As at 31 December 2007, there were 35 commercial banks operating in Kazakhstan. Among the large domestic banks the Bank considers JSC Kazkommertsbank, JSC Bank TuranAlem and JSC ATF Bank as its major competitors. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank, JSC Kazkommertsbank and JSC Bank TuranAlem; banks under foreign ownership, such as JSC ABN AMRO Bank SB, JSC Citibank, JSC HSBC Kazakhstan and ATF Bank; and smaller local banks. Management believes that the Bank is in a strong position to compete in the Kazakhstan banking sector due to its large branch network and customer base.

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

The following table sets out certain financial information as at 31 December 2007 relating to the Bank and the banks which the Bank considers to be its major competitors in the Kazakhstan banking sector:

	Assets	*Equity*
	(KZT billions)	
	(unaudited)	
Kazkommertsbank	2,714	267
Bank TuranAlem	2,649	404
Halyk Bank	1,567	141
Alliance Bank	1,192	157
ATF Bank	990	76
Bank CenterCredit	881	70
Temir Bank	326	54
Bank Caspian	257	30
Nurbank	204	39
Eurasian Bank	184	20
Total – Top 10 Banks	10,964	1,257
Other	721	168
Total	11,685	1,425

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

CAPITALISATION OF THE BANK

The following table sets out the consolidated capitalisation of the Bank as at 31 December 2007 (i) on an actual basis and (ii) as adjusted to reflect the issuance of the Notes. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Consolidated Financial Data" and the Bank's consolidated financial statements, and related notes thereto, included elsewhere in this Prospectus.

	Actual		*As adjusted*	
	(U.S.$ millions)[1]	*(KZT millions)*	*(U.S.$ millions)*[1]	*(KZT millions)*
		(unaudited)		
Indebtedness				
Senior long term liabilities[2]	3,670.6	441,578	4,170.6	501,728
Subordinated long term debt[3]	317.1	38,140	317.1	38,140
	3,987.7	479,718	4,487.7	539,868
Equity				
Common share capital	414.1	49,824	414.1	49,824
Preferred share capital	130.6	15,707	130.6	15,707
Total share capital[4]	544.7	65,531	544.7	65,531
Share premium reserve	16.2	1,952	16.2	1,952
Treasury stock	(0.6)	(66)	(0.6)	(66)
Retained earnings and other reserves	766.9	92,253	766.9	92,253
Minority interest	11.3	1,355	11.3	1,355
	1,338.5	161,025	1,338.5	161,025
Total capitalisation	5,326.2	640,743	5,826.2	700,893

Notes:

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

(2) Senior long-term liabilities represent amounts due to customers, amounts due to credit institutions, debt securities issued and other credit financial liabilities that fall due after one year and are not subordinated.

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

(4) As at 31 December 2007, the Bank's issued and fully paid share capital consisted of 984,016,660 common shares, 24,742,000 non-convertible preferred shares and 80,225,222 convertible (at the option of the Bank) preferred shares. As at 31 December 2007, the Bank held 4,345,019 of the Bank's shares as treasury shares at KZT 66 million (31 December 2006 – 3,868,781 at KZT 38 million).

Save as disclosed herein, there has been no material change in the Bank's total capitalisation and long-term liabilities since 31 December 2007.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as at and for the years ended 31 December 2007, 2006 and 2005 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Bank's Audited Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

Prospective investors should read the summary consolidated financial information in conjunction with the information contained in "Risk Factors", "Capitalisation of the Bank", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business of the Bank", "Selected Statistical and Other Information", the Bank's Audited Financial Statements, and the other financial data appearing elsewhere in this Prospectus.

Income statement data

	2007	2007	For the years ended 31 December 2006	2005
	(U.S.$ millions)[1]		*(KZT millions)*[2]	
Net income:				
Interest income	1,081.7	132,566	80,647	52,385
Interest expense	(502.1)	(61,532)	(34,184)	(21,156)
Net interest income before impairment charge	579.6	71,034	46,463	31,229
Impairment charge	(181.0)	(22,184)	(8,331)	(11,970)
Net interest income	398.6	48,850	38,132	19,259
Fees and commissions, net	197.2	24,173	21,135	15,248
Other non-interest income	139.9	17,141	5,305	4,419
Non-interest expenses	(318.2)	(38,997)	(28,971)	(19,559)
Income before income tax expense	417.5	51,167	35,601	19,367
Income tax expense	(86.8)	(10,642)	(8,442)	(3,539)
Net income	330.7	40,525	27,159	15,828
Attributable to:				
Minority interest	3.5	428	500	200
Preferred shareholders	31.7	3,883	2,764	750
Common shareholders	295.5	36,214	23,895	14,878
Basic earnings per share (in KZT)	–	37.01	26.43	16.76
Diluted earnings per share (in KZT)	–	35.93	17.73	7.4

Notes:

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

(2) Except for per share data.

Balance sheet data

	As at 31 December			
	2007	2007	2006	2005
	(U.S.$ millions)[1]	(KZT millions)		
Assets				
Cash and cash equivalents	2,121.7	255,245	127,799	57,102
Obligatory reserves	725.4	87,268	55,106	8,632
Financial assets at fair value through profit or loss	399.6	48,073	53,195	50,023
Amounts due from credit institutions	28.3	3,398	2,049	2,777
Available-for-sale investment securities	896.4	107,839	123,338	12,099
Loans to customers	8,647.3	1,040,273	596,216	411,097
Property and equipment	189.3	22,766	16,412	10,979
Goodwill	27.1	3,265	3,265	184
Intangible assets	31.9	3,841	1,538	559
Insurance assets	32.3	3,886	5,626	–
Other assets	159.8	19,221	6,814	6,213
Total assets	13,259.1	1,595,075	991,359	559,665
Liabilities and shareholders' equity				
Amount due to customers	7,775.8	935,429	597,935	323,515
Amounts due to credit institutions	2,056.9	247,452	118,719	107,284
Financial liabilities at fair value through profit or loss	23.7	2,851	10	2
Debt securities issued	1,869.4	224,886	134,413	58,814
Provisions	15.7	1,885	3,021	2,280
Deferred tax liability	32.4	3,897	2,530	425
Insurance liabilities	61.4	7,389	7,535	–
Other liabilities	85.3	10,261	6,569	2,901
Total liabilities	11,920.6	1,434,050	870,732	495,221
Equity				
Share capital	544.7	65,531	60,684	29,016
Share premium reserve	16.2	1,952	2,183	2,192
Treasury shares	(0.6)	(66)	(38)	(16)
Retained earnings and other reserves	766.9	92,253	56,736	32,806
	1,327.2	159,670	119,565	63,998
Minority interest	11.3	1,355	1,062	446
Total equity	1,338.5	161,025	120,627	64,444
Total liabilities and equity	13,259.1	1,595,075	991,359	559,665

Notes:

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

Common equity[1]

	As at 31 December			
	2007	*2007*	*2006*	*2005*
	(U.S.$ millions)[2]	*(KZT millions)*		
Total equity	1,338.5	161,025	120,627	64,444
Minority interest	(11.3)	(1,355)	(1,062)	(446)
Preferred shares in share capital	(130.5)	(15,707)	(15,707)	(14,794)
Preferred shares in share premium reserves	(10.3)	(1,237)	(1,237)	(1,237)
Common equity	1,186.4	142,726	102,621	47,967

Notes:

(1) Common equity comprises total equity, less minority interest and preferred shares in (a) share capital, and (b) share premium reserves.

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

Selected financial ratios and economic data[1]

	As at and for the years ended 31 December		
	2007	*2006*	*2005*
	(per cent., except exchange rates)		
Profitability Ratios			
Return on average common shareholders' equity[2][3]	31.0	41.3	40.4
Return on average total assets[4]	3.4	3.7	3.2
Net interest margin[5]	6.7	7.0	6.9
Net interest spread[6]	6.6	6.8	6.8
Operating expenses/operating income before impairment charge[7]	34.3	38.6	37.5
Operating expenses/net interest income before impairment charge	53.3	60.5	61.0
Operating expenses/average total assets	3.2	3.8	3.9
Impairment charge[8]/operating income before impairment charge[7]	20.1	11.4	23.5
Impairment charge[8]/average loans to customers before allowance for loan impairment	2.8	1.8	3.6
Loan Portfolio Quality			
Classified loans[9]/gross loans	6.7	8.5	9.3
Non-performing loans[10]/loans to customers before allowance for loan impairment	0.9	1.1	1.4
Allowance for loan losses/loans to customers before allowance for loan impairment	5.2	5.3	5.9
Allowance for loan losses/classified loans[9]	76.8	63.1	64.0
Allowance for loan losses/non-performing loans[10]	586.3	467.8	420.6
Balance Sheet Ratios			
Amounts due to customers/loans to customers	89.9	100.3	78.7
Amounts due to customers/total assets	58.6	60.3	57.8
Loans to customers/total assets	65.2	60.1	73.5
Total equity/total assets	10.1	12.2	11.5
Liquid assets[11]/total assets	31.5	36.4	23.3
Capital Adequacy (Basel ratios)			
Tier 1 capital ratio	10.6	12.4	12.8
Total capital ratio	12.9	15.6	17.1
Economic Data			
Period end exchange rate (KZT/U.S.$)	120.30	127.00	133.98
Average exchange rate for period (KZT/U.S.$)	122.55	126.09	132.88
Inflation rate (CPI)	18.8	8.6	7.6
GDP growth (real)	8.5	10.6	9.4

Notes:

(1) Amounts used in ratios are average monthly balances for the years ended 31 December 2007, 2006 and 2005. See "Selected Statistical and Other Information — Average Balances" for a description of the calculation of these balances.

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

(3) Common equity comprises total equity, less minority interest and preferred shares in (a) share capital, and (b) share premium reserves.

(4) Return on average total assets comprises (a) net income divided by (b) average total assets.

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

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

(7) Operating income before impairment charge is net interest income before impairment charge, plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance.

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

(9) Classified loans comprise loans that are classified as "Doubtful" categories 3rd to 5th (20 per cent., 25 per cent. and 50 per cent. allowances) and "Loss" (100 per cent. allowance) in accordance with FMSA regulations. See "Selected Statistical and Other Information — The Bank's loan portfolio — Analysis of loan portfolio quality".

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

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

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

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

Key factors affecting the Bank's results of operations

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

Recent growth in Kazakhstan economy

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

Opportunities resulting from market segmentation

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

Combination of fee and commission income and interest income revenue streams

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

Ability to manage costs

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

Credit quality

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

Taxes

Taxes to which the Bank is subject in Kazakhstan include value added tax, income tax, as well as social, and certain other taxes. The current statutory income tax rate in Kazakhstan is 30 per cent. The Bank's effective tax rate was 20.8 per cent., 23.7 per cent. and 18.3 per cent. for the years ended 31 December 2007, 2006 and 2005, respectively (see "Results of Operations for the Years ended 31 December 2007, 2006 and 2005 – Taxation"). The Bank's effective tax rate is generally less than the statutory rate because not all of the Bank's income is taxable. For example, interest received on residential mortgages and Government and other qualifying securities is currently not taxable. However, tax relief on residential mortgages is not available starting from 1 January 2008, and tax legislation may further change in the future and, if it does, the Bank's effective tax rate could change substantially.

Kazakhstan tax regulations generally do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. The Bank and its subsidiaries, other than HSBK (Europe) B.V., OJSC NBK – Bank, LLP NBK Finance and OJSC Halyk Bank Kyrgyzstan, are subject to taxation in the Republic of Kazakhstan. HSBK (Europe) B.V. is subject to income tax in The Netherlands. OJSC NBK – Bank and LLP NBK-Finance are subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Kyrgyz Republic. Kazakhstan has concluded a double taxation treaty with each of these jurisdictions, such that a credit towards income tax in Kazakhstan was given for income tax paid on dividends in these jurisdictions. From 1 January 2007, changes to the Kazakhstan tax code provide for the exemption of dividends from income tax irrespective of whether they are received from subsidiaries in Kazakhstan or abroad.

Growing funding costs

The amount of amounts due to customers as a proportion of the Bank's total liabilities decreased from 68.7 per cent. as at 31 December 2006 to 65.2 per cent. as at 31 December 2007 as a result of its increased use of other funding sources, including funding from the international capital markets. This transition in its funding source has had the effect of increasing the Bank's interest expenses and has negatively affected interest rate margins.

Recent developments

Kazakhstan's economy has been affected by recent problems in the international credit markets which have resulted in funding problems in Kazakhstan's financial system. These problems are the result of increased international borrowing by commercial banks in recent years and their difficulty in refinancing these borrowings due, in part, to the U.S. sub-prime mortgage crisis. Falling domestic depositor confidence and difficulty in refinancing international debt have forced many banks in Kazakhstan to seek short-term funding from the NBK which resulted in a fall in the NBK's international reserves by U.S.$4 billion from 30 June 2007 to 31 December 2007. The Kazakhstan Government has recently created a programme to assist banks adversely affected by the liquidity shortage by offering funding and to purchase assets from such banks. The Bank, however, is not dependent upon borrowing in the international debt markets and, accordingly, its liquidity has not been affected by the problems in the international credit markets. While some banks who are more dependent on the international credit markets to maintain their liquidity may be forced to participate in the programme which may result in slow down in their growth, the Bank has no need to participate in such programme.

Critical accounting policies

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

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

Allowance for impairment of loans and receivables

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

The Bank uses management's judgement to estimate the amount of any impairment loss in cases where a borrower is experiencing 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 past performance, past customer behaviour, observable data indicating an adverse change in the payment status of other borrowers in the relevant borrower's group, and national or local economic conditions that correlate with defaults on assets in the Bank. Management estimates are based on the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the relevant borrower's group loans and receivables. Management uses its judgement to adjust observable data for the relevant borrower's group loans or receivables to reflect current circumstances not reflected in the historical data.

The amount of allowance for impairment of loans to customers as at 31 December 2007 and 31 December 2006 was KZT 56,697 million and KZT 33,654 million, respectively.

Taxation

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

As at 31 December 2007, 2006 and 2005, management believes that its interpretation of the relevant legislation is and was appropriate and that the Bank's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Bank's reported net income.

Claims liability arising from insurance contracts

For insurance contracts, estimates are 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 claims) at the balance sheet date. For certain lines of business, IBNR claims form the majority of the balance sheet claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull and liability insurance, the Bank actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by the FMSA, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money. Actual claims experience may differ from the historical pattern on which the estimates are based and the cost of settling individual claims may exceed that assumed and, therefore, may have an impact on the Bank's net income.

Goodwill impairment testing

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

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

Impairment testing inherently involves a number of value judgements: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed. There were no impairments identified for any of the periods presented.

Results of Operations for the Years ended 31 December 2007, 2006 and 2005

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
	(KZT millions)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Net income:							
Interest income	132,566	80,647	52,385	51,919	64.4	28,262	54.0
Interest expense	(61,532)	(34,184)	(21,156)	(27,348)	80.0	(13,028)	61.6
Net interest income before impairment charge	71,034	46,463	31,229	24,571	52.9	15,234	48.8
Impairment charge	(22,184)	(8,331)	(11,970)	(13,853)	166.3	3,639	(30.4)
Net interest income	48,850	38,132	19,259	10,718	28.1	18,873	98.0
Fees and commissions, net	24,173	21,135	15,248	3,038	14.4	5,887	38.6
Other non-interest income	17,141	5,305	4,419	11,836	223.1	886	20.0
Non-interest expenses	(38,997)	(28,971)	(19,559)	(10,026)	34.6	(9,412)	48.1
Income before income tax expense	51,167	35,601	19,367	15,566	43.7	16,234	83.8
Income tax expense	(10,642)	(8,442)	(3,539)	(2,200)	26.1	(4,903)	138.5
Net income	40,525	27,159	15,828	13,366	49.2	11,331	71.6
Attributable to:							
Minority interest	428	500	200	(72)	(14.4)	300	150.0
Preferred shareholders	3,883	2,764	750	1,119	40.5	2,014	268.5
Common shareholders	36,214	23,895	14,878	12,319	51.6	9,017	60.6
Profitability ratios:							
Return on average common shareholders' equity (per cent.)(1)(2)	31.0	41.3	40.4				
Return on average assets (per cent.)(3)	3.4	3.7	3.2				
Net interest margin (per cent.)(4)	6.7	7.0	6.9				
Operating expenses/operating income before impairment charge(5) (per cent.)	34.3	38.6	37.5				
Impairment charge/operating income before impairment charge(5) (per cent.)	20.1	11.4	23.5				
Basic earnings per share (in KZT)	37.01	26.43	16.76				
Diluted earnings per share (in KZT)	35.93	17.73	7.40				

Notes:

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

(2) Common equity comprises total equity, less minority interest and preferred shares in (a) share capital and (b) share premium reserves.

(3) Return on average total assets comprises (a) net income divided by (b) average total assets.

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

(5) Operating income before impairment charge is net interest income before impairment charge, plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance.

Net income

The Bank's net income for the year ended 31 December 2007 was KZT 40,525 million compared to KZT 27,159 million for the year ended 31 December 2006, an increase of KZT 13,366 million, or 49.2 per cent. This increase was primarily attributable to increases in interest income of KZT 51,919 million, or 64.4 per cent., and in other non-interest income of KZT 11,836 million, or 223.1 per cent., which were partially offset by increases in interest expense of KZT 27,348 million, or 80.0 per cent. and non-interest expense of KZT 10,026 million, or 34.6 per cent.

Interest income

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
		(KZT millions)		*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Interest on loans to customers	116,147	71,292	47,549	44,855	62.9	23,743	49.9
Interest on debt securities	10,326	5,352	3,450	4,974	92.9	1,902	55.1
Interest amounts due from credit institutions and cash and cash equivalents	6,093	4,003	1,386	2,090	52.2	2,617	188.8
Interest income, total	132,566	80,647	52,385	51,919	64.4	28,262	54.0

Total interest income increased by KZT 51,919 million, or 64.4 per cent., to KZT 132,566 million in 2007 from KZT 80,647 million in 2006, mainly due to an increase in interest income on loans to customers. Though interest on securities and interest on amounts due from credit institutions and cash and cash equivalents increased significantly, their contribution to total interest income earned remained modest (see following paragraph). In 2006, interest income increased by KZT 28,262 million, or 54.0 per cent., compared to interest income of KZT 52,385 million for 2005, mainly due to increases of KZT 23,743 million, or 49.9 per cent., in interest income on loans to customers and KZT 2,617 million, or 188.8 per cent., in interest from amounts due from credit institution and cash and cash equivalents in 2006.

Interest income on loans to customers increased by KZT 44,855 million, or 62.9 per cent., in 2007 to KZT 116,147 million from KZT 71,292 million in 2006, after having increased by KZT 23,743 million, or 49.9 per cent., in 2006 from KZT 47,549 million, in 2005. The increases in interest income on loans to customers in 2007, compared to 2006, and in 2006, compared to 2005, were primarily due to increases in the volume of loans made Loans to customers before allowance for loan impairment increased by KZT 467,100 million, or 74.2 per cent., to KZT 1,096,970 million as at 31 December 2007 from KZT 629,870 million as at 31 December 2006, after having increased by KZT 192,852 million, or 44.1 per cent., from KZT 437,018 million as at 31 December 2005. This increase was primarily due to an overall increase in lending activity, especially loans to retail customers and to a lesser extent to SMEs. (See "Selected Statistical and Other Information – The Bank's Loan Portfolio – Loans to Customers").

Interest income on debt securities, principally short-term notes issued by the NBK, treasury bills, bonds of Kazakhstan banks and corporate bonds, increased by KZT 4,974 million, or 92.9 per cent., to KZT 10,326 million in 2007 from KZT 5,352 million in 2006, after having increased by KZT 1,902 million, or 55.1 per cent., in 2006 from KZT 3,450 million, in 2005. The increase in 2007 compared to 2006 was driven by increases in average interest rates earned on the securities portfolio, especially on Government securities. The increase in 2006 compared to 2005 was due to an increase in available-for-sale investment securities, which in turn was a result of high liquidity as well as higher yields on domestic interest-earning instruments. (See "Selected Statistical and Other Information – Investments – Financial Assets at Fair Value through Profit or Loss").

Interest income on amounts due from credit institutions and cash and cash equivalents increased by KZT 2,090 million, or 52.2 per cent., to KZT 6,093 million in 2007, from KZT 4,003 million in 2006, after having increased by KZT 2,617 million, or 188.8 per cent., in 2006, from KZT 1,386 million in 2005. The increases in both 2007 and 2006, were mainly attributable to the Bank investing its high liquidity into short-term deposits and loans to credit institutions during the periods as well as a general increase in interbank interest rates.

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

	For the years ended 31 December								
		2007			*2006*			*2005*	
	(All currencies)	*(KZT)*	*(Foreign currency)*	*(All currencies)*	*(KZT) (per cent.)*	*(Foreign currency)*	*(All currencies)*	*(KZT)*	*(Foreign currency)*
Loans to customers	14.8	16.7	12.5	15.4	19.6	11.7	14.2	17.5	12.0
Amounts due from credit institutions	5.4	5.9	5.3	4.6	4.3	4.9	3.5	3.8	3.4
Financial assets at fair value through profit or loss	6.6	6.6	6.7	6.1	5.9	6.5	4.2	3.7	7.2
Available for sale investment securities	7.4	7.3	9.9	5.1	5.0	11.9	7.5	7.1	10.2
Average interest rates on interest-earning assets	12.5	13.7	10.9	12.2	13.7	10.4	11.7	13.0	9.4

Average interest rates on the loan portfolio decreased from 15.4 per cent. in 2006 to 14.8 per cent. in 2007. The decrease in average rates on the loan portfolio was primarily driven by the general trend in market rates. Average interest rates on the loan portfolio increased from 14.2 per cent. in 2005 to 15.4 per cent. in 2006 as a result of the increased share of longer term loans and KZT denominated loans in retail and SME portfolios. Average loans in foreign currencies represented 45.4 per cent. of the Bank's total average loan portfolio as at 31 December 2007, compared to 53.5 per cent. as 31 December 2006 and 58.7 per cent. as at 31 December 2005. The share of foreign currency denominated loans in the total average loan portfolio in both 2007 and 2006, declined due to the Bank's policy decision to increase Tenge-denominated loans due to the higher liquidity and higher net interest margin generally earned on Tenge-denominated assets.

Average annual rates on amounts due from credit institutions and cash and cash equivalents increased to 5.4 per cent. in 2007 from 4.6 per cent. in 2006, after having increased from 3.5 per cent. in 2005. The increase in average rates on amounts due from credit institutions and cash and cash equivalents in 2007 compared to 2006 was primarily due to higher interest rates paid on cash balances on the Bank's U.S. Dollar accounts held with U.S.-based banks, while the increase in 2006 compared to 2005 resulted from increased interbank interest rates following general trends in the domestic and international markets.

Average interest rates on financial assets at fair value through profit or loss increased to 6.6 per cent. in 2007 from 6.1 per cent. in 2006, after having increased from 4.2 per cent. in 2005. The increases in average rates on the financial assets at fair value through profit or loss in both 2007 and 2006, were primarily due to increased yields on trading securities following the general trend in the domestic market. Average interest rates on the available-for-sale investment securities portfolio for 2007, 2006 and 2005 were 7.4 per cent., 5.1 per cent. and 7.5 per cent. respectively. The increase in average rates on the available-for-sale investment securities portfolios in 2007 compared to 2006 was due to increased yields on investment securities, primarily Government securities, following the general trend in the domestic market, while the decrease in average rates on the available-for-sale investment securities portfolios in 2006 compared to 2005 was primarily caused by extensive purchases of NBK notes, which typically bear lower interest rates, into this portfolio.

Interest expense

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
		(KZT millions)		*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Interest on amounts due to customers	(35,348)	(18,491)	(11,873)	(16,857)	91.2	(6,618)	55.7
Interest on debt securities issued	(15,395)	(9,238)	(4,909)	(6,157)	66.6	(4,329)	88.2
Interest on amounts due to credit institutions	(10,789)	(6,455)	(4,374)	(4,334)	67.1	(2,081)	47.6
Interest expense, total	(61,532)	(34,184)	(21,156)	(27,348)	80.0	(13,028)	61.6

Total interest expense increased by KZT 27,348 million, or 80.0 per cent., to KZT 61,352 million in 2007 from KZT 34,184 million in 2006, after having increased by KZT 13,028 million, or 61.6 per cent., in 2006 from KZT 21,156 million in 2005, due to an increase in average balances of interest-bearing liabilities as well as an increase in average interest rates paid on amounts due to customers.

Interest expense on amounts due to customers increased by KZT 16,857 million, or 91.2 per cent., to KZT 35,348 million in 2007 from KZT 18,491 million in 2006, after having increased by KZT 6,618 million, or 55.7 per cent., in 2006 from KZT 11,873 million in 2005, due to an overall increase in customer deposits. Average monthly interest-bearing customer account balances (corporate and retail) increased by KZT 228,599 million, or 53.3 per cent., to KZT 657,201 million in 2007 from KZT 428,602 million in 2006, after having increased by KZT 132,098 million, or 44.6 per cent., in 2006 from KZT 296,503 million in 2005. The increase in amounts due to customers, including interest-bearing deposits, in both 2007 and 2006, was attributable to general growth of the economy of Kazakhstan, and a growth in customer deposits from existing clients and new clients that moved to the Bank during the periods. The Bank's amounts due to customers in foreign currencies are substantially denominated in U.S. Dollars and, to a lesser extent, in Euro. Average foreign currency amounts due to customers in 2007, 2006 and 2005 accounted for 35.8 per cent., 46.4 per cent. and 46.3 per cent., respectively, of the total average amounts due to customers for each year (for an explanation of how average interest-bearing amounts due to customers, average foreign currency amounts due to customers and total average amounts due to customers were calculated in each period, see "Selected Statistical and Other Information – Average Balances").

Interest expense on debt securities issued increased by KZT 6,157 million, or 66.6 per cent., to KZT 15,395 million in 2007 from KZT 9,238 million in 2006, after having increased by KZT 4,329 million, or 88.2 per cent., in 2006 from KZT 4,909 million in 2005, primarily as a result of additional issuances of debt securities.

Interest expense on amounts due to credit institutions increased by KZT 4,334 million, or 67.1 per cent., to KZT 10,789 million in 2007 from KZT 6,455 million in 2006, after having increased by KZT 2,081 million, or 47.6 per cent., in 2006 from KZT 4,374 million in 2005. The increase in 2007 compared to 2006 was primarily attributable to increased levels of borrowings from the Organisation for Economic Co-operation and Development Countries (OECD) based banks, which amounted to KZT 176,480 million as at 31 December 2007 compared to KZT 73,126 million as at 31 December 2006 while the increase in 2006 compared to 2005 was mainly due to increased borrowings from Kazakh banks. Average foreign currency balances on deposits and loans from credit institutions in 2007, 2006 and 2005 accounted for 11.4 per cent., 11.9 per cent. and 17.7 per cent., respectively, of the total average interest-bearing liabilities for each year. (For an explanation of how average foreign currency balances on deposits and loans from credit institutions and total average interest-bearing liabilities were calculated in each period, see "Selected Statistical and Other Information – Average Balances").

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

	For the years ended 31 December								
	2007			2006			2005		
	(All currencies)	*(KZT)*	*(Foreign currency)*	*(All currencies)*	*(KZT)*	*(Foreign currency)*	*(All currencies)*	*(KZT)*	*(Foreign currency)*
					(per cent.)				
Amounts due to customers	5.4	5.2	5.8	4.3	4.3	4.4	4.0	3.7	4.4
Debt securities issued	7.7	7.7	7.6	8.3	7.5	9.4	9.3	11.1	7.7
Amounts due to credit institutions	5.9	6.1	5.8	6.4	5.3	6.8	5.3	10.3	5.0
Average interest rates on interest-bearing liabilities	5.9	5.6	6.2	5.3	5.0	5.7	4.9	4.8	5.0

The average interest rates paid on interest-bearing customer balances for 2007, 2006 and 2005 were 5.4 per cent., 4.3 per cent. and 4.0 per cent, respectively. Average interest rates for Tenge denominated amounts due to customers increased from 3.7 per cent. in 2005 to 4.3 per cent. in 2006 and 5.2 per cent. in 2007, while average interest rates on foreign currency-denominated amounts due to customers increased from 4.4 per cent. in each of 2005 and 2006 to 5.8 per cent. in 2007. These increases were due to increases in rates on Tenge and foreign currency-denominated instruments, following general trends in the domestic market during the periods.

The average interest rates paid on deposits and loans from credit institutions decreased to 5.9 per cent. in 2007 after having increased to 6.4 per cent. in 2006 from 5.3 per cent. in 2005. The decrease in average interest rates paid on amounts due to credit institutions in 2007 compared to 2006 was due to a decrease in average interest rates on foreign currency denominated interest–bearing liabilities as a result of increased liquidity in the banking system and Kazakhstan economy before 1 July 2007. The increase in average interest rates paid on amounts due to credit institutions in 2006 compared to 2005 was primarily due to increases in LIBOR and an increased share of longer term Tenge denominated deposits within the deposit portfolio.

The average interest rate on securities issued decreased to 7.7 per cent. in 2007 from 8.3 per cent. in 2006, which in turn decreased from 9.3 per cent. in 2005. These decreases were primarily due to a decrease in spreads on the Bank's bonds driven by improvements in credit ratings during the periods. See "Overview of the Bank".

Net interest income before impairment

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

	Years ended 31 December			*Variation*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
		(KZT millions, except percentages)		*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Interest income	132,566	80,647	52,385	51,919	64.4	28,262	54.0
Interest expense	(61,532)	(34,184)	(21,156)	(27,348)	80.0	(13,028)	61.6
Net interest income before impairment charge	71,034	46,463	31,229	24,571	52.9	15,234	48.8
Net interest income before impairment charge/operating income before impairment charge[(1)] (per cent.)	64.5	63.8	61.4				
Net interest margin (per cent.)[(2)]	6.7	7.0	6.9				

Notes:

(1) Operating income before impairment charge is net interest income before impairment charge, plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance.

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

Net interest income before impairment charge increased by KZT 24,571 million, or 52.9 per cent., to KZT 71,034 million in 2007 from KZT 46,463 million in 2006, after having increased by KZT 15,234 million, or 48.8 per cent., in 2006 from KZT 31,229 million in 2005. Net interest income before impairment charge increased both in 2007 and 2006 due to increases in average balances of interest-earning assets. In 2007, interest expense grew at a faster rate than interest income due to a faster increase in average balances of interest-bearing liabilities compared to the increase in average balances of interest-earning assets; such increase in interest expense resulted in net interest margin reducing to 6.7 per cent. in 2007 from 7.0 per cent. in 2006.

Impairment charge

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

	For the years ended 31 December			*Variation*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
	(KZT millions, except percentages)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Impairment charge	(22,184)	(8,331)	(11,970)	(13,853)	166.3	3,639	(30.4)
Allowance for loan losses/total gross loans (per cent.)	5.2	5.3	5.9				
Impairment charge/operating income before impairment charge[(1)] (per cent.)	20.1	11.4	23.5				

Note:

(1) Operating income before impairment charge is net income before impairment charge, plus fees and commissions, net, and other non-interest income, net of insurance claims incurred, net of reinsurance.

The Bank's impairment charge increased by KZT 13,853 million, or 166.3 per cent., to KZT 22,184 million in 2007 from KZT 8,331 million in 2006, after having decreased by KZT 3,639 million, or 30.4 per cent., in 2006 from KZT 11,970 million in 2005. Impairment charge increased in 2007 compared to 2006 mainly due to an increase in total loans to customers before allowance for loan impairment. The reason for the decreases in impairment charge in 2006 compared to 2005, and in allowance for loan losses as a percentage of total loans to customers before allowance for loan impairment in both 2007 and 2006, was a general improvement of the portfolio quality resulting in a change in management's estimates with regards to expected loss ratios on the loan portfolio. (See "Asset, Liability and Risk Management – Lending Policies and Procedures – FMSA classification and provisioning guidelines" and "Asset, Liability and Risk Management – Loan Classification and Provisioning Policy"). The increase in impairment charge as a percentage of operating income before impairment charge in 2007 was due to a faster growth in impairment charge.

Fees and commissions

Net fee and commission income increased by KZT 3,038 million, or 14.4 per cent., to KZT 24,173 million in 2007 from KZT 21,135 million in 2006 primarily as a result of increases in fee and commission income from bank transfers, cash operations and plastic card maintenance. Net fee and commission income increased by KZT 5,887 million, or 38.6 per cent., to KZT 21,135 million in 2006 from KZT 15,248 million in 2005, primarily as a result of increases in fee and commission income from pension fund and asset management and bank transfers, while fee and commission expense remained stable.

Fee and commission income

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
		(KZT millions)		*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Bank transfers	8,184	5,898	4,312	2,286	38.8	1,586	36.8
Pension fund and asset management	6,497	7,030	3,115	(533)	(7.6)	3,915	125.7
Cash operations	3,747	2,714	2,225	1,033	38.1	489	22.0
Plastic card maintenance	1,575	433	529	1,142	263.7	(96)	(18.1)
Maintenance of customer accounts	1,433	1,104	894	329	29.8	210	23.5
Letters of credit and guarantees issued	1,424	1,357	1,796	67	4.9	(439)	(24.4)
Customers' pension payments	1,292	1,080	894	212	19.6	186	20.8
Utilities payments	239	765	861	(526)	(68.8)	(96)	(11.1)
Foreign currency operations	52	232	781	(180)	(77.6)	(549)	(70.3)
Other	985	1,451	754	(466)	(32.1)	697	92.4
Fee and commission income, total	25,428	22,064	16,161	3,364	15.2	5,903	36.5

Fee and commission income increased by KZT 3,364 million, or 15.2 per cent. to KZT 25,428 million in 2007 from KZT 22,064 million in 2006, after having increased by KZT 5,903 million, or 36.5 per cent., in 2006 from KZT 16,161 million in 2005.

In 2007, the Bank earned KZT 8,184 million in bank transfers fees and commissions, compared to KZT 5,898 million in 2006. The increase of KZT 2,286 million, or 38.8 per cent., was mainly attributable to an increase in the volume of bank transfers. Fees from cash operations increased by KZT 1,033 million, or 38.1 per cent., to KZT 3,747 million in 2007 from KZT 2,714 million in 2006, due to an increased volume of cash operations. Fees from plastic card maintenance increased by KZT 1,142 million, or 263.7 per cent., to KZT 1,575 million in 2007, compared to KZT 433 million in 2006, primarily as a result of growth in the number of plastic cards issued by the Bank.

In 2006, the Bank earned KZT 7,030 million in pension fund and asset management fees and commissions, compared to KZT 3,115 million in 2005. The increase of KZT 3,915 million, or 125.7 per cent., was mainly attributable to increases in the market value and volume of funds under management. Fees from bank transfers increased by KZT 1,586 million, or 36.8 per cent., to KZT 5,898 million in 2006, compared to KZT 4,312 million in 2005, primarily as a result of an increase in the volume of bank transfers. Fees from cash operations increased by KZT 489 million, or 22.0 per cent., to KZT 2,714 million in 2006 from KZT 2,225 million in 2005, due to an increased volume of cash operations while, in the same period, fees from letters of credit and guarantees decreased by KZT 439 million, or 24.4 per cent., due to changes in customers' payments from documentary operations to open account transfers. Fees from foreign currency operations decreased by KZT 549 million, or 70.3 per cent., to KZT 232 million in 2006 from KZT 781 million in 2005 due to changes in fees policy whereby conversion fees were eliminated and incorporated into spreads on foreign exchange operations.

Fee and commission expense

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
		(KZT millions)		*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Plastic cards	682	490	382	192	39.2	108	28.3
Bank transfers	182	148	126	34	23.0	22	17.5
Foreign currency operations	141	117	218	24	20.5	(101)	(46.3)
Other	250	174	187	76	43.7	(13)	(7.0)
Fee and commission expense, total	1,255	929	913	326	35.1	16	1.8

Fee and commission expense increased by KZT 326 million, or 35.1 per cent., to KZT 1,255 million in 2007 from KZT 929 million in 2006, after having increased by KZT 16 million, or 1.8 per cent., in 2006 from KZT 913 million in 2005. Fee and commission expense increased in 2007 primarily as a result of an increase in fee expenses from plastic cards of KZT 192 million, or 39.2 per cent., to KZT 682 million in 2007 from KZT 490 million in 2006. This was due to the increased volume of transactions through plastic card accounts. Other fee and commission expense increased by KZT 76 million, or 43.7 per cent., to KZT 250 million in 2007 from KZT 174 million in 2006, primarily as a result of an increase in fees and commissions incurred in the course of the Bank's custody operations. Fee and commission expense increased in 2006 primarily as a result of an increase in fee expense from plastic cards of KZT 108 million, or 28.3 per cent., to KZT 490 million in 2006 from KZT 382 million in 2005, due to increased volumes of transactions through plastic card accounts, partially offset by a decrease in fee expenses from foreign currency operations of KZT 101 million, or 46.3 per cent., to KZT 117 million in 2006 from KZT 218 million in 2005 due to lower commissions paid to suppliers of foreign banknotes. (See "Business of the Bank – Principal business activities".)

Other non-interest income

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
		(KZT millions)		*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	3,365	(193)	1,363	3,558	(1,843.5)	(1,556)	(114.2)
Net realised gain from available-for-sale investment securities	623	202	342	421	208.4	(140)	(40.9)
Net gain on foreign exchange operations	5,447	3,440	1,894	2,007	58.3	1,546	81.6
Insurance underwriting income	5,920	664	–	5,256	791.6	664	–
Share of (loss)/income of associates	(31)	167	249	(198)	(118.6)	(82)	(32.9)
Other income	1,817	1,025	571	792	77.3	454	79.5
Other non-interest income, total	17,141	5,305	4,419	11,836	223.1	886	20.0

Total other non-interest income increased by KZT 11,836 million, or 223.1 per cent., to KZT 17,141 million in 2007 from KZT 5,305 million in 2006, after having increased by KZT 886 million, or 20.0 per cent., in 2006 from KZT 4,419 million in 2005.

Net gain on foreign exchange operations increased by KZT 2,007 million, or 58.3 per cent., to KZT 5,447 million in 2007 from KZT 3,440 million in 2006, after having increased by KZT 1,546 million, or 81.6 per cent., in 2006 from KZT 1,894 million in 2005. The increase in both 2007 and 2006, was mainly due to an increase in unrealised gains from revaluation of foreign currency denominated balance sheet items as well as increases in volumes of foreign currency dealing and spreads on foreign exchange operations following elimination of currency conversion fees from fees charged for foreign currency operations.

Net gain from financial assets at fair value through profit or loss increased by KZT 3,558 million, or 1,843.5 per cent., to KZT 3,365 million in 2007 from a net loss of KZT 193 million in 2006 mainly due to unrealised gains from a revaluation of securities and derivative financial instruments. Net gain from financial assets at fair value through profit or loss decreased by KZT 1,556 million, or 114.2 per cent., to a net loss of KZT 193 million in 2006 from net gain of KZT 1,363 million in 2005 as the result of significant upward movements in U.S. and Kazakhstan treasury rates that negatively affected the value of those assets.

Net realised gain from available-for-sale investment securities increased by KZT 421 million, or 208.4 per cent., to KZT 623 million in 2007 from KZT 202 million in 2006, after having decreased by KZT 140 million, or 40.9 per cent., in 2006 from KZT 342 million in 2005. Net realised gain from available-for-sale investment securities in 2007 resulted primarily from the sale of a portion of notes issued by the NBK from the securities portfolio of the Bank. Net realised gain from available-for-sale investment securities in 2006 resulted primarily from sale of Treasury bills of the Ministry of Finance of the Republic of Kazakhstan purchased in 2005.

During 2006, the Bank purchased a controlling interest in JSC Kazakhinstrakh. Insurance underwriting income of JSC Kazakhinstrakh was consolidated with other non-interest income in 2007 and 2006 as a result of the consolidation of JSC Kazakhinstrakh. Insurance underwriting income increased by KZT 5,256 million, or 791.6 per cent., to KZT 5,920 million in 2007 from KZT 664 million in 2006 due to increase in gross insurance premiums written.

Other income, comprising gains from disposals of fixed assets and other assets, increased by KZT 792 million, or 77.3 per cent., to KZT 1,817 million in 2007 from KZT 1,025 million in 2006, after having increased by KZT 454 million, or 79.5 per cent., in 2006 from KZT 571 million in 2005.

Non-interest expenses

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

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
	(KZT millions, except percentages)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Operating expenses	37,842	28,116	19,063	9,726	34.6	9,053	47.5
(Recoveries of provisions)[1]/provisions	(997)	752	496	(1,749)	(232.6)	256	51.6
Insurance claims incurred, net of reinsurance	2,152	103	–	2,049	1,989.3	103	–
Non-interest expenses, total	38,997	28,971	19,559	10,026	34.6	9,412	48.1

Notes:

(1) Provisions represent provisions against letters of credit and guarantees issued.

Non-interest expenses increased by KZT 10,026 million or 34.6 per cent. in 2007 to KZT 38,997 million from KZT 28,971 million in 2006, after having increased by KZT 9,412 million, or 48.1 per cent., in 2006 from KZT 19,559 million in 2005. The increase in 2007 compared to 2006 was mainly attributable to increases in operating expenses and insurance claims incurred, net of reinsurance, partially offset by recoveries of provisions. The increase in 2006 compared to 2005 was mainly attributable to increases in operating expenses and provisions for letters of credit guarantees issued.

Operating expenses

The following table sets out information on the Bank's operating expenses for the periods indicated:

	For the years ended 31 December			*Variations*			
	2007	*2006*	*2005*	*2007/2006*		*2006/2005*	
	(KZT millions, except percentages)			*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Salaries and other employee benefits	19,681	15,931	11,236	3,750	23.5	4,695	41.8
Depreciation and amortization expenses	3,366	2,371	1,330	995	42.0	1,041	78.3
Taxes other than income tax	1,949	1,256	1,255	693	55.2	1	0.1
Deposit insurance	1,814	885	692	929	105.0	193	27.9
Rent	1,342	644	293	698	108.4	351	119.8
Repair and maintenance	1,238	1,207	826	31	2.6	381	46.1
Communication	1,118	644	438	474	73.6	206	47.0
Advertisement	1,012	789	526	223	28.3	263	50.0
Insurance agency fees	950	201	–	749	372.6	201	100
Security	803	510	183	293	57.5	327	178.7
Professional services	779	907	90	(128)	(14.1)	817	907.8
Business trip expenses	676	532	412	144	27.1	120	29.1
Information services	493	376	207	117	31.1	169	81.6
Stationery and office supplies	483	539	348	(56)	(10.4)	191	54.9
Transportation	416	209	159	207	99.0	50	31.4
Social events	174	95	91	79	83.2	4	4.4
Charity	65	97	106	(32)	(33.0)	(9)	(8.5)
Hospitality expenses	–	211	76	(211)	(100)	135	177.6
Other	1,483	712	795	771	108.3	(83)	(10.4)
Operating expenses, total	37,842	28,116	19,063	9,726	34.6	9,053	47.5

Operating expenses increased by KZT 9,726 million, or 34.6 per cent., to KZT 37,842 million in 2007 compared to KZT 28,116 million in 2006, after having increased by KZT 9,053 million, or 47.5 per cent., in 2006 from KZT 19,063 million in 2005.

The increase in operating expenses in 2007 compared to 2006 was due to increases in most expenses, particularly salaries and other employee benefits, depreciation and amortisation expenses and deposit insurance. Salaries and other employee benefits increased by KZT 3,750 million, or 23.5 per cent., in 2007 to KZT 19,681 million from KZT 15,931 million in 2006. The increase was attributable to an increase in head count as well as in salary levels driven by an increased rate of inflation over the period. Depreciation and amortisation expenses increased by KZT 995 million, or 42.0 per cent., in 2007 to KZT 3,366 million compared to KZT 2,371 million in 2006. The increase was mainly attributable to an increase in depreciation and amortisation expense in buildings, transportation and other fixed assets in line with the increase in the Bank's fixed assets over the period. Deposit insurance expenses increased by KZT 929 million, or 105.0 per cent., in 2007 to KZT 1,814 million compared to KZT 885 million in 2006. The increase was mainly attributable to growing volumes of retail deposits.

The increase in operating expenses in 2006 compared to 2005 was due to increases in most expenses, particularly salaries and other employee benefits, depreciation and amortisation expenses and professional services. Salaries and other employee benefits increased by KZT 4,695 million, or 41.8 per cent., in 2006 to KZT 15,931 million from KZT 11,236 million in 2005. This increase was attributable to an increase in head count as well as in salary levels driven by an increased rate of inflation over the period. Depreciation and amortisation expenses increased by KZT 1,041 million, or 78.3 per cent., in 2006 to KZT 2,371 million compared to KZT 1,330 million in 2005. This increase was mainly attributable to an increase in depreciation and amortisation expense in buildings, transportation and other fixed assets in line with the increase in the Bank's fixed assets over the period. Professional services expenses increased by KZT 817 million, or 907.8 per cent., in 2006 to KZT 907 million compared to KZT 90 million in 2005. This increase was mainly attributable to the expenses incurred in relation to the Eurobond issuance in May 2006 and the initial public offering in December 2006.

Provisions

The following table sets out information on the movements in the Bank's provisions for the periods indicated:

	2007	*2006*	*2005*
At the beginning of the year	(3,021)	(2,280)	(1,801)
Recovery of provisions	9,653	7,860	10,269
Additional provisions recognised	(8,656)	(8,612)	(10,765)
Write-off	139	11	17
At the end of the year	(1,885)	(3,021)	(2,280)

Provisions, comprising provisions against letters of credit and guarantees issued, decreased by KZT 1,749 million, or 232.6 per cent., to a net recovery of KZT 997 million in 2007, compared to KZT 752 million of provisions in 2006, primarily due to improvement of the quality of the Bank's off-balance sheet portfolio resulting in a change in management's estimates with regards to expected loss ratios. The improvement of the quality of the Bank's off-balance sheet portfolio is attributable to an increase in the portion of cash collateral provided on the credit portfolio. In addition, the off-balance sheet letters of credit and guarantees portfolio is highly concentrated and, therefore, provisioning of the portfolio is sensitive to repayments and drawings of large instruments. Provisions increased by KZT 256 million, or 51.6 per cent., to KZT 752 million in 2006, compared to KZT 496 million in 2005, primarily as a result of an increase in financial commitments and contingencies issued during the period.

Taxation

The Bank reported an income tax expense of KZT 10,642 million in 2007, KZT 8,442 million in 2006 and KZT 3,539 million in 2005.

The Bank's effective tax rate was 20.8 per cent., 23.7 per cent. and 18.3 per cent. for the years ended 31 December 2007, 2006 and 2005, respectively. The Bank's effective tax rate in 2007 decreased compared to 2006 primarily due to increases in tax-exempt income from long-term mortgage loans, loans to modernise equipment, Government securities and other non-taxable income, while in 2006 it increased compared to 2005 due to a decrease in the portion of such tax-exempt income in the Bank's income before income tax expense. The Bank's effective tax rate is lower than the statutory tax rate as certain interest income, principally interest on mortgage loans and Government and other qualifying securities, is not taxable. In addition, income from insurance activity of JSC Kazakhinstrakh is subject to income tax at a relatively low rate of 4.0 per cent. (See "– Key Factors Affecting the Bank's Results of Operations".)

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

		For the year ended 31 December	
	2007	*2006*	*2005*
		(KZT millions)	
Current tax charge	(9,495)	(6,337)	(3,564)
Deferred tax (charge)/benefit	(1,147)	(2,105)	25
Income tax expense	(10,642)	(8,442)	(3,539)

Net deferred tax liability in 2007 was due primarily to the tax effect of deductible temporary differences arising from certain employees' bonuses accrued, as well as the tax effect of taxable temporary differences arising from allowance for impairment losses on loans to customers and depreciation accrued on property and equipment. Net deferred tax liability in 2006 was due primarily to the tax effect of deductible temporary differences arising from certain employees' bonuses accrued, as well as the tax effect of taxable temporary differences arising from depreciation accrued on property and equipment.

Deferred tax assets and liabilities are summarised in the table below:

	As at 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
Tax effect of deductible temporary differences:			
Loans to customers, up-front fees	–	–	342
Bonuses accrued	1,262	870	–
Vacation pay accrual	212	–	–
Insurance premium reserves	129	–	–
Deferred tax asset	1,603	870	342
Tax effect of taxable temporary differences:			
Loans to customers, allowance for impairment losses	(3,431)	(1,599)	–
Property and equipment, accrued depreciation	(1,342)	(1,801)	(767)
Provisions, different rates	(322)	–	–
Fair value of derivatives	(185)	–	–
Deferred tax liability	(5,280)	(3,400)	(767)
Net deferred tax asset	220	–	–
Net deferred tax liability	(3,897)	(2,530)	(425)

Net income attributable to minority interest

Net income attributable to minority interest decreased by KZT 72 million, or 14.4 per cent., to KZT 428 million in 2007, compared to KZT 500 million in 2006, primarily as a result of a decrease in the net income of JSC Accumulative Pension Fund of Halyk Bank of Kazakhstan, where the Bank holds an 85 per cent. ownership interest. Net income attributable to minority interest increased by KZT 300 million, or 150.0 per cent., to KZT 500 million in 2006, compared to KZT 200 million in 2005, primarily as a result of net income growth of JSC Accumulative Pension Fund of Halyk Bank Kazakhstan.

Financial condition as at 31 December 2007, 2006 and 2005

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

Total assets

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

	As at 31 December					
	2007	*Per cent. of total*	*2006*	*Per cent. of total*	*2005*	*Per cent. of total*
	(KZT millions, except percentages)					
Assets:						
Cash and cash equivalents	255,245	16.0	127,799	12.9	57,102	10.2
Obligatory reserves	87,268	5.5	55,106	5.6	8,632	1.5
Financial assets at fair value through profit or loss	48,073	3.0	53,195	5.4	50,023	8.9
Amounts due from credit institutions	3,398	0.2	2,049	0.2	2,777	0.5
Available-for-sale investment securities	107,839	6.8	123,339	12.4	12,099	2.2
Loans to customers	1,040,273	65.2	596,216	60.1	411,097	73.5
Property and equipment	22,766	1.4	16,412	1.6	10,979	2.0
Goodwill	3,265	0.2	3,265	0.3	184	0.0
Intangible assets	3,841	0.2	1,538	0.2	559	0.1
Insurance assets	3,886	0.3	5,626	0.6	–	–
Other assets	19,221	1.2	6,814	0.7	6,213	1.1
Total assets	1,595,075	100.0	991,359	100.0	559,665	100.0

As at 31 December 2007, the Bank had total assets of KZT 1,595,075 million, reflecting an increase of KZT 603,716 million, or 60.9 per cent., from 31 December 2006, which was mainly attributable to increases of KZT 444,057 million, or 74.5 per cent., in the loans to customers, KZT 127,446 million, or 99.7 per cent. in cash and cash equivalents, and, to a lesser extent, KZT 32,162 million, or 58.4 per cent., in obligatory reserves, partially offset by a decrease of KZT 15,500 million, or 12.6 per cent., in available-for-sale investment securities.

As at 31 December 2006, the Bank had total assets of KZT 991,359 million, reflecting an increase of KZT 431,694 million, or 77.1 per cent., from 31 December 2005, which was mainly attributable to increases of KZT 185,119 million, or 45.0 per cent., in the loans to customers and KZT 111,240 million, or 919.4 per cent., in available-for-sale investment securities and, to a lesser extent, KZT 70,697 million, or 123.8 per cent., in cash and cash equivalents and KZT 46,474 million, or 538.4 per cent., in obligatory reserves.

The growth in loans to customers in both 2007 and 2006 was attributable to an overall increase in lending activity, especially to retail and SME customers. Lending to retail customers increased in 2007 by 63.4 per cent., and in 2006 by 51.0 per cent., while loans to corporate customers (comprising large corporates and SMEs) grew 79.0 per cent. and 41.2 per cent. in the respective periods. (For more information see, "Selected Statistical and Other Information – The Bank's loan portfolio".)

The growth in cash and cash equivalents in 2007 was attributable to an increase in the balance in the Bank's short-term and overnight deposits with OECD-based banks. The main source of growth in cash and cash equivalents was increased deposits from existing clients and new depositors that moved to the Bank in the second half of 2007. The growth in cash and cash equivalents in 2006 was mainly attributable to an increase in the balance in the Bank's overnight deposits with OECD based banks and short-term deposits with Kazakhstan banks.

The growth in obligatory reserves in both 2007 and 2006 was attributable to a change in the NBK's minimum reserve requirements introduced in 2006 and stipulating generally higher mandatory reserve levels for foreign borrowings of the banks.

The decrease in available-for-sale investment securities in 2007 compared to 31 December 2006 was attributable to the decreased investment in notes issued by the NBK.

Total liabilities

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

	As at 31 December					
	2007	*Per cent. of total*	*2006*	*Per cent. of total*	*2005*	*Per cent. of total*
	(KZT millions, except percentages)					
Liabilities:						
Amounts due to customers	935,429	65.2	597,935	68.7	323,515	65.3
Amounts due to credit institutions	247,452	17.3	118,719	13.6	107,284	21.7
Financial liabilities at fair value through profit or loss	2,851	0.2	10	0.0	2	0.0
Debt securities issued	224,886	15.7	134,413	15.4	58,814	11.9
Provisions	1,885	0.1	3,021	0.3	2,280	0.4
Deferred tax liability	3,897	0.3	2,530	0.3	425	0.1
Insurance liabilities	7,389	0.5	7,535	0.9	–	–
Other liabilities	10,261	0.7	6,569	0.8	2,901	0.6
Total liabilities	1,434,050	100.0	870,732	100.0	495,221	100.00

As at 31 December 2007, the Bank had total liabilities of KZT 1,434,050 million, reflecting an increase of KZT 563,318 million, or 64.7 per cent., as compared to 31 December 2006. The increase in total liabilities as at 31 December 2007 as compared to 31 December 2006 was primarily attributable to an increase in amounts due to customers from KZT 597,935 million as at 31 December 2006 to KZT 935,429 million as at 31 December 2007, reflecting an increase in the retail deposit base and, to a lesser extent, in the corporate deposit base, an increase in debt securities issued from KZT 134,413 million as at 31 December 2006 to KZT 224,886 million as at 31 December 2007, in particular U.S.$700 million in senior notes placed with international institutional investors in May 2007, and an increase in bank borrowings from credit institutions from KZT 118,719 million as at 31 December 2006 to KZT 247,452 million as at 31 December 2007, which was primarily due to U.S.$400 million and U.S.$300 million syndicated loans raised in April 2007 and September 2007, respectively, as well as trade finance facilities from foreign banks. (See "Selected Statistical and Other Information – The Bank's Funding Sources – Other Sources of Funding".)

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

Total equity

As at 31 December 2007, the Bank's total equity amounted to KZT 161,025 million (11.2 per cent. of total assets), reflecting an increase of KZT 40,398 million, or 33.5 per cent., over the total equity as at 31 December 2006. Total equity increased as a result of completion between January and March 2007 of the placement of 9,432,877 common shares for total consideration of KZT 4,834 million (U.S.$40.2 million based on an exchange rate of KZT 120.3 per U.S.$ 1.00 as at 31 December 2007), as well as an increase in the retained earnings and other reserves from KZT 56,736 million as at 31 December 2006 to KZT 92,253 million, as at 31 December 2007. In May 2007, the Bank announced payment of dividends on preferred shares in the amount of KZT 1,579 million and dividends on common shares in the amount of KZT 2,450 million, approved at the Annual General Shareholders' Meeting for the year ended 31 December 2006. In the third quarter of 2007 JSC Accumulated Pension Fund of Halyk Bank effected payment of dividends on its common shares in an aggregate amount of KZT 1,000 million of which KZT 150 million were paid to minority shareholders. The bank expects that the decision on payment of dividends on common and preferred shares for the year ended 31 December 2007 will be taken at the Annual General Shareholders' Meeting to be held in April 2008.

As at 31 December 2006, the Bank's total equity amounted to KZT 120,627 million (12.2 per cent. of total assets), reflecting an increase of KZT 56,183 million, or 87.2 per cent., over the total equity as at 31 December 2005. Total equity in 2006 increased due to an increase in share capital from KZT 29,016 million as at 31 December 2005 to KZT 60,684 million, as at 31 December 2006 and an increase in the retained earnings and other reserves from KZT 32,806 million as at 31 December 2005 to KZT 56,736 million as at 31 December 2006. On 19 April 2006, the Bank's general meeting of shareholders authorised the issue of 30,000,000 new common shares, which were fully issued and placed during 2006 for total consideration of KZT 7,500 million. In December 2006, the Bank offered 55,000,000 shares of common stock to its pre-IPO shareholders of which 45,531,122 common shares were placed in December 2006. During 2006 the Bank also issued and placed non-voting convertible preferred shares for total consideration of KZT 913 million. (See "Risk Factors – Risk factors relating to the Bank – Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business, would adversely affect the Bank".)

Capital expenditures

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

	For the years ended 31 December	
	2007	*2006*
	(KZT millions)	
Buildings and constructions	1,654	2,725
Computers and banking equipment	4,185	1,862
Vehicles	314	570
Other property and equipment	3,627	3,224
Intangible assets	2,821	1,237
Capital expenditures, total	12,601	9,618

Capital expenditures increased by KZT 2,983 million, or 31.0 per cent., to KZT 12,601 million for the year ended 31 December 2007 from KZT 9,618 million for the year ended 31 December 2006, primarily due to an increase in expenditures on computers and banking equipment of KZT 2,323 million, or 124.8 per cent., to KZT 4,185 million from KZT 1,862 million resulting from the upgrade of the Bank's computer and server systems. Expenditures on intangible assets increased by KZT 1,584 million, or 128.1 per cent., to KZT 2,821 million for the year ended 31 December 2007 from KZT 1,237 million for the year ended 31 December 2006 primarily as a result of the purchase and maintenance of banking software such as T-24, SAP, Landocs and various Colvir software modules. These increases were partially offset by declines in investment in buildings and constructions and vehicles due to high expenditure in 2006.

Off-balance sheet arrangements

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

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

	For the years ended 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
Guarantees issued	34,888	39,897	29,330
Commercial letters of credit	18,825	18,326	16,107
Commitments to extend credit	37,746	21,629	17,000
Financial commitments and contingencies	91,459	79,852	62,437
Less: cash collateral against letters of credit	(443)	(132)	(766)
Less: provisions	(1,885)	(3,021)	(2,280)
Financial commitments and contingencies, net	89,131	76,699	59,391

Financial commitments and contingencies increased by KZT 12,432 million, or 16.2 per cent., to KZT 89,131 million as at 31 December 2007 from KZT 76,699 million as at 31 December 2006 primarily due to an increase in commitments to extend credit of KZT 16,117 million and, to a lesser extent, an increase in commercial letters of credit of KZT 499 million, partially offset by a decrease in guarantees issued of KZT 5,009 million. Financial commitments and contingencies increased by KZT 17,308 million, or 29.1 per cent., to KZT 76,699 million as at 31 December 2006 from KZT 59,391 million as at 31 December 2005, due to an increase in guarantees issued of KZT 10,567 million, in commercial letters of credit of KZT 2,219 million and in commitments to extend credit of KZT 4,629 million as a result of overall increases in the Bank's lending activity.

As at 31 December 2007, the top 10 guarantees (by amount) amounted to approximately 54 per cent. of the Bank's total financial guarantees and represented approximately 13 per cent. of the Bank's total equity, compared to approximately 63 per cent. and approximately 21 per cent., respectively, for the year ended 31 December 2006, and approximately 56 per cent. and approximately 25 per cent., respectively, for the year ended 31 December 2005. The increase in the concentration of the guarantee portfolio in 2007 was due to a decrease in total guarantees issued by the Bank as well as a large guarantee issued and outstanding as of the year end in the oil and gas sector. The increase in the concentration of the guarantee portfolio in 2006 was due to two large guarantees issued and outstanding as of the year end in the oil and gas and pipeline construction sectors. As at 31 December 2007, the top 10 letters of credit (by amount) amounted to approximately 31 per cent. of the Bank's total commercial letters of credit and represented approximately 7 per cent. of the Bank's total equity, compared to approximately 78 per cent. and approximately 12 per cent., respectively, for the year ended 31 December 2006, and approximately 74 per cent. and approximately 18 per cent., respectively, for the year ended 31 December 2005. The increase in commitments to extend credit by KZT 16,117 million, or 74.5 per cent., in 2007 to KZT 37,746 million as at 31 December 2007 from KZT 21,629 million as at 31 December 2006, and the increase by KZT 4,629 million, or 27.2 per cent., in 2006 to the 31 December 2006 amount from KZT 17,000 million as at 31 December 2005, was primarily attributable to overall increase in the Bank's lending activity.

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

	As at 31 December 2007 Residual maturity of contingent liabilities						
	Total balance	*Up to 30 days*	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*Over 1 year*	*Overdue contingent liabilities*
				(unaudited) (KZT millions)			
Guarantees issued	34,888	9,197	3,355	347	7,543	14,446	–
Commercial letters of credit	18,825	2,793	972	4,767	4,054	390	5,849
Commitments to extend credit	37,746	802	620	746	1,749	31,500	2,329
Total guarantees issued, commercial letters of credit and commitments to extend credit	91,459	12,792	4,947	5,860	13,346	46,336	8,178

Provisions for contingent liabilities

The Bank uses the same credit control and management policies in respect of off-balance sheet commitments as it does for its on-balance sheet operations. As at 31 December 2007, the provision for contingent liabilities was KZT 1,885 million, compared to KZT 3,021 million as at 31 December 2006 and KZT 2,280 million as at 31 December 2005. The net recovery of provisions of KZT 997 million in 2007 compared to 2006 resulted from a general improvement in the quality of the Bank's off-balance sheet portfolio. The increase of KZT 741 million in provisions in 2006 compared to 2005 was due to an increase in the overall off-balance sheet portfolio of the Bank.

Foreign currency position

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

	As at 31 December		
	2007	*2006*	*2005*
Net balance sheet position (U.S.$ millions)(1)	259.4	241.2	31.9
Net balance sheet position (expressed in KZT millions)(2)	31,210	30,634	4,280
/total capital(3)	16.3(2)	20.7(2)	4.7(1)
/total liabilities(2)	2.2	3.5	0.9
/foreign currency liabilities(2)	4.4	7.2	1.5
Net long/(short) position (U.S.$ millions)(1)	127	(39.6)	39.3
Net long/(short) position (expressed in KZT millions)(1)	15,274	(5,035)	5,262
/regulatory capital(1)(4)	8.7	(3.6)	6.6

Notes:

(1) Unaudited.

(2) Derived from the Audited Financial Statements.

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

(4) Unconsolidated regulatory capital (Tier I and Tier II, less investments) is calculated in accordance with FMSA prudential requirements, not BIS Guidelines. As calculated under FMSA requirements, regulatory capital was KZT 174,949 million as at 31 December 2007, KZT 139,297 million as at 31 December 2006 and KZT 80,293 million as at 31 December 2005.

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

Capital adequacy and liquidity

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

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

	FMSA's minimum requirements	*As at 31 December*		
		2007	*2006*	*2005*
			(unaudited)	
		(share capital in KZT billions, ratios in per cent.)		
Capital adequacy ratios				
Share capital	Not less than 2 billion	65.5	60.7	29.0
Kl – Tier I capital to total assets	5 per cent.(1)	7.0	9.5	8.5
K2 – Total capital to assets weighted for risk	10 per cent.(1)	12.0	16.6	15.7
K4 – Current liquidity ratio	Greater than 30 per cent.	119.2	157.6	90.9
K5 – Short-term liquidity ratio	Greater than 50 per cent.	83.6	104.7	71.6
K6 – Investments into fixed assets and non-financial assets to equity	Not more than 50 per cent. of bank's regulatory capital(2)	20.3	12.2	15.1
K8 – Liabilities to non-residents excluding debt securities	Not more than 350 per cent. of bank's regulatory capital(2)	69.8	–	–
K9 – Liabilities to non-residents including debt securities	Not more than 550 per cent. of bank's regulatory capital(2)	247.3	–	–
Maximum aggregate net long/(short) open foreign currency position(3)	25 per cent. of bank's regulatory capital	8.7	(3.6)	6.6
Maximum net long/(short) open position in U.S. Dollars(4)	12.5 per cent. of bank's regulatory capital	7.3	(5.8)	5.0
Maximum net long/(short) open position in Russian Roubles(5)	5 per cent. of bank's regulatory capital	0.1	0.2	0.6
Maximum net long open position in Kyrgyz Soms(5)	5 per cent. of bank's regulatory capital	0.8	0.5	0.2
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	Must not exceed regulatory capital	9.6	4.9	6.9
Maximum exposure to any single:				
– unrelated party	Not more than 25 per cent. of bank's regulatory capital	15.8	14.2	12.8
– related party	Not more than 10 per cent. of bank's regulatory capital	3.9	6.5	4.2
– on unsecured loans	Not more than 10 per cent. of bank's regulatory capital	0.1	0.06	2.5
Funds placement into internal assets ratio	Not less than 100 per cent.	118.4	115.7	131.1

Notes:

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

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

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

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

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

For the purposes of the above ratios:

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

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

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

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

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

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

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

	As at 31 December		
	2007	*2006*	*2005*
			(unaudited)
	(KZT millions, except percentages)		
Tier I capital	157,841	116,857	63,676
Tier II capital	33,869	31,251	28,647
Gross Tier I and Tier II available capital	191,710	148,108	92,323
Less investments	(262)	(293)	(1,443)
Tier I and Tier II capital	191,448	147,815	90,880
Total risk-weighted assets	1,484,559	945,707	534,567
Tier I capital adequacy ratio (per cent.)	10.6	12.4	11.9
Total risk-weighted capital adequacy ratio[1] (per cent.)	12.9	15.6	17.0

Note:

(1) Total risk-weighted capital adequacy ratio is (a) Tier I and Tier II capital, divided by (b) total risk-weighted assets.

ASSET, LIABILITY AND RISK MANAGEMENT

General

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

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

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

Branch and Head Office credit committees are responsible for managing credit risk. Three credit committees are located in each of the 22 regional branches: one each for small and medium sized businesses, with shared responsibilities depending on the complexity of products/applications, and the Retail Lending Credit Committee. The authority of branch credit committees is limited to certain amounts and conditions as approved by the Management Board. Four main credit committees exist within the Bank's Head Office: the Retail Lending Credit Committee, two Branch Network Credit Committees and the Head Office Credit Committee. The responsibilities of each Head Office credit committee include decision making on credit applications of large corporates (the Head Office Credit Committee) and processing corporate and individual loan applications that exceed the approval limit of the credit committees located in branches (the Branch Network Credit Committee and the Retail Credit Committee, respectively). The Bank's subsidiary banks in Russia and Kyrgyzstan have credit procedures and committee structure similar to those applied in the Bank with various authority levels delegated to each committee.

Asset and Liability Management Committee

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

Funding and liquidity

The Bank's funding and liquidity management policy is designed to deal with both the business as usual and contingency scenarios. Under the business as usual scenario, the Bank seeks to ensure that funding sources are well diversified and within internal funding targets. Under contingency scenarios, the Bank's policy seeks to ensure that the Bank has sufficient resources of liquidity (liquid assets and access to sources of liquidity) to withstand a range of potential liquidity crises without impairing its solvency and to maintain normal levels of customer business and cost of funding, access to customer and professional market funding and to comply with FMSA regulations. Customer accounts and deposits are the key sources of the Bank's funding, given the Bank's legacy of a former state owned savings bank (similar to Russia's Sberbank). As at 31 December 2007, the Bank had the largest market share, representing 24.1 per cent., in the retail deposit market, according to FMSA statistics. Amounts due to customers accounted for 65.2 per cent. of total liabilities as at 31 December 2007 and 68.7 per cent. of total liabilities as at 31 December 2006. The Bank's international debt capital market financing aims to gradually reduce the Bank's most expensive liabilities and further diversify and lengthen the maturity of the Bank's funding base. For a more detailed breakdown of the Bank's sources of funds, see "Selected Statistical and Other Information – The Bank's funding sources".

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

	As at 31 December		
	2007	*2006*	*2005*
		(per cent.)	
Loans (excluding accrued income on loans)/total assets	66.7	62.2	76.6
Loans (excluding accrued income on loans)/amounts due to customers	113.8	103.2	132.5
Loans (excluding accrued income on loans)/total equity	661.1	511.6	665.0
Liquid assets[(1)]/total assets	31.5	36.4	23.3
Liquid assets[(1)]/total amounts due to customers	53.6	60.4	40.4

Note:

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

Maturity analysis

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

	As at 31 December 2007						
	On demand	*Less than one month*	*One to three months*	*Three months to one year*	*One to three years*	*Over three years*	*Total*
				(KZT millions)			
Financial assets							
Cash and cash equivalents	8,501	246,464	280	–	–	–	255,245
Obligatory reserves	24,099	15,353	10,540	25,708	7,471	4,097	87,268
Financial assets at fair value through profits or loss	48,073	–	–	–	–	–	48,073
Amounts due from credit institutions	–	193	127	2,460	590	28	3,398
Available-for-sale investment securities	2,045	35,350	332	56,493	4,694	8,925	107,839
Loans to customers	9,384	6,024	78,632	485,795	303,862	156,576	1,040,273
Other financial assets	833	1,675	132	1,578	184	265	4,667
	92,935	305,059	90,043	572,034	316,801	169,891	1,546,763
Financial liabilities							
Amounts due to customers	258,322	164,571	112,974	275,565	80,078	43,919	935,429
Amounts due to credit institutions	1,836	71,323	11,656	28,393	113,640	20,604	247,452
Financial liabilities at fair value through profit or loss	2,851	–	–	–	–	–	2,851
Debt securities issued	126	–	2,418	913	156,286	65,143	224,886
Other financial liabilities	85	654	724	15	48	–	1,526
	263,220	236,548	127,772	304,886	350,052	129,666	1,412,144
Net position	(170,285)	68,511	(37,729)	267,148	(33,251)	40,225	
Accumulated gap	(170,285)	(101,774)	(139,503)	127,645	94,394	134,619	

				As at 31 December 2006			
	On demand	*Less than one month*	*One to three months*	*Three months to one year*	*One to three years*	*Over three years*	*Total*
				(KZT millions)			
Financial assets:							
Cash and cash equivalents	22,359	86,031	19,409		–	–	127,799
Obligatory reserves	13,718	13,797	2,575	20,248	3,869	899	55,106
Financial assets at fair value through profits or loss	51,984	1,032	–	–	–	–	53,016
Amounts due from credit institutions	–	–	162	148	1,711	28	2,049
Available-for-sale investment securities	–	109,302	66	182	4,597	9,192	123,339
Loans to customers	2,405	24,267	49,929	251,183	144,508	123,924	596,216
Other financial assets	–	2,751	264	1,032	–	294	4,341
	90,466	237,180	72,405	272,793	154,685	134,337	961,868
Financial liabilities:							
Amounts due to customers	148,844	149,704	27,941	219,707	41,981	9,758	597,935
Amounts due to credit institutions	524	48,824	11,384	32,909	5,108	19,970	118,719
Debt securities issued	–	–	–	3,926	103,530	26,957	134,413
Other financial liabilities	–	366	1,002	4,712	109	–	6,189
	149,368	198,894	40,327	261,254	150,728	56,685	857,256
Net position	(58,902)	38,286	32,078	11,539	3,957	77,652	
Accumulated gap	(58,902)	(20,616)	11,462	23,001	26,958	104,610	

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

There was no accumulated negative liquidity gap up to one year as at 31 December 2007 and 2006 in view of excess liquidity experienced by the Bank and which was placed into highly liquid short term assets. The accumulated negative liquidity gap up to one year as at 31 December 2005 was KZT 38,939 million.

Interest rate risk

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

Management believes that the structure of its balance sheet, including the short term structure of its major assets and liabilities, reduces the Bank's exposure to interest rate risk. Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the ability of the Bank to reprice its assets and liabilities. While the majority of its loans are at fixed interest rates, the Bank believes that its sensitivity to interest rate changes is largely reduced by the relatively short term maturity (up to one year) of approximately 56 per cent. of its loan portfolio as at 31 December 2007 and its ability under the majority of its loan agreements to change the applicable rate of interest under certain circumstances. Furthermore, since early 2006 the standard loan agreement has contained a condition allowing the Bank to call for early loan repayment subject to an advance notice. Accordingly, a substantial portion of the Bank's assets is repriceable prior to maturity which mitigates interest rate risk. In addition, in October 2005, the Bank introduced an interest rate gap limit with ALCO ensuring compliance on a monthly basis. Currently, the Bank does not use derivative instruments to reduce its interest rate exposure.

Foreign currency risk management

The Tenge/U.S. Dollar exchange rate has been subject to fluctuation in recent years. In 2005, the Tenge depreciated against the U.S. Dollar by 3.0 per cent. In 2006, the Tenge appreciated against the U.S. Dollar by 5.2 per cent. In 2007, the Tenge appreciated against the U.S. Dollar by 5.3 per cent.

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

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

	As at 31 December 2007			*As at 31 December 2006*		
	KZT	*Foreign currencies*	*Total*	*KZT*	*Foreign currencies*	*Total*
			(KZT millions)			
Financial assets:						
Cash and cash equivalents	9,831	245,414	255,245	31,957	95,842	127,799
Obligatory reserves	30,122	57,146	87,268	18,873	36,233	55,106
Financial assets at fair value through profit or loss	37,248	10,825	48,073	37,484	15,532	53,016
Amounts due from credit institutions	3,084	314	3,398	1,928	121	2,049
Available-for-sale investment securities	106,886	953	107,839	122,157	1,182	123,339
Loans to customers	621,285	418,988	1,040,273	291,007	305,209	596,216
Other financial assets	3,208	1,459	4,667	2,925	1,416	4,341
	811,664	735,099	1,546,763	506,331	455,535	961,866

	As at 31 December 2007			*As at 31 December 2006*		
	KZT	*Foreign currencies*	*Total*	*KZT*	*Foreign currencies*	*Total*
			(KZT millions)			
Financial liabilities:						
Amounts due to customers	548,136	387,293	935,429	303,199	294,736	597,935
Amounts due to credit institutions	79,989	167,463	247,452	55,042	63,677	118,719
Financial liabilities at fair value through profit or loss	–	2,851	2,851	–	10	10
Debt securities issued	79,863	145,023	224,889	68,188	66,225	134,413
Other financial liabilities	267	1,259	1,526	5,757	432	6,189
	708,255	703,889	1,412,144	432,186	425,070	857,256
Net balance sheet position	103,409	31,210	134,619	74,145	30,465	104,610
Net off-balance sheet position	238,786	1,606	240,392	80,203	159,191	239,394
Total open position	342,195	32,816	375,011	154,348	189,656	344,004

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

Treasury operations

The ALCO has delegated to the Treasury Department daily management of the Bank's liquidity, interest rate and foreign currency risks. There are three units within the Treasury Department. The Trading Desk is responsible for investment and trading securities portfolios of the Bank, daily management of liquidity in all currencies, open currency position and banknotes sales. The Sales Desk advises the Bank's corporate clients on FX and interest rate hedging issues. The Cash Management Desk is responsible for advising legal entities on issues relating to the cash management business and managing the Bank's profit and tariffs policy in this area.

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

Credit risk management

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank limits the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or counterparty, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower, industry sector and region are established by the Management Board. Credit risk is monitored by the Management Board on a continuous basis and subject to annual or more frequent reviews. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are recommended by the Risk Management function and set by the Credit Committees. See "Lending policies and procedures", "– Loan classification and provisioning policy" and "Loan classification and provisioning policy – portfolio supervision and non-performing loans".

Systems risk management

Information technology ("IT") and the impact of potential systems failures have become increasingly significant with the growth in the volume of transactions involving computers, servers and telecommunications networks and in particular the importance of online management information systems has increased. Accordingly, the Bank has devoted substantial resources to ensure the development and reliability of its computer and related systems. For example, the Bank maintains a "hot" reserve (as described below) of all of its crucially important servers. As part of its system risk management, the Bank prepares and stores backup files for all banking activities and conducts testing to monitor the functioning of its computer systems and backup procedures on a weekly basis. Although the Bank's management believes that existing systems allow the Bank to adequately measure and monitor its exposure to liquidity, interest rate, foreign exchange and other market risks, the Bank is currently undergoing an upgrade of its IT systems, which it expects to complete by the end of 2008, allowing it to manage its customer database centrally and to provide better quality data to assist in processing and analysing specific risks inherent to its operations. See "Business of the Bank – Information systems".

The Bank intends to make large investments in IT to improve client service and increase effectiveness and competitiveness. The Bank's budget for the development of IT was KZT 1.8 billion in 2005, KZT 2.8 billion in 2006 and KZT 5.2 billion in 2007.

The Bank's IT-related activity is regulated by internal rules and procedures approved by the Management Board of the Bank. The Bank's IT systems administration is controlled by the Security Division which is independent of IT management. In 2006, the Bank launched the CobIT (IT governance support) and ITIL (IT service management) systems and three internal business processes were successfully implemented in February 2007. In August 2007, this project was extended for the implementation of three more internal business processes under implementation as at the date of this Prospectus. The Bank acquired a new T-24 system provided by Témenos in June 2006, which it plans to have installed by the end of 2008 and which will replace the entire IT platform of the Bank, integrating all of its banking and operational functions. The Bank believes that the introduction of these systems will increase the efficiency and transparency of its IT management. The Bank considers IT to be an integral component of its daily operations and is committed to continued investment in IT in order to support the efficient growth of its operations.

The Bank continues to upgrade its processes which will allow full integration of the banking and payment systems as well as centralisation of the customer database. In 2005, the Bank launched the mobile banking system for customers to manage their card accounts via their mobile phones, completed the introduction of a collateral monitoring and management system, successfully finished the pilot project for the implementation of an SAP BW data warehouse and developed an HP Open View system for management of its IT infrastructure. In 2005, the Bank updated its customer contacts and know your customer, the integrated database on material damages incurred by the Bank as a result of its operations and the unified database on the Bank's contracts, systems and software. In September 2007, the Bank completed the second and third stages of the implementation of its SAP BW data warehouse, which will allow it to compile various management reports. As at 1 March 2008 more than 80 regulatory and statistical reports can be produced within SAP BW. The Bank also plans to complete the introduction of fixed assets accounting, procurement and technical support, controlling, planning and budgeting system (SAP R/3, BPS). In 2005, the systems in its largest retail branch were fully centralised, and in June 2007 the Bank completed replication of the centralised retail system in all branches. In 2006, a central Oracle CDH customer database was introduced.

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

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

Money laundering risk management

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

LENDING POLICIES AND PROCEDURES

General

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

Corporate and SME customers

All applications for credit by corporate and SME customers must be submitted to the Bank on standard forms. Depending on the amount and the borrower, the application is reviewed and approved by a credit committee located in either a branch, the Branch Network Credit Committee or the Head Office Credit Committee. All credit limits for each of the credit committees are established by the Management Board based on the recommendation of the Risk Management function. The Credit Analysis Department in the Head Office prepares credit proposals based on applications made to the Head Office and applications above U.S.$1 to 2 million (or equivalent) (depending on branch limit) made to the branches before being submitted to the relevant credit decision making body. The Risk Management function with its staff located in both the Head Office and branches undertakes a thorough analysis of each credit applicant, including carrying out feasibility studies, financial analysis, financial standing and reputation and experience of the potential borrower. Once such analysis is completed, the Risk Management function prepares its recommendation on each application in terms of overall risks related to the project, the borrower and the related industry sector. The credit analysis takes a number of factors into consideration, including (i) the ability to repay, (ii) financial condition of the borrower, (iii) value of the collateral, (iv) management of the borrower, (v) purpose of the loan and (vi) the industry of the borrower. Information on the borrower can be obtained from various external sources. If the loan is collateralised and as required by the Bank's policy, the Legal Department makes a legal assessment of the collateral being offered, including valuation, legality and enforceability. The Bank also employs independent legal advisers and appraisers, from time to time, to review the loan agreements and other legal documentation involved in the lending process and to make an independent assessment of the collateral value. The Bank's subsidiary banks in Russia and Kyrgyzstan have credit procedures and committee structure similar to those applied in the Bank with various authority levels delegated to each committee.

In order to further enhance its credit risk management procedures, in November 2007 the Bank signed a contract with KMV Moody's relating to the purchase of a rating model to cover corporate and SME clients. In 2008, the Bank plans to introduce a new advanced rating system. In the intervening period the Bank will continue to use its own system. This new credit rating model will rank the Bank's corporate and SME customers in accordance with their financial creditworthiness and allow for improvements in the Bank's credit decision making process. In the future such rating model will enable the Bank to differentiate the pricing for various risk categories.

Retail clients

Loan applications from individuals (which require information on income, collateral provided, purpose and terms of lending as well as information on the co-borrowers, if applicable) are primarily initiated by retail managers, who introduce credit requests to Branch Retail Credit Committees, normally consisting of five members representing the Risk Management function, the Sales Department, the Legal Department and the Collateral Assessment Department and chaired by a branch deputy head for retail business. There is a special procedure for micro-credit applications (named "Narodnaya" and "Narodnaya "), where the relevant heads of Branch Retail Departments are authorised to approve individual loans for amounts not exceeding branch limits (in the range of KZT 0.5-1.5 million, depending on the programme and other criteria) without approval of the relevant credit committee. Otherwise, such credit applications are submitted to Branch Retail Credit Committees and then to the Retail Credit Committee of the Head Office if the branch limit is exceeded or conditions deviate from the standard ones.

Depending on the amount of the credit application, the terms of credit and the collateral, the Branch Retail Credit Committee is permitted to make decisions of up to KZT 20 million on consumer loans and up to KZT 35 million on mortgage loans. In other cases (e.g. when either the terms of the requested facility are not in compliance with the requirements of the Retail Lending Policy, or requested amounts exceed a limit set for a branch) the branch must submit an application to the Retail Credit Committee of the Head Office which has established limits ranging from KZT 25-100 million on consumer loans and up to U.S.$5 million on mortgage loans.

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

Collateralisation

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

Collateral categories	*Loan/collateral value*
Cash	100 per cent.
Guarantees from financial institutions	100 per cent.
Government debt securities	100 per cent.
Real estate	50-80 per cent.
Commodities	50-70 per cent.
Fixed assets	50-70 per cent., less amortisation
Equity securities	70-85 per cent., at market value
Receivables	10-50 per cent.
Third party and corporate guarantees	on a case-by-case basis

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

LOAN CLASSIFICATION AND PROVISIONING POLICY

General

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

FMSA classification and provisioning guidelines

Until 2007, banks classified their portfolio and established allowances individually for each loan under an FMSA policy based on assessment of various quality criteria (financial condition, days overdue, collateral, prolongations, etc). Effective from April 2007, the FMSA revised its policies on loan classifications bringing them into line with IFRS, allowing collective assessment of individually insignificant loans with similar credit characteristics based on historical loss data and specific guidelines. Provisioning policies under IFRS differ from those under FMSA requirements. Namely, for IFRS purposes, the Bank creates provisions for losses on individually significant loans on a case-by-case basis and creates provisions for losses incurred on pools of homogenous loans and pools of individually significant loans that are not specifically impaired based on historical loss data. Actual provisions established take into account the value of specified collaterals or guarantees. Accordingly, the actual provision levels recorded in IFRS financial statements may materially differ from the provisioning rates used for regulatory purposes.

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

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

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

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

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

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

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

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

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

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

Classification categories	*Provisioning Rate(s) for individual loans*	*Provisioning Rate(s) for pools of homogeneous loans*
Standard loans	–	–
Doubtful 1st category	5 per cent.	0.01 – 5 per cent.
Doubtful 2nd category	10 per cent.	5.01 – 10 per cent.
Doubtful 3rd category	20 per cent.	10.01 – 20 per cent.
Doubtful 4th category	25 per cent.	20.01 – 25 per cent.
Doubtful 5th category	50 per cent.	25.01 – 50 per cent.
Loss loans	100 per cent.	50.01 – 100 per cent.

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

Portfolio Supervision and Non-Performing Loans

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

The report contains details on the volume of non–performing loans, including loans which are overdue in part only and loans on which the whole amount of principal is overdue.

Write-off policy

The Bank writes off loans, net of the realisable value of the collateral, when it is evident that a loss has been sustained and no amounts will be collected. From 1 January 2007, the Bank modified its write–off policy to introduce tighter criteria for recognition of unrecoverable loans.

SELECTED STATISTICAL AND OTHER INFORMATION

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

Average Balances

The following tables set out the average balances of assets and liabilities of the Bank for the periods indicated. For the purposes of the following tables, the average balances represent the average of monthly balances for the years ended 31 December 2007, 2006 and 2005. It should be noted that balances as at and for the years ended 31 December 2007, 2006 and 2005 have been derived from the Bank's Audited Financial Statements, including the notes thereto, prepared in accordance with IFRS and included elsewhere in this Prospectus. Balances as at 30 June 2007 and 30 September 2007 have been derived from the Bank's unaudited interim consolidated financial information, including the notes thereto, prepared in accordance with IFRS. All other interim monthly balances within the above-mentioned periods have been derived from management accounts, being the unaudited and unconsolidated accounts prepared from the Bank's accounting records, and used by the Bank's management for monitoring and control purposes. Calculation of these balances on a "weighted average" or "daily" basis could result in differences and such differences could be material.

	For the year ended 31 December								
	2007			*2006*			*2005*		
	Ave. balance	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]
					(KZT millions)				
Assets									
Interest-earning assets									
Loans to customers									
KZT	428,025	71,614	16.7	215,224	41,921	19.5	138,118	24,592	17.8
Foreign currency	355,933	44,533	12.5	248,057	29,371	11.8	195,952	22,957	11.7
Total	783,958	116,147	14.8	463,281	71,292	15.4	334,070	47,549	14.2
Amounts due from credit Institutions [2]									
KZT	19,702	1,168	5.9	43,796	1,890	4.3	13,882	496	3.6
Foreign currency	92,553	4,925	5.3	43,343	2,113	4.9	25,549	890	3.5
Total	112,255	6,093	5.4	87,139	4,003	4.6	39,431	1,386	3.5
Debt securities									
KZT	155,983	9,766	6.3	94,531	4,288	4.5	60,258	2,667	4.4
Foreign currency	10,175	561	5.5	17,527	1,064	6.1	15,892	783	4.9
Total	166,158	10,327	6.2	112,058	5,352	4.8	76,150	3,450	4.5
Total interest-earning assets									
KZT	603,710	82,548	13.7	353,551	48,099	13.6	212,258	27,755	13.1
Foreign currency	458,661	50,019	10.9	308,927	32,548	10.5	237,393	24,630	10.4
Total interest-earning assets	1,062,371	132,567	12.5	662,478	80,647	12.2	449,651	52,385	11.7

	For the year ended 31 December								
	2007			2006			2005		
	Ave. balance	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]
					(KZT millions)				
Non-interest earning assets									
Cash and non-interest deposits	21,919			34,402			17,435		
Obligatory reserves	67,137			8,468			1,247		
Property and equipment	17,280			11,759			9,441		
Other non-interest earning assets	28,487			13,484			9,405		
Total non-interest earning assets	134,823			68,113			37,528		
Total assets	1,197,194			730,591			487,179		

Notes:

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

(2) Including overnight deposits and correspondent accounts.

	For the year ended 31 December								
	2007			2006			2005		
	Ave. balance	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]
					(KZT millions)				
Liabilities									
Interest-bearing liabilities									
Amounts due to credit institutions[2]									
KZT	64,025	3,894	6.1	24,938	1,840	7.4	5,559	575	10.3
Foreign currency	118,979	6,895	5.8	75,893	4,615	6.1	76,463	3,799	5.0
Total	183,004	10,789	5.9	100,831	6,455	6.4	82,022	4,374	5.3
Amounts due to customers									
KZT	421,700	21,771	5.2	229,735	9,787	4.3	159,091	5,827	3.7
Foreign currency	235,501	13,577	5.8	198,866	8,704	4.4	137,412	6,046	4.4
Total	657,201	35,348	5.4	428,601	18,491	4.3	296,503	11,873	4.0
Debt securities issued									
KZT	84,661	6,538	7.7	61,335	4,895	8.0	24,287	2,708	11.1
Foreign currency	116,461	8,856	7.6	49,638	4,343	8.7	28,515	2,201	7.7
Total	201,122	15,394	7.7	110,973	9,238	8.3	52,802	4,909	9.3
Total interest-bearing liabilities									
KZT	570,386	32,203	5.6	316,008	16,522	5.2	188,937	9,110	4.8
Foreign currency	470,941	29,328	6.2	324,397	17,662	5.4	242,390	12,046	5.0
Total interest-bearing liabilities	1,041,327	61,531	5.9	640,405	34,184	5.3	431,327	21,156	4.9

	For the year ended 31 December								
	2007			2006			2005		
	Ave. balance	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]	*Ave. balance*	*Interest*	*Ave. rate (per cent.)*[1]
					(KZT millions)				
Tax liabilities	2,417			227			67		
Provisions	1,850			2,697			1,882		
Other non-interest bearing liabilities	13,854			12,341			9,807		
Total non-interest bearing liabilities	18,121			15,265			11,756		
Total liabilities	1,059,448			655,670			443,083		

Notes:

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

(2) Including amounts due to the Government.

Interest earning Assets, Yields, Margins and Spreads

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

	For the years ended 31 December		
	2007	*2006*	*2005*
		(KZT million)	
Net interest income before impairment charge			
KZT	50,344	31,577	18,645
Foreign currency	20,690	14,886	12,584
Total	71,034	46,463	31,229
Yield(1) (per cent.)			
KZT	13.7	13.6	13.1
Foreign currency	10.9	10.5	10.4
Average	12.5	12.2	11.7
Margin(2) (per cent.)			
KZT	8.3	8.9	8.8
Foreign currency	4.5	4.8	5.3
Average	6.7	7.0	6.9
Spread(3) (per cent.)			
KZT	8.0	8.4	8.3
Foreign currency	4.7	5.1	5.4
Average	6.6	6.9	6.8

Notes:

(1) Yield represents interest income as a percentage of average interest earning assets taken as monthly averages for the years ended 31 December 2007, 2006 and 2005.

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

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

Analysis of changes in net interest income

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

	For the years ended 31 December					
	2007/2006			*2006/2005*		
	Increase/(Decrease) due to changes in			*Increase/(Decrease) due to changes in*		
	Volume	*Rate*	*Total*	*Volume*	*Rate*	*Total*
Interest income						
Loans to customers						
KZT	41,709	(12,296)	29,413	13,725	3,604	17,329
Foreign currency	12,621	(2,822)	15,443	6,096	318	6,414
Amounts due from credit institutions						
KZT	(1,036)	325	(711)	1,077	317	1,394
Foreign currency	2,411	390	2,801	623	600	1,223
Debt securities						
KZT	2,888	2,451	5,339	1,508	113	1,621
Foreign currency	(390)	26	(364)	80	201	281
Total interest income	58,203	(6,282)	51,921	23,109	5,153	28,262
Interest expenses						
Amounts due to credit institutions						
KZT	2,072	494	2,566	1,996	(731)	1,265
Foreign currency	2,930	(1,161)	1,769	(29)	845	816
Amounts due to customers						
KZT	8,254	3,733	11,987	2,614	1,346	3,960
Foreign currency	1,612	3,256	4,868	2,704	(46)	2,658
Debt securities issued	7,482	(1,325)	6,157	5,410	(1,081)	4,329
Total interest expenses	22,350	4,997	27,347	12,695	333	13,028
Net changes in net interest income	35,853	(11,279)	24,574	10,414	4,820	15,234

Return on assets and equity

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

	For the years ended 31 December		
	2007	*2006*	*2005*
	(KZT millions, except percentages)		
Net income	40,525	27,159	15,828
Average total assets	1,197,194	730,591	487,179
Average common equity	116,925	57,893	36,844
Average common equity/average total assets (per cent.)	9.8	7.9	7.6
Net income/average total assets (per cent.)	3.4	3.7	3.2
Net income/average common equity[2] (per cent.)	34.7	46.9	43.0
Net income attributable to common shareholders	36,214	23,895	14,878

Note:

(1) Average amounts and ratios are based on monthly averages for 2007, 2006 and 2005. See "— Average Balances" for a description of the calculation of these balances.

(2) Common equity comprises total equity, less minority interest and preferred shares in (a) share capital, and (b) share premium reserves.

The Bank's loan portfolio

Loans to customers

Loans to customers represent the largest part of the Bank's assets. As at 31 December 2007, the Bank had total loans to customers, net of allowance for loan impairment, of KZT 1,040,273 million or 65.2 per cent. of total assets, an increase of KZT 444,057 million, or 74.5 per cent. from the 31 December 2006 amount. As at 31 December 2006, the Bank had total loans to customers, net of allowance for loan impairment, of KZT 596,216 million, or 60.1 per cent., of total assets, an increase of KZT 185,119 million, or 45.0 per cent., from the 31 December 2005 amount. Loans to the Bank's 10 largest borrowers represented approximately 15 per cent. of the loans to customers before allowance for loan impairment, as at 31 December 2007, compared to 15 per cent. as at 31 December 2006 and 12 per cent., as at 31 December 2005. As at 31 December 2007 the Bank's exposure to the single largest borrower was KZT 24,768 million constituting 2.3 per cent. of total loans to customers before allowance for loan impairment compared to 2.2 per cent. as at 31 December 2006 and 2.4 per cent. as at 31 December 2005.

Average interest rates on the loan portfolio decreased to 14.8 per cent. in 2007 compared to 15.4 per cent. in 2006 primarily due to the strong competition in the banking sector. As a result in 2006, the Bank decreased its interest rates across all types of loans. This measure affected average interest rates in 2007. Average interest rates on the loan portfolio increased to 15.4 per cent. in 2006, from 14.2 per cent. in 2005, due to the increased share of longer-term loans and KZT denominated loans in retail and SME portfolios.

The average balance of the Bank's loans to customers, net of allowance for loan impairment for the year ended 31 December 2007 was KZT 783,958 million compared to KZT 463,281 million in 2006 and KZT 334,070 million in 2005.

The following table provides a breakdown of loans to customers before allowance for loan impairment granted and outstanding by the Head Office, by the branches and by subsidiaries and which were outstanding as at the dates indicated:

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Head Office	584,101	53.25	334,159	53.1	241,827	55.3
Branches	497,750	45.37	286,167	45.4	192,142	44.0
Subsidiaries	15,119	1.38	9,544	1.5	3,049	0.7
Loans to customers before allowance for loan impairment	1,096,970	100.0	629,870	100.0	437,018	100.0

Distribution of loans by sector

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

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Retail loans						
– mortgage loans	160,663	15	110,274	17	78,680	18
– consumer loans	161,611	15	86,907	14	51,922	12
Wholesale trade	223,549	20	113,510	18	60,924	14
Construction	147,908	13	70,064	11	54,461	12
Retail trade	87,650	8	42,098	7	33,909	8
Agriculture	67,112	6	47,474	8	38,019	9
Services	59,921	5	23,213	4	13,866	3
Real estate	40,141	4	14,896	2	12,494	3
Oil and gas	30,289	3	13,532	2	16,380	4
Metallurgy	29,913	3	5,638	1	3,968	1
Food industry	16,439	1	10,359	2	3,743	1
Hotel industry	10,122	1	5,811	1	3,323	1
Consumer goods and automobile trade	9,683	1	4,639	1	2,149	–
Transportation	9,679	1	11,503	2	8,440	2
Mining	9,343	1	4,835	1	6,587	1
Machinery	7,296	1	2,194	–	2,708	1
Energy	6,236	1	14,745	2	7,279	2
Communication	1,323	–	1,888	–	1,433	–
Research and development	505	–	2,444	–	8,307	2
Other	17,587	1	43,846	7	28,426	6
Loans to customers before allowance for loan impairment	1,096,970	100.0	629,870	100.0	437,018	100.0

As at 31 December 2007, mortgage loans, consumer loans, wholesale trade, construction, retail trade and agriculture accounted for 15 per cent., 15 per cent., 20 per cent., 13 per cent., 8 per cent. and 6 per cent., respectively, of the total gross loan portfolio. Growth in the loan portfolio in recent years was mainly driven by growth in mortgage and consumer loans, as well as increased lending to customers in the wholesale trade and construction sectors.

Distribution of loans by type of borrower

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

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Large corporations	566,255	51.6	338,761	53.8	242,496	55.5
Small and medium sized businesses	208,441	19.0	93,928	14.9	63,920	14.6
Individuals	322,274	29.4	197,181	31.3	130,602	29.9
Loans to customers before allowance for loan impairment	1,096,970	100.0	629,870	100.0	437,018	100.0

Loans to large corporations increased by KZT 227,494 million, or 67.2 per cent., to KZT 566,255 million as at 31 December 2007 from KZT 338,761 million as at 31 December 2006. Loans to large corporations increased by KZT 96,265 million, or 39.7 per cent., to KZT 338,761 million as at 31 December 2006 from KZT 242,496 million as at 31 December 2005.

Loans to SMEs increased by KZT 114,513 million or 121.9 per cent., to KZT 208,441 million as at 31 December 2007 from KZT 93,928 as at 31 December 2006, after having increased by KZT 30,008 million or 46.9 per cent., to the 31 December 2006 amount from KZT 63,920 as at 31 December 2005.

Loans to individuals increased by KZT 125,093 million, or 63.4 per cent., to KZT 322,274 million as at 31 December 2007 from KZT 197,181 as at 31 December 2006, after having increased by KZT 66,579 million, or 51.0 per cent., to the 31 December 2006 amount from KZT 130,602 as at 31 December 2005.

Collateralisation of loan portfolio

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

	As at 31 December		
	2007	*2006 (unaudited)*	*2005*
Loans collateralised by pledge of real estate or rights thereon	623,396	379,069	236,923
Loans collateralised by pledge of inventories	16,811	5,522	–
Loans collateralised by pledge of corporate shares	28,953	54	–
Loans collateralised by pledge of equipment	3,648	5,012	–
Loans collateralised by pledge of agricultural products	20,526	2	–
Loans collateralised by pledge of vehicles	16,711	606	–
Loans collateralised by cash	71,749	98,759	19,832
Other collateral	206,543	109,303	177,341
Unsecured loans	108,633	31,543	2,922
	1,096,970	629,870	437,018
Less – allowance for loan impairment losses	(56,697)	(33,654)	(25,291)
Total loans to customers	1,040,273	596,216	411,097

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

Composition by maturity

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
On demand	9,384	0.9	2,405	0.4	1,411	0.3
Less than one month	6,024	0.6	24,267	4.1	13,212	3.2
Between one and three months	78,632	7.6	49,929	8.4	27,435	6.7
Between three months and one year	485,795	46.7	251,183	42.1	129,749	31.6
Between one and three years	303,862	29.2	144,508	24.2	179,407	43.6
Over three years	156,576	15.0	123,924	20.8	59,883	14.6
Loans to customers	1,040,273	100.0	596,216	100.0	411,097	100.0

The increase of KZT 159,354 million, or 110.3 per cent., in loans maturing between one and three years to KZT 303,862 million or 29.2 per cent. of the total loan portfolio as at 31 December 2007, from KZT 144,508 million, or 24.2 per cent., of the total loan portfolio, as at 31 December 2006, were primarily attributable to the Bank's policy of increasing the portion of loans with maturity over three years.

The decrease of KZT 18,243 million, or 75.2 per cent., in loans with a maturity of between one day and one month to KZT 6,024 million, or 0.6 per cent., of the total loan portfolio, as at 31 December 2007, from KZT 24,267 million, or 4.1 per cent., of the total loan portfolio, as at 31 December 2006, was primarily attributable to the increase of loans with maturity over three years.

The increases of KZT 234,612 million or 93.4 per cent. in loans with a maturity between three months and one year to KZT 485,795 million or 46.7 per cent., of the total loan portfolio as at 31 December 2007, from KZT 251,183 million or 42.1 per cent., of the total loan portfolio as at 31 December 2006 and from KZT 129,749 million or 31.6 per cent., of the total loan portfolio as at 31 December 2005, were primarily attributable to the general growth of loan portfolio.

Composition of loan portfolio by currency

As at 31 December 2007, Tenge loans comprised 59.7 per cent. of the Bank's loan portfolio, compared to 48.8 per cent., as at 31 December 2006 and 41.0 per cent., as at 31 December 2005. The general trend of growth in the Tenge denominated part of the loan portfolio in recent years is attributable to the Bank's policy of promoting lending in Tenge resulting from higher liquidity and higher net interest margin earned on Tenge assets.

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Tenge	621,285	59.7	291,007	48.8	168,663	41.0
Foreign currencies	418,988	40.3	305,209	51.2	242,434	59.0
Loans to customers	1,040,273	100.0	596,216	100.0	411,097	100.0

Analysis of loan portfolio quality

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Standard loans	8,423	0.8	278,831	44.3	267,839	61.3
Doubtful 1st category	1,006,840	91.8	295,399	46.9	125,171	28.6
Doubtful 2nd category	7,857	0.7	2,332	0.4	3,530	0.8
Doubtful 3rd category	46,693	4.3	25,074	4.0	20,615	4.7
Doubtful 4th category	4,193	0.4	2,815	0.4	1,031	0.2
Doubtful 5th category	2,777	0.2	9,417	1.5	5,990	1.4
Loss loans	20,187	1.8	16,002	2.5	12,842	2.9
Loans to customers before allowance for loan impairment	1,096,970	100.0	629,870	100.0	437,018	100.0

Note:

(1) See "Asset, Liability and Risk Management — Loan classification and provisioning policy — FMSA classification and provisioning guidelines".

During the years ended 31 December 2007, 2006 and 2005, the Bank followed conservative FMSA classification requirements, which generally resulted in a growing share of loans provided for at a rate of 5.0 per cent. (included in Doubtful first category).

The increase of Doubtful first category loans to KZT 1,006,840 million, or 91.8 per cent., of total loans to customers before allowance for loan impairment, as at 31 December 2007, was due to the adoption of new loan classification policies by FMSA which came into force in April 2007, prescribing all loans less than 0.02 per cent. of total equity to classify as homogeneous loans as well as the stricter loan classification/provisioning policies of 2005 discussed below. At the same time all loans to individuals are included into homogeneous loans, which according to the Bank classification, are treated as Doubtful first category.

The increase of Doubtful first category loans to KZT 295,399 million, or 46.9 per cent., of total loans to customers before allowance for loan impairment, as at 31 December 2006, from KZT 125,171 million, or 28.6 per cent., of total loans to customers before allowance for loan impairment, as at 31 December 2005 were due to the adoption by the Bank of stricter loan classification/provisioning policies under FMSA regulations during 2005, prescribing minimum 5.0 per cent. allowances for all partially (less than 50 per cent.) collateralised loans on which the borrowers experience temporary financial difficulties, but nevertheless are repaying their loan principal and interest without delay and in full.

The following table provides information on the Bank's allowance for impairment for each credit quality classification[1] as at the dates indicated:

	As at 31 December								
	2007			*2006*			*2005*		
	Total exposure	*Allowance for loan impairment losses*	*Allowance for loan impairment losses/ total exposure*	*Total exposure*	*Allowance for loan impairment losses*	*Allowance for loan impairment losses/ total exposure*	*Total exposure*	*Allowance for loan impairment losses*	*Allowance for loan impairment losses/ total exposure*
Standard loans	8,423	–	–	278,831	–	–	267,839	–	–
Doubtful 1st category	1,006,840	27,527	2.7	295,399	16,462	5.6	125,171	6,111	4.9
Doubtful 2nd category	7,857	894	11.4	2,332	37	1.6	3,530	350	9.9
Doubtful 3rd category	46,693	9,339	20.0	25,074	3,659	14.6	20,615	4,012	19.5
Doubtful 4th category	4,193	1,047	25.0	2,815	507	18.0	1,031	252	24.4
Doubtful 5th category	2,777	822	29.6	9,417	2,781	29.5	5,990	2,898	48.4
Loss loans	20,187	17,068	84.5	16,002	10,208	63.8	12,842	12,297	95.8
Loans to customers	1,096,970	56,697	5.2	629,870	33,654	5.3	437,018	25,921	5.9

Note:

(1) See "Asset Liability and Risk Management — Loan classification and provisioning policy — FMSA classification and provisioning guidelines".

NPLs and write-offs

As at 31 December 2007, the aggregate amount of non-performing loans (loans with a portion of principal and interest overdue for more than 30 days) amounted to KZT 9,742 million, or 0.9 per cent., of loans to customers. As at 31 December 2006 and 2005, the aggregate amount of non-performing loans amounted to KZT 7,194 million and KZT 6,163 million respectively, and represented 1.2 per cent. and 1.5 per cent., of loans to customers respectively. The percentage of non-performing loans to total loans decreased in the year ended 31 December 2007 due to a general improvement in the quality of the Bank's loan portfolio following market trends as well as continuing improvement in the effectiveness of the Problem Loans function of the Bank. (See "Asset, Liability and Risk Management – Loan Classification and Provisioning Policy – Portfolio supervision and non-performing loans".)

The following table sets out an analysis of the Bank's allowance for impairment of loans to customers for the periods indicated:

	For the years ended 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
Beginning balance of allowance for impairment of loans to customers	(33,654)	(25,921)	(16,538)
Additional provisions recogized	(21,899)	(8,179)	(11,839)
Write-offs	1,404	3,427	3,573
Recoveries	(2,548)	(2,981)	(1,117)
Ending balance of allowance for impairment of loans to customers	(56,697)	(33,654)	(25,921)
Net write-offs (Recoveries)	(1,144)	446	2,456

The reason for the increase in impairment charge for the year ended 31 December 2007 compared to the year ended 31 December 2006 was mainly due to an increase in total loans to customers before allowance for loan impairment.

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Period past due						
Up to 1 month	6,649	40.6	1,183	14.1	742	10.7
1-3 months	4,488	27.4	632	7.6	1,249	18.1
3-6 months	1,514	9.2	547	6.5	2,721	39.4
More than 6 months	3,740	22.8	6,015	71.8	2,193	31.8
Past due, total	16,391	100.0	8,377	100.0	6,905	100.0

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Legal entities	49,537	87.4	30,750	91.4	23,692	91.4
Individuals	18,585	32.8	9,359	27.8	2,229	8.6
IFRS adjustments(1)	(11,425)	(20.2)	(6,455)	(19.2)	–	–
Allowances for loans to customers	56,697	100.0	33,654	100.0	25,921	100.0

Note:

(1) IFRS adjustment results from the differences between loan allowances created in accordance with FSMA. (For requirements details see "Asset, Liability and Risk Management.)

The following table provides information on the movements in the allowance for interest earning and other assets between the dates indicated:

	Loans to customers	*Amounts due from credit institutions*	*Other assets*	*Total*
31 December 2004	(16,538)	–	(76)	(16,614)
Additional provisions recognized	(11,839)	–	(131)	(11,970)
Write-offs	3,573	–	75	3,648
Recoveries	(1,117)	–	(2)	(1,119)
31 December 2005	(25,921)	–	(134)	(26,055)
Additional provisions recognized	(8,179)	(6)	(146)	(8,331)
Write-offs	3,427	–	99	3,526
Recoveries	(2,981)	–	(2)	(2,983)
Additional provisions due to acquisition of subsidiaries	–	–	(35)	(35)
31 December 2006	(33,654)	(6)	(218)	(33,878)
Additional provisions recognized	(21,899)	(10)	(275)	(22,184)
Write-offs	1,404	–	32	1,436
Recoveries	(2,548)	(2)	(43)	(2,593)
31 December 2007	(56,697)	(18)	(504)	(57,219)

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

The following table sets out certain ratios in respect of write-offs in the allowance for interest earning and other assets as at the dates indicated:

		As at 31 December	
	2007	*2006*	*2005*
		(per cent.)	
Net write-offs[(1)]/loans to customers before allowance for loan impairment	(0.1)	0.1	0.6
Net write-offs[(1)]/opening allowance balance	3.4	(2.1)	(15.2)
Recoveries[(2)]/write-offs	180.6	(84.6)	(30.7)

Notes:

(1) Net write-offs is write-offs plus recoveries.

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

Amounts due from credit institutions

Amounts due from credit institutions represent a relatively small percentage of the Bank's total assets (0.2 per cent., as at 31 December 2007, 0.2 per cent., as at 31 December 2006 and 0.5 per cent., as at 31 December 2005). Term deposits with other credit institutions reflect the Bank's use of the interbank market as placements of excess liquidity for a relatively short period of time. In general, deposits with other financial institutions are made for liquidity management purposes.

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

		As at 31 December	
	2007	*2006*	*2005*
		(KZT millions)	
Term deposits	2,626	1,885	2,085
Loans to Kazakhstan credit institutions	790	170	692
	3,416	2,055	2,777
Less allowance for loan impairment losses	(18)	(6)	–
Amounts due from credit institutions	3,398	2,049	2,777

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

	As at 31 December					
	2007		2006		2005	
	(per cent.)	(Maturity)	(per cent.)	(Maturity)	(per cent.)	(Maturity)
Term deposits	6.0-13.0	2008-2009	4.1-10.6	2007-2008	4.0-12.0	2006-2008
Loans to local financial institutions	14.0-17.0	2008-2012	13.0-15.0	2007-2011	4.1	2006

Investments

Overview

As at 31 December 2007, the Bank's aggregate securities portfolio (consisting of available-for-sale investment securities and financial assets at fair value through profit or loss and including fair value of derivatives) amounted to KZT 155,912 million, a decrease of KZT 20,622 million, or 11.7 per cent., from the 31 December 2006 amount, primarily due to disposal of the Notes of the National Bank of Kazakhstan. As at 31 December 2006, the Bank's aggregate securities portfolio amounted to KZT 176,534 million, an increase of KZT 114,412 million, or 184.2 per cent., from KZT 62,122 million as at 31 December 2005 amount, due to placement of excess liquidity into NBK notes, T bills of the Ministry of Finance of the Republic of Kazakhstan, corporate bonds and Eurobonds of Kazakhstan banks including bonds of the Development Bank of Kazakhstan. The Bank manages its securities portfolio as per the following main purposes: (i) invest a certain percentage of customer current accounts that management believes will continue to be held with the Bank into long-term fixed income securities, (ii) meet contingency liquidity needs of the Bank, including unforeseen liquidity shortages, (iii) use as a collateral asset in the Bank's repo transactions, and (iv) provide securities as a pledge in favour of KASE to meet its margin requirements for transactions done by the Bank.

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

	As at 31 December		
	2007	2006	2005
		(KZT millions)	
Financial assets at fair value through profit or loss	48,073	53,195	50,023
Available-for-sale investment securities	107,839	123,339	12,099
Securities, total	155,912	176,534	62,122

Financial assets at fair value through profit or loss

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

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

	As at 31 December		
	2007	*2006*	*2005*
		(KZT million)	
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	32,161	29,162	19,527
Securities in foreign countries and organisations	6,225	–	–
Derivative financial instruments	3,477	179	5
Bonds of the Development Bank of Kazakhstan	1,964	4,545	992
Equity securities of Kazakhstan banks	1,682	428	–
Mutual investment fund shares	1,245	1,452	–
Bonds of Kazakhstan banks	942	3,011	1,665
Corporate bonds	287	5,279	–
Equity securities of Kazakhstan corporation	90	352	–
Sovereign bonds of the Republic of Kazakhstan	–	6,290	4,674
NBK notes	–	2,497	23,160
Financial assets at fair value through profit or loss	48,073	53,195	50,023
Subject to repurchase agreements	2,976	1,000	–

As at 31 December 2007, the Bank's financial assets at fair value through profit or loss were KZT 48,073 million, a decrease of KZT 5,122 million, or 9.6 per cent., from KZT 53,195 million as at 31 December 2006. As at 31 December 2006, the Bank's financial assets at fair value through profit or loss were KZT 53,195 million, an increase of KZT 3,172 million, or 6.3 per cent., from KZT 50,023 million as at 31 December 2005 amount, due to increased investments, mainly in highly liquid securities, including T bills of the Ministry of Finance of the Republic of Kazakhstan, corporate bonds, sovereign bonds of the Republic of Kazakhstan and bonds of Kazakhstan banks including the Development Bank of Kazakhstan.

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

	As at 31 December					
	2007		*2006*		*2005*	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	3.2-11.3	2008-2014	3.2-6.7	2008-2014	3.1-8.4	2006-2014
Securities of foreign countries and organisations	3.1	2008-2012	–	–	–	–
Bonds of the Development Bank of Kazakhstan	6.2	2026	4.8-9.8	2007-2026	7.1-8.5	2007
Bonds of Kazakhstan Banks	7.5-13.9	2009-2011	6.1-8.6	2007-2013	7.9-10.1	2007-2013
Corporate bonds	8.3-14.1	2010-2015	8.1-10.5	2007-2015	_–	–
Sovereign bonds of Kazakhstan	–	–	11.1	2007	11.1	2007
NBK notes	–	–	2.2	2007	2.1-2.4	2006

Investment portfolio

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

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

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

Available-for-sale investment securities

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

	As at 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
NBRK notes	82,318	107,856	–
Corporate bonds	14,387	10,166	6,548
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	6,459	1,061	2,644
Bonds of Kazakhstan Banks	3,047	3,085	2,625
Equity securities of Kazakhstan corporations	1,381	971	–
Treasury bills of the Kyrgyz Republic	101	114	282
Local municipal bonds	80	86	–
Equity securities of foreign corporations	66	–	–
Available-for-sale investment securities	107,839	123,339	12,099
Subject to repurchase agreements	51,669	29,500	–

	As at 31 December					
	2007		*2006*		*2005*	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
NBRK notes	5.5-9.5	2008	2.9-4.8	2007	–	–
Corporate bonds	6.4-18.6	2008-2021	7.5-13.0	2007-2017	3.5-9.6	2006-2014
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2.0-18.6	2008-2014	3.5-5.7	2008-2014	2.8-3.5	2006-2008
Bonds of Kazakhstan Banks	6.4-18.3	2008-2016	5.9-12	2007-2014	7.0-13.5	2007-2013
Local municipal bonds	8.5	2008	8.5	2008		
Treasury bills of the Kyrgyz Republic	5.6-14.9	2008-2009	5.2-16.0	2007-2008	4.5-7.3	2007-2013

The Bank's funding sources

Amounts due to customers represent the largest part of the Bank's funding sources. The availability of amounts due to customers is influenced by factors such as prevailing interest rates, market conditions and levels of competition, although the Bank believes that its customer base is relatively insensitive to short term fluctuations in interest rates and more dependent on the Bank's ability to provide a good level of customer service and a range of banking products and services. As at 31 December 2007, the Bank's total amount due to customers was KZT 935,429 million. According to FMSA statistics the Bank's total amount due to customers represented 23.4 per cent. of the total amounts due to customers in the Kazakhstan banking system as of that date. The Bank has a large number of corporate customers, including many of the country's leading industrial and natural resource sector companies and trading corporations as well as a number of SMEs and individuals. Other sources of funding include foreign and local interbank borrowings, and placement of debt securities domestically and on the international market.

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

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Amounts due to customers						
Current accounts	271,770	18.9	148,884	17.1	112,967	22.8
Term deposits	663,659	46.3	448,381	51.5	206,897	41.8
Guarantee and other restricted accounts	–	–	710	0.1	3,651	0.7
Total amounts due to customers	935,429	65.2	597,935	68.7	323,515	65.3
Amounts due to credit institutions	247,452	17.3	118,719	13.6	107,284	21.7
Debt securities issued	224,886	15.7	134,413	15.4	58,814	11.9
Other[(1)]	26,283	1.8	19,665	2.3	5,608	1.1
Liabilities, total	1,434,050	100.0	870,732	100.0	495,221	100.0

Note:

(1) Comprising financial liabilities at fair value through profit or loss, provisions, deferred tax liability, insurance liabilities and other liabilities.

Customer accounts

The Bank's amounts due to customers consist of customer current accounts and term deposits, amounting to 65.2 per cent., of the Bank's total liabilities as at 31 December 2007. Customer current accounts generally bear no interest and can be withdrawn upon demand. For term deposits, different interest rates are paid on the various types of deposits offered by the Bank.

Deposits by account and customer type

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

	As at 31 December					
	2007		*2006*		*2005*	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Term deposits:						
Legal entities	381,139	40.7	291,100	48.7	109,453	33.9
Individuals	282,520	30.2	157,281	26.3	97,444	30.1
	663,659	70.9	448,381	75.0	206,897	64.0
Current accounts:						
Legal entities	196,618	21.0	96,247	16.1	75,054	23.2
Individuals	75,152	8.1	52,597	8.8	37,913	11.7
	271,770	29.1	148,844	24.9	112,967	34.9
Restricted accounts	–	–	710	0.1	3,651	1.1
Amounts due to customers	935,429	100.0	597,935	100.0	323,515	100.0

Customer accounts by currency

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

	As at 31 December					
	2007		2006		2005	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Amounts due to customers in Tenge	548,136	58.6	303,199	50.7	161,796	50.0
Amounts due to customers in foreign currencies	387,293	41.4	294,736	49.3	161,719	50.0
Amounts due to customers	935,429	100.0	597,935	100.0	323,515	100.0

Customer accounts by maturity

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

	As at 31 December					
	2007		2006		2005	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.*
On demand	258,322	27.6	148,844	24.9	112,966	34.9
Less than one month	164,571	17.6	149,704	25.0	38,992	12.1
Between one and three months	112,974	12.1	27,941	4.7	21,516	6.6
Between three months and one year	275,565	29.4	219,707	36.8	88,642	27.4
Between one and three years	80,078	8.6	41,981	7.0	58,250	18.0
Over three years	43,919	4.7	9,758	1.6	3,149	1.0
Amounts due to customers	935,429	100.0	597,935	100.0	323,515	100.0

Deposits by sector

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

	As at 31 December					
	2007		2006		2005	
	(KZT millions)	*(per cent.)*	*(KZT millions)*	*(per cent.)*	*(KZT millions)*	*(per cent.)*
Individuals and entrepreneurs	357,672	38	209,878	35	135,357	42
Oil and gas	206,185	22	67,540	11	99,769	31
Financial sector	57,573	6	44,168	8	5,422	2
Wholesale trade	57,105	6	15,800	3	5,908	2
Other consumer services	55,889	6	35,514	6	–	–
Transportation	55,690	6	17,291	3	4,760	1
Government	47,130	5	1,813	–	–	–
Construction	41,781	5	81,319	14	22,891	7
Energy	32,552	4	12,843	2	10,391	3
Metallurgy	2,724	–	102,345	17	636	–
Transportation of oil and gas	–	–	1,794	–	6,267	2
Other	21,128	2	7,630	1	32,114	10
	935,429	100.0	597,935	100.0	323,515	100.0

As at 31 December 2007, total deposits and current accounts of individuals and entrepreneurs, represented 38 per cent., of total amounts due to customers. In addition, customers in oil and gas, financial sector, and wholesale trade customers represented 22 per cent., 6 per cent., and 6 per cent., of total deposits, respectively. As at 31 December 2007, the Bank's 10 largest customers accounted for approximately 45 per cent., of total amounts due to customers compared to 52 per cent. as at 31 December 2006 and approximately 39 per cent. as at 31 December 2005.

As at 31 December 2007, the largest single customer accounted for approximately 32 per cent. of total amounts due to customers compared to 19 per cent. as at 31 December 2006 and 26 per cent. as of 31 December 2005. The Bank believes that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to arrange for the necessary funds to enable repayment.

Other sources of funding

In April 2007, the Issuer entered into a U.S.$400 million three-year loan agreement with a syndicate of banks, such loan being guaranteed by the Bank. The loan proceeds were deposited in full with the Bank and such deposit was pledged to the Bank as collateral for the guarantee issued by the Bank. In September 2007, the Issuer entered into a U.S.$300 million three-year loan agreement with a syndicate of banks and such loan is guaranteed by the Bank. The loan proceeds were deposited in full with the Bank and such deposit was pledged to the Bank as collateral for the guarantee issued by the Bank.

Amounts due to credit institutions

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

	As at 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
Tenge	79,989	55,042	18,122
Foreign currencies	167,463	63,677	89,162
Amounts due to credit institutions	247,452	118,719	107,284

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

	As at 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
Loans and deposits from OECD based banks	176,480	73,126	97,540
Loans and deposits from Kazakhstan banks	66,889	36,007	1,100
Loans and deposits from non OECD based banks	2,797	5,073	2,145
Loans from other financial institutions	–	650	1,414
Loans due to European Bank for Reconstruction and Development ("EBRD")	–	–	679
Overnight deposits	–	3,338	3,851
Correspondent accounts	1,286	525	555
Amounts due to credit institutions	247,452	118,719	107,284

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

	As at 31 December					
	2007		*2006*		*2005*	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity))*
Loans and deposits from OECD based banks	3.0-8.4	2008-2015	2.3-8.4	2007-2015	3.8-7.8	2006-2012
Loans and deposits from Kazakhstan banks	6.5-6.6	2008	0.7-7.0	2007	4.0-8.0	2006
Loans and deposits from non OECD based banks	6.2-6.7	2008-2009	4.6-6.7	2007-2012	4.7-6.0	2006-2012
Loans from other financial institutions	–	–	5.9-8.4	2007-2012	2.4-7.3	2006-2012
Loans due to EBRD	–	–	–	–	6 months LIBOR + 4.25	2006
Overnight deposits	–	–	2.5-4.8	2007	4.0- 5.0	2006

Trade finance facilities

The Bank in the course of its ordinary banking activities regularly borrows from international banks under trade-related loan facilities. The tenor of such trade-related facilities typically varies from 1 month up to 10 years depending on the nature of the underlying trade transaction. Some of these trade-related facilities financing import of equipment and capital goods are partially covered by Export Credit Agencies of OECD countries, including Euler Hermes Kreditversicherungs AG of Germany, COFACE of France, U.S. Exim Bank, SACE S.p.a. of Italy and others. As at 31 December 2007, the aggregate amount outstanding under such trade related facilities was KZT 76,061 million, compared to KZT 53,718 million as at 31 December 2006 and KZT 55,899 million as at 31 December 2005.

Outstanding senior notes

In May 2004, the Bank registered with the FMSA its first bond programme for an aggregate principal amount of KZT 35 billion and, as of the date of this Prospectus, the Bank has issued senior notes under this programme in the aggregate principal amount of KZT 12.2 billion comprising three separate issues. In January and May 2007 the Bank repaid two senior issues under this programme for an aggregate principal amount of KZT 5.2 billion. In 2006, the Bank registered its second domestic bond programme in the aggregate principal amount of KZT 70 billion, and, as of the date of this Prospectus, the Bank has issued senior notes under this programme in the aggregate amount of KZT 51.9 billion comprising four separate issues. In June 2007, the Bank registered its third domestic bond programme in the aggregate principal amount of KZT 200 billion. In March 2008 the Bank repaid its senior issue under second domestic bond programme for a principal amount of KZT 13,450 million and in February 2008 KZT 6,950 million.

In September 2004, the Bank issued its first Eurobonds for a principal amount of U.S.$200 million. These Eurobonds are listed on the Luxembourg Stock Exchange and the KASE, are repayable in September 2009 and have a coupon rate of 8.125 per cent., per annum. In May 2006, the Issuer issued notes in a principal amount of U.S.$300 million, unconditionally and irrevocably guaranteed by the Bank. These notes are listed on the Luxembourg Stock Exchange, are redeemable in May 2013 and have a coupon rate of 7.75 per cent., per annum. In May 2007, the Issuer issued notes in a principal amount of U.S.$700 million, unconditionally and irrevocably guaranteed by the Bank. These notes are listed on the Official List and traded on the Regulated Market of the London Stock Exchange and on PORTAL Market of the NASDAQ Stock Market, Inc., are redeemable in May 2017 and have a coupon rate of 7.25 per cent. per annum.

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

	As at 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
U.S.$ denominated bonds	145,017	64,145	26,909
KZT denominated bonds	41,038	39,560	3,801
RUR denominated bonds	–	–	48
Unsubordinated debt securities outstanding	186,055	103,705	30,758

	As at 31 December					
	2007		*2006*		*2005*	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
U.S.$ denominated bonds	7.3-8.1	2009-2017	7.8-8.1	2009-2013	8.1	2009
KZT denominated bonds	7.1-7.8	2008-2009	5.0-7.3	2007-2009	5.0	2007
RUR denominated bonds	–	–	–	–	–	On demand

Covenants in financing documents

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

Subordinated debt securities

In March 2007, the Bank made an early payment of its Tenge-denominated subordinated indexed bonds for an aggregate indexed principal amount of KZT 1.4 billion. In June 2007 the Bank repaid its U.S. Dollar-denominated subordinated bonds for an aggregate principal amount of U.S.$16 million. In May 2004, the Bank registered with the FMSA its first domestic bond programme for an aggregate principal amount of KZT 35 billion, under which the Bank has issued subordinated bonds denominated in Tenge in the aggregate principal amount of KZT 21 billion comprising five separate issues. In March 2006, the Bank registered its second domestic bond programme in the aggregate principal amount of KZT 70 billion, under which the Bank has issued subordinated bonds in the aggregate principal amount of KZT 4 billion. comprising one issue. In June 2007, the Bank registered its third bond programme in the aggregate principal amount of KZT 200 billion, under which the Bank has issued and placed subordinated bonds in the aggregate principal amount of KZT 10 billion. The subordinated bonds are unsecured obligations of the Bank and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Bank. In addition to these issuances, the Bank has issued additional Tenge and U.S.-Dollar-denominated subordinated notes in recent years.

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

	As at 31 December		
	2007	*2006*	*2005*
		(KZT millions)	
Fixed rate KZT denominated bonds	11,229	10,610	11,385
Reverse inflation indexed KZT denominated bonds	8,381	8,908	3,679
Inflation indexed KZT denominated bonds	19,221	9,104	9,090
U.S.$ denominated bonds	–	2,086	3,902
Total subordinated debt securities outstanding	38,831	30,708	28,056

	As at 31 December					
	2007		*2006*		*2005*	
	(per cent.)	*(Maturity)*	*(per cent.)*	*(Maturity)*	*(per cent.)*	*(Maturity)*
Subordinated debt securities issued						
Inflation indexed KZT denominated bonds	inflation rate plus 1 plus	2015	inflation rate plus 1 plus	2015	inflation rate plus 1 plus	2015
	inflation rate plus 2 plus	2010-2017	inflation rate plus 2 plus	2010	inflation rate plus 2 plus	2010
Fixed rate KZT denominated bonds	7.5–9.0	2009–2015	7.5–9.6	2007–2015	7.5–9.6	2007–2015
Reverse inflation indexed KZT denominated bonds	15 minus inflation rate	2015–2016	15 less inflation rate	2015-2016	15 less inflation rate	2015
USD denominated bonds	–	–	8.0–11.8	2007	8.0-11.8	2007

BUSINESS OF THE BANK

Overview

The Bank's core business is focused on retail, SME and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through, as at 31 December 2007, 22 regional branches, 125 district branches, 473 limited service branches, 4 VIP centres and 46 personal service centres. Other distribution channels used by the Bank include, as at 31 December 2007, 1,119 ATMs, the internet and mobile banking and in-store service points located at certain shopping centres and supermarkets in Kazakhstan. According to FMSA statistics, as at 31 December 2007, the Bank's pension fund business had the largest market share in Kazakhstan (29.1 per cent.) in terms of assets under management, and the management of the Bank believes its insurance business has the largest network in the country.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, travellers' cheques, currency exchange, Internet and mobile banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services to corporate and SME business customers, financial institutions and Government entities. As at 31 December 2007, the Bank had approximately 5.9 million retail customers (the largest customer base among all banks in Kazakhstan), approximately 70,700 SME customers and 333 corporate customers.

The Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both treasury bills and short-term notes of the NBK and, in the year ended 31 December 2007, the Bank's combined purchases of treasury bills and notes represented 26.6 per cent. of total issued volume. In the year ended 31 December 2007, the Bank was the most active trader of Government securities on the KASE, generating 18.8 per cent. of trading volume in those securities. Since sovereign eurobonds were listed on the KASE in 1998, the Bank became an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three eurobond issues made by the Republic of Kazakhstan in 1997, 1999 and 2000 and as co-manager of the Development Bank of Kazakhstan's eurobond issue in 2006.

Principal business activities

The Bank's core business is focused on retail, SME and corporate banking. Through subsidiary companies the Bank's operations also include pensions, insurance, leasing, brokerage and asset management services. The following table sets out a breakdown of interest income and fee and commission income for retail and corporate banking for the periods indicated:

	As at 31 December		
	2007	*2006*	*2005*
Activity		*(KZT millions)*	
Retail banking	67,270	46,421	23,655
Corporate banking(1)	90,724	56,290	44,891
Total	157,994	102,711	68,546

(1) Including of SME banking (separate figures not available).

Distribution network

One of the Bank's main strengths is its distribution network. As at 31 December 2007, the Bank's branch network consisted of 670 outlets, comprising 22 regional branches, which report to the Head Office, 125 district branches, 473 limited service branches, distributed across all regions of Kazakhstan, each of which report to its respective regional branch, 4 VIP centres and 46 personal service centres. In addition, as at 31 December 2007, the Bank operated a network of 1,119 ATMs and had 3,375 in-store point of sale terminals located at shopping centres and supermarkets in Kazakhstan. The Bank's distribution network development strategy focuses on selective expansion, upgrading existing sales outlets and developing remote banking service channels. Each regional and district branch provides a broad range of banking services. In comparison to branches, limited service branches provide a limited number of banking services, such as deposits, utility payments, cash withdrawals, currency exchange, pension collection and money transfers. Small loans of up to KZT 1 million may also be obtained from limited service branches. Other distribution channels used by the Bank include the Internet and mobile banking. In addition, the Bank also uses the distribution channels established by some of the Bank's other business lines, principally its pension fund and insurance businesses. Large corporate customers are generally customers of the Head Office in Almaty. The Bank's Head Office is responsible for the co-ordination of the branch network operations, marketing strategy and asset and liability management, management of the Bank's financial position and development of its international operations.

Retail Banking

Overview

The Bank's retail banking operations include deposit taking activities (current and term deposits in KZT and foreign currencies), money transfers (including utility payments), credit and debit card services, consumer lending, mortgages and personal banking services. The Bank also provides paying agency services for state pension payments and other social security payments. As at 31 December 2007, the Bank had approximately 5.9 million retail customers, and retail loans representing 29.4 per cent. of its gross loan portfolio. Retail banking accounted for 38.3 per cent. of the Bank's interest income and 64.7 per cent. of the Bank's fee and commission income for the year ended 31 December 2007.

Customer segmentation

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

Products and services

Amounts due to retail customers: As at 31 December 2007, the Bank had approximately 8.5 million retail customer accounts, comprising current accounts, term deposit accounts and card accounts. For the year ended 31 December 2007, stable balances represented 80.8 per cent. of daily average retail current accounts and demand deposits[1]. As at 31 December 2007, the Bank had amounts due to retail customers (individuals) of KZT 357,672 million of which KZT 282,520 million were term deposits and KZT 75,152 million were current accounts, having terms generally ranging from 30 days to five years. In terms of volume, KZT denominated and foreign currency denominated deposits were divided in an approximate ratio of 60:40. According to statistics published by the FMSA the Bank's total market share in amounts due to retail customers was 24.1 per cent. as at 31 December 2007. Amounts due to retail customers represented 38.2 per cent. of the Bank's total amounts due to customers as at 31 December 2007, compared to 35.1 per cent. as at 31 December 2006 and 41.8 per cent. as at 31 December 2005.

1 Stable balances are calculated as the daily average balances on retail accounts (current accounts and demand deposits) minus two standard deviations based on daily balances on retail accounts (current accounts and demand deposits).

Lending: The Bank is active in both the mortgage and consumer lending markets. Loans to individuals represented 29.4 per cent. of the Bank's loans to customers before allowance for loan impairment as at 31 December 2007 compared to 31.3 per cent. as at 31 December 2006, 29.9 per cent. as at 31 December 2005. Of this, mortgage lending represented 14.7 per cent. and consumer lending represented 14.7 per cent. of the Bank's loans to customers before allowance for loan impairment as at 31 December 2007. As at 31 December 2007, according to NBK statistics, the Bank's total market share in retail lending was 15.7 per cent.

The Bank offers three residential mortgage products: regular mortgages, "Ipoteka Light" mortgages and mortgages under the KMC ("Kazakhstan Mortgage Company") programme. "Ipoteka Light" mortgages were launched by the Bank in April 2004. Under the terms of this product, a borrower must make a deposit of at least 20 per cent. (before September 1, 2007 – 15 per cent.) of the principal amount of the loan with the Bank, which is pledged to the Bank, along with security over the property. The Bank pays no interest on the deposit and it is recorded as collateral in the Bank's accounts. Regular mortgages generally have only security over the property. The tenor of the Bank's mortgage products ranges from 7 to 20 years. They are all offered at a fixed rate of interest; however, the Bank has the right to vary rates to reflect market conditions. Some mortgages are also offered at special rates for employees of the Bank. As at 31 December 2007, 57.4 per cent. of the Bank's mortgage portfolio had been issued under the Ipoteka Light programme, approximately 36.1 per cent. had been issued as regular mortgages, and 0.5 per cent. had been issued under the KMC programme and the rest was issued under various minor programmes of the Bank. The Government sponsored KMC mortgage funding programme in which the Bank participates is designed for public servants. Under the programme, the Bank (along with other banks in Kazakhstan) accepts applications for Tenge denominated mortgages, processes the applications (including reviewing eligibility) and advances funds. According to statistics published by the FMSA, as at 31 December 2007 the Bank had a 21.9 per cent. share in the mortgage market of Kazakhstan.

Consumer loans are to a large extent (75 per cent. of aggregate consumer loans as at 31 December 2007) represented by salary backed loans with a maturity of up to three years. These loans, which were introduced in 2002, are marketed as "Express Loans", and are targeted at the Bank's mass and mid market retail customer base. In addition, the Bank offers revolving loans (card overdrafts) to its retail customers. Loans and revolving loans are general purpose loans and are only available to employees of those companies which have a payroll agreement with the Bank and the service is accessible through the customer's salary card. (See "– Corporate – Products and services – Corporate payroll services"). These loans are backed by the borrower's monthly salary.

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

Retail Card Services: The Bank has been instrumental in developing the retail card market in Kazakhstan. The Bank was the first bank in Kazakhstan to start issuing cards and to develop a point of sale terminal system and is also a 25.1 per cent. owner of JSC National Processing Centre as at 31 December 2007, which provides payment clearing and card processing services to clients in Kazakhstan. As at 31 December 2007, although 19 banks in Kazakhstan were offering cards, the Bank had issued 51.6 per cent. of all cards in circulation and owned 20.6 per cent. of all point of sale terminals, according to FMSA statistics. In addition to its own cards, the Bank distributes cards for VISA, MasterCard, American Express, VISA Electron, Cirrus and Maestro and provides card processing services for other Kazakhstan banks. As at 31 December 2007, the Bank had issued a total of 2,474,885 cards, over 78 per cent. of which were salary cards. Some salary cards include an overdraft facility and are issued by the Bank primarily to employees of companies for which it administers payroll schemes. See "– Corporate – Products and services – Corporate payroll services". The Bank's Management believes that it will be able to expand the issuance of credit cards when it implements an automated credit scoring system, which depends on the full implementation of services by Kazakhstan's recently created national consumer credit bureau, of which the Bank is a founding member.

ATM services: The Bank operates the largest ATM network in Kazakhstan, consisting of 1,119 operating ATMs and 299 multi-kiosks, as at 31 December 2007. In addition, customers of the Bank may use ATMs of other Kazakhstan banks for a small fee per withdrawal. The volume of cash withdrawals through the Bank's ATM network was KZT 789 billion for the year ended 31 December 2007, compared to KZT 398 billion for the year ended 31 December 2006.

In November 2004, the Bank introduced a new service called "Card to Card", which enables real time transfer of funds between holders of the Bank's cards using an ATM. Eligible cardholders may also now obtain a credit line via an ATM application. During 2005, the Bank introduced a number of new products for cardholders, including mobile banking services that allow the Bank's customers to access account information and transfer money using mobile phones and other wireless communication units. In April 2007, the Bank introduced a new service called "VISA to VISA 24/7", which enables real time transfer of funds between VISA cardholders using an ATM internationally. By introducing new products and expanding its customer base the Bank increased its total earnings generated from payment card services by 56.6 per cent. to KZT 7,121 million for the year ended 31 December 2007 compared to KZT 4,901 million for the year ended 31 December 2006.

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

Sales, service and distribution channels

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

Corporate Banking

Overview

The Bank's corporate banking operations include lending, trade finance, transactional services, payroll services, underwriting, liquidity and asset management. The Bank has historically had a very strong corporate banking franchise, having close relationships with many of Kazakhstan's leading private and state-owned companies, including NC KazMunayGas JSC, Kazakhmys JSC, NC Kazakhstan Temir Zholy JSC, CNPC-Aktobemunaigas JSC and NC Kazakhtelecom JSC. One of the Bank's strengths has been its strong deposit base, which has enabled it to provide competitive corporate lending. As at 31 December 2007, the Bank had 333 corporate customers and approximately 70,700 SME customers, representing 70.6 per cent. of loans to customers before allowance for loan impairment. Corporate customers (including SME customers) contributed 61.7 per cent. of total interest income and 35.3 per cent. of total fee and commission income during the year ended 31 December 2007. According to statistics published by the NBK (which include lending to SMEs), as at 31 December 2007, the Bank had 12.6 per cent. share of the Kazakhstan corporate lending market.

Customer segmentation

The Bank classifies its corporate customers (as opposed to SME customers) as those whose businesses: (i) have a total credit exposure above U.S.$8 to U.S.$11 million (depending on the region); or (ii) have an annual turnover exceeding U.S.$25 million; or (iii) are part of a larger business group.

Products and services

Corporate deposit accounts: As at 31 December 2007, the Bank had some KZT 197 billion in its corporate current accounts (including SME current accounts) and as at the same date, the Bank had approximately KZT 381 billion of term deposits (including SME term deposits), having terms generally ranging from overnight to 365 days. According to statistics published by the NBK, the Bank's corporate deposits and current accounts (including those of SMEs) of KZT 563,240 million represented 23.1 per cent. of the total market share for Kazakhstan banks as at 31 December 2007. Amounts due to corporate customers (including SME customers) represented 61.8 per cent. of the Bank's total amounts due to customers as at 31 December 2007, compared with 64.9 per cent. as at 31 December 2006 and 58.2 per cent. as at 31 December 2005.

Corporate lending: Loans to corporate customers (including SME customers) consist principally of secured loans with maturities ranging from one month to 10 years. The Bank has continued to increase its lending to corporations and its loans to its corporate customers (including SME customers) amounted to KZT 774,696 million as at 31 December 2007, an increase of KZT 342,007 million or 79.0 per cent. from KZT 432,689 million as at 31 December 2006. Major sectors of corporate lending are: residential and commercial construction, agriculture, energy and mining. Loan portfolio quality is monitored regularly by the Bank's Risk Management Department (which reports to the Bank's Management Board) to ensure adequate provisioning ratios. (See "Asset, Liability and Risk Management".) The largest single exposure to any one borrower as at 31 December 2007 was 2.3 per cent. of the Bank's gross loan portfolio, or KZT 24,768 million, and the top 10 exposures amounted to 15 per cent. of the gross loan portfolios or KZT 161,592 million.

Trade finance: The Bank intends to expand its trade finance business, including documentary operations such as issuing letters of credit and guarantees. The Bank's trade finance facilities include (i) short-term trade financing (up to 12 months) and (ii) long-term facilities (up to 10 years). Long-term facilities for financing the import of capital goods are usually covered by Export Credit Agencies (including Euler Hermes Kreditversicherungs-AG, COFACE, Export-Import Bank of the United States and SACE S.p.a.). As at 31 December 2007, the aggregate amount drawn by the Bank and outstanding under its on-lending trade finance facilities was KZT 76,061 million, compared to KZT 53,718 million as at 31 December 2006.

Corporate payroll services: The Bank provides payroll services to approximately 1.7 million employees of about 5,000 entities including NC KazMunayGas JSC, Kazakhmys JSC and NC Kazakhstan Temir Zholy JSC, as well as the Bank's own employees. Employees taking part in this service are issued with salary cards and can take advantage of the various programmes on offer to salary cardholders. Generally, the Bank charges fees and commissions to the employers taking part in this service, and the employees themselves are not charged for the service, other than transaction costs and interest charges when using their cards. Management believes that the Bank holds the largest market share (more than 60 per cent.) in payroll services business.

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

Corporate card services: Corporate cards are issued to corporate customers for payment of general and administrative expenses. At the customer's option, various limits and restrictions on the use of the corporate card account can be set for security purposes. As at 31 December 2007, approximately 6,300 corporate cards were in issue to corporate customers (including SME customers), the majority of which are extended small overdraft limits. Customs payment cards are also available to corporate customers. See "– SME – Products and services – SME card services". Salary cards are issued to employees of large corporates having corporate payroll schemes with the Bank. See "– Corporate payroll services".

Sales, service and distribution channels

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

SME

Overview

The Bank's SME banking operations include providing loans to SMEs as well as payroll services, transactional services, leasing, insurance, pensions, cards and trade finance. In order to direct its services more accurately to the SME sector, the Bank separated its SME business from its corporate business in 2004. The Bank believes that the SME sector will represent one of the most important growth areas in the Kazakhstan economy. As at 31 December 2007, the Bank had approximately 70,700 SME customers.

Customer segmentation

The Bank classifies its SME customers as those businesses that have a total credit exposure to the Bank of up to U.S.$8 million to U.S.$11 million (depending on the region). In order to better serve the needs of its SME customers, the Bank further classifies those customers with loan exposures over KZT 125 million (approximately U.S.$3,700,000) and annual turnover of between KZT 300 million and KZT 3 billion as being medium-sized enterprises and those with loan exposures of up to KZT 125 million and annual turnover under KZT 300 million as being small-sized enterprises, where such limits are indicative, depend on the nature of the relationship between the customer and the Bank and vary from region to region.

Products and services

Lending: Most loans to SMEs are secured by real estate, other fixed assets, inventory and future receivables and have maturities ranging from one month to 10 years. The Bank offers its SME customers standardised lending programmes which are designed to meet different business requirements and depend on the collateral available and the tenor of the loan. In addition, some SME loans are granted under Government sponsored budgetary and agricultural co-financing programmes. The Bank's dedicated programme for small businesses originally evolved from the micro-lending programmes developed by the EBRD for the top banks in Kazakhstan. During the last two years the Bank has been developing its own small business programmes to include, among other things, start-up companies. The Bank is also further developing its trade finance services for its SME customers. See "– Corporate – Products and services – Trade finance". The FMSA does not publish statistics showing SME lending as separate from corporate lending and therefore there is no official market share information available for the SME business.

SME card services: To promote card product sales for SMEs, a new Card Products Sales Department was created at the Bank's Head Office in February 2005, with card sales centres in some of the Bank's branches. The Bank intends to extend the issue of its corporate cards to the majority of its medium business customers by the end of 2009. One of the successful card products offered to medium business customers is a system whereby customs payments can be made using the Bank's payment cards at one of the 137 specially adapted POS terminals located at customs stations nationwide. The Bank initially introduced this service in 2003 and holds a monopoly position in this market. The size of customs payments through the Bank's POS terminals has gradually increased to KZT 9.1 billion per month on average in the year ended 31 December 2007. The Bank charges its standard fee for using its POS terminals at the customs stations which generated KZT 147 million in revenues in the year ended 31 December 2007. The Bank intends to enhance and further develop the customs payment card project to include, among other things, payment of cargo declaration and inspection charges.

Sales, service and distribution channels

Both medium-sized and small business customers are serviced at the Bank's branches. In 2004, the Bank created a specialised department, the main function of which is to further develop the Bank's SME business. In 2005, the department was divided into two units, focusing on small businesses and medium-sized businesses, respectively. As of 31 December 2007, the Bank had 13 "all for small business" centres in 13 regions of Kazakhstan including Almaty and Astana. These centres focus on providing all types of financial services for small businesses, including relevant consultancy, small business lending, notary and retail services. The entire SME network is engaged in cross-selling the Bank's pension, insurance, payroll, card and leasing services.

Other Business Activities

Pension Fund

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

As at 31 December 2007, the Bank owned 85 per cent. of Halyk Pension Fund. Halyk Pension Fund is authorised to collect pension contributions, provide pension payments, manage pension assets and develop pension programmes for its customers in Kazakhstan. As at 31 December 2007, Halyk Pension Fund had over 1.9 million customers and had pension assets under management of KZT 351 billion which, according to FMSA statistics, represented 29.1 per cent. of the aggregate pension assets of the Kazakhstan pension system, making it the largest pension fund in Kazakhstan, with its next largest competitor having 17.6 per cent. market share. As of 31 December 2007, Halyk Pension Fund equity was KZT 8.5 billion, and it had net income of KZT 2.6 billion for the year ended 31 December 2007.

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

The organisations whose employees' funds are invested with Halyk Pension Fund include Government entities, corporates and the Bank itself. Employees are free to move their pension accruals to a new pension fund provider up to twice a year without a penalty. Also, according to the Bank's internal estimate, 60 per cent. of customers of the Bank using the Bank's payroll services are at the same time using pension asset management services provided by Halyk Pension Fund. As at 31 December 2007, Halyk Pension Fund had the largest branch network in Kazakhstan, with 17 branches, 13 regional offices, 62 service centres located in branches of the Bank, 53 service centres located in the offices of its main corporate customers, 19 agencies and 327 agents selling their pension fund products. Halyk Pension Fund is focused on introducing and developing innovative technologies and cross-selling package products, such as discounted Halyk Bank mortgage rates and beneficial saving rates on large deposits, to certain Halyk Pension Fund customers.

Insurance

The Bank's insurance arm, JSC Kazakhinstrakh ("Kazakhinstrakh"), is a non-life insurance company providing a full package of general insurance services to all types of legal entities and individuals across a broad range of industry sectors. A majority interest in Kazakhinstrakh was acquired by the Bank from Almex in September 2006, taking its holding to some 98 per cent., of which 9.9 per cent. is held by Halyk Pension Fund. Up to 27 October 2006, the Bank owned 42 per cent. of Kazakhinstrakh which was accounted in the Bank's consolidated financial statements using the equity method. As at 31 December 2007, Kazakhinstrakh had the biggest branch and agency network among insurance companies in Kazakhstan with 16 branches and 229 agencies located throughout Kazakhstan and over 2,000 agents, some of whom are located within the Bank's branch network. According to the FMSA, at 31 December 2007, Kazakhinstrakh was the sixth largest general insurance company in Kazakhstan with a 7.0 per cent. market share and over 300,000 corporate and individual customers.

Kazakhinstrakh is a successor of the former Soviet Union's insurance system in Kazakhstan, which was created as a separate legal entity in 1995 and privatised in 2001. As at 31 December 2007, Kazakhinstrakh had total assets of KZT 11,962 million, net income for the year ended 31 December 2007 of KZT 1,737 million, with KZT 6,205 million of net premiums written (reflecting high levels of re-insurance)[1], KZT 11,402 million of gross premiums written[1], KZT 7,523 million in total liabilities and KZT 4,439 million of equity.

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[1]Source: FMSA

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

According to FMSA statistics, the Kazakhstan insurance market had a compound annualised asset growth rate of 72 per cent. per annum over the period from 31 December 2004 to 31 December 2007, reflecting the growth in the Kazakhstan economy and the increasing penetration of financial products.

In November 2005, Kazakhinstrakh created a wholly-owned life insurance company – JSC Halyk Life ("Halyk Life") – which began operations in April 2006. For regulatory reasons Halyk Life was transferred later in 2006 to the Bank and is now wholly owned by the Bank. Halyk Life offers various types of personal insurance products, including life, annuity and casualty insurance products. As of 1 August 2007 Halyk Life launched the sale of its products through the Bank's branch network.

Leasing

Through its wholly-owned subsidiary, JSC Halyk Leasing ("Halyk Leasing"), the Bank provides operating lease financing to most industrial sectors of the Kazakhstan economy, including construction, oil and gas, mining, transport, agriculture and food processing. As at 31 December 2007, Halyk Leasing had a leasing portfolio of KZT 7,393 million, which it believes to be one of the largest in Kazakhstan. It is headquartered in Almaty and has a representative office in Aktau, Atyrau and a branch in Chelyabinsk, Russia. It also takes advantage of the "Leasing Classic" programme, which it runs jointly with the Bank, allowing it to make use of the Bank's wide branch network throughout Kazakhstan.

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

All income which Halyk Leasing receives from its leasing business is based on a margin charged on the lease payments made by customers above the funding costs charged to Halyk Leasing by the Bank. Interest income received from certain leases is exempt from corporate income tax. In the case of customers who default on their lease payments, the leased assets are taken back, although for the year ended 31 December 2007 there were no such cases.

Brokerage and asset management

The Bank provides brokerage, advisory, capital markets, investment banking and asset management services through its subsidiary JSC Halyk Finance ("Halyk Finance"). Halyk Finance, a wholly-owned subsidiary of the Bank, was established on 10 November 2004 and operates from the Bank's Head Office. As at 31 December 2007, Halyk Finance had total assets of KZT 9,349 million, equity of KZT 2,539 million, and made a net loss for the year ended 31 December 2007 of KZT 2,472 million.

As at 31 December 2007, the assets under management and the brokerage portfolio of Halyk Finance had a marked-to-market value of KZT 6,512 million and KZT 41,984 million respectively. Halyk Finance also engages in proprietary trading for the Bank, within the limits prescribed by the FMSA. In addition, it has also acted as an underwriter on several domestic bond issues and believes that it is the leading underwriter on the domestic market. At 31 December 2007, it had 66 brokerage clients, comprising 22 corporate clients and 44 individuals. Halyk Finance is actively working with the Bank to offer its products to the Bank's retail customers as well as to its SME and corporate customers and is currently engaged in a training programme for branch staff to assist in the selling of mutual funds. As of 31 December 2007, Halyk Finance managed eight public mutual funds.

Other Banking and Financial Services

The Bank through its treasury department is also one of the primary participants in the foreign exchange and government securities markets and has a licence to engage in certain precious metal transactions in Kazakhstan and abroad. As of 31 December 2007, according to the Kazakhstan Stock Exchange (as published on 4 January 2008), the Bank's market share was 9.1 per cent. in terms of the volume of the foreign exchange transactions. The Bank's treasury department primarily works with SME and corporate clients and is looking to further grow this area of its business by expanding into other markets, such as the derivatives market.

International banking

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

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

Halyk Bank Kyrgyzstan, is a commercial bank incorporated in the Kyrgyz Republic, and specialises in SME banking services. In September 2004, the Bank acquired OJSC Kairat Bank for a total consideration of U.S.$1.3 million[(1)] (KZT 180 million) and renamed the bank as Halyk Bank Kyrgyzstan. As at 31 December 2007, Halyk Bank Kyrgyzstan had total assets of SOM 2,760 million (U.S.$80 million)[(2)] and equity of SOM 582 million (U.S.$17 million)[(2)], and net income for the year ended 31 December 2007 of SOM 124 million (U.S.$3 million)[(2)]. The Bank has successfully introduced a number of retail and SME banking products in the Kyrgyz market. The Bank intends to replicate the same strategy in other countries in the Central Asian region. The U.S. Dollar amounts in this paragraph were calculated using the year end exchange rate as at 31 December 2007 and the average exchange rate for the year ended 31 December 2007.

NBK – Bank, is a regional Russian bank in the Chelyabinsk industrial region, which has strong links to the Kazakhstan industrial sector due to its location along the Russia Kazakhstan border. The Bank acquired a 77 per cent. interest in NBK – Bank in April 2004 for a total consideration of approximately U.S.$1.2 million[(1)] (KZT 163 million). In December 2007, the Bank was renamed as OJSC NBK – Bank from JSC Bank Khlebny. In 2005 and 2006, the Bank made additional contributions of RUR 56 million and RUR 111.2 million, respectively, to the share capital of NBK – Bank. In December 2006, the Bank increased its holding in NBK – Bank to approximately 100 per cent. As at 31 December 2007, NBK – Bank had total assets of RUR 241 million (U.S.$10 million)[(3)] and equity of RUR 190 million (U.S.$8 million)[(3)] and net income for the year ended 31 December 2007 of RUR 3 million (U.S.$0.1 million)[(3)]. The Bank's management believes that this acquisition will allow the Bank to take advantage of the growing levels of trade between the Chelyabinsk region and Kazakhstan, especially in the construction, mining and oil and gas sectors. The U.S. Dollar amounts in this paragraph were calculated using the year end exchange rate as at 31 December 2007 and the average exchange rate for the year ended 31 December 2007. The Bank is considering further expansion of its operations in Russia within the corporate and SME sectors and in Kyrgyzstan within SME and retail sectors. It is also considering organic expansion into other neighbouring countries such as Western China, Tajikistan, Azerbaijan and Uzbekistan.

In December 2007, the Bank registered two subsidiaries in Mongolia: Halyk Dornod LLC and Halyk Astana Dornod LLC. Halyk Dornod LLC was registered in accordance with the Mongolian law and submitted an

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1. U.S.$ amounts have been translated from the KZT amounts at the rate of KZT 134.56 = U.S.$1.00, which is the rate published by KASE on 30 September 2004.

2. SOM currency translations for balance sheet and profit and loss accounts figures are based on an exchange rate of U.S.$0.029 per SOM 1.00 on 31 December 2007 and the average exchange rate of U.S.$0.028 per SOM 1.00 for the year ended 31 December 2007 respectively.

3. RUR currency translations for balance sheet and profit and loss accounts figures are based on an exchange rate of U.S.$0.041 per RUR 1.00 on 31 December 2007 and the average exchange rate of U.S.$0.040 per RUR 1.00 for the year ended 31 December 2007 respectively.

application for a banking licence to the Bank of Mongolia. On 28 February 2008, Halyk Astana Dornod LLC obtained a certificate from the Financial Regulatory Commission of Mongolia authorising Halyk Astana Dornod LLC to carry out non-banking financial operations in the territory of Mongolia. As at 31 December 2007, Halyk Dornod LLC and Halyk Astana Dornod LLC had share capital equal to KZT 1.2 million each.

In January 2008, the Bank registered a subsidiary in Georgia: JSC Halyk Bank Georgia. On 29 January 2008, JSC Halyk Bank Georgia received a licence to carry out banking operations in the territory of Georgia. As at 1 February 2008, JSC Halyk Bank Georgia had share capital equal to KZT 1,216 million.

Subsidiaries

The following table shows the Bank's principal subsidiaries as at 31 December 2007:

	Holding as at 31 December 2007 (per cent.)	*Country*	*Industry*
JSC Halyk Leasing	100	Kazakhstan	Leasing
JSC Kazteleport	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of international bonds and loans
OJSC Halyk Bank Kyrgyzstan	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	Kazakhstan	Broker and dealer activities
LLP Halyk Inkassatsiya	100	Kazakhstan	Cash collection services
JSC Halyk Life	100	Kazakhstan	Life insurance
JSC Halyk Capital	100	Kazakhstan	Broker and dealer activities
LLP NBK Finance	100	Russia	Broker and dealer activities
JSC Kazakhinstrakh	98	Kazakhstan	Insurance
JSC Accumulated Pension fund of Halyk Bank	85	Kazakhstan	Pension assets accumulation
JSC NBK Bank	100	Russia	Banking
LLP Halyk Dornod	100	Mongolia	Banking
LLP Halyk Astana Dornod	100	Mongolia	Broker and dealer Activities

The Bank to date has invested KZT 17.1 billion into the capital of its subsidiaries. According to its budget, by year end 2008 the Bank will have invested up to KZT 36 billion into the capital of its subsidiaries.

Properties

As at 31 December 2007, the total net book value of the fixed assets (which are mostly represented by its branch network and are comprised of land, buildings, computer hardware and others) owned by the Bank and its consolidated subsidiaries was KZT 22,766 million, with the Bank's property assets being revalued in 1997. There are no charges on any of the Bank's properties securing indebtedness of the Bank. The Bank's properties are maintained by the Property Management Division of the Bank.

Information systems

The Bank has made substantial investments in technology with the aim of improving customer service, increasing its operating efficiencies, imposing risk control systems and enhancing its overall competitive position. In the year ended 31 December 2007, the Bank's information technology-related capital expenditures were approximately KZT 5,200 million and in 2006, these were approximately KZT 2,800 million, compared to approximately KZT 1,800 million in 2005. The 2008 budget includes expenses for software and software licences, mainly from Temenos, SAP and Microsoft, which are expected to amount to approximately KZT 4,825 million, representing approximately 59 per cent. of the total budgeted amount, approximately KZT 2,484 million (30 per cent.) for both computers and servers and approximately KZT 882 million (11 per cent.) for telecommunication equipment and other (printers, scanners etc.). (See "Overview of the Bank – Corporate Strategy – Continue to raise standards to achieve operational excellence and efficiency".)

In 2005, the Bank launched the mobile banking system for customers to manage their card accounts via their mobile phones, completed the introduction of a collateral monitoring and management system, successfully completed a pilot project for the implementation of an SAP BW data warehouse, and developed an HP Open View used for management of IT infrastructure. In 2005, the Bank updated the following systems and software: customer contacts, know your customer, its integrated database on material damages incurred by the Bank as a result of its operations and the Unified Database on Contracts. By September 2007, the Bank had completed the second and third stages of the implementation of the SAP BW data warehouse, which will allow compiling various management and regulatory reports. As of 1 March 2008 more than 80 management and regulatory reports had been prepared using the SAP BW data warehouse. In 2008, the Bank is planning to complete the introduction of a fixed assets accounting, procurement and technical support, controlling, planning and budgeting system (SAP R/3, BPS). In 2005, the systems in the largest retail branch were fully centralised. In 2006, a centralised Oracle CDH customer database was introduced. Since 2006, according to PMI standards, the Bank has introduced IT project management principles using Open Plan and WelcomeHome software. In 2007 the Bank completed around 30 IT projects.

In 2006, the Bank launched the CobIT (IT governance support) and ITIL (IT service management) systems. The Bank believes that the introduction of these systems will increase the efficiency and transparency of its IT management. The Bank acquired a new T 24 system provided by Témenos in June 2006, which it plans to have installed by the end of 2008 and will replace the entire IT platform for the Bank, integrating all of its banking and operational functions. The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in information technology to support the efficient growth of its operations. The Bank's management believes that this upgrade will significantly improve its risk management capabilities, asset and liability management, liquidity management and monitoring of lending activities. The Bank's management also expects that the improvements to its IT systems will enable it to improve overall management and business efficiency. The Bank's critical IT systems have "hot" reserve systems. In case of main server failures or building destruction, two recovery systems based in Almaty will be activated with no loss of transaction data. A further recovery system is currently under construction in Astana and is expected to be completed in spring 2009.

Security and anti-money laundering

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

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

Insurance cover

The Bank has a number of insurance policies provided by Kazakhinstrakh, including obligatory employers' liability insurance (coverage KZT 7,665 million), sickness benefit insurance (coverage KZT 436 million), voluntary insurance of entrepreneurship risk (coverage KZT 653 million), obligatory vehicle owners insurance (coverage varies), insurance of the bank risks and risks related to computer offences (coverage KZT 628 million) and voluntary insurance of other financial losses (coverage KZT 1,500 million). In addition, the Bank carries group insurance for the Bank's cardholders provided by AIG Kazakhstan Insurance Company (coverage varies).

In April 2007, the Bank entered into a collective insurance agreement for employees with Halyk Life (coverage KZT 14,819 million).

All policies are generally renewable annually.

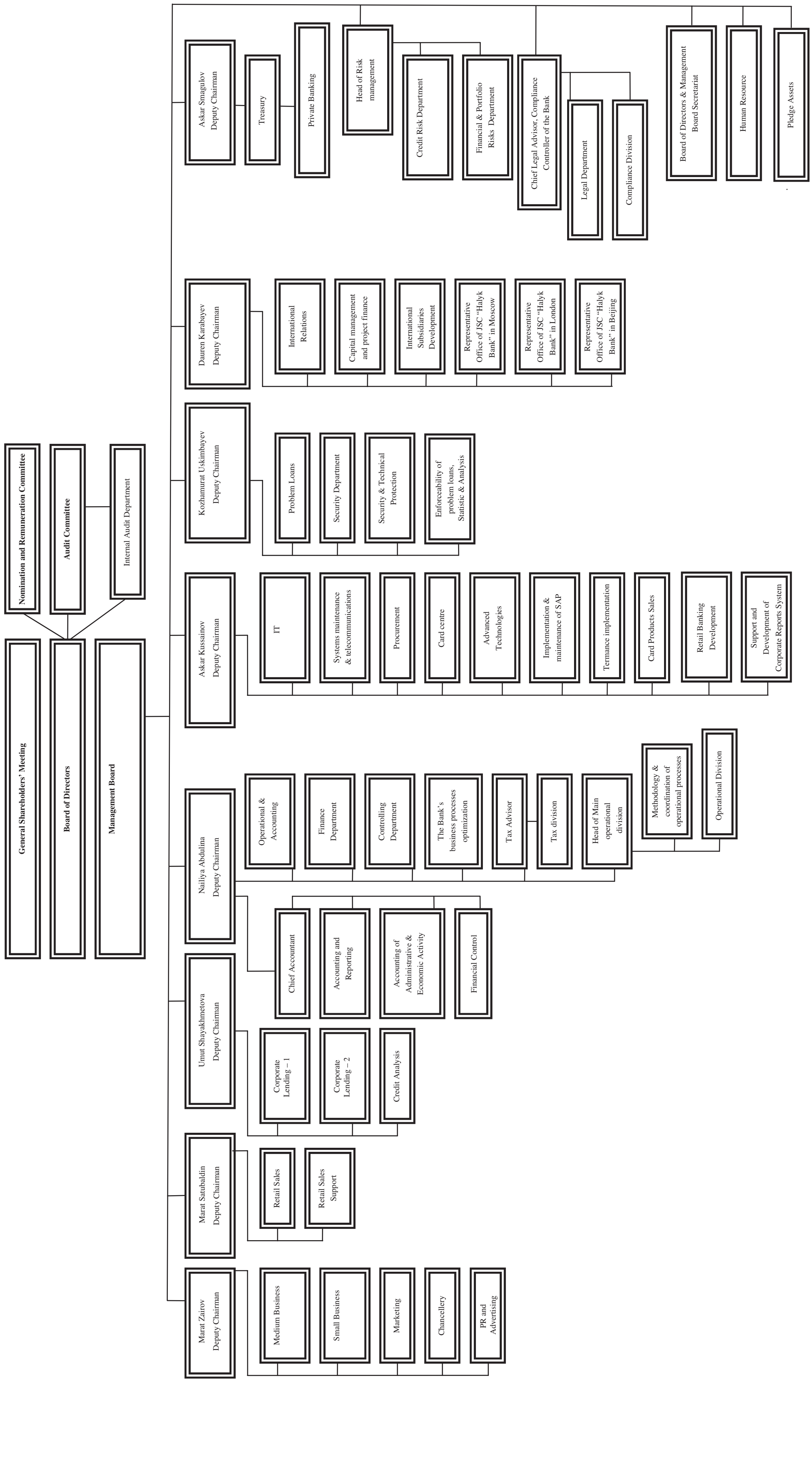
Legal proceedings

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

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

MANAGEMENT AND EMPLOYEES

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



General

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

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

The Bank's registered office is located at 97 Rozybakiev Street, Almaty 050046, Kazakhstan, and its telephone number is +7 727 259 00 00. The Bank is registered with the Registration Services Committee of the Ministry of Justice of the Republic of Kazakhstan and its registration number is 3898 1900 AO.

Conflicts of interest

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

Board of Directors

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

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

Name	*Position(s)*	*Year Born*
Alexander Pavlov	Chairman of the Board, Independent Non-Executive Director(1)	1953
Kamilya Arstanbekova	Chairwoman of Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC	1963
Kairat Satylganov	General Director, Holding Group Almex JSC	1965
Grigoriy Marchenko	Chairman of the Management Board of the Bank	1959
Askar Yelemessov	Adviser to the Chairman of the Management Board, representative of Holding Group Almex JSC on the Board	1968
Christof Ruehl	Independent Non-Executive Director(2)	1958

Notes:

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

(2) Independent under UK Combined Code.

Alexander Pavlov, Chairman of the Board, Independent Non-Executive Director. Mr. Pavlov graduated from the Belarusian Institute of People's Economy in 1974. Between 1994 and 2004 he worked as a government official for the Republic of Kazakhstan. He started as Minister of Finance and later became

Deputy Prime Minister, progressing to First Deputy Prime Minister. From 2000 to 2004, he served as Vice President and Vice Chairman of the Board of Directors of Kazakhmys. In 2004, Mr. Pavlov became an external consultant to the Bank and has since then acted as Chairman of the Board of Directors of the Bank.

Kamilya Arstanbekova, Chairwoman of JSC Accumulative Pension Fund of Halyk Bank of Kazakhstan. Ms. Arstanbekova studied at the Almaty Institute of People's Economy where she obtained a degree in Finance and Lending. From 1991 to 1995, she worked at Alem Bank, Kazakhstan where she was Deputy Head of the Foreign Debt Service Department, Head of the Lending Department, an Economist and Senior Specialist. From May to September 1995, she was Head of the Foreign Debt Service Department at Eximbank Kazakhstan. From October 1995 to August 1998, she was Head of the Commercial Department and Deputy Chairman of the Management Board for Almaty Merchant Bank (ATF Bank). Ms. Arstanbekova has held her present position as Chairwoman of the Management Board of JSC Accumulative Pension Fund of Halyk Bank of Kazakhstan since September 1998.

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

Grigoriy Marchenko, Chairman of the Management Board of the Bank. Mr. Marchenko graduated from Moscow State Institute of International Relations in 1984 with honours. Between 1992 and 1994, he was an assistant to the Vice President of the Republic of Kazakhstan. In 1994, he was appointed as Deputy Chairman of the NBK. In 1996, he became the Chairman of the National Securities Commission of the Republic of Kazakhstan. Mr. Marchenko was the President of DB Securities (Kazakhstan) JSC from 1997 to 1999. From 1999 to 2004, he served as Governor of the NBK. In 2004, he was appointed as First Deputy Prime Minister of the Republic of Kazakhstan and then Advisor to the President of the Republic of Kazakhstan. Mr. Marchenko has been in his current position since January 2005.

Askar Yelemessov, Adviser to the Chairman of the Management Board, representative of Holding Group Almex JSC on the Board. Mr. Yelemessov was appointed to the Board in June 2007. In 2006, he was Kazakhstan's Vice Minister of Finance. He was a Deputy Governor of the Management Board of the National Bank of Kazakhstan from 2004 to 2006, before which he was Vice President, then President, of JSC DB Securities Kazakhstan. Before that, Mr. Yelemessov held a number of roles in Kazakhstan Banks. He was a member of the Kazakhstan Stock Exchange Council between 2001 and 2003, and was Co-Chairman of the Foreign Investor Council in 2003. Mr. Yelemessov holds an economics degree from Moscow State University, and an MBA from the University of Washington, USA.

Christof Ruehl, Independent Non-Executive Director. Mr. Ruehl was appointed to the Board in June 2007. Since 2008 he has been Chairman of the British Institute of Energy Economics, London. In 2007 he became Group Chief Economist and Vice President of BP plc. Since 2005, he has been the Deputy Chief economist of British Petroleum PLC and, before that, worked for The World Bank Group where he was Senior Economist in Washington from 1998 to 2001, Chief Economist in Moscow from 2001 to 2004, and Lead Economist and Sector Leader in Brasilia from 2004 to 2005. He previously worked in academia, most recently at the University of California, Los Angeles, where he was Assistant Professor of Economics. Mr. Ruehl holds an MA in economics from the University of Bremen, Germany.

The business address of each of the members of the Board of Directors is the registered office of the Bank.

Management Board

The Management Board, which meets weekly, is responsible for the day-to-day management of the Bank and implements the decisions of the General Meetings of Shareholders and the Board of Directors. The

Management Board consists of nine members, who are elected by the Board of Directors for a period of three years. As at the date of this Prospectus, the Management Board consists of the following members:

Name	*Position(s)*	*Year Born*
Grigoriy Marchenko	Chairman of the Management Board	1959
Nailiya Abdulina	Deputy Chairman, Finance and Accounting	1946
Dauren Karabayev	Deputy Chairman, Investment Banking, International Activities	1978
Marat Zairov	Deputy Chairman, SME Banking	1968
Marat Satubaldin	Deputy Chairman, Retail Banking	1964
Umut Shayakhmetova	Deputy Chairman, Corporate Banking	1969
Askar Kussainov	Deputy Chairman, Information Technologies	1962
Askar Smagulov	Deputy Chairman, Treasury, Investment Banking	1975
Kozhamurat Uskimbayev	Deputy Chairman, Security	1954

Grigoriy Marchenko, Chairman of the Management Board. See biography above.

Nailiya Abdulina, Deputy Chairman, Finance and Accounting. Ms. Abdulina graduated from the Almaty Institute of People's Economy in 1981 with a degree in accounting. Between 1998 and 2005, she served as the Deputy Chairman of the Management Board of the NBK. She joined the Bank in 2005 as Advisor to Chairman of the Management Board. In March 2006, she was appointed as Deputy Chairman of the Management Board.

Dauren Karabayev, **CFA**, Deputy Chairman, Investment Banking and International Activities. Mr. Karabayev graduated from the Almaty Institute of People's Economy in 1999 with a degree in economics. In 2001, he received a master's degree in finance from the University of Texas, USA. In 2001, he joined ABN AMRO Bank Kazakhstan and held various positions in credit analysis and project finance. From November 2004 to February 2007, Mr. Karabayev worked as a Managing Director of Invest Banking and International Department. He was appointed as a Deputy Chairman of the Bank with effect from 1 March 2007.

Marat Zairov, Deputy Chairman, SME Banking. Mr. Zairov graduated from Moscow State University in 1992 with a bachelor's degree in economics and from Kazakhstan State Law Academy in 2000 with a degree in law. Between 1993 and 1994, he held various positions in Kazpisheprom Kazakhstan State Cooperation Association, the Ministry of Finance of the Republic of Kazakhstan and Alemsystem Financial and Investment Corporation. From 1994 to 1997, Mr. Zairov worked in Alem Bank Kazakhstan, Exim Bank and Kazkommertsbank. Prior to joining the Bank in August 2000, Mr. Zairov worked as a Deputy Chairman of Bank TuranAlem and held management positions in OJSC Temirbank. Mr. Zairov has been in his current position since August 2000.

Marat Satubaldin, Deputy Chairman, Retail Banking. Mr. Satubaldin graduated from the Almaty Institute of People's Economy in 1985. He has worked in the Kazakhstan banking system since 1994. He worked as Head of the Customer Services Department in Bank TuranAlem JSC from February 1997 to February 1999. From March 1999 until January 2001, he served as President of Kurmet Pension Fund. In February 2001, Mr. Satubaldin was appointed as a Director of the Retail Sales Support Department at Kazkommertsbank. He joined the Bank in January 2002 as Managing Director and has been a Deputy Chairman of the Bank since February 2005.

Umut Shayakhmetova, Deputy Chairman, Corporate Banking. Ms. Shayakhmetova graduated in 1993 from the University of People's Friendship in Moscow. In 1996, she received an MBA from Rutgers University, New Jersey. In 1997, she joined ABN AMRO Bank Kazakhstan and held various positions in project finance teams and later became Chairman of the Management Board of ABN AMRO Asset Management. From March 2001 to November 2004, Ms. Shayakhmetova worked as Deputy Chairman of the Management Board of ABN AMRO Bank. She has been a Deputy Chairman of the Bank since November 2004.

Askar Kussainov, Deputy Chairman, Information Technologies. Mr. Kussainov graduated in 1984 from Moscow State University. In 1989, he received a degree in physics and mathematics. From December 1997 to July 1998, Mr. Kussainov was a professor at Washington State University, USA. From 1998 to 2003, he worked as Executive Director of Kazakhtelecom and, from 2003 to 2005, he was a representative of Kazakhtelecom in Russia. He has been a Deputy Chairman of the Bank since February 2005.

Askar Smagulov, Deputy Chairman, Treasury, Investment Banking. Mr. Smagulov graduated from Kazakh State University with a degree in economics. In 1998 he received an MBA from the University of Rochester, USA. In 1999 Mr. Smagulov joined ABN AMRO Bank Kazakhstan and served as a Dealer of the Treasury, Head Dealer of the Treasury, Head of Trade Division of the Treasury and Treasurer of the Treasury. From 2005 to 2007 Mr. Smagulov worked at Halyk Bank as a Head of Treasury and since September 2007 he has acted as Deputy Chairman of the Management Board.

Kozhamurat Uskimbayev, Deputy Chairman, Security. General Uskimbayev graduated from the Almaty School of Militia of the Ministry of Internal Affairs of USSR ("MIA") in 1980, from Karaganda High School of MIA USSR in 1986 and from the Academy of MIA USSR in 1991. He has held the rank of Major-General since 2003. In 1994 he was appointed as a Deputy Head of the Internal Affairs Department of Almaty city. From 1995 to 2002 General Uskimbayev has served in various positions in the MIA of the Republic of Kazakhstan. In 2002 he was appointed as a Head of the Internal Affairs Department of the Aktobe region and from 2003 he has acted as Vice-Minister of Internal Affairs of the Republic of Kazakhstan. He has been a Deputy Chairman of the Bank since September 2007.

The business address of each of the members of the Management Board is the registered office of the Bank.

Conflicts of interest

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

Major Committees

Assets and Liabilities Management Committee

As at the date of this Prospectus, the ALCO members were as follows:

Name	*Position(s)*
Grigoriy Marchenko	Chairman of the Management Board
Nailiya Abdulina	Deputy Chairman
Umut Shayakhmetova	Deputy Chairman
Aliya Karpykova	Head, Risk Management
Askar Smagulov	Deputy Chairman
Dauren Karabayev	Deputy Chairman
Evgeny Usatov	Director, Financial Risks and Portfolio Analysis Department
Maulet Sabanshiev	Head, Main Operations Division

For a description of the duties of the ALCO, see "Asset, Liability and Risk Management – Asset and Liability Management Committee".

Credit Committees

The following committees located at the Head Office of the Bank are responsible for administering the Bank's internal credit policy:

- Head Office Credit Committee – responsible for credit decisions with respect to risk exposure to corporate clients.
- Branch Network Credit Committee – responsible for credit decisions with respect to risk exposure to SME clients in excess of the established limits of each branch.
- Retail Lending Credit Committee – responsible for credit decisions with respect to risk exposure to retail customers.

In addition, each district and regional branch has its own retail lending credit committees. Such committees are permanent committees of the Bank that are responsible for the implementation of the internal credit policy of the Bank on retail lending through branches. These regional credit committees report to the Branch Network Credit Committee. (See also "Asset, Liability and Risk Management – Lending Policies and Procedures".)

Audit Committee

The Audit Committee regulates the Bank's and its subsidiaries' internal control system and risk management adequacy. The Audit Committee considers and implements projects relating to internal regulatory acts, which in turn, define the Bank's and its subsidiaries' policy relating to internal control and risk management areas. The Audit Committee defines and minimises the risks in Bank activity; it furthermore reports to the Board of Directors. As at the date of this Prospectus, the position of Chairman of the Audit Committee is vacant and the Audit Committee consists of the following members:

Name	*Position(s)*
Alexander Pavlov	Chairman of the Committee, Chairman of the Board of Directors
Kamilya Arstanbekova	Member of the Committee, Chairwoman of Accumulative Pension Fund of Halyk Bank of Kazakhstan
Christof Ruehl	Member of the Committee, Independent Director

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is an advisory body of the Board of Directors which makes recommendations on appointment of the members of the Board of Directors (except for the Chairman of the Board of Directors and the Chairman of the Management Board), the maintenance of a transparent and effective remuneration system for the members of the Board of Directors and the Management Board based on their performance results, as well as the determination of the range of remuneration to the members of the Board of Directors and the Management Board. The Committee consists of three members of which at least two members should be independent directors. As at the date of this Prospectus, the Nomination and Remuneration Committee consisted of the following members:

Name	*Position(s)*
Alexander Pavlov	Chairman of the Committee, Independent Director
Askar Yelemessov	Member of the Committee, Advisor to the Chairman of the Management Board, representative of Holding Group Almex JSC in the Board of Directors
Christof Ruehl	Member of the Committee, Independent Director

Service Contracts

All members of the Management Board have entered into service agreements with the Bank, which, among other things, provide standard employment terms. Under the service agreements, employment can typically be terminated upon a 30-day notice period.

Management Compensation

In accordance with the Charter, the amount of remuneration to be paid to members of the Board of Directors is subject to approval by the general shareholders' meeting, and the amount of remuneration to be paid to members of the Management Board and its Chairman is subject to determination and approval by the Board of Directors. During 2008 the Bank plans to pay remuneration to the members of its Board of Directors and Management Board for the year 2007 in the amount of KZT 1,550 million.

Management Loans

The following table sets out the principal amounts of outstanding loans and guarantees extended to members of the Management Board and Board of Directors as at 31 December 2007.

	As at 31 December 2007 (unaudited) (KZT millions)
Payable on demand	–
One to three years	–
Over three years	43
Total	43

As at 31 December 2007, the total amount of outstanding loans extended to members of the Management Board and Board of Directors comprised 0.05 per cent. of the Bank's total equity. There are no outstanding loans, guarantees (or other contingent liabilities) extended by the Bank to any member of the Management Board or the Board of Directors other than those discussed above.

Share ownership by management

Save for Mr. Marat Zairov (Management Board member), as at 31 December 2007 (being the latest practicable date before the date of this Prospectus), none of the members of the Board of Directors or of the Management Board owned shares in the Bank, nor have options been granted. As at 31 December 2007, Mr. Marat Zairov (Management Board member) owned 2,456 common shares.

Employees

As at 31 December 2007, the Bank had 9,843 employees, of whom 86 per cent. were employed in the branches and retail outlets in Kazakhstan. As at 31 December 2007, the Bank employed 9,264 full time employees and 579 part time employees. As at the same date, the average age of the Bank's employees was approximately 35 years. Salaries and other employee benefits increased by KZT 3,750 million, or 23.5 per cent., for the year ended 31 December 2007 to KZT 19,681 million in comparison to the same period of 2006. The increase in salaries and other employee benefits in 2007 was primarily attributable to an increase in head count and salary levels over the period, particularly for junior level employees and the introduction of bonus programmes for front office staff.

The following table sets out the number of employees of the Bank as at the dates indicated:

	As at 31 December		
	2007	*2006*	*2005*
Head office	1,418	1,397	959
Branches and retail outlets	8,425	7,852	7,422
Total	9,843	9,249	8,381

Although there are currently no labour unions in the Bank or its subsidiaries, some employees of the Bank are members of some local labour unions. The Bank has never experienced any industrial action or other work stoppages resulting from labour disputes.

The Bank does not provide pension, retirement, health or similar benefits to its employees in Kazakhstan, though it does make some small payments to employees of its non-Kazakhstan subsidiaries.

Training programmes

The Bank traditionally uses internal and external training programmes to improve the skills of its personnel and to incorporate modern management approaches and technologies into its day to day operations. As at 31 December 2007, more than 5,430 employees participated in external seminars and conferences, including programmes for regional specialists in Kazakhstan, CIS and Europe, and in house corporate training sessions.

While the Bank's specific training programmes have been adjusted to reflect the Bank's strategy recently adopted by the new management team, the Bank intends to continue to offer employees training on client relations and customer service issues, risk management, IT and banking products. Employees of regional branches remain an important target group for training activity.

The Bank's "Halyk Training Centre" was opened in Almaty in March 2006 to provide training to all of the Bank's employees.

The total number of employees that participated in internal training for the year ended 31 December 2007 was 4,458 including employees from the regional branches. In 2006 and 2005, 3,404 and 1,750 employees participated in internal training, respectively.

At the same time the number of employees that participated in external seminars was 975 from the headquarters and regional branches.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to the ownership of the Bank's outstanding common shares as at 31 December 2007:

	As at 31 December 2007 (unaudited)			
Shareholder	*Number of common shares*	*Percentage of common shares*	*Number of common and preferred shares*	*Percentage of common and preferred shares*
Holding Group Almex JSC	673,672,628	68.8 per cent.	673,672,628	62.1 per cent.
Others, including Central Depository	306,086,860	31.2 per cent.	410,966,235	37.9 per cent.
Outstanding shares, total	979,759,488	100.0 per cent.	1,084,638,863	100.0 per cent.

Almex

Based on information available to the Bank, as at the date of this Prospectus, Mr. Timur A. Kulibayev, together with his family, beneficially owns 100 per cent. of Almex and, accordingly, Mr. and Mrs. Kulibayev indirectly hold the controlling stake in the Bank. Mr. Kulibayev is a son in law of the President of Kazakhstan. The controlling shareholder has the ability to influence significantly the Bank's business through his ability to control all actions that require shareholder approval, including any increase of share capital and appointment of members of the Board of Directors; however, the controlling shareholder is not entitled to interfere in the day to day management of the Bank and has the same voting rights per share as other shareholders.

Mr. Kulibayev served for the KazMunaiGas National Company from February 2002 to October 2005. From January 2006 till October 2007 Mr. Kulibayev served as a First Vice-President of JSC Kazakhstan Holding Company on Managing State Assets Samruk.

Almex is a holding company, which, in addition to its controlling interest in the Bank, has interests in Kazakhstan companies also engaged in insurance activities, such as AON Kazakhstan LLP, and in another holding company, Caspian Financial Industrial Group LLP. Almex's interest in the Bank accounts for over 95 per cent. of its total assets.

In December 2006, Almex sold 187,000,000 shares of the Bank's common stock in the form of Global Depositary Receipts ("GDRs") on the London Stock Exchange (the "IPO") (included into "Others" in the above table). The GDRs were sold at a price of U.S.$16.00 per GDR, and each GDR represents four shares of common stock. The selling shareholder committed to use the proceeds from the IPO to subscribe for new shares of common stock offered domestically to the Bank's pre IPO shareholders in the Rights Issue (defined below). In the second stage of the IPO, the Bank offered 55,000,000 shares of common stock to its pre IPO shareholders (the "Rights Issue"). The Bank completed the Rights Issue in March 2007, and raised approximately KZT 28,156 million in new capital.

Almex's business address is 58, Azerbayev street, 050059 Almaty, Kazakhstan.

Other

The common shares referred to in the "Others, including Central Depository" line in the table above are owned by various minority shareholders in Kazakhstan and offshore and represent shares in free float.

For a discussion on the history of the ownership of the Bank see " – Overview of the Bank – History – incorporation, recapitalisation and change of ownership of the Bank".

TRANSACTIONS WITH RELATED PARTIES

For a description of the definition of related parties under LAS 24 "Related Party Disclosures", see Note 36 to the Audited Financial Statements included elsewhere in this Prospectus.

The following table provides information on the Bank's related party transactions as at the dates or for the periods indicated:

	31 December 2007		*31 December 2006*		*31 December 2005*	
	Related party balances	*Total category as per financial statements caption*	*Related party balances*	*Total category as per financial statements caption*	*Related party balances*	*Total category as per financial statements caption*
Loans to customers before allowance for impairment losses	133	1,096,970	5,246	629,870	1,910	437,018
– *the parent*	–		229		681	
– *entities with joint control or significant influence over the entity*	–		4,972		1,157	
– *key management personnel of the entity or its parent*	43		45		72	
– *other related parties*	90		–		–	
Allowance for impairment losses		56,697	959	33,654	–	25,921
– *entities with joint control or significant influence over the entity*	–		959		–	
Amounts due to customers	3,735	935,429	217,993	597,935	16,677	323,515
– *the parent*	2,673		101,025		807	
– *entities with joint control or significant influence over the entity*	–		116,306		15,447	
– *associates*	–		239		183	
– *key management personnel of the entity or its parent*	406		423		240	
– *other related parties*	656		–		–	
Guarantees issued	–	34,888	593	39,897	2,562	29,330
– *entities with joint control or significant influence over the entity*	–		586		2,562	
– *associates*	–		7		–	

	Year ended 31 December 2007		*Year ended 31 December 2006*		*Year ended 31 December 2005*	
	Related party transactions	*Total category as per financial statements caption*	*Related party transactions*	*Total category as per financial statements caption*	*Related party transactions*	*Total category as per financial statements caption*
Key management personnel compensation:	909	19,681	1,043	15,931	879	11,236
– *short-term employee benefits*	909		1,043		879	
Interest income	–	132,566	464	80,647	301	52,385
– *the parent*	–		73		277	
– *entities with joint control or significant influence over the entity*	–		385		17	
– *key management personnel of the entity or its parent*	–		6		7	
Interest expense	59	61,532	4,664	34,184	3,325	21,156
– *the parent*	11		1,944		93	
– *entities with joint control or significant influence over the entity*	–		2,696		3,204	
– *associates*	–		4		15	
– *key management personnel of the entity or its parent*	22		20		13	
– *other related parties*	26		–			

In the above table, "Shareholders" transactions for the year ended 31 December 2007 comprised both "Entities with joint control or significant influence over the entity" transactions (mostly transactions with Samruk, including its subsidiaries, where Mr. Kulibayev, one of the controlling shareholders of Almex, had served as a first vice president since January 2006 until August 2007) and "The parent" transactions (mostly transactions with entities controlled by Almex's shareholders). Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As a result of the establishment of Samruk in 2005, a group of entities, including NC KazMunayGas, NC Kazakhstan Temir Zholy JSC, NC Kazakhtelecom JSC and others, which use cash management services of the Bank, was treated as "Entities with joint control or significant influence over the entity". However, due to Mr. Kulibayev's resignation from Samruk starting from 1 November 2007 Samruk is no longer treated as an entity with joint control or significant influence over the entity in accordance with IFRS requirements. During the nine months ended 30 September 2007, when Samruk was treated as an entity with joint control or significant influence over the entity, the Bank received deposits and current accounts of KZT 4,978,552 million from and paid out deposits and current accounts of KZT 4,860,000 million to entities with joint control or significant influence over the entity. During the same period, the Bank received deposits and current accounts of KZT 1,895,173 million and paid deposits and current accounts of KZT 1,992,960 million to the parent. Despite high turnover balances of related parties deposits, interest expense on deposits and current accounts constitute a minor part of total interest paid for deposits. The Bank did not rely upon such transactions from entities influenced by the controlling shareholder when considering its funding programme since in effect the Bank was only providing cash management services for such entities. "Management" transactions comprised loans to and deposits from members of the Management Board and the Board of Directors.

Kazakhstan law, including the Law On Joint Stock Companies (JSC Law) and Law On Banks and Banking Activities (Banking Law), requires that related party transactions are made at market terms and conditions. In accordance with JSC Law, decisions with respect to related party transactions (i) shall be made by the board of directors, and (ii) directors that may have a conflict of interest shall not vote with respect to such decisions. In addition, state owned companies, including Samruk, are subject to the State Procurement Law, which requires all state owned companies to conduct a public tender for any purchase of goods or services with a contract size exceeding approximately 4,000 times the monthly calculation index (established annually by the budget law (1,168 Tenge starting from 1 January 2008) or approximately U.S.$38,800 at current exchange rates) aimed at ensuring that state-owned companies enter transactions only on market terms and conditions.

FMSA regulation has set a threshold of 10.0 per cent. of capital for loans to a single related party and the Bank is currently in compliance with the requirements of the FMSA. See "Management's Discussion and Analysis of Financial Condition and Results of Operation – Capital adequacy and liquidity".

See "Management and Employees" for a discussion of loans to members of the Bank's Board of Directors and Management Board.

In October 2006, Almex sold its 57.0 per cent. stake in Kazakhinstrakh to the Bank for consideration of KZT 4.8 billion.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

Since mid-1994, Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates.

The Government, the NBK and the FMSA have also undertaken significant structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system.

The National Bank of Kazakhstan and the FMSA

The NBK is the central bank of Kazakhstan and although it is an independent institution, it is subordinate to the President. The President has the power, among other things, to appoint (with the approval of Parliament) and remove the NBK's Chairman, to appoint and remove the NBK's Deputy Governors, to confirm the annual report of the NBK on the recommendation of the Chairman, to confirm the concept and design of the national currency, and to request information from the NBK. Anvar Saydenov was appointed Governor of the NBK in 2004. The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Chairman, five other representatives of the NBK, a representative of the President and two representatives of the Government.

Currently, the principal task of the NBK is to ensure price stability in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, organise banking settlement systems, conduct currency regulation and control, assist in ensuring stability of the financial system and protect the interests of depositors with commercial banks. Following legislative changes in July 2003, the FMSA was formed and, on 1 January 2004, took responsibility for most of the supervisory and regulatory functions in the financial sector, which were previously performed by the NBK.

The FMSA is an independent institution reporting directly to the President. The President appointed Arman Dunayev, former Minister of Finance of Kazakhstan, as the Chairman of the FMSA in January 2006. The principal task of the FMSA is to regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds and pension asset management companies, as well as professional participants of the securities market. The FMSA is empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions and to monitor the activities of, to apply sanctions where necessary, and to participate in the liquidation of, financial institutions.

Banking

Structure of the banking system of Kazakhstan

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the FMSA or, prior to 2004, by the NBK.

Banking reform and supervision

Reform of the banking sector started in 1995 with the introduction of international prudential standards, including capital adequacy requirements and liquidity ratios to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, harmonisation of local accounting practices to IFRS, and personnel training programmes.

In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices, the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were established for bank inspections and for periodic reporting by commercial banks to the NBK, now the FMSA. In 2003, all banks were requested to develop and install internal risk management systems.

The FMSA monitors compliance with capital adequacy standards (in compliance with international standards set by the Basel Committee), current liquidity ratios, maximum credit exposures to single borrowers and related parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions. Additionally, the FMSA applies regulations on problem asset classification and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and loan loss reserves.

The objective of these reforms was to bring supervisory practices closer to international standards to allow for a more transparent view of banks' levels of capitalisation and exposure to financial risks. The FMSA, which currently includes what was the NBK's Banking Supervision Department, will continue to focus on ensuring financial solvency and protection of depositors while encouraging banks to diversify their activities in the financial services sector (for example, by managing pension and investment funds and establishing leasing and insurance companies).

In September 1995, the NBK introduced international prudential standards such as capital adequacy requirements and liquidity ratios to regulate and protect the banking system. On 30 September 2005, the FMSA adopted a resolution (as amended in November 2005, May 2006 and June 2006) to set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions. Currently, the approval of prudential rules as well as supervision of their fulfilment is the responsibility of the FMSA. The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system.

In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 31 December 2007, 35 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal term deposits in any currency and current accounts up to a maximum amount per customer (KZT 700,000) at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

Current legislation requires the FMSA to approve any acquisition of a shareholding of 10.0 per cent or more (whether held independently or jointly with another legal entity) in a Kazakhstan bank. Furthermore, a foreign entity holding 10.0 per cent. or more of a Kazakhstan bank must have a minimum required credit rating from one of the rating agencies.

In November 2005, new regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represent a substantial step towards the implementation of the Basel II accord. In particular, the new regulations introduce the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks, and include rules for calculating risk with respect to derivatives. Further, the new regulations establish reduced capital adequacy ratios for banks one of whose shareholders is a bank holding company. Such reduced rates are 5.0 per cent. for the K1 ratio (compared to a generally applicable ratio of 6.0 per cent.) and 10.0 per cent. for the K2 ratio (compared to a generally applicable ratio of 12.0 per cent.). A bank holding company is an entity, whether domestic or foreign, that owns more than 25.0 per cent. of the voting shares of a Kazakhstan bank and has received the FMSA's permission to be a bank holding company. Separately, the FMSA introduced more stringent requirements for internal risk management and supervision on a consolidated basis (for banks and bank holding companies).

Effective as of 14 July 2006, the NBK has implemented new measures to raise reserve requirements for Kazakhstan banks in an effort to limit foreign currency debt issuances amid concerns among currency mismatches among second tier banks who have significant liabilities in dollars although they lend predominantly in Tenge. The new rules will increase reserve requirements for currency borrowings from non-residents and borrowings through issuance of notes and subordinated debt instruments (regardless of residence) to 8.0 per cent. from 6.0 per cent., although domestic borrowings from residents except as mentioned above will remain at 6.0 per cent. On 20 July 2007, the board of the NBK proposed to amend the reserve requirements to 5.0 per cent. for domestic liabilities and 10.0 per cent. for other liabilities. Initially, it was intended that the new reserve requirements would come into force on 29 August 2007. Subsequently, the NBK postponed their introduction until 15 January 2007 and then to 1 July 2008.

In addition, effective as of 30 June 2006, the FMSA implemented new measures to restrict banks in Kazakhstan from having outstanding external short-term financings which exceed a bank's regulatory capital by a ratio of greater than one. However, banks not meeting the requirements as of 1 July 2006 will have until 1 October 2006 to comply. To address concerns about currency mismatches and, more precisely, to manage banks' liquidity, the FMSA has also tightened requirements to open/net currency positions and introduced various limits of currency liquidity.

On 23 February 2007, to reduce the risks associated with rapid growth in the external debt of Kazakhstan banks, the FMSA made an amendment to the Prudential Norms mandatory for the second tier banks of Kazakhstan. The purpose of the new amendments is to limit the total amount of foreign borrowings or "external liabilities" which a bank can incur to a multiple of such bank's "regulatory capital". This amendment sets forth the following ratios of "external bank liabilities" to "regulatory capital" (capitalisation ratios) in relation to the liabilities to non-residents:

- bank capitalisation ratio in relation to the external liabilities (K8);
- bank capitalisation ratio in relation to the external liabilities and securities issued by this bank (K9).

The K8 capitalisation ratio is applied to all liabilities to non-residents, except for (i) securities issued by special purpose subsidiaries of a bank and is guaranteed by such bank; (ii) correspondent accounts and current accounts held by foreign companies and individuals that are recognised as non-residents of Kazakhstan for the tax purposes; and (iii) external liabilities of the international organisations of which Kazakhstan is a member. The maximum K8 ratio will range between two and four, depending on the size of a bank's "regulatory capital".

The K9 capitalisation ratio is applied to all liabilities to non-residents, except for (i) debt securities directly issued by such bank which are held by non-residents; (ii) correspondent accounts and current accounts held by foreign companies and individuals that are recognised as non-residents of Kazakhstan for tax purposes; and (iii) external liabilities of the international organisations of which Kazakhstan is a member. The maximum K9 ratio will range between four and six, depending on the size of a bank's "regulatory capital".

The following charts show the maximum k8 and k9 ratios for banks categorized by "regulatory capital" size:

	Ratios	
"regulatory capital"	*K8*	*K9*
Less than KZT 50 billion	2	4
KZT 50 to KZT 100 billion	2.5	4.5
KZT 100 to KZT 150 billion	3	5
KZT 150 to KZT 200 billion	3.5	5.5
More than KZT 200 billion	4	6

The amendment that came into full effect on 1 April 2007 sets out several time limits for compliance. Banks in Kazakhstan have to comply with maximum capitalization ratios effective at the respective date. In accordance with regulatory reporting submitted as at 31 March 2008, the Bank had been in compliance with current requirements and does not expect any breach going forward.

The FMSA has also suggested amendments to the rules of classification of loans issued by local banks by shifting the emphasis from valuation of collateral to the financial soundness of the borrowers.

The Republic of Kazakhstan's and certain Kazakhstan banks' credit rating

On 8 October 2007, Standard & Poor's lowered Kazakhstan's long-term sovereign credit rating from BBB to BBB-. On the same date, outlook was changed by Fitch from "positive" to "stable". On 1 November 2007, Moody's downgraded the credit ratings of six of Kazakhstan's largest commercial banks. The downgrade was attributed by Moody's to concerns about borrowing levels and liquidity, particularly access by those banks to international capital markets to refinance maturing debt. Any reduction in credit ratings may adversely affect the value and tradability of the Notes and the ability of banks and corporate customers in the region to raise funds thereby adversely affecting their profitability and that of the Issuer.

Almaty Regional Financial Centre

The Almaty Regional Financial Centre ("'RFCA") was established in June 2006 for the purpose of developing Kazakhstan's securities market, integrating it into the international capital markets and attracting investments into Kazakhstan's economy. The RFCA is governed by regulations regarding the relations between its participants and relations between foreign and local participants. The Agency for Regulation of the Operations (the "ARA RFCA") controls and supervises the activities of the RFCA, as well as registering its participants. The inaugural trade on the special trade platform (the "Special Trade Platform") of the KASE functioning at the RFCA occurred on 27 February 2007. As of 23 February 2007, the Special Trade Platform included shares of seven different companies, which offered 24 different types of securities, according to the KASE. As at the date of this Prospectus, 35 companies are registered as RFCA participants.

Commercial banks

According to the FMSA, as at 31 December 2007, there were 35 commercial banks in Kazakhstan, excluding the DBK and the NBK, compared to 38 as at the end of 2002 and 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small- and medium-sized banks.

The financial standing of Kazakhstan's banks varies. As at 31 December 2007, 22 of the 35 commercial banks (excluding DBK) had registered capital of over KZT 2 billion and 11 banks had registered capital of KZT 1 billion to KZT 2 billion. There are no banks with registered capital of less than KZT 1 billion; any bank whose capital falls below KZT 500 million is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

In 2001, the Government established the DBK to provide medium-term and long-term financing and otherwise to facilitate industrial projects in Kazakhstan. DBK was established with a charter fund of KZT 30 billion. Within the commercial banking sector, DBK is not considered a competitor of the Bank as it is not licensed to accept commercial or retail deposits or to provide corporate settlement services. The Bank expects that DBK may become an important competitor in the corporate lending sector. The DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Prospectus.

Whilst foreign-owned banks do not currently provide significant domestic competition and are not active in the retail banking sector, the Bank believes that such banks, some of which may have significantly greater resources and a cheaper funding base than the Bank, will, together with the larger local banks, become the Bank's primary long-term competitors in the corporate banking sector.

Foreign banks, which include Citibank, ABN AMRO Bank, JSC ATF Bank and HSBC also bring international experience in customer service and target the best corporate customers of the Kazakhstan banks as well as foreign companies operating in Kazakhstan.

Foreign capital in the banking sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to operate as a bank in Kazakhstan.

As at 31 December 2007, there were 14 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Bank Kazakhstan. Under relevant legislation, a bank "with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank AG, Deutsche Bank AG, American Express Bank Ltd., Commerzbank AG, Citibank N.A., ING Bank N.V., Bankgesellschaft Berlin and Société Générale.

Industry trends

According to the FMSA, the total capital of commercial banks increased 44.9 per cent. in 2003, 62.4 per cent. in 2004, 69.3 per cent. in 2005, 99.8 per cent. in 2006 amounting, as at 31 December 2006, to approximately KZT 1,168.6 billion and by 52.5 per cent. in 2007 amounting, as at 31 December 2007, to approximately KZT 1,781.8 billion. The total assets of such banks increased by 68.0 per cent. in 2005 amounting, as at 31 December 2005, to approximately KZT 4,515 billion, 96.5 per cent. in 2006 amounting, as at 31 December 2006, to approximately KZT 8,872 billion and 31.7 per cent. in 2007 amounting, as at 31 December 2007, to approximately KZT 11,683.4 billion. In 2005, the aggregate liabilities of such banks increased by 68.6 per cent. and, as at 31 December 2005, amounted to approximately KZT 4,073 billion, in the same year their aggregate net income increased by 131.2 per cent., amounting approximately to KZT 73 billion. In 2006 the aggregate liabilities of banks increased by 96.4 per cent. and, as at 31 December 2006, amounted to approximately KZT 8,001.6 billion, in the same year their total net income increased by 39.4 per cent. amounting to approximately KZT 101.9 billion. In 2007 the aggregate liabilities of banks increased by 28.2 per cent. and, as at 31 December 2007, amounted to approximately KZT 10,256.7 billion, in the same year their total net income increased by 117.1 per cent., amounting to approximately KZT 221.2 billion.

KAZAKHSTAN CURRENCY AND BANKING LEGISLATION

Prudential Norms

In 2005, the FMSA issued new Instructions on Normative Values and Method of Calculation of Prudential Norms (the "Prudential Norms"), which replaced Prudential Norms adopted in 2002. New Prudential Norms establish certain capital adequacy requirements for Tier I, Tier II and Tier III capital of Kazakhstan banks, limitations on single borrower exposure, short and long-term liquidity requirements, limitations on currency exposure and limitations on investment by Kazakhstan banks into fixed and other non-financial assets. The Prudential Norms are fully applicable to the Bank.

Claims in bankruptcy

Article 74-2 of the Banking Law provides that proceeds of the bankruptcy estate of an insolvent bank should be distributed among its creditors in the following order: (i) claims by individuals for compensation for wrongful death or damage to health; (ii) claims for payment under employment contracts; (iii) claims by the organisations which conducted mandatory deposit insurance in the amount it compensated for the insured deposits according to calculations provided by the insolvent bank; (iv) claims by individual depositors with respect to their accounts held and money transfers made with the insolvent bank as well as claims under deposits made on account of pension assets of pension funds; (v) deposits of insurance companies that were made of assets acquired under "life insurance" policy; (vi) claims by charitable organisations with respect to their accounts held with the insolvent bank; (vii) claims of secured creditors; (viii) tax claims and payments under loans provided by the Government; and (ix) all other creditors' claims. Accordingly, unless Kazakhstan bankruptcy laws are amended, in the event of the bankruptcy of the Bank, claims with respect to the repayment by the Bank of the deposit made with the Bank using proceeds of placement of the Notes (as defined in the Prospectus) and claims with respect to the repayment by the Bank of the Subordinated Loan shall be treated *pari passu* with claims of creditors identified in item (ix) above.

Exchange controls

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a law on currency regulation was adopted by the Kazakhstan Parliament in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, could be conducted without restriction. Only certain out-flowing capital account operations were required to be licensed by or registered with the NBK. Capital in-flows were registered and monitored for statistical purposes only, but are not restricted.

In 2005, a new law on currency regulation was adopted by the Kazakhstan Parliament replacing the previous law which was adopted in 1996. The new law has significantly simplified rules applicable to currency operations. Under this new law, only particular types of currency operations require licensing, registration or notification. Particularly, with respect to most banks' cross-border operations, banks are only obliged to provide respective notification to the NBK, without the need to register such operations.

Capital in-flows are registered and monitored for statistical purposes only, but are not restricted. New licensing rules adopted in implementation of the currency regulation law in 2005 liberalised the treatment of the outflow of capital. One of the purposes of liberalisation is to avoid the pressure caused by the influx of U.S. Dollars into Kazakhstan, due to high market prices for Kazakhstan export goods, by directing export revenues abroad. No NBK licence is currently required to open accounts in foreign banks for a Kazakhstan financial organisation in connection with transactions with financial instruments on international securities markets or a Kazakhstan legal entity for the purposes of securing its obligations towards non-resident lenders, or for certain Kazakhstan financial organisations or other residents acting through a licensed professional securities market participant, to acquire foreign securities or to enter into derivative transactions with non-residents.

The following table sets out certain average and period-end Tenge/U.S. Dollar exchange rates on the KASE as reported by the NBK:

Period	*Average*	*Period-end*
	(KZT per U.S. Dollar)	
1999	119.52	138.20
2000	142.13	145.40
2001	146.74	150.20
2002	153.28	155.60
2003	149.58	144.22
2004	136.04	130.00
2005	132.88	133.98
2006	126.09	127.00
2007	122.55	120.3

Source: the NBK

FORM OF NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes.

1. Form of Notes

All Notes will be in fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Deutsche Bank AG, London Branch, as common depository for Euroclear and Clearstream, Luxembourg, and registered in the name of BT Globenet Nominees Limited, as nominee for such common depository in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note, in fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with Deutsche Bank Trust Company Americas, as custodian (the "Custodian") for, DTC. The Restricted Global Note (and any Note Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set out under item 2 below.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "Note Certificates" or "Note Certificates" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Note or, as the case may be, the Unrestricted Global Note and interests therein.

2. Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Paying Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction it being understood, however, that the Issuer has been advised that neither Euroclear nor Clearstream, Luxembourg will monitor compliance with these transfer restrictions nor provide certification of non-U.S. beneficial ownership. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Paying Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein);

(i) The purchaser (A) is a qualified institutional buyer within the meaning of Rule 144A, (B) is acquiring Notes for its own account or for the account of such a qualified institutional buyer and (C) is aware that the sale of the Notes to it is being made in reliance on Rule 144A.

(ii) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below.

(iii) The Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Issuer and the Guarantor determine otherwise in accordance with applicable law:

"NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER AND THE GUARANTOR THAT (A) THIS NOTE (AND ANY INTERESTS HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, THE GUARANTOR OR A SUBSIDIARY OF THE GUARANTOR, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

(iv) If the purchaser is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgment, representations and agreements on behalf of each such account.

(v) The Issuer, the Bank, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the 40th day after the Closing Date (the "distribution compliance period"), by accepting delivery of this Prospectus and the Notes, will be deemed to have represented and agreed as follows:

(i) It is, or will be at the time Notes are purchased, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or the Bank or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes and the Guarantee have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or the account of a qualified institutional buyer or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any state of the United States.

(iii) The Issuer, the Bank, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

3. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable for Note Certificates in definitive form ("Restricted Note Certificates") if DTC or any successor depository on behalf of which the Notes evidenced by the Restricted Global Note may be held (a) notifies the Issuer and the Guarantor that it is no longer willing or able to discharge its responsibilities as depository with respect to the Notes, or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depository, (b) an Event of Default (as defined and set out in Condition 10 of the Terms and Conditions of the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form of an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for Note Certificates. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer and the Guarantor will procure that the Registrar notify the holders as soon as practicable after the occurrence of any event specified in (a), (b), or (c).

The Unrestricted Global Note will become exchangeable for Note Certificates in definitive form ("Unrestricted Note Certificates") if (a) either Euroclear or Clearstream, Luxembourg or any successor depository on behalf of which the Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so, (b) an Event of Default (as defined and set out in Condition 10 of the Terms and Conditions of the Notes) occurs or (c) instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form of an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for Note Certificates. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a), (b) or (c).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together "Note Certificates") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer, the Guarantor and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) a fully completed, signed certification substantially in the form contained in the Paying Agency Agreement to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, a certification that the transfer is being made in compliance with the provisions of Rule 144A or, as the case may be, Regulation S. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions". Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under "Transfer Restrictions", the holder of a Note may transfer such Note only in accordance with the provisions of Condition 2 of the Terms and Conditions of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantor and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of the Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

4. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depository is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Paying Agency Agreement, the Trust Deed and the Notes.

Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantor, the Trustee, any Agent or the Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg or their common depository or its nominee from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC or its nominee from the Principal Paying Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Principal Paying Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the 15th day before the due date for such payment (the "Record Date"). Trading between the Restricted Global Note and the Unrestricted Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) BT Globenet Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 5 p.m. Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (i) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the

Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Trustee, any Agent or any of the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. and UBS Limited (together, the "Managers") have, pursuant to a subscription agreement dated 14 April 2008 (the "Subscription Agreement"), agreed with the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Bank has agreed to pay certain costs and expenses in connection with the issue of the Notes.

The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Bank. The Bank has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

Some of the Managers and their respective affiliates have, from time to time, engaged in, and may in the future engage in, various commercial dealings in the ordinary course of business with the Bank and its affiliates. The Managers have received customary fees and commissions for these transactions and services.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Subscription Agreement provides that each Manager may through its agents or affiliates arrange for the resale of Notes in the United States solely to qualified institutional buyers pursuant to Rule 144A.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes or the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer, whether or not it is participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank, and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Kazakhstan

Each Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the applicable securities laws of Kazakhstan.

General

No action has been, or will be, taken by the Issuer, the Bank or the Managers that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither the Prospectus nor any circular, prospectus, form of application, advertisement or other material, may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result to the best of the Managers' knowledge and belief in compliance with any applicable securities laws or regulations.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

Except as otherwise indicated, this description only addresses tax legislation, as in effect and in force at the date hereof, as interpreted in published case law, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

United States federal income taxation

The following is a description of the material U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of the Notes by a U.S. Holder thereof. This description only applies to the Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, holders that have a functional currency other than the U.S. Dollar, tax exempt organisations, certain former citizens and long-term residents of the United States, holders that will hold the Notes through a partnership or other pass through entity, dealers or traders in securities or foreign currencies, or holders that will hold a Note as part of a straddle, a hedging, conversion or other integrated transaction for U.S. federal income tax purposes.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Notes and only addresses the U.S. federal income tax treatment of holders that acquire the Notes as part of the initial distribution at their initial issue price (which will equal the first price paid by the public, not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers, at which a substantial amount of the Notes is sold for money). Each prospective purchaser should consult its own tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of the Notes.

This description is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes that, for U.S. federal income tax purposes, is: (i) a citizen or resident of the United States; (ii) a corporation (or an entity treated as a corporation for U.S. federal income tax purposes) organised in or under the laws of the United States or any State or political subdivision thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to its consequences of acquiring, owning or disposing of the Notes.

U.S. Internal Revenue Service Circular 230 Disclosure

Pursuant to U.S. Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing (within the meaning of U.S. Internal Revenue Service Circular 230) of the Notes. This description is limited to the U.S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U.S. federal tax treatment of the Notes, or the matter that is the subject of the description noted herein, and this description does not consider or provide any conclusions with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes.

Interest on the Notes will be treated as foreign source income for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, interest on the Notes should generally constitute "passive category income" or, in the case of certain U.S. Holders, "general category income". Prospective investors should consult their own tax advisers as to foreign tax credit implications of interest paid or accrued in respect of a Note.

Sale, exchange, retirement or other disposition

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, retirement or other disposition (other than accrued but unpaid interest which will be taxable as such) and the U.S. Holder's adjusted tax basis in the Note. The U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such U.S. Holder, and any such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if the U.S. Holder's holding period for the Notes exceeds one year (i.e. such gain is long-term capital gain). Any gain or loss realised on the sale, exchange, retirement or other disposition of a Note by a U.S. Holder generally would be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

U.S. backup withholding tax and information reporting

Backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of the Notes that are U.S. persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middle man, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. The backup withholding rate is 28 per cent. for taxable years through 2010.

Backup withholding is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Notes. Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

Kazakhstan taxation

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than individuals, will be subject to Kazakhstan income tax. In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax. However, any gains in relation to Notes which are admitted to the Special Trade Platform of the Almaty Regional Financial Centre are expected to be subject to Kazakhstan income tax except for gains from a sale made on the Special Trade Platform by Kazakhstan Holders and Individual Non-Kazakhstan Holders.

Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15 per cent. Such withholding tax may be reduced under the Kazakhstan-Netherlands Tax Treaty to a rate of 10 per cent., although there can be no assurance that such relief will be obtained.

Payments of interest to Non-Kazakhstan Holders under the Guarantee, other than under the Notes purchased on the Special Trade Platform, will be subject to withholding tax at a rate of 15 per cent. and payment of fees and commissions will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. respectively, unless reduced by an applicable double taxation treaty. The Bank will agree in the Trust Deed and the Guarantee to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 9 (Taxation) of the Terms and Conditions of the Notes. Payments to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

Gains realised by Kazakhstan Holders from the disposal, sale, exchange or transfer of the Notes are subject to Kazakhstan income tax. Gains realised from the disposal, sale, exchange or transfer of the Notes are not subject to Kazakhstan income tax if the Notes are included as of the date of sale in one of the two highest categories of listings on the KASE and the sale is made through an open auction on the KASE.

Netherlands taxation

General

The following is a general summary of the Dutch tax consequences as at the date hereof in relation to payments made under the notes and in relation to the acquisition, holding or disposal of notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of a note or a prospective holder and in view of its general nature, it should be treated with corresponding caution. Holders should consult their tax advisers with regard to the tax consequences of investing in the notes. Except as otherwise indicated, this summary only addresses the tax legislation as in effect at the date hereof and as interpreted in published case law until this date, without prejudice to any amendment introduced at a later date and implemented with or without retroactive effect.

Withholding tax

All payments made by the Issuer under the notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

This paragraph does not describe the Dutch tax consequences of the acquisition, holding and disposal of the Notes if a holder of Notes or, in the event the holder is an individual, individuals related to such holder (statutorily defined term) and certain of their relatives by blood or marriage in the direct line (including foster children) have a substantial interest or deemed substantial interest (statutorily defined terms) in the Issuer.

Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in case of individuals, together with his/her partner (statutorily defined term), directly or indirectly, (i) holds an interest of 5 per cent. or more of the total issued and outstanding capital of that company or of 5 per cent. or more of the issued and outstanding capital of a certain class of shares of that company or (ii) holds rights to acquire, directly or indirectly, such interest or (iii) holds certain profit-sharing rights in that company that relate to 5 per cent. or more of the company's annual profits and/or to 5 per cent. or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Corporate income tax and individual income tax

Residents of The Netherlands

Generally speaking, if the holder of the Notes is an entity that is a resident or deemed to be a resident of The Netherlands for Dutch corporate income tax purposes, any payment under the Notes or any gain realised on the disposal or deemed disposal of the notes is subject to Dutch corporate income tax at a rate of 25.5 per cent. (a corporate income tax rate of 20 per cent. applies with respect to taxable profits up to €40,000 and 23 per cent. over the following €160,000, the first two brackets for 2008).

A Dutch qualifying pension fund and a Dutch qualifying tax exempt investment fund (in Dutch "*vrijgestelde beleggingsinstelling*") are in principle not subject to Dutch corporate income tax. A qualifying Dutch investment fund (in Dutch "*fiscale beleggingsinstelling*") is subject to Dutch corporate income tax at a special rate of zero per cent.

If a holder of the Notes is an individual, resident or deemed to be resident of The Netherlands for Dutch income tax purposes (including the non-resident individual holder who has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands), any payment under the Notes or any gain realised on the disposal or deemed disposal of the Notes is taxable at progressive income tax rates (with a maximum of 52 per cent.), if:

(a) the Notes are attributable to an enterprise from which the holder of the Notes derives a share of the profit, whether as an entrepreneur or as a person who has a co entitlement to the net worth of such enterprise, without being a shareholder, as defined in the Dutch Income Tax Act 2001; or

(b) the holder of the notes is considered to perform activities with respect to the Notes that go beyond ordinary asset management (in Dutch "*normaal vermogensbeheer*") or derives benefits from the notes that are (otherwise) taxable as benefits from other activities (in Dutch "*resultaat uit overige werkzaamheden*").

If the above-mentioned conditions (a) and (b) do not apply to the individual holder of the Notes, such holder will be taxed annually on a deemed income of 4 per cent. of his or her net investment assets for the year at an income tax rate of 30.0 per cent. The net investment assets for the year is the average of the fair market value of the investment assets less the allowable liabilities at the beginning of that year and the fair market value of the investment assets less the allowable liabilities at the end of that year. The Notes are included as investment assets. A tax free allowance may be available. Actual benefits derived from the notes are as such not subject to Dutch income tax.

Non-residents of The Netherlands

A holder of the Notes will not be subject to Dutch taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain realised on the disposal or deemed disposal of the Notes, provided that:

(a) such holder is neither resident nor deemed to be resident of The Netherlands nor has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands; and

(b) such holder does not have an interest in an enterprise or deemed enterprise (statutorily defined term) which, in whole or in part, is either effectively managed in The Netherlands or carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the notes are attributable; and

(c) in the event the holder is an individual, such holder does not carry out any activities in The Netherlands with respect to the Notes that go beyond ordinary active asset management (in Dutch "*normaal vermogensbeheer*") and does not derive benefits from the notes that are (otherwise) taxable as benefits from other activities in The Netherlands (in Dutch "*resultaat uit overige werkzaamheden*").

A holder of the notes will not become subject to taxation on income and capital gains in The Netherlands by reason only of the execution, delivery and/or enforcement of the Notes or the performance by the Issuer of its obligations under the Notes.

Gift and estate taxes

Residents of The Netherlands

Gift, estate or inheritance taxes will arise in The Netherlands with respect to a transfer of the Notes by way of a gift by, or on the death of, a holder of such Notes who is resident or deemed resident of The Netherlands at the time of the gift or his or her death.

Non-residents of The Netherlands

No Dutch gift, estate or inheritance taxes will arise on the transfer of notes by way of gift by, or on the death of, a holder of Notes who is neither resident nor deemed to be resident in The Netherlands, unless:

(a) such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that, in whole or in part, is or was either effectively managed in The Netherlands or carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the notes are or were attributable; or

(b) in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

For purposes of Dutch gift, estate and inheritance taxes, amongst others, a person that has Dutch nationality will be deemed to be resident in The Netherlands if he was resident in The Netherlands at any time during the 10 years preceding the date of the gift or his death. Additionally, for purposes of Dutch gift tax, amongst others, a person not having Dutch nationality will be deemed to be resident in The Netherlands if he was resident in The Netherlands at any time during the 12 months preceding the date of the gift. Applicable tax treaties may override deemed residency.

Other taxes and duties

No Dutch VAT and no Dutch registration tax, customs duty, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by the holders of the Notes in respect or in connection with the issue of the notes or with respect to the payment of interest or principal by the Issuer under the Notes.

European Union Directive on Taxation of Savings Income

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 EU member states are required to provide to the tax authorities of other EU member states details of payments of interest and other similar income paid by a person to an individual in another EU member state, except that Austria, Belgium and Luxembourg impose a withholding system for a transitional period (unless during such period they elect otherwise). A number of third countries and territories have adopted similar measures.

GENERAL INFORMATION

1. The Bank's registered office is located at 97 Rozybakiev Street, Almaty 050046, Kazakhstan (which is also the business address for members of the board of directors of the Bank), and its telephone number is +7 727 259 00 00. The Bank is registered with the Registration Services Committee of the Ministry of Justice of the Republic of Kazakhstan and its registration number is 3898-1900-AO. The Issuer's registered office is located at Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands, and its telephone number is +31 10224 5333. The Issuer is registered with the trade register in Rotterdam and its registration number is 33302782.

2. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code 035815651 and ISIN XS0358156510. The Restricted Global Note has been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The CUSIP number for the Restricted Global Note is 40430AAC7, the ISIN is US40430AAC71 and the Common Code is 035833536. The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, 1855 Luxembourg; and the address of DTC is 55 Water Street, 49th Floor, New York, New York 10041, United States of America.

3. The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in The Netherlands and Kazakhstan in connection with the issue, offer and sale of, and the performance of the Notes and the Guarantee. The issue of the Notes was approved by resolution of the Managing Board of the Issuer passed on 4 January 2008. The giving of the Guarantee was approved by resolution of the Board of Directors of the Guarantor passed on 15 January 2008.

4. Neither the Bank, nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position or profitability of the Bank and its subsidiaries. The Issuer is not or has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position or profitability of the Issuer.

5. There has been no significant change in the financial or trading position of the Bank and its subsidiaries taken as a whole since 31 December 2007 and no material adverse change in the prospects of the Bank and its subsidiaries taken as a whole since 31 December 2007. There has been no significant change in the financial or trading position of the Issuer as at 31 December 2007 and no material adverse change in the prospects of the Issuer since 31 December 2007.

6. Neither the Issuer nor the Bank has entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.

7. Application has been made for the Notes to be listed on the Official List and traded on the Regulated Market and for the Notes issued and sold in reliance on Rule 144A to be designated as eligible for trading on PORTAL.

8. Copies of the following documents (and English translations thereof where the documents in question are not in English) may be inspected at, are available from and may be obtained free of charge upon request from the specified offices of the Paying and Transfer Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes are outstanding:

   (a) this Prospectus, together with any supplement to this Prospectus;

(b) the Guarantee;

(c) the Trust Deed, which includes the forms of the Global Notes and the Note Certificates;

(d) the Paying Agency Agreement;

(e) the Bank's Charter and the Issuer's Articles of Association; and

(f) the consolidated financial statements of the Bank as at and for the years ended 31 December 2007 and 2006 and as at and for the years ended 31 December 2006 and 2005 together with the Auditor's Reports thereon.

9. The Bank's independent auditors are Deloitte LLP, acting as auditors under the licence No. 0000015 dated 13 September 2006 issued by the Ministry of Finance of the Republic of Kazakhstan.

Ernst & Young was the Bank's previous independent auditor (prior to 2007), and audited the consolidated financial statements of the Bank prepared in accordance with IFRS as at and for the years ended 31 December 2006, 2005 and 2004, in respect of which it delivered unqualified audit opinions.

Deloitte LLP have audited the consolidated financial statements as at and for the years ended 31 December 2006 and 2005 in respect of which they have delivered an unqualified audit opinion (which includes an explanatory paragraph relating to a restatement as discussed in Note 29 to the consolidated financial statements). Deloitte LLP have also audited and delivered an unqualified audit opinion on the financial statements for the years ended 31 December 2007 and 2006. Together, the financial statements as at and for the years ended 31 December 2007 and 2006 and as at and for the years ended 31 December 2006 and 2005 are referred to as the "Audited Financial Statements". The Bank does not publish non-consolidated financial statements. The Audited Financial Statements and Deloitte's audit reports with respect thereto are included in this Prospectus.

Readers are advised that the financial information of the Bank set forth herein should be read together with the Audited Financial Statements, together with the notes thereto, contained in this Prospectus beginning on page F-1.

10. In January 2008 the Issuer resolved to engage Deloitte, a company with certified accountants, who are registered in The Netherlands with Royal NIVRA (K*oninklijk Nederlands Instituut van Registeraccountants*) or NOvAA (*Nederlandse Orde van Accountants Administratieconsulenten*) to conduct an annual audit of its statutory financial statements for the year ended 31 December 2007.

11. The yield of the notes is 9.5 per cent.

12. The total fees and expenses in connection with the admission of the Notes to trading on the Regulated Market of the London Stock Exchange and PORTAL are expected to be approximately U.S.$1,700,000.

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JSC HALYK BANK

Consolidated Financial Statements
For the Years Ended 31 December 2007 and 2006

and Independent Auditors' Report

JSC HALYK BANK

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007 and 2006, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2007 and 2006, and the consolidated income statements, the consolidated statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2007 and 2006, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

DELOITTE, LLP

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

Nurlan Bekenov
Engagement Partner
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate №0082
General Director
Deloitte, LLP

3 March 2008
Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	5	255,245	127,799
Obligatory reserves	6	87,268	55,106
Financial assets at fair value through profit or loss	7	48,073	53,195
Amounts due from credit institutions	8	3,398	2,049
Available-for-sale investment securities	9	107,839	123,339
Loans to customers	10	1,040,273	596,216
Property and equipment	11	22,766	16,412
Goodwill	12	3,265	3,265
Intangible assets		3,841	1,538
Insurance assets	13	3,886	5,626
Other assets	14	19,221	6,814
TOTAL ASSETS		1,595,075	991,359
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	15, 35	935,429	597,935
Amounts due to credit institutions	16	247,452	118,719
Financial liabilities at fair value through profit or loss	7	2,851	10
Debt securities issued	17	224,886	134,413
Provisions	18	1,885	3,021
Deferred tax liability	19	3,897	2,530
Insurance liabilities	13	7,389	7,535
Other liabilities	20	10,261	6,569
Total liabilities		1,434,050	870,732
EQUITY			
Share capital	21	65,531	60,684
Share premium reserve		1,952	2,183
Treasury shares		(66)	(38)
Retained earnings and other reserves		92,253	56,736
		159,670	119,565
Minority interest		1,355	1,062
Total equity		161,025	120,627
TOTAL LIABILITIES AND EQUITY		1,595,075	991,359

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 11 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	23	132,566	80,647
Interest expense	23	(61,532)	(34,184)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE		71,034	46,463
Impairment charge	18	(22,184)	(8,331)
NET INTEREST INCOME		48,850	38,132
Fee and commission income	24	25,428	22,064
Fee and commission expense	24	(1,255)	(929)
Fees and commissions, net		24,173	21,135
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	25	3,365	(193)
Net realized gain from available-for-sale investment securities		623	202
Net gain on foreign exchange operations	26	5,447	3,440
Insurance underwriting income	27	5,920	664
Share of (loss)/income of associates		(31)	167
Other income		1,817	1,025
OTHER NON-INTEREST INCOME		17,141	5,305
Operating expenses	28	(37,842)	(28,116)
Recoveries of provisions/(provisions)	18	997	(752)
Insurance claims incurred, net of reinsurance	13	(2,152)	(103)
NON-INTEREST EXPENSES		(38,997)	(28,971)
INCOME BEFORE INCOME TAX EXPENSE		51,167	35,601
Income tax expense	19	(10,642)	(8,442)
NET INCOME		40,525	27,159
Attributable to:			
Minority interest		428	500
Preferred shareholders		3,883	2,764
Common shareholders		36,214	23,895
		40,525	27,159
Basic earnings per share (in Kazakhstani Tenge)	29	37.01	26.43
Diluted earnings per share (in Kazakhstani Tenge)	29	35.93	17.73

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 11 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
31 December 2006		44,977	2,474	13,233	2,183	(38)	-	258	285	56,193	119,565	1,062	120,627
Exchange differences on translation of foreign operations		-	-	-	-	-	78	-	-	-	78	-	78
(Loss)/gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	-	(6)	-	-	(6)	16	10
Net (loss)/income recognized directly in equity		-	-	-	-	-	78	(6)	-	-	72	16	88
Transfers (net of any related tax):							-						
Gains transferred to income statement on sale of available-for-sale investment securities		-	-	-	-	-	-	(623)	-	-	(623)	(1)	(624)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	-	(7)	7	-	-	-
Net income		-	-	-	-	-	-	-	-	40,097	40,097	428	40,525
Total recognized income and expense		-	-	-	-	-	78	(629)	(7)	40,104	39,546	443	39,989
Common shares issued	21	4,847	-	-	-	-	-	-	-	-	4,847	-	4,847
Treasury shares purchased	21	-	-	-	(231)	(28)	-	-	-	-	(259)	-	(259)
Dividends – common shares		-	-	-	-	-	-	-	-	(2,450)	(2,450)	-	(2,450)
Dividends – preferred shares		-	-	-	-	-	-	-	-	(1,579)	(1,579)	-	(1,579)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(150)	(150)
31 December 2007		49,824	2,474	13,233	1,952	(66)	78	(371)	278	92,268	159,670	1,355	161,025

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
31 December 2005		14,222	2,474	12,320	2,192	(16)	-	301	290	32,215	63,998	446	64,444
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	-	159	-	-	159	-	159
Net income recognized directly in equity		-	-	-	-	-	-	159	-	-	159	-	159
Transfers (net of any related tax):													
Gains transferred to income statement on sale of available-for-sale investment securities		-	-	-	-	-	-	(202)	-	-	(202)	-	(202)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	-	(5)	5	-	-	-
Net income		-	-	-	-	-	-	-	-	26,659	26,659	500	27,159
Total recognized income and expense		-	-	-	-	-	-	(43)	(5)	26,664	26,616	500	27,116

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Millions of Kazakhstani Tenge)

	Notes	Share Capital											
		Common Shares	Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment Securities*	Property and equipment revaluation Reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
Common shares issued	21	30,755	-	-	-	-	-	-	-	-	30,755	-	30,755
Preferred shares issued	21	-	-	913	-	-	-	-	-	-	913	-	913
Treasury shares purchased	21	-	-	-	(9)	(22)	-	-	-	-	(31)	-	(31)
Dividends – common shares		-	-	-	-	-	-	-	-	(1,331)	(1,331)	-	(1,331)
Dividends – preferred shares		-	-	-	-	-	-	-	-	(1,355)	(1,355)	-	(1,355)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	-	(58)	(58)
Changes in minority interest share of net assets		-	-	-	-	-	-	-	-	-	-	174	174
31 December 2006		44,977	2,474	13,233	2,183	(38)	-	258	285	56,193	119,565	1,062	120,627

* These amounts are included within Retained earnings and other reserves in the consolidated balance sheet.

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 11 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		51,167	35,601
Adjustments for:			
Impairment charge	18	22,184	8,331
(Recoveries of provisions)/provisions	18	(997)	752
Depreciation and amortization expenses	28	3,366	2,371
(Gain)/loss from disposal of property and equipment and other assets		(97)	(277)
Claims incurred	13	2,152	103
Change in unearned insurance premiums reserve	13	650	944
Net (gain)/loss from financial assets and liabilities at fair value through profit and loss		(3,365)	193
Other		(592)	(167)
Unrealized foreign exchange loss/(gain)		501	(366)
Cash flows from operating activities before changes in net operating assets		74,969	47,485
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves		(32,639)	(48,471)
Financial assets at fair value through profit or loss		7,545	(3,665)
Amounts due from credit institutions		(1,429)	1,399
Loans to customers		(483,741)	(197,456)
Insurance assets		(1,062)	(521)
Other assets		(1,382)	(1,945)
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss		2,841	8
Amounts due to customers		349,981	282,260
Amounts due to credit institutions		134,867	10,286
Insurance liabilities		(146)	889
Other liabilities		2,936	2,929
Net cash flows from operating activities before income taxes		52,740	93,198
Income tax paid		(8,599)	(5,791)
Net cash flows from operating activities		44,141	87,407
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired		-	(5,219)
Purchase and prepayment for property and equipment and intangible assets		(24,018)	(8,584)
Proceeds from sale of property and equipment		650	1,100
Proceeds from sale of available-for-sale investment securities		105,728	900
Purchase of available-for-sale investment securities		(90,256)	(109,630)
Net cash flows used in investing activities		(7,896)	(121,433)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from common shares issued	21	4,847	30,755
Proceeds from preferred shares issued	21	-	913
Purchase of treasury shares		(259)	(31)
Dividends paid		(4,179)	(2,744)
Proceeds from debt securities issued		118,467	79,991
Redemption of debt securities issued		(22,553)	(2,347)
Net cash flows from financing activities		96,323	106,537
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(5,122)	(1,814)
Net change in cash and cash equivalents		127,446	70,697
CASH AND CASH EQUIVALENTS, beginning of the year		127,799	57,102
CASH AND CASH EQUIVALENTS, end of the year	5	255,245	127,799
SUPPLEMENTARY INFORMATION:			
Interest received		103,762	76,070
Interest paid		68,366	27,791

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

3 March 2008

Pavel A. Cheussov
Chief Accountant

3 March 2008

The notes on pages 10 to 69 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

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

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

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank has also sold Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange. The Group's controlling shareholder JSC Holding Group Almex ("Almex"), sold 17.69% of its share in the Group's equity through the GDR issuance, and obtained the proceeds from this issuance.

As at 31 December 2007 the Group was controlled by Almex via its 62.09% share of all Bank's outstanding shares (2006 – 64.34%). The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2007 the Bank operated through its head office in Almaty and its 22 regional branches, 127 sub-regional offices and 473 cash settlement units (2006 - 19, 127 and 428, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 97 Rozybakiyev Street, Almaty, 050046, Kazakhstan.

The consolidated financial statements were authorised for issue by the Management Board of the Bank on 3 March 2008.

2. BASIS OF PRESENTATION

Accounting basis

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

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

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

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the consolidated financial statements is the KZT.

Consolidated Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	Holding, % 31 December 2007	Holding, % 31 December 2006	Country	Industry
JSC Halyk Leasing	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	Netherlands	Issue and placement of Eurobonds
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	Kazakhstan	Broker and dealer Activities
LLP Halyk Inkassatsiya	100	100	Kazakhstan	Cash collection Services
JSC Halyk Life	100	100	Kazakhstan	Life insurance
JSC Halyk Capital	100	100	Kazakhstan	Broker and dealer Activities
LLP NBK-Finance	100	100	Russia	Broker and dealer Activities
JSC Kazakhinstrakh	98	98	Kazakhstan	Insurance
JSC Accumulated Pension fund of Halyk Bank	85	85	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	Russia	Banking
LLP Halyk Dornod	100	-	Mongolia	Banking
LLP Halyk Astana Dornod	100	-	Mongolia	Broker and dealer Activities

During 2007, the Group established two subsidiaries in Mongolia LLP Halyk Dornod and LLP Halyk Astana Dornod. Share capital of LLP Halyk Dornod and LLP Halyk Astana Dornod are equal to KZT 1.2 million and KZT 1.2 million, respectively. As at 31 December 2007 registered activities of both subsidiaries include only external and internal trading. LLP Halyk Dornod was registered in accordance with Mongolian law with the purpose of obtaining a licence for provision of banking services. LLP Halyk Astana Dornod was also registered in accordance with Mongolian law with the purpose of obtaining a licence to provide broker and dealer services.

Associates

The following associate is accounted for under the equity method:

Associate	Holding, %	Country	Activity	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
As at 31 December 2007 and for the year then ended								
JSC Processing Center	25.14	Kazakhstan	Processing	(31)	606	15	591	45
As at 31 December 2006 and for the year then ended								
JSC Processing Center	25.14	Kazakhstan	Processing	(28)	737	19	718	46

Investments in associate is classified within other assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" and performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment; and
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated income statement.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The minority interest is initially measured at the minority's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity and net income attributable to equity holders of the parent and attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

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

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Investments in associates are carried in the consolidated balance sheet at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reserve repo agreements with original maturities within 90 days. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory Reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group'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.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

Fair Values

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

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

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

The table below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2007:

Balance sheet category		**Quoted prices in active markets**	**Internal models based on market prices**	**Total**
Assets:				
Financial assets at fair value through profit or loss	Debt financial instruments	38,654	-	38,654
	Equity financial instruments	5,942	-	5,942
	Derivative financial instruments	-	3,477	3,477
Available-for-sale investment securities	Debt financial instruments	106,392	-	106,392
	Equity financial instruments	1,447	-	1,447
Liabilities:				
Financial liabilities at fair value through profit or loss	Derivative financial instruments	-	2,851	2,851

Financial Assets

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

Loans and receivables

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

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or held-to-maturity investments, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements are recognized in the consolidated income statement. Dividends declared are included in “Other income” in the consolidated income statement.

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

Financial guarantees

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

Offsetting

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

Repurchase and Reverse Repurchase Agreements and Securities Lending

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

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within Net gain/(loss) from financial assets and liabilities at fair value through profit and loss in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

Derivative Financial Instruments

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

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

Amounts Due to Customers and Credit Institutions

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

Debt Securities Issued

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

Allowances for Impairment of Financial Assets

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

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

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

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

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

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take the possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

Taxation

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
b) Recognizes immediately in profit or loss any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal

Provisions

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

Retirement and Other Benefit Obligations

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

Equity

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

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

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

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

Contingencies

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

Trust Activities

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

Income and Expense Recognition

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

Foreign Currency Translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2007 was KZT 120.30 to USD 1 (2006 – KZT 127.00).

Insurance

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

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

Underwriting Income

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

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

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

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

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

Reserve for Insurance Losses and Loss Adjustment Expenses

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

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

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

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

Reinsurance

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

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

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

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

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

Segment reporting

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7") and IAS 1 "Presentation of Financial Statements" ("IAS 1").

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Group's financial instruments in the consolidated financial statements. Additional information is disclosed in the consolidated financials statements for the current and comparative reporting periods as required by IFRS 7.

Amendment to IAS 1 – "Capital Disclosures" - On 18 August 2005, the IASB issued an amendment to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information is disclosed in the consolidated financials statements for the current and comparative reporting periods as required by amended IAS 1.

Standards and interpretations issued and not yet adopted

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

- IFRS 8 “Operating Segments” - On 30 November 2006, the IASB issued IFRS 8 which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after 1 January 2009. The Group is evaluating the impact of IFRS 8 on the consolidated financial statements.
- Amendment to IAS 1 “Presentation of Financial Statements” – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity’s financial statements. The Group does not expect the adoption of the amendment to IAS 1 to have an impact on the financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.
- IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions” - On 30 November 2006 IFRIC issued IFRIC 11 which requires that treasury share transactions are treated as equity- settled, and share-based payments involving equity instruments of the parent should be treated as cash-settled. The Group does not expect the adoption of IFRIC 11 to have a material impact on the Group’s profit or loss or financial position. IFRIC 11 is effective for periods beginning on or after 1 March 2007.
- IFRS 3 “Business Combinations” – The IASB published IFRS 3 and related revisions to IAS 27 “Consolidated and Separate Financial Statements” following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after 1 July 2009 but may be adopted together for accounting periods beginning on or after 1 January 2007.

4. SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

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

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2007 is KZT 56,697 million (31 December 2006: KZT 33,654 million).

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

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group’s reported net income.

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

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

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

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

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2007	31 December 2006
Cash on hand	2,918	14,931
Recorded as loans and receivables in accordance with IAS 39:		
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	3,101	6,328
Correspondent accounts with non-OECD based banks	2,972	1,100
Overnight deposits with OECD based banks	41,278	81,495
Short-term deposits with OECD based banks	197,654	-
Short-term deposits with Kazakhstan banks	7,322	23,564
Overnight deposits with Kazakhstan banks	-	381
	255,245	127,799

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2007		31 December 2006	
	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	2.3%-2.7%	-	3.6%-5.3%
Short-term deposits with OECD based banks	-	3.8%-10.0%	-	-
Short-term deposits with Kazakhstan banks	3.0%-11.0%	-	6.0%-9.0%	-
Overnight deposits with Kazakhstan banks	-	-	6.0%	-

Fair value of assets pledged and carrying value of short-term deposits, included in short-term deposits with Kazakhstan banks, under reverse repurchase agreements classified as cash and cash equivalents as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Carrying value of deposits	**Fair value of collateral**	**Carrying value of deposits**	**Fair value of collateral**
NBK notes	5,181	5,431	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	2,001	2,247	-	-
Equity securities of Kazakhstan corporations	100	113	-	-
Bonds of Kazakhstan banks	-	-	2,800	2,887
Bonds of Kazakhstan corporations	-	-	1,287	1,428
	7,282	7,791	4,087	4,315

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2007	31 December 2006
Recorded as loans and receivables in accordance with IAS 39:		
Due from the NBK allocated to obligatory reserves	59,376	48,317
Cash on hand allocated to obligatory reserves	27,892	6,789
	87,268	55,106

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBK and used for calculation of the minimum reserve requirement.

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2007	31 December 2006
Financial assets held for trading:		
Treasury bills of the Ministry of Finance of Kazakhstan	32,161	29,162
Securities of foreign countries and organizations	6,225	-
Derivative financial instruments	3,477	179
Bonds of the Development Bank of Kazakhstan	1,964	4,545
Equity securities of Kazakhstan banks	1,682	428
Mutual investment funds shares	1,245	1,452
Bonds of Kazakhstan banks	942	3,011
Corporate bonds	287	5,279
Equity securities of Kazakhstan corporations	90	352
Sovereign bonds of Kazakhstan	-	6,290
NBK notes	-	2,497
	48,073	53,195
Subject to repurchase agreements	2,976	1,000

Financial liabilities at fair value through profit or loss comprise:

	31 December 2007	31 December 2006
Financial liabilities held for trading:		
Derivative financial instruments	2,851	10
	2,851	10

As at 31 December 2006, NBK notes amounting to KZT 31 million and Treasury bills of the Ministry of Finance of Kazakhstan amounting to KZT 1 million were restricted as collateral for certain of the Group's borrowings.

Interest rates and maturities of financial assets at fair value through profit or loss are presented as follows:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Kazakhstan	3.2%-11.3%	2008-2014	3.2%-6.7%	2008-2014
Securities of foreign countries and organizations	3.1%	2008-2012	-	-
Bonds of the Development Bank of Kazakhstan	6.2%	2026	4.8%-9.8%	2007-2026
Bonds of Kazakhstan banks	7.5%-13.9%	2009-2011	6.1%-8.6%	2007-2013
Corporate bonds	8.3%-14.1%	2010-2015	8.1%-10.5%	2007-2015
Sovereign bonds of Kazakhstan	-	-	11.1%	2007
NBK notes	-	-	2.2%	2007

Derivative financial instruments comprise:

	31 December 2007			31 December 2006		
	Nominal amount	Net fair value Asset	Net fair value Liability	Nominal amount	Net fair value Asset	Net fair value Liability
Foreign currency contracts						
Forwards	110,532	3,364	2,740	16,004	111	-
Swaps	1,195	-	107	162,969	48	-
Interest rate contracts						
Swaps	1,296	113	4	2,147	20	10
		3,477	2,851		179	10

As at 31 December 2007 and 2006, the Group used quoted market prices from independent informational sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data. Therefore, the fair values are not susceptible to significant changes as a result of changes in assumptions or inputs to the model.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2007	31 December 2006
Recorded as loans and receivables in accordance with IAS 39:		
Term deposits	2,626	1,885
Loans to Kazakhstan credit institutions	790	170
	3,416	2,055
Less - Allowance for loan impairment (Note 18)	(18)	(6)
	3,398	2,049

Interest rates and maturity of amounts due from credit institutions are presented as follows:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Term deposits	6.0%-13.0%	2008-2009	4.1%-10.6%	2007-2008
Loans to Kazakhstan credit institutions	14.0%-17.0%	2008-2012	13.0%-15.0%	2007-2011

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements classified as amounts due from credit institutions as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Equity securities of Kazakhstan corporations	439	345	-	-
Bonds of Kazakhstan banks	12	13	-	-
	451	358	-	-

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2007	31 December 2006
NBK notes	82,318	107,856
Corporate bonds	14,387	10,166
Treasury bills of the Ministry of Finance of Kazakhstan	6,459	1,061
Bonds of Kazakhstan banks	3,047	3,085
Equity securities of Kazakhstan corporations	1,381	971
Treasury bills of the Kyrgyz Republic	101	114
Local municipal bonds	80	86
Equity securities of foreign corporations	66	-
	107,839	123,339
Subject to repurchase agreements	51,669	29,500

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

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
NBK notes	5.5%-9.5%	2008	2.9%-4.8%	2007
Corporate bonds	6.4%-18.6%	2008-2021	7.5%-13.0%	2007-2017
Treasury bills of the Ministry of Finance of Kazakhstan	2.0%-18.6%	2008-2014	3.5%-5.7%	2008-2014
Bonds of Kazakhstan banks	6.4%-18.3%	2008-2016	5.9%-12.0%	2007-2014
Treasury bills of the Kyrgyz Republic	5.6%-14.9%	2008-2009	5.2%-16.0%	2007-2008
Local municipal bonds	8.5%	2008	8.5%	2008

As at 31 December 2007 and 2006, the Group used quoted market prices from independent informational sources to determine the fair value all of its investments available-for-sale.

10. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Recorded as loans and receivables in accordance with IAS 39:		
Originated loans to customers	1,087,372	625,566
Promissory notes	5,298	1,561
Overdrafts	4,300	2,743
	1,096,970	629,870
Less – Allowance for loan impairment (Note 18)	(56,697)	(33,654)
Loans to customers	1,040,273	596,216

As at 31 December 2007, the annual interest rates charged by the Group ranged from 8% to 32% per annum for KZT-denominated loans (31 December 2006 – from 9% to 24%) and from 3% to 20% per annum for US Dollar-denominated loans (31 December 2006 – from 6% to 22%).

As at 31 December 2007, the Group had a concentration of loans of KZT 161,592 million from the ten largest borrowers that comprised 15% of the Group's total gross loan portfolio (31 December 2006 – KZT 93,394 million; 15%) and 100% of the Group's total equity (31 December 2006 – 76%). As at 31 December 2007 an allowance for impairment amounting to KZT 7,967 million was made against these loans (31 December 2006 – KZT 2,643 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2007	31 December 2006
Loans collateralized by pledge of real estate or rights thereon	623,396	379,069
Loans collateralized by pledge of inventories	16,811	5,522
Loans collateralized by pledge of corporate shares	28,953	54
Loans collateralized by pledge of equipment	3,648	5,012
Loans collateralized by pledge of agricultural products	20,526	2
Loans collateralized by pledge of vehicles	16,711	606
Loans collateralized by cash	71,749	98,759
Other collateral	206,543	109,303
Unsecured loans	108,633	31,543
	1,096,970	629,870
Less - allowance for loan impairment losses (Note 18)	(56,697)	(33,654)
Total loans to customers	1,040,273	596,216

Loans are made to the following sectors:

	31 December 2007	%	31 December 2006	%
Retail loans:				
- mortgage loans	160,663	15%	110,274	17%
- consumer loans	161,611	15%	86,907	14%
	322,274		197,181	
Wholesale trade	223,549	20%	113,510	18%
Construction	147,908	13%	70,064	11%
Retail trade	87,650	8%	42,098	7%
Agriculture	67,112	6%	47,474	8%
Services	59,921	5%	23,213	4%
Real estate	40,141	4%	14,896	2%
Oil and gas	30,289	3%	13,532	2%
Metallurgy	29,913	3%	5,638	1%
Food industry	16,439	1%	10,359	2%
Hotel industry	10,122	1%	5,811	1%
Consumer goods and automobile trading	9,683	1%	4,639	1%
Transportation	9,679	1%	11,503	2%
Mining	9,343	1%	4,835	1%
Machinery	7,296	1%	2,194	0%
Energy	6,236	1%	14,745	2%
Communication	1,323	0%	1,888	0%
Research and development	505	0%	2,444	0%
Other	17,587	1%	43,846	7%
	1,096,970	100%	629,870	100%

As at 31 December 2007 the amount of accrued interest on impaired loans comprised KZT 31,878 million (31 December 2006 – KZT 5,719 million).

11. PROPERTY AND EQUIPMENT

The movements in property and equipment are presented as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2006	7,439	1,132	8,448	6,560	23,579
Additions	1,654	314	4,185	3,627	9,780
Disposals	(54)	(88)	(566)	(573)	(1,281)
Transfers	598	-	(163)	(435)	-
Translation differences	7	-	1	2	10
31 December 2007	9,644	1,358	11,905	9,181	32,088
Accumulated depreciation					
31 December 2006	895	326	3,989	1,957	7,167
Charge	499	224	1,369	775	2,867
Disposals	(7)	(31)	(480)	(195)	(713)
Transfers	(1)	-	(162)	163	-
Translation differences	-	-	-	1	1
31 December 2007	1,386	519	4,716	2,701	9,322
Net book value:					
31 December 2007	8,258	839	7,189	6,480	22,766

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2005	4,763	654	6,987	4,200	16,604
Additions	2,725	570	1,862	3,224	8,381
Disposals	(87)	(125)	(436)	(961)	(1,609)
Acquisition of subsidiaries	54	33	35	81	203
Transfers	(16)	-	-	16	-
31 December 2006	7,439	1,132	8,448	6,560	23,579
Accumulated depreciation					
31 December 2005	497	222	3,399	1,507	5,625
Charge	402	166	978	563	2,109
Disposals	(4)	(62)	(388)	(113)	(567)
31 December 2006	895	326	3,989	1,957	7,167
Net book value:					
31 December 2006	6,544	806	4,459	4,603	16,412

12. GOODWILL

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows. Goodwill for the Group primarily relates to the company JSC Kazakhinstrakh which generates cash flows.

Movements of goodwill are presented as follows:

	2007	**2006**
At the beginning of the year	3,265	184
Recognized on acquisition of a subsidiary	-	3,177
Derecognized on disposal of a subsidiary	-	(49)
Impairment loss	-	(47)
At the end of the year	3,265	3,265

As at 31 December 2007 and 2006 there was no evidence that the goodwill that arose on the acquisition of JSC Kazakhinstrakh has been impaired.

13. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2007	**31 December 2006**
Reinsurance premium unearned	1,934	2,609
Reinsurance amounts recoverable	140	189
	2,074	2,798
Premiums receivable	1,812	2,828
Insurance assets	3,886	5,626

Insurance liabilities comprised the following:

	31 December 2007	**31 December 2006**
Gross unearned insurance premium reserve	5,265	5,290
Reserves for insurance claims	805	391
	6,070	5,681
Payables to reinsurers and agents	1,319	1,854
Insurance liabilities	7,389	7,535

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

The movements on claims reserves for the year ended 31 December 2007 and for the period from the 27 October 2006 acquisition by the Group of JSC Kazakhinstrakh to 31 December 2006 were as follows:

	2007	2006
Reserves for claims, beginning of the period	391	331
Reserves for claims, reinsurance share, beginning of the period	(189)	(63)
Net reserves for claims, beginning of the period	202	268
Plus claims incurred	2,152	103
Less claims paid	(1,689)	(169)
Net reserves for claims, end of period	665	202
Reserves for claims, reinsurance share, end of period	140	189
Reserves for claims, end of period	805	391

The movements on unearned insurance premium reserve for the year ended 31 December 2007 and for the period from the 27 October 2006 acquisition by the Group of JSC Kazakhinstrakh to 31 December 2006 were as follows:

	2007	2006
Gross unearned insurance premium reserve, beginning of the period	5,290	4,596
Unearned insurance premium reserve, reinsurance share, beginning of the period	(2,609)	(2,859)
Net unearned insurance premium reserve, beginning of the period	2,681	1,737
Change in unearned insurance premium reserve	(25)	742
Change in unearned insurance premium reserve, reinsurance share	675	202
Change in unearned insurance premium reserve, net	650	944
Net unearned insurance premium reserve, end of period	3,331	2,681
Unearned insurance premium reserve, reinsurance share, end of period	1,934	2,609
Gross unearned insurance premium reserve, end of period	5,265	5,290

14. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Other debtors on banking activities	2,159	665
Accrued commission for managing pension assets	1,147	2,289
Accrued other commission income	1,037	466
Other debtors on non-banking activities	171	721
Other	657	418
	5,171	4,559
Less – Allowance for impairment (Note 18)	(504)	(218)
	4,667	4,341
Other non financial assets:		
Prepayments for property and equipment	12,412	997
Inventory	871	905
Investments in associates	262	293
Deferred tax assets (Note 19)	220	-
Other	789	278
	19,221	6,814

15. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2007	31 December 2006
Recorded at amortized cost:		
Term deposits:		
Legal entities	381,139	291,100
Individuals	282,520	157,281
	663,659	448,381
Current accounts:		
Legal entities	196,618	96,247
Individuals	75,152	52,597
	271,770	148,844
Restricted accounts	-	710
	935,429	597,935

As at 31 December 2007, the Group's ten largest customers accounted for approximately 45% of the total amounts due to customers (31 December 2006 – 52%).

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

An analysis of customer accounts by sector follows:

	31 December 2007	%	31 December 2006	%
Individuals and entrepreneurs	357,672	38%	209,878	35%
Oil and gas	206,185	22%	67,540	11%
Financial sector	57,573	6%	44,168	8%
Wholesale trade	57,105	6%	15,800	3%
Other consumer services	55,889	6%	35,514	6%
Transportation	55,690	6%	17,291	3%
Government	47,130	5%	1,813	-
Construction	41,781	5%	81,319	14%
Energy	32,552	4%	12,843	2%
Metallurgy	2,724	-	102,345	17%
Transportation of oil and gas	-	-	1,794	-
Other	21,128	2%	7,630	1%
	935,429	100%	597,935	100%

16. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2007	31 December 2006
Recorded at amortized cost:		
Loans and deposits from OECD based banks	176,480	73,126
Loans and deposits from Kazakhstan banks	66,889	36,007
Loans and deposits from non-OECD based banks	2,797	5,073
Loans from other financial institutions	-	650
Overnight deposits	-	3,338
Correspondent accounts	1,286	525
Amounts due to credit institutions	247,452	118,719

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Loans and deposits from OECD based banks	3.0%-8.4%	2008-2015	2.3%-8.4%	2007-2015
Loans and deposits from Kazakhstan banks	6.5%-6.6%	2008	0.7%-7.0%	2007
Loans and deposits from non-OECD based banks	6.2%-6.7%	2008-2009	4.6%-6.7%	2007-2012
Loans from other financial institutions	-	-	5.9%-8.4%	2007-2012
Overnight deposits	-	-	2.5%-4.8%	2007

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
NBK notes	51,672	49,151	29,390	29,520
Treasury bills of the Ministry of Finance of Kazakhstan	2,973	2,680	1,110	1,000
Total	54,645	51,831	30,500	30,520

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

As at 31 December 2007 and 2006, the Group was in compliance with the covenants of the various debt agreements the Group has with other banks and financial institutions.

17. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	31 December 2007	31 December 2006
Recorded at amortized cost:		
Subordinated debt securities issued		
Inflation indexed KZT denominated bonds	19,221	9,104
Fixed rate KZT denominated bonds	11,229	10,610
Reverse inflation indexed KZT denominated bonds	8,381	8,908
USD denominated bonds	-	2,086
Total subordinated debt securities outstanding	38,831	30,708
Unsubordinated debt securities issued		
USD denominated bonds	145,017	64,145
KZT denominated bonds	41,038	39,560
Total unsubordinated debt securities outstanding	186,055	103,705
Total debt securities outstanding	224,886	134,413

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

	31 December 2007		31 December 2006	
	%	Maturity	%	Maturity
Subordinated debt securities issued				
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015
	inflation rate plus 2%	2010-2017	inflation rate plus 2%	2010
Fixed rate KZT denominated bonds	7.5%-9.0%	2009-2015	7.5%-9.6%	2007-2015
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
USD denominated bonds	-	-	8.0%-11.8%	2007
Unsubordinated debt securities issued				
USD denominated bonds	7.3%-8.1%	2009-2017	7.8%-8.1%	2009-2013
KZT denominated bonds	7.1%-7.8%	2008-2009	5.0%-7.3%	2007-2009

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

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, lending exposures, limitations on transactions at less than fair market value and payment of dividends. The terms of the USD denominated bonds include covenants restricting the Group’s ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group’s other financing arrangements. Management believes that as of 31 December 2007 and 2006, the Group was in compliance with the covenants of the agreements the Group has with the notes’ trustee and holders.

18. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

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

	Loans to customers	Amounts due from credit institutions	Other assets	Total
31 December 2005	(25,921)	-	(134)	(26,055)
Additional provisions recognized	(8,179)	(6)	(146)	(8,331)
Write-offs	3,427	-	99	3,526
Recoveries	(2,981)	-	(2)	(2,983)
Additional provisions due to acquisition of subsidiaries	-	-	(35)	(35)
31 December 2006	(33,654)	(6)	(218)	(33,878)
Additional provisions recognized	(21,899)	(10)	(275)	(22,184)
Write-offs	1,404	-	32	1,436
Recoveries	(2,548)	(2)	(43)	(2,593)
31 December 2007	(56,697)	(18)	(504)	(57,219)

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

The movements in provisions were as follows:

	2007	2006
At the beginning of the year	(3,021)	(2,280)
Recovery of provisions	9,653	7,860
Additional provisions recognized	(8,656)	(8,612)
Write-off	139	11
At the end of the year	(1,885)	(3,021)

Provisions represent provisions against letters of credit and guarantees issued.

In 2007 the Group possessed collateral in the amount of KZT 155 million (2006 nil).

19. TAXATION

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

The income tax expense comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Current tax charge	9,495	6,337
Deferred tax charge	1,147	2,105
Income tax expense	10,642	8,442

Kazakhstan legal entities must file individual tax declarations. The tax rate for banks for income other than on state and other qualifying securities was 30% during 2007 and 2006. The tax rate for companies other than banks was also 30% during 2007 and 2006, except insurance companies which were taxed at 4%. Income on state and other qualifying securities is tax exempt.

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

	Year ended 31 December 2007	**Year ended 31 December 2006**
Income before income tax expense	51,167	35,601
Statutory tax rate	30%	30%
Income tax expense at the statutory rate	15,350	10,680
Tax-exempt interest income on mortgage loans and long-term loans issued by the Group to modernize equipment	(2,244)	(2,449)
Tax-exempt interest income and other related income on state and other qualifying securities	(2,569)	(898)
Income of subsidiaries taxed at different rates	(309)	(90)
Tax-exempt interest income on financial lease	(9)	-
Tax-exempt income on dividends	(300)	-
Non-deductible expenditures:		
- other provisions	122	345
- general and administrative expenses	195	271
- withholding tax on interest	112	237
- charity	6	27
- interest on deposits to non-residents	3	27
Other	285	292
Income tax expense	10,642	8,442

Deferred tax assets and liabilities comprise:

	31 December 2007	**31 December 2006**
Tax effect of deductible temporary differences:		
Bonuses accrued	1,262	870
Vacation pay accrual	212	-
Insurance premium reserves	129	-
Deferred tax asset	1,603	870
Tax effect of taxable temporary differences:		
Loans to customers, allowance for impairment losses	(3,431)	(1,599)
Property and equipment, accrued depreciation	(1,342)	(1,801)
Provisions, different rates	(322)	-
Fair value of derivatives	(185)	-
Deferred tax liability	(5,280)	(3,400)
Net deferred tax asset (Note 14)	220	-
Net deferred tax liability	(3,897)	(2,530)

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

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

20. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Other financial liabilities:		
Other creditors on non-banking activities	1,101	859
Payable for general and administrative expenses	155	339
Other creditors on bank activities	95	55
Amounts due to government	-	110
Accrued other commission expense	-	27
Other	175	175
	1,526	1,565
Other non financial liabilities:		
Salary payable	5,653	3,622
Taxes payable other than income tax	1,111	942
Other prepayments received	1,015	359
Current income tax payable	956	60
Payables for property and equipment	-	21
	10,261	6,569

21. EQUITY

Authorized, issued and fully paid shares as at 31 December 2007 and 2006 were as follows:

31 December 2007

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	1,129,016,660	(145,000,000)	984,016,660	(4,257,172)	979,759,488
Convertible preferred	80,225,222	-	80,225,222	(32,610)	80,192,612
Non-convertible preferred	24,742,000	-	24,742,000	(55,237)	24,686,763

31 December 2006

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	1,129,016,660	(154,468,878)	974,547,782	(3,858,746)	970,689,036
Convertible preferred	80,225,222	-	80,225,222	(10,035)	80,215,187
Non-convertible preferred	24,742,000	-	24,742,000	-	24,742,000

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2005	897,383,050	24,742,000	74,887,521	14,206	2,474	12,320
Capital contributions	75,531,122	-	5,327,666	30,755	-	913
Purchase of treasury shares	(2,225,136)	-	-	(22)	-	-
31 December 2006	970,689,036	24,742,000	80,215,187	44,939	2,474	13,233
Capital contributions	9,468,878	-	-	4,847	-	-
Purchase of treasury shares	(398,426)	(55,237)	(22,575)	(28)	-	-
31 December 2007	979,759,488	24,686,763	80,192,612	49,758	2,474	13,233

At 31 December 2007, the Group held 4,257,172 of the Group's common shares as treasury shares at KZT 43 million (31 December 2006 – 3,858,746 at KZT 38 million).

Common Shares

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

Preferred shares

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

The terms of the Preferred Shares require that the Bank pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the preference shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on preference shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the preference share agreement and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation plus one per cent., as published by the NBK, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders.

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

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the preference share agreement. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

22. COMMITMENTS AND CONTINGENCIES

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

	31 December 2007	31 December 2006
Commitments to extend credit	37,746	21,629
Guarantees issued	34,888	39,897
Commercial letters of credit	18,825	18,326
Financial commitments and contingencies	91,459	79,852
Less: cash collateral against letters of credit	(443)	(132)
Less: provisions	(1,885)	(3,021)
Financial commitments and contingencies, net	89,131	76,699

Guarantees issued included above represent financial guarantees where payment is not probable as at the respective balance sheet date, and therefore have not been recorded in the consolidated balance sheet. As at 31 December 2007, the ten largest guarantees accounted for 54% of the Group's total financial guarantees (31 December 2006 – 63%) and represented 13% of the Group's total equity (31 December 2006 – 21%).

As at 31 December 2007, the ten largest letters of credit accounted for 31% of the Group's total commercial letters of credit (31 December 2006 – 78%) and represented 7% of the Group's total equity (31 December 2006 – 12%).

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

Trust Activities – In the normal course of its business, the Group enters into agreements with clients to manage the clients' assets with limited decision making rights and in accordance with specific criteria established by the clients. The Group may only be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The maximum potential financial risk of the Group on any date is equal to the volume of the clients' funds, net of any unrealized income/loss on the client's position. The balance of the clients' funds under the management of the Group, as at 31 December 2007 is KZT 354 million (2006 – KZT 254 million).

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

23. NET INTEREST INCOME

	Year ended 31 December 2007	**Year ended 31 December 2006**
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired assets	121,017	73,789
- interest income on unimpaired assets	1,223	1,506
Interest income on available for sale investment securities	7,737	1,652
Interest income on financial assets at fair value through profit or loss	2,589	3,700
Total interest income	132,566	80,647
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	116,147	71,292
Interest income on amounts due from credit institutions and cash and cash equivalents	6,093	4,003
Total interest income on financial assets recorded at amortized cost	122,240	75,295
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	2,589	3,700
Total interest income on financial assets at fair value through profit or loss	2,589	3,700
Interest income on available for sale investment securities	7,737	1,652
Total interest income	132,566	80,647
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(61,532)	(34,184)
Total interest expense	(61,532)	(34,184)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on debt securities issued	(15,395)	(9,238)
Interest expense on amounts due to customers	(35,348)	(18,491)
Interest expense on amounts due to credit institutions	(10,789)	(6,455)
Total interest expense on financial liabilities recorded at amortized cost	(61,532)	(34,184)
Net interest income before impairment charge	71,034	46,463

24. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2007	Year ended 31 December 2006
Bank transfers	8,184	5,898
Pension fund and asset management	6,497	7,030
Cash operations	3,747	2,714
Plastic cards maintenance	1,575	433
Maintenance of customer accounts	1,433	1,104
Letters of credit and guarantees issued	1,424	1,357
Customers' pension payments	1,292	1,080
Utilities payments	239	765
Foreign currency operations	52	232
Other	985	1,451
	25,428	22,064

Fee and commission expense comprised the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Plastic cards	(682)	(490)
Bank transfers	(182)	(148)
Foreign currency operations	(141)	(117)
Other	(250)	(174)
	(1,255)	(929)

25. NET GAIN/(LOSS) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Net gain/(loss) on operations with financial assets and liabilities classified as held for trading:		
Gain on trading operations	4,026	729
Net fair value adjustment	(661)	(922)
Total net gain/(loss) on operations with financial assets and liabilities classified as held for trading	3,365	(193)

26. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	6,861	5,174
Translation differences, net	(1,414)	(1,734)
Total net gain on foreign exchange operations	5,447	3,440

27. INSURANCE UNDERWRITING INCOME

Insurance underwriting income comprised:

	Year ended 31 December 2007	Year ended 31 December 2006
Insurance premiums written, gross	11,768	2,420
Ceded reinsurance share	(5,198)	(812)
Change in unearned insurance premiums, net	(650)	(944)
	5,920	664

28. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries and other employee benefits	19,681	15,931
Depreciation and amortization expenses	3,366	2,371
Taxes other than income tax	1,949	1,256
Deposit insurance	1,814	885
Rent	1,342	644
Repair and maintenance	1,238	1,207
Communication	1,118	644
Advertisement	1,012	789
Insurance agency fees	950	201
Security	803	510
Professional services	779	907
Business trip expenses	676	532
Information services	493	376
Stationery and office supplies	483	539
Transportation	416	209
Social events	174	95
Charity	65	97
Hospitality expenses	-	211
Other	1,483	712
	37,842	28,116

29. 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.

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 21, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2007	Year ended 31 December 2006
Basic earnings per share		
Net profit for the year attributable to equity holders of the parent	40,097	26,659
Less: Additional dividends that would be paid on full distribution of profit to the preferred shareholders	(2,304)	(1,409)
Less: Dividends paid on preference shares	(1,579)	(1,355)
Net profit for the year attributable to preferred shareholders	(3,883)	(2,764)
Earnings attributable to common shareholders	36,214	23,895
Weighted average number of common shares for the purposes of basic earnings per share	978,504,308	904,100,063
Basic earnings per share (Tenge)	37.01	26.43
Diluted earnings per share		
Earnings used in the calculation of basic earnings per share	36,214	23,895
Add: Dividends paid on convertible preferred shares	1,207	1,018
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders	1,761	1,076
Less: Amounts payable to convertible preferred shareholders upon conversion	(1,138)	(8,541)
Earnings used in the calculation of total diluted earnings per share	38,044	17,448
Weighted average number of common shares for the purposes of basic earnings per share	978,504,308	904,100,063
Shares deemed to be issued:		
Weighted average number of common shares that would be issued for the convertible preferred shares	80,214,034	79,854,432
Weighted average number of common shares for the purposes of diluted earnings per share	1,058,718,343	983,954,495
Diluted earnings per share (Tenge)	35.93	17.73

30. BUSINESS COMBINATIONS

Subsidiaries acquired in 2006

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

JSC Kazakhinstrakh

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

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

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

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

JSC Halyk Life

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

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

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

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

Included in the Group's net profit for the year ended 31 December 2006 are KZT 46 million net income and KZT 21 million net loss attributable to the purchases of JSC Kazakhinstrakh and JSC Halyk Life, respectively.

Had these business combinations been effected at 1 January 2006, the net income of the Group for the year ended 31 December 2006 would have been KZT 27,748 million and revenue would have been KZT 110,714 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods. In determining the 'pro-forma' numbers the management of the Group used stand-alone financial statements of acquired subsidiaries without making any adjustments to them.

31. FINANCIAL RISK MANAGEMENT

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authorit. These procedures are performed, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (e.g. borrower's limits approved) are reviewed and approved by respective division of the Risk Management Department. Daily risk management is performed by the Branch Credit Divisions of the Bank.

The Group structures the level 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 (and geographical) segments. Limits on the level of credit risk concentration by industry sector and by region are approved quarterly (annually) by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by Management board. The exposure to any one borrower including banks and brokers, covering on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee. However a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a monthly basis with preparation of management reports.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 22). The collateral pledged was determined based on its fair value and limited to the outstanding balance of each loan.

					31 December 2007
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Cash and cash equivalents*	252,327	-	252,327	7,791	244,536
Financial assets at fair value through profit or loss	48,073	-	48,073	-	48,073
Amounts due from credit institutions	3,398	-	3,398	358	3,040
Loans to customers	1,040,273	-	1,040,273	931,640	108,633
Available-for-sale investment securities	107,839	-	107,839	-	107,839
Other financial assets	4,667	-	4,667	-	4,667
Total financial assets	1,456,577	-	1,456,577	939,431	516,788
Commitments and contingencies	89,574	-	89,574	443	89,131

					31 December 2006
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Cash and cash equivalents*	112,868	-	112,868	4,315	108,553
Financial assets at fair value through profit or loss	53,195	-	53,195	-	53,195
Amounts due from credit institutions	2,049	-	2,049	-	2,049
Loans to customers	596,216	-	596,216	564,673	31,543
Available-for-sale investment securities	123,339	-	123,339	-	123,339
Other financial assets	4,341	-	4,341	-	4,341
Total financial assets	892,008	-	892,008	568,988	323,020
Commitments and contingencies	76,801	-	76,801	132	76,669

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, before any impairment losses and which are monitored by international rating agencies:

							31 December 2007
	AA-	**A**	**BBB**	**BB+**	**<BBB**	**Not rated**	**Total**
Cash and cash equivalents	186,653	53,511	14	12,493	-	2,574	255,245
Financial assets at fair value through profit or loss	5,967	1,852	1,964	36,949	1,341	-	48,073
Amounts due from credit institutions	3,065	-	-	-	-	351	3,416
Available-for-sale investment securities	-	-	-	103,841	3,998	-	107,839
Other financial assets	-	-	-	-	-	5,171	5,171
Commitments and contingencies	-	-	-	-	-	91,459	91,459

							31 December 2006
	AA-	**A**	**BBB**	**BB+**	**<BBB**	**Not Rated**	**Total**
Cash and cash equivalents	55,272	29,909	7	27,668	-	14,943	127,799
Financial assets at fair value through profit or loss	6,362	2,121	2,163	40,716	1,654	179	53,195
Amounts due from credit institutions	-	-	-	2,055	-	-	2,055
Available-for-sale investment securities	-	-	-	118,750	4,589	-	123,339
Other financial assets	-	-	-	-	-	4,559	4,559
Commitments and contingencies	-	-	-	-	-	79,852	79,852

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Bank, and this classification is verified by the Risk Management function. At present, the Risk Management function uses classifications as follows:

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

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

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

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

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

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

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

	31 December 2007	31 December 2006
Standard loans	8,423	278,831
Doubtful 1st category	1,006,840	295,399
Doubtful 2nd category	7,857	2,332
Doubtful 3rd category	46,693	25,074
Doubtful 4th category	4,193	2,815
Doubtful 5th category	2,777	9,417
Loss loans	20,187	16,002
	1,096,970	629,870
Less – Allowance for loan impairment (Note 18)	(56,697)	(33,654)
Loans to customers	1,040,273	596,216

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

			Financial assets past due but not impaired				31 December 2007	
	Neither past due nor individually impaired	Financial assets that have been collectively impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been individually impaired	Total
Financial assets at fair value through profit or loss	48,073	-	-	-	-	-	-	48,073
Amounts due from credit institutions	3,398	-	-	-	-	-	18	3,416
Loans to customers	7,672	838,734	1	-	1	16	250,546	1,096,970
Investment securities available-for-sale	107,839	-	-	-	-	-	-	107,839
Other financial assets	4,667	-	-	-	-	-	504	5,171

			Financial assets past due but not impaired				31 December 2006	
	Neither past due nor individually impaired	Financial assets that have been collectively impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been individually impaired	Total
Financial assets at fair value through profit or loss	53,195	-	-	-	-	-	-	53,195
Amounts due from credit institutions	2,049	-	-	-	-	-	6	2,055
Loans to customers	9,529	372,086	-	-	4	11	248,240	629,870
Available-for-sale investment securities	123,339	-	-	-	-	-	-	123,339
Other financial assets	4,341	-	-	-	-	-	218	4,559

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

	31 December 2007			31 December 2006		
	KZT	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**
FINANCIAL ASSETS:						
Cash and cash equivalents	9,831	245,414	255,245	31,957	95,842	127,799
Obligatory reserves	30,122	57,146	87,268	18,873	36,233	55,106
Financial assets at fair value through profit or loss	37,248	10,825	48,073	37,484	15,711	53,195
Amounts due from credit institutions	3,084	314	3,398	1,928	121	2,049
Available-for-sale investment securities	106,886	953	107,839	122,157	1,182	123,339
Loans to customers	621,285	418,988	1,040,273	291,007	305,209	596,216
Other financial assets	3,208	1,459	4,667	2,925	1,416	4,341
	811,664	735,099	1,546,763	506,331	455,714	962,045
FINANCIAL LIABILITIES:						
Amounts due to customers	548,136	387,293	935,429	303,199	294,736	597,935
Amounts due to credit institutions	79,989	167,463	247,452	55,042	63,677	118,719
Financial liabilities at fair value through profit or loss	-	2,851	2,851	-	10	10
Debt securities issued	79,863	145,023	224,886	68,188	66,225	134,413
Other financial liabilities	267	1,259	1,526	1,133	432	1,565
	708,255	703,889	1,412,144	427,562	425,080	852,642
Net balance sheet position	103,409	31,210	134,619	78,769	30,634	109,403
Net off balance sheet position	238,786	1,606	240,392	80,203	159,191	239,394
Total open position	342,195	32,816	375,011	158,972	189,825	348,797

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.

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 financial 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 which are included in the column "On demand" as they are available to meet the Group's short-term liquidity needs. The presentation below is based upon the information provided internally to key management personnel of the entity.

31 December 2007

	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 Years**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	8,501	246,464	280	-	-	-	255,245
Obligatory reserves	24,099	15,353	10,540	25,708	7,471	4,097	87,268
Financial assets at fair value through profit or loss	48,073	-	-	-	-	-	48,073
Amounts due from credit institutions	-	193	127	2,460	590	28	3,398
Available-for-sale investment securities	2,045	35,350	332	56,493	4,694	8,925	107,839
Loans to customers	9,384	6,024	78,632	485,795	303,862	156,576	1,040,273
Other financial assets	833	1,675	132	1,578	184	265	4,667
	92,935	305,059	90,043	572,034	316,801	169,891	1,546,763
FINANCIAL LIABILITIES:							
Amounts due to customers	258,322	164,571	112,974	275,565	80,078	43,919	935,429
Amounts due to credit institutions	1,836	71,323	11,656	28,393	113,640	20,604	247,452
Financial liabilities at fair value through profit or loss	2,851	-	-	-	-	-	2,851
Debt securities issued	126	-	2,418	913	156,286	65,143	224,886
Other financial liabilities	85	654	724	15	48	-	1,526
	263,220	236,548	127,772	304,886	350,052	129,666	1,412,144
Net position	(170,285)	68,511	(37,729)	267,148	(33,251)	40,225	
Accumulated gap	(170,285)	(101,774)	(139,503)	127,645	94,394	134,619	

	31 December 2006						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 Years**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	22,359	86,031	19,409	-	-	-	127,799
Obligatory reserves	13,718	13,797	2,575	20,248	3,869	899	55,106
Financial assets at fair value through profit or loss	52,163	1,032	-	-	-	-	53,195
Amounts due from credit institutions	-	-	162	148	1,711	28	2,049
Available-for-sale investment securities	-	109,302	66	182	4,597	9,192	123,339
Loans to customers	2,405	24,267	49,929	251,183	144,508	123,924	596,216
Other financial assets	-	2,751	264	1,032	-	294	4,341
	90,645	237,180	72,405	272,793	154,685	134,337	962,045
FINANCIAL LIABILITIES:							
Amounts due to customers	148,844	149,704	27,941	219,707	41,981	9,758	597,935
Amounts due to credit institutions	524	48,824	11,384	32,909	5,108	19,970	118,719
Financial liabilities at fair value through profit or loss	10	-	-	-	-	-	10
Debt securities issued	-	-	-	3,926	103,530	26,957	134,413
Other financial liabilities	-	306	60	1,090	109	-	1,565
	149,378	198,834	39,385	257,632	150,728	56,685	852,642
Net position	(58,733)	38,346	33,020	15,161	3,957	77,652	
Accumulated gap	(58,733)	(20,387)	12,633	27,794	31,751	109,403	

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated balance sheet as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the consolidated balance sheet.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 3 years	Over 3 years	Maturity undefined	31 December 2007 Total
FINANCIAL LIABILITIES:								
Amounts due to credit institutions	5.83%	87,213	11,995	42,263	131,004	20,807	-	293,282
Amounts due to customers	5.38%	429,083	121,083	292,115	90,954	46,700	-	979,935
Financial liabilities at fair value through profit or loss	-	110,501	-	-	-	-	-	110,501
Debt securities issued	7.73%	261	2,818	15,921	102,031	281,221	-	402,252
Commitments to extend credit	-	37,746	-	-	-	-	-	37,746
		664,804	135,896	350,299	323,989	348,728	-	1,823,715
Derivative financial assets		103,150	-	-	-	-	-	103,150

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 3 years	Over 3 years	Maturity undefined	31 December 2006 Total
FINANCIAL LIABILITIES:								
Amounts due to credit institutions	6.40%	41,845	5,755	20,278	62,856	9,983	-	140,717
Amounts due to customers	4.31%	274,270	77,396	186,720	58,138	29,851	-	626,375
Financial liabilities at fair value through profit or loss	-	174,817	-	-	-	-	-	174,817
Debt securities issued	8.32%	154	1,663	11,776	51,786	273,445	-	338,824
Commitments to extend credit	-	21,629	-	-	-	-	-	21,629
		512,715	84,814	218,774	172,780	313,279	-	1,302,361
Derivative financial assets		291,985	-	-	-	-	-	291,985

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2007.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group’s loan contracts and other financial assets and liabilities that bear interest contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Group manages interest rate by determining the Group’s exposure to the interest rate risk using the approach described by the Basle Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group’s exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points. In addition the Group performs Value at Risk (“VaR”) analysis of interest rates on deposits and loans based on historical data.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2006 and 2007 and the effect of revaluating instruments with fixed rates accounted at fair value. The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluating available for sale investment securities with fixed rates.

Impact on profit before tax based on asset values as at 31 December 2007 and 31 December 2006:

	31 December 2007		**31 December 2006**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Financial assets at fair value through profit or loss	(1,365)	1,556	(2,360)	2,682
Loans to customers	1,441	(1,441)	823	(823)
Investment securities available-for-sale	-	-	-	-
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	(811)	811	(561)	561
Amounts due to customers	(1,684)	1,684	-	-
Net impact on profit before tax	(2,419)	2,610	(2,098)	2,420

Impact on equity:

	31 December 2007		**31 December 2006**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Financial assets at fair value through profit or loss	(1,365)	1,556	(2,360)	2,682
Loans to customers	1,441	(1,441)	823	(823)
Investment securities available-for-sale	(766)	766	(685)	685
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	(811)	811	(561)	561
Amounts due to customers	(1,684)	1,684	-	-
Net impact on equity	(3,185)	3,376	(2,783)	3,105

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of FMSA.

Currency risk is also managed by using a VaR analysis.

A VaR calculation is used to determine the Group's exposure to currency risk, and is based on statistical data for previous periods Historical VaR assuming the following:

- benchmark data – average KASE rate used by the Group to recalculate currency positions;
- length of period –one year from the calculation date (252 working days);
- confidence interval – 95%; and
- positions are assessed for each risk currency, i.e. those which are more than 5% of the Group's equity.

The aim of this method is to assess the risk of a potential negative revaluation of the Group's open currency positions in order to ensure effective management of market currency risks.

The table below indicates the currencies in which the Group had significant exposure at 31 December 2007 and 2006 and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase.

	31 December 2007		**31 December 2006**	
	+10% KZT/USD	**-10% KZT/USD**	**+10% KZT/USD**	**-10% KZT/USD**
Impact on profit or loss	5,383	(5,383)	(484)	484

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

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

To determine its exposure to price risk the Group uses a VaR analysis for financial instruments based on:

- the Monte-Carlo simulation method; and
- the rating method.
- The VaR analysis for each of these methods, respectively, is based on the following statistical data:

Monte-Carlo method

- benchmark data – data on the transaction price for each security received from official KASE sources or other sources such as Bloomberg or Reuters;
- length of period – data from the previous two years is used in the VaR calculation;
- Confidence interval – 95%; and
- Quantity of simulations – no less than 10 thousand.

Rating method

- benchmark data – data on the transaction price for each security received from official KASE sources or other exchange, or non-exchange data (Bloomberg, Reuters);
- current yield to maturity; and
- Confidence interval – 95%.

The rating method is used to calculate VaR for newly issued securities or for securities that are not regularly traded. This method is based on Moody's ratings and migration tables which reflect a security's rating depending on the risk premium. This method is also based on the possibility of changing the rating.

The VaR on financial derivatives, such as the Historical VaR, the Monte-Carlo method and Black-Scholes method, is also calculated to determine the Group's exposure to price risk. The choice of the method used to calculate exposure to price risk with respect to derivatives depends on the underlying asset.

32. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated balance sheet, are as follows:

- To comply with the capital requirements set by the FMSA;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined by taking into account the above objectives during the process of preparing the annual budget, and is approved by the Board and Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basle Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt limited to 50% of Tier 1 capital and revaluation reserves.

The risk-weighted assets are measured based on a hierarchy of five risk weighting according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2007	**31 December 2006**
Composition of regulatory capital		
Tier 1		
Share capital	65,531	60,684
Share premium	1,952	2,183
Reserves and retained earnings	92,253	56,736
Less: revaluation reserves	15	(543)
Less: goodwill	(3,265)	(3,265)
Minority interest	1,355	1,062
Total qualifying tier 1 capital	157,841	116,857
Tier 2		
Subordinated debt	33,884	30,708
Revaluation reserve	(15)	543
Total qualifying tier 2 capital	33,869	31,251
Less investments in associates	(262)	(293)
Total regulatory capital	191,448	147,815
Risk weighted assets	1,484,559	945,707
Tier 1 capital ratio	10.6%	12.4%
Total capital adequacy ratio	12.9%	15.6%

Quantitative measures established by the Basle Committee to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

33. 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 2007 and 2006.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

	Retail Banking	Corporate banking	Other	Total
Year ended 31 December 2007				
External revenues	68,882	94,528	11,725	175,135
Total revenues	68,882	94,528	11,725	175,135
Total revenues comprise:				
- Interest income	50,811	81,755	-	132,566
- Net gain from financial assets at fair value through profit or loss	-	-	3,365	3,365
- Net realized gains from available-for-sale investment securities	-	-	623	623
- Share of loss of associates	-	(31)	-	(31)
- Net gains on foreign exchange operations	1,612	3,835	-	5,447
- Fee and commission income	16,459	8,969	-	25,428
- Insurance underwriting income and other income	-	-	7,737	7,737
Total revenues	68,882	94,528	11,725	175,135
- Interest expense on amounts due to customers	(18,333)	(17,015)	-	(35,348)
- Impairment charge	(6,068)	(16,116)	-	(22,184)
- Fee and commission expense	(191)	(1,064)	-	(1,255)
- Salaries and other employee benefits	(3,699)	(15,982)	-	(19,681)
- Deposit insurance and advertisement expenses	(2,826)	-	-	(2,826)
- Recoveries of provisions	(53)	1,050	-	997
Segment result	37,712	45,401	11,725	94,838
Total unallocated costs				(43,671)
Income before income tax expense				51,167
Income tax expense				(10,642)
Net income				40,525
Total segment assets	323,093	976,073	155,912	1,455,078
Unallocated assets				139,997
Total assets				1,595,075
Total segment liabilities	(357,672)	(579,641)	-	(937,313)
Unallocated liabilities				(496,737)
Total liabilities				(1,434,050)
Other segment items:				
Capital expenditure (unallocated)				(9,780)
Depreciation and amortization expense (unallocated)				(3,366)

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

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

Geographical segments – Segment information for the main geographical segments of the Group is set out below as at 31 December 2007 and 2006 and for the years then ended.

	Kazakhstan	**OECD**	**Non OECD**	**Total**
2007				
Total segment assets	1,343,705	242,031	9,339	1,595,075
External revenues	165,034	9,726	375	175,135
Capital expenditure	(9,780)	-	-	(9,780)
2006				
Total segment assets	892,586	97,124	1,649	991,359
External revenues	104,811	3,165	40	108,016
Capital expenditure	(8,584)	-	-	(8,584)

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.

34. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

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

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

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

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

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

	31 December 2007		31 December 2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Amounts due from credit institutions	3,398	3,193	2,049	2,049
Loans to customers	1,040,273	1,084,619	596,216	597,849
Financial liabilities				
Amounts due to customers	935,429	901,563	597,935	598,249
Amounts due to credit institutions	247,452	267,413	118,719	122,911
Debt securities issued	224,886	212,925	134,413	134,867

Financial assets at fair value through profit or loss and available-for-sale investment securities are carried at fair value in the consolidated balance sheet. The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

35. SUBSEQUENT EVENTS

On 8 January 2008, the Bank established a wholly owned subsidiary JSC Halyk Bank Georgia. This subsidiary is incorporated under Georgian law and obtained license for providing banking activities in Georgia. The share capital of JSC Halyk Bank Georgia is 16 million Georgian Laryis which was fully paid on 28 January 2008.

36. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 “Related Party Disclosures”. Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2007 and 2006 with related parties:

	31 December 2007		**31 December 2006**	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers before allowance for impairment losses	133	1,096,970	5,246	629,870
- the parent	-		229	
- entities with joint control or significant influence over the entity	-		4,972	
- key management personnel of the entity or its parent	43		45	
- other related parties	90		-	
Allowance for impairment losses		56,697	959	33,654
- entities with joint control or significant influence over the entity	-		959	
Amounts due to customers	3,735	935,429	217,993	597,935
- the parent	2,673		101,025	
- entities with joint control or significant influence over the entity	-		116,306	
- associates	-		239	
- key management personnel of the entity or its parent	406		423	
- other related parties	656		-	
Guarantees issued	-	34,888	593	39,897
- entities with joint control or significant influence over the entity	-		586	
- associates	-		7	

	Year ended 31 December 2007		**Year ended 31 December 2006**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:	909	19,681	1,043	15,931
- short-term employee benefits	909		1,043	

Included in the consolidated income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	-	132,566	464	80,647
- the parent	-		73	
- entities with joint control or significant influence over the entity	-		385	
- key management personnel of the entity or its parent	-		6	
Interest expense	59	61,532	4,664	34,184
- the parent	11		1,944	
- entities with joint control or significant influence over the entity	-		2,696	
- associates	-		4	
- key management personnel of the entity or its parent	22		20	
- other related parties	26		-	

JSC HALYK BANK

Consolidated Financial Statements
For the Years Ended 31 December 2006 and 2005

and Independent Auditors' Report

JSC HALYK BANK

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JSC HALYK BANK

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

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

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

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

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

Management is also responsible for:

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

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

29 February 2008

Pavel A. Cheussov
Chief Accountant

29 February 2008

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Audit . Tax . Consulting . Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

As discussed in Note 29, the accompanying consolidated financial statements have been restated.

Deloitte, LLP

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

Nurlan Bekenov
Engagement Partner
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate №0082
General Director
Deloitte, LLP

29 February 2008
Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2006 AND 2005
(Millions of Kazakhstani Tenge)

	Notes	31 December 2006	31 December 2005
ASSETS			
Cash and cash equivalents	5	127,799	57,102
Obligatory reserves	6	55,106	8,632
Financial assets at fair value through profit or loss	7	53,195	50,023
Amounts due from credit institutions	8	2,049	2,777
Available-for-sale investment securities	9	123,339	12,099
Loans to customers	10	596,216	411,097
Property and equipment	11	16,412	10,979
Goodwill	12	3,265	184
Intangible assets		1,538	559
Insurance assets	13	5,626	-
Other assets	14	6,814	6,213
TOTAL ASSETS		991,359	559,665
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	15	597,935	323,515
Amounts due to credit institutions	16	118,719	107,284
Financial liabilities at fair value through profit or loss	7	10	2
Debt securities issued	17	134,413	58,814
Provisions	18	3,021	2,280
Deferred tax liability	19	2,530	425
Insurance liabilities	13	7,535	-
Other liabilities	20	6,569	2,901
Total liabilities		870,732	495,221
EQUITY			
Share capital	21	60,684	29,016
Share premium reserve		2,183	2,192
Treasury shares		(38)	(16)
Retained earnings and other reserves		56,736	32,806
		119,565	63,998
Minority interest		1,062	446
Total equity		120,627	64,444
TOTAL LIABILITIES AND EQUITY		991,359	559,665

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

29 February 2008

Pavel A. Cheussov
Chief Accountant

29 February 2008

The notes on pages 10 to 59 form an integral part of these consolidated financial statements.

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

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

	Notes	Year ended 31 December 2006 (restated*)	Year ended 31 December 2005 (restated*)
Interest income	23	80,647	52,385
Interest expense	23	(34,184)	(21,156)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE		46,463	31,229
Impairment charge	18	(8,331)	(11,970)
NET INTEREST INCOME		38,132	19,259
Fee and commission income	24	22,064	16,161
Fee and commission expense	24	(929)	(913)
Fees and commissions, net		21,135	15,248
Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	25	(193)	1,363
Net realized gain from available-for-sale investment securities		202	342
Net gain on foreign exchange operations	26	3,440	1,894
Insurance underwriting income	27	664	-
Share of income of associates		167	249
Other income		1,025	571
OTHER NON-INTEREST INCOME		5,305	4,419
Operating expenses	28	(28,116)	(19,063)
Provisions	18	(752)	(496)
Insurance claims incurred, net of reinsurance	13	(103)	-
NON-INTEREST EXPENSE		(28,971)	(19,559)
INCOME BEFORE INCOME TAX EXPENSE		35,601	19,367
Income tax expense	19	(8,442)	(3,539)
NET INCOME		27,159	15,828
Attributable to:			
Minority interest in net income		500	200
Preferred shareholders		2,764	750
Common shareholders		23,895	14,878
		27,159	15,828
Basic earnings per share (in Kazakhstani Tenge)	29	26.43	16.76
Diluted earnings per share (in Kazakhstani Tenge)	29	17.73	7.40

*See Note 29 to the consolidated financial statements

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

29 February 2008

Pavel A. Cheussov
Chief Accountant

29 February 2008

The notes on pages 10 to 59 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
31 December 2005		14,222	2,474	12,320	2,192	(16)	301	290	32,215	63,998	446	64,444
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	159	-	-	159	-	159
Net income recognized directly in equity		-	-	-	-	-	159	-	-	159	-	159
Transfers (net of any related tax):												
Gains transferred to income statement on sale of available-for-sale investment securities		-	-	-	-	-	(202)	-	-	(202)	-	(202)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	(5)	5	-	-	-
Net income		-	-	-	-	-	-	-	26,659	26,659	500	27,159
Total recognized income and expense		-	-	-	-	-	(43)	(5)	26,664	26,616	500	27,116
Common shares issued	21	30,755	-	-	-	-	-	-	-	30,755	-	30,755
Preferred shares issued	21	-	-	913	-	-	-	-	-	913	-	913
Treasury shares purchased	21	-	-	-	(9)	(22)	-	-	-	(31)	-	(31)
Dividends – common shares		-	-	-	-	-	-	-	(1,331)	(1,331)	-	(1,331)
Dividends – preferred shares		-	-	-	-	-	-	-	(1,355)	(1,355)	-	(1,355)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	-	(58)	(58)
Changes in minority interest share of net assets		-	-	-	-	-	-	-	-	-	174	174
31 December 2006		44,977	2,474	13,233	2,183	(38)	258	285	56,193	119,565	1,062	120,627

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Millions of Kazakhstani Tenge)

	Notes	Common Shares	Share Capital Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained Earnings*	Total	Minority Interest	Total Equity
31 December 2004		13,285	2,474	-	2,191	(17)	224	296	16,898	35,351	217	35,568
Gain on revaluation of available-for -sale investment securities, net of tax of nil tenge		-	-	-	-	-	420	-	-	420	29	449
Net income recognized directly in equity		-	-	-	-	-	420	-	-	420	29	449
Transfers (net of any related tax):												
Gains transferred to income statement on sale of available-for-sale investment securities		-	-	-	-	-	(343)	-	-	(343)	-	(343)
Release of property and equipment revaluation reserve on disposal of previously revalued assets		-	-	-	-	-	-	(6)	6	-	-	-
Net income		-	-	-	-	-	-	-	15,628	15,628	200	15,828
Total recognized income and expense income		-	-	-	-	-	77	(6)	15,634	15,705	229	15,934
Common shares issued	21	937	-	-	-	-	-	-	-	937	-	937
Preferred shares issued	21	-	-	12,320	-	-	-	-	-	12,320	-	12,320
Treasury shares sold	21	-	-	-	1	1	-	-	-	2	-	2
Dividends – preferred shares		-	-	-	-	-	-	-	(317)	(317)	-	(317)
31 December 2005		14,222	2,474	12,320	2,192	(16)	301	290	32,215	63,998	446	64,444

* These amounts are included within Retained earnings and other reserves in the consolidated balance sheet.

On behalf of the Management Board:

Grigory A. Marchenko
Chairman of the Board

29 February 2008

Pavel A. Cheussov
Chief Accountant

29 February 2008

The notes on pages 10 to 59 form an integral part of these consolidated financial statements.

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

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		35,601	19,367
Adjustments for:			
Impairment charge	18	8,331	11,970
Provisions	18	752	496
Depreciation and amortization expenses	28	2,371	1,330
(Gain)/loss from disposal of property and equipment and other assets		(277)	(28)
Claims incurred	13	103	-
Change in unearned insurance premiums reserve	13	944	-
Net loss/(gain) from financial assets at fair value through profit and loss		193	(1,363)
Other		(167)	(249)
Unrealized foreign exchange (gain)/loss		(366)	(67)
Cash flows from operating activities before changes in net operating assets		47,485	31,456
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves		(48,471)	(1,054)
Financial assets at fair value through profit or loss		(3,665)	13,502
Amounts due from credit institutions		1,399	(2,092)
Loans to customers		(197,456)	(161,452)
Insurance assets		(521)	-
Other assets		(1,945)	(2,387)
Increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit or loss		8	2
Amounts due to customers		282,260	87,732
Amounts due to credit institutions		10,286	28,397
Insurance liabilities		889	-
Other liabilities		2,929	699
Net cash flows from/(used in) operating activities before income taxes		93,198	(5,197)
Income tax paid		(5,791)	(2,843)
Net cash flows from/(used in) operating activities		87,407	(8,040)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired		(5,219)	-
Purchase of property and equipment		(8,584)	(3,180)
Proceeds from sale of property and equipment		1,100	119
Proceeds from sale of available-for-sale investment securities		900	14,560
Purchase of available-for-sale investment securities		(109,630)	(6,238)
Net cash flows (used in)/from investing activities		(121,433)	5,261

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Millions of Kazakhstani Tenge)

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

On behalf of the Management Board of the Bank:

Grigory A. Marchenko
Chairman of the Board

29 February 2008

Pavel A. Cheussov
Chief Accountant

29 February 2008

The notes on pages 10 to 59 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

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

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

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank has also sold Global Depository Receipts ("GDRs") through a listing on the London Stock Exchange. The Group's controlling shareholder JSC Holding Group Almex ("Almex"), sold 17.69% of its share in the Group's equity through the GDR issuance, and obtained the proceeds from this issuance.

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

As at 31 December 2006 the Bank operated through its head office in Almaty and its 19 regional branches, 127 sub-regional offices and 428 cash settlement units (2005 - 19, 126 and 393, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 97 Rozybakiyev Street, Almaty, 050046, Kazakhstan.

The consolidated financial statements were authorised for issue by the Management Board of the Bank on 29 February 2008.

2. BASIS OF PREPARATION

Accounting basis

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

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

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

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the consolidated financial statements is the KZT.

IFRS and IFRIC interpretations not yet effective

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

- IFRS 7 "Financial Instruments: Disclosures" - In August 2005, the International Accounting Standard Board ("IASB") issued IFRS 7, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. IFRS 7 is effective for annual periods beginning on or after 1 January 2007. The Group is evaluating the impact of IFRS 7 of the consolidated financial statements.

- IFRS 8 "Operating Segments" - On 30 November 2006, the IASB issued IFRS 8 which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after 1 January 2009. The Group is evaluating the impact of IFRS 8 of the consolidated financial statements.

- Amendment to IAS 1 "Presentation of Financial Statements" – "Capital Disclosures" - On 18 August 2005, the IASB issued an amendment to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. The Group does not expect the adoption of the amendment to IAS 1 to have a material impact on the consolidated financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

- IFRIC 9 "Reassessment of Embedded Derivatives" On 1 March 2006, IFRIC issued Interpretation 9, which gives guidance on whether an entity should reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid is recognized. IFRIC 9 determines that reassessment is prohibited, unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group does not expect the adoption of IFRIC 9 to have a material impact on the Group's profit or loss or financial position. IFRIC 9 is effective for periods beginning on or after 1 June 2006.

- IFRIC 10 "Interim Financial Reporting and Impairment" - On 13 July 2006 IFRIC issued IFRIC 10, which requires that where an entity has recognized an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements. The Group does not expect the adoption of IFRIC 10 to have a material impact on the Group's profit or loss or financial position. IFRIC 10 is effective for periods beginning on or after 1 November 2006.

- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" - On 30 November 2006 IFRIC issued IFRIC 11 which requires that treasury share transactions are treated as equity- settled, and share-based payments involving equity instruments of the parent should be treated as cash-settled. The Group does not expect the adoption of IFRIC 11 to have a material impact on the Group's profit or loss or financial position. IFRIC 11 is effective for periods beginning on or after 1 March 2007.

- IFRS 3 "Business Combinations" – The IASB published IFRS 3 and related revisions to IAS 27 "Consolidated and Separate Financial Statements" following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after 1 July 2009 but may be adopted together for accounting periods beginning on or after 1 January 2007.

Consolidated Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	Holding, % 31 December 2006	Holding, % 31 December 2005	Country	Industry
JSC Halyk Leasing	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	Netherlands	Issue and placement of Eurobonds
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	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	Kazakhstan	Pension assets accumulation and management
JSC Bank Khlebny	100	77	Russia	Banking
LLP ARIR	-	100	Kazakhstan	Financial markets Research

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

Associates

The following associates are accounted for under the equity method:

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

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

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

Change in presentation

The Group has separated the presentation of intangible assets and goodwill on the balance sheet to provide better information as follows:

Balance sheet line item	31 December 2006 Previously reported	31 December 2006 As reclassified	31 December 2005 Previously reported	31 December 2005 As reclassified
Intangible assets and goodwill	4,803	-	743	-
Intangible assets	-	1,538	-	559
Goodwill	-	3,265	-	184

In addition, the Group has reclassified derivative financial instruments to financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, which were previously reported within other assets and other liabilities, as follows:

Balance sheet line item	31 December 2006 Previously reported	31 December 2006 As reclassified	31 December 2005 Previously reported	31 December 2005 As reclassified
Financial assets at fair value through profit or loss	53,016	53,195	50,018	50,023
Other assets	6,993	6,814	6,218	6,213
Financial liabilities at fair value through profit or loss	-	10	-	2
Other liabilities	6,579	6,569	2,903	2,901

3. SUMMARY OF ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" and performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;

- All resulting exchange differences are classified as equity until the disposal of the investment; and
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated income statement.

Business combinations

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.

The minority interest is initially measured at the minority's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity and net income attributable to equity holders of the parent and attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

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

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Investments in associates are carried in the consolidated balance sheet at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reserve repo agreements with original maturities within 90 days. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory Reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group'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.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

Fair Values

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

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

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

Financial Assets

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

Loans and receivables

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

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or held-to-maturity investments, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements are recognized in the consolidated income statement. Dividends declared are included in “Other income” in the consolidated income statement.

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

Financial guarantees

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

Offsetting

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

Repurchase and Reverse Repurchase Agreements and Securities Lending

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

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within Net gain/(loss) from financial assets and liabilities at fair value through profit and loss in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

Derivative Financial Instruments

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

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

Amounts Due to Customers and Credit Institutions

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

Debt Securities Issued

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

Allowances for Impairment of Financial Assets

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

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

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

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

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

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take the possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

Taxation

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
b) Recognizes immediately in profit or loss any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of the profit or loss on disposal

Provisions

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

Retirement and Other Benefit Obligations

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

Equity

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

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

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

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

Contingencies

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

Trust Activities

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

Income and Expense Recognition

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

Foreign Currency Translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as of the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as net gain on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rate at 31 December 2006 was KZT 127.00 to USD 1 (2005 – KZT 133.98 to USD 1).

Insurance

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

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

Underwriting Income

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

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

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

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

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

Reserve for Insurance Losses and Loss Adjustment Expenses

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

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

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

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

Reinsurance

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

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

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

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

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

Segment reporting

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

4. SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

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

The carrying amount of the allowance for impairment of loans to customers as at 31 December 2006 is KZT 33,654 million (31 December 2005: KZT 25,921 million).

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

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

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

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

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

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

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

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

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

	31 December 2006		31 December 2005	
	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	3.6%-5.3%	-	2.3%-4.2%
Overnight deposits with Kazakhstan banks	6.0%	-	-	-
Short-term deposits with Kazakhstan banks	6.0%-9.0%	-	4.0%-14.0%	5.0%

Fair value of assets pledged and carrying value of short-term deposits, included in short-term deposits with Kazakhstan banks, under reverse repurchase agreements classified as cash and cash equivalents as at 31 December 2006 and 2005 are presented as follows:

	31 December 2006		31 December 2005	
	Carrying value of deposits	Fair value of collateral	Carrying value of deposits	Fair value of collateral
Bonds of Kazakhstan banks	2,800	2,887	3,044	3,671
Bonds of Kazakhstan corporations	1,287	1,428	104	103
Other	-	-	42	42
	4,087	4,315	3,190	3,816

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

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

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

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2006	31 December 2005
Treasury bills of the Ministry of Finance of Kazakhstan	29,162	19,527
Sovereign bonds of Kazakhstan	6,290	4,674
Corporate bonds	5,279	-
Bonds of the Development Bank of Kazakhstan	4,545	992
Bonds of Kazakhstan banks	3,011	1,665
NBK notes	2,497	23,160
Mutual investment funds shares	1,452	-
Equity securities of Kazakhstan banks	428	-
Equity securities of Kazakhstan corporations	352	-
Derivative financial instruments	179	5
Financial assets at fair value through profit or loss	53,195	50,018
Subject to repurchase agreements	1,000	-

Financial liabilities at fair value through profit or loss comprise:

	31 December 2006	31 December 2005
Derivative financial instruments	10	2
	10	2

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

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

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

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

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2006	31 December 2005
Term deposits	1,885	2,085
Loans to Kazakhstan credit institutions	170	692
	2,055	2,777
Less - Allowance for loan impairment (Note 18)	(6)	-
	2,049	2,777

Interest rates and maturity of amounts due from credit institutions are presented as follows:

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

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements classified as amounts due from credit institutions as at 31 December 2006 and 2005 are presented as follows:

	31 December 2006		31 December 2005	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds of Kazakhstan banks	-	-	691	593
	-	-	691	593

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2006	31 December 2005
NBK notes	107,856	-
Corporate bonds	10,166	6,548
Bonds of Kazakhstan banks	3,085	2,625
Treasury bills of the Ministry of Finance of Kazakhstan	1,061	2,644
Equity securities of Kazakhstan corporations	971	-
Treasury bills of the Kyrgyz Republic	114	282
Local municipal bonds	86	-
	123,339	12,099
Subject to repurchase agreements	29,500	-

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

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

10. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2006	31 December 2005
Originated loans to customers	625,566	431,151
Overdrafts	2,743	1,500
Promissory notes	1,561	4,288
Factoring	-	79
	629,870	437,018
Less – Allowance for loan impairment (Note 18)	(33,654)	(25,921)
Loans to customers	596,216	411,097

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

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

Loans are made to the following sectors:

	31 December 2006	%	31 December 2005	%
Retail loans:				
- mortgage loans	110,274	17%	78,680	18%
- consumer loans	86,907	14%	51,922	12%
	197,181		130,672	
Wholesale trade	113,510	18%	60,924	14%
Construction	70,064	11%	54,461	12%
Agriculture	47,474	8%	38,019	9%
Retail trade	42,098	7%	33,909	8%
Services	23,213	4%	13,866	3%
Real estate	14,896	2%	12,494	3%
Energy	14,745	2%	7,279	2%
Oil and gas	13,532	2%	16,380	4%
Transportation	11,503	2%	8,440	2%
Food industry	10,359	2%	3,743	1%
Hotel industry	5,811	1%	3,323	1%
Metallurgy	5,638	1%	3,968	1%
Mining	4,835	1%	6,587	1%
Consumer goods and automobile trading	4,639	1%	2,149	0%
Research and development	2,444	0%	8,307	2%
Machinery	2,194	0%	2,708	1%
Communication	1,888	0%	1,433	0%
Other	43,846	7%	28,426	6%
	629,870	100%	437,018	100%

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

11. PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

	Buildings and constructions	Vehicles	Computers and banking equipment	Other	Total
Cost					
31 December 2005	4,763	654	6,987	4,200	16,604
Additions	2,725	570	1,862	3,224	8,381
Disposals	(87)	(125)	(436)	(961)	(1,609)
Acquisition of subsidiaries	54	33	35	81	203
Transfers	(16)	-	-	16	-
31 December 2006	7,439	1,132	8,448	6,560	23,579
Accumulated depreciation					
31 December 2005	497	222	3,399	1,507	5,625
Charge	402	166	978	563	2,109
Disposals	(4)	(62)	(388)	(113)	(567)
31 December 2006	895	326	3,989	1,957	7,167
Net book value:					
31 December 2006	6,544	806	4,459	4,603	16,412

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

12. GOODWILL

Goodwill arising as a result of business acquisition relates to expected income from business expansion from the distribution of products on new markets, raising long-term funds and expected combined activity.

Goodwill arising as a result of a business acquisition is distributed to the companies that generate cash flows. Goodwill for the Group primarily relates to the company JSC Kazakhinstrakh which generates cash flows.

Movements of goodwill are presented as follows:

	2006	2005
At the beginning of the year	184	-
Recognized on acquisition of a subsidiary	3,177	184
Derecognized on disposal of a subsidiary	(49)	-
Impairment loss	(47)	-
At the end of the year	3,265	184

As at 31 December 2006 there was no evidence that the goodwill that arose on the acquisition of JSC Kazakhinstrakh has been impaired.

13. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

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

Insurance liabilities comprised the following:

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

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

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

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

The movements on unearned insurance premium reserve for the period from 27 October 2006 acquisition by the Group of JSC Kazakhinstrakh to 31 December 2006 were as follows:

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

14. OTHER ASSETS

Other assets comprise:

	31 December 2006	**31 December 2005**
Accrued commission for managing pension assets	2,289	480
Prepayments for property and equipment	997	1,238
Inventory	905	447
Other debtors on non-banking activities	721	987
Other debtors on banking activities	665	154
Accrued other commission income	466	370
Investments in associates	293	1,453
Prepayments for taxes other than income tax	264	572
Other prepayments	146	234
Advances paid to employees	8	7
Advances paid for income tax	-	8
Other	278	397
	7,032	6,347
Provision for other assets	(218)	(134)
Other assets	6,814	6,213

15. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2006	31 December 2005
Term deposits:		
Legal entities	291,100	109,453
Individuals	157,281	97,444
	448,381	206,897
Current accounts:		
Legal entities	96,247	75,054
Individuals	52,597	37,913
	148,844	112,967
Restricted accounts	710	3,651
Amounts due to customers	597,935	323,515

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

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

An analysis of customer accounts by sector follows:

	31 December 2006	%	31 December 2005	%
Individuals and entrepreneurs	209,878	35%	135,357	42%
Metallurgy	102,345	17%	636	0%
Construction	81,319	14%	22,891	7%
Oil and gas	67,540	11%	99,769	31%
Financial sector	44,168	7%	5,422	2%
Transportation	17,291	3%	4,760	1%
Wholesale trade	15,800	3%	5,908	2%
Energy	12,843	2%	10,391	3%
Transportation of oil and gas	1,794	0%	6,267	2%
Other	44,957	8%	32,114	10%
	597,935	100%	323,515	100%

16. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

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

Interest rates and maturities of amounts due to credit institutions are presented as follows:

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

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2006 and 2005 are presented as follows:

	31 December 2006		31 December 2006	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
NBK notes	29,390	29,520	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	1,110	1,000	-	-
Total	30,500	30,520	-	-

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

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

17. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	31 December 2006	31 December 2005
Subordinated debt securities issued		
Fixed rate KZT denominated bonds	10,610	11,385
Inflation indexed KZT denominated bonds	9,104	9,090
Reverse inflation indexed KZT denominated bonds	8,908	3,679
USD denominated bonds	2,086	3,902
Total subordinated debt securities outstanding	30,708	28,056
Unsubordinated debt securities issued		
USD denominated bonds	64,145	26,909
KZT denominated bonds	39,560	3,801
RUR denominated promissory notes	-	48
Total unsubordinated debt securities outstanding	103,705	30,758
Total debt securities outstanding	134,413	58,814

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

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

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

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

18. ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

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

	Loans to customers	**Amounts due from credit institutions**	**Other assets**	**Total**
31 December 2004	(16,538)	-	(76)	(16,614)
Additional provisions recognized	(11,839)	-	(131)	(11,970)
Write-offs	3,573	-	75	3,648
Recoveries	(1,117)	-	(2)	(1,119)
31 December 2005	(25,921)	-	(134)	(26,055)
Additional provisions recognized	(8,179)	(6)	(146)	(8,331)
Write-offs	3,427	-	99	3,526
Recoveries	(2,981)	-	(2)	(2,983)
Additional provision due to acquisition of subsidiaries	-	-	(35)	(35)
31 December 2006	(33,654)	(6)	(218)	(33,878)

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

The movements in provisions were as follows:

	2006	**2006**
At the beginning of the year	(2,280)	(1,801)
Recovery of provisions	7,860	10,269
Additional provisions recognized	(8,612)	(10,765)
Write-off	11	17
At the end of the year	(3,021)	(2,280)

Provisions represent provisions against letters of credit and guarantees issued.

19. TAXATION

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

The income tax expense comprises:

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

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

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

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

Deferred tax assets and liabilities comprise:

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

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

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

20. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2006	31 December 2005
Salary payable	3,622	973
Taxes payable	1,002	604
Other creditors on non-banking activities	859	595
Other prepayments received	359	94
Payable for general and administrative expenses	339	27
Other transit accounts	171	240
Amounts due to government	110	85
Other creditors on bank activities	55	252
Accrued other commission expense	27	19
Payables for property and equipment	21	11
Other	4	1
	6,569	2,901

21. EQUITY

Authorized, issued and fully paid shares as at 31 December 2006 and 2005 were as follows:

31 December 2006

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	1,129,016,660	(154,468,878)	974,547,782	(3,858,746)	970,689,036
Convertible preferred	80,225,222	-	80,225,222	(10,035)	80,215,187
Non-convertible preferred	24,742,000	-	24,742,000	-	24,742,000

31 December 2005

	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	899,016,660	-	899,016,660	(1,633,610)	897,383,050
Convertible preferred	80,225,222	(5,337,701)	74,887,521	-	74,887,521
Non-convertible preferred	24,742,000	-	24,742,000	-	24,742,000

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

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

At 31 December 2006, the Group held 3,858,746 of the Group's shares as treasury shares at KZT 38 million (31 December 2005 – 1,633,610 at KZT 16 million).

Common Shares

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

Preferred shares

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

The terms of the Preferred Shares require that the Bank pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the preference shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on preference shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the preference share agreement and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation plus one per cent., as published by the NBK, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders.

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

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the preference share agreement. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

22. COMMITMENTS AND CONTINGENCIES

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

	31 December 2006	**31 December 2005**
Guarantees issued	39,897	29,330
Commitments to extend credit	21,629	17,000
Commercial letters of credit	18,326	16,107
Financial commitments and contingencies	79,852	62,437
Less: cash collateral against letters of credit	(132)	(766)
Less: provisions	(3,021)	(2,280)
Financial commitments and contingencies, net	76,699	59,391

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

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

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

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

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

23. NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired assets	73,789	48,579
- interest income on unimpaired assets	1,506	356
Interest income on available for sale investment securities	1,652	1,076
Interest income on financial assets at fair value through profit or loss	3,700	2,374
Total interest income	80,647	52,385
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	71,292	47,549
Interest income on amounts due from credit institutions and cash and cash equivalents	4,003	1,386
Total interest income on financial assets recorded at amortized cost	75,295	48,935
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	3,700	2,374
Total interest income on financial assets at fair value through profit or loss	3,700	2,374
Interest income on available for sale investment securities	1,652	1,076
Total interest income	80,647	52,385
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(34,184)	(21,156)
Total interest expense	(34,184)	(21,156)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on debt securities issued	(9,238)	(4,909)
Interest expense on amounts due to customers	(18,491)	(11,873)
Interest expense on amounts due to credit institutions	(6,455)	(4,374)
Total interest expense on financial liabilities recorded at amortized cost	(34,184)	(21,156)
Net interest income before impairment charge	46,463	31,229

24. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

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

Fees and commission expense comprised the following:

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

25. NET (LOSS)/GAIN FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Net gain/(loss) on operations with financial assets and liabilities classified as held for trading:		
Gain on trading operations	729	146
Net fair value adjustment	(922)	1,217
Total net (loss)/gain on operations with financial assets and liabilities classified as held for trading	(193)	1,363

26. NET GAIN FROM FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Dealing, net	5,174	1,964
Translation differences, net	(1,734)	(70)
Total net gain on foreign exchange operations	3,440	1,894

27. INSURANCE UNDERWRITING INCOME

Insurance underwriting income comprised:

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

28. OPERATING EXPENSES

Administrative and operating expenses comprised:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Salaries and other employee benefits	15,931	11,236
Depreciation and amortization expenses	2,371	1,330
Taxes other than income tax	1,256	1,255
Repair and maintenance	1,207	826
Professional services	907	90
Deposit insurance	885	692
Advertisement	789	526
Rent	644	293
Communication	644	438
Stationery and office supplies	539	348
Business trip expenses	532	412
Security	510	183
Information services	376	207
Hospitality expenses	211	76
Transportation	209	159
Charity	97	106
Social events	95	91
Other	913	795
Administrative and operating expenses	28,116	19,063

29. EARNINGS PER SHARE

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

Basic and diluted earnings per share for the years ended 31 December 2006 and 2005 have been restated due to errors identified after the issuance of the consolidated financial statements. According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 21, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings. The updated calculation of earnings per share reflects the additional dividends that would be paid to preferred shareholders on full distribution of profit as required by legislation.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2006 (As restated)	Year ended 31 December 2006 (As previously reported)	Year ended 31 December 2005 (As restated)	Year ended 31 December 2005 (As previously reported)
Basic earnings per share				
Net profit for the year attributable to equity holders of the parent	26,659	26,659	15,628	15,628
Less: Additional dividends that would be paid on full distribution of profit to the preferred shareholders	(1,409)	-	(433)	-
Less: Dividends paid on preference shares	(1,355)	(1,355)	(317)	(317)
Net profit for the year attributable to preferred shareholders	(2,764)	(1,355)	(750)	(317)
Earnings attributable to common shareholders	23,895	25,304	14,878	15,311
Weighted average number of common shares for the purposes of basic earnings per share	904,100,063	904,100,063	887,855,179	887,855,179
Basic earnings per share (Tenge)	26.43	27.99	16.76	17.24
Diluted earnings per share				
Earnings used in the calculation of basic earnings per share	23,895	25,304	14,878	15,311
Add: Dividends paid on convertible preferred shares	1,018	1,018	-	-
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders	1,076	-	194	-
Less: Amounts payable to convertible preferred shareholders upon conversion	(8,541)	(8,541)	(8,355)	(8,355)
Earnings used in the calculation of total diluted earnings per share	17,448	17,781	6,717	6,956
Weighted average number of common shares for the purposes of basic earnings per share	904,100,063	904,100,063	887,855,179	887,855,179
Shares deemed to be issued:				
Weighted average number of common shares that would be issued for the convertible preferred shares	79,854,432	79,854,432	20,018,988	20,018,988
Weighted average number of common shares for the purposes of diluted earnings per share	983,954,495	983,954,495	907,874,167	907,874,167
Diluted earnings per share (Tenge)	17.73	18.07	7.40	7.66

30. BUSINESS COMBINATIONS

Subsidiaries acquired in 2006

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

JSC Kazakhinstrakh

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

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

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

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

JSC Halyk Life

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

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

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

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

Included in the Group’s net profit for the year ended 31 December 2006 are KZT 46 million net income and KZT 21 million net loss attributable to the purchases of JSC Kazakhinstrakh and JSC Halyk Life, respectively.

Had these business combinations been effected at 1 January 2006, the net income of the Group for the year ended 31 December 2006 would have been KZT 27,748 million and revenue would have been KZT 110,714 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods. In determining the 'pro-forma' numbers the management of the Group used stand-alone financial statements of acquired subsidiaries without making any adjustments to them.

31. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

	31 December 2006			**31 December 2005**		
	KZT	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**
FINANCIAL ASSETS:						
Cash and cash equivalents	31,957	95,842	127,799	24,556	32,546	57,102
Obligatory reserves	18,873	36,233	55,106	8,632	-	8,632
Financial assets at fair value through profit or loss	37,484	15,711	53,195	42,687	7,336	50,023
Amounts due from credit institutions	1,928	121	2,049	1,330	1,447	2,777
Available-for-sale investment securities	122,157	1,182	123,339	9,624	2,475	12,099
Loans to customers	291,007	305,209	596,216	168,663	242,434	411,097
Other financial assets	2,925	1,416	4,341	3,850	425	4,275
	506,331	455,714	962,045	259,342	286,663	546,005
FINANCIAL LIABILITIES:						
Amounts due to customers	303,199	294,736	597,935	161,796	161,719	323,515
Amounts due to credit institutions	55,042	63,677	118,719	18,122	89,162	107,284
Financial liabilities at fair value through profit or loss	-	10	10	-	2	2
Debt securities issued	68,188	66,225	134,413	28,085	30,729	58,814
Other financial liabilities	1,133	432	1,565	2,025	771	2,796
	427,562	425,080	852,642	210,028	282,383	492,411
Total open position	78,769	30,634	109,403	49,314	4,280	53,594

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

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

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

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

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

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

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

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

	31 December 2006						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 years**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	22,359	86,031	19,409	-	-	-	127,799
Obligatory reserves	13,718	13,797	2,575	20,248	3,869	899	55,106
Financial assets at fair value through profit or loss	52,163	1,032	-	-	-	-	53,195
Amounts due from credit institutions	-	-	162	148	1,711	28	2,049
Available-for-sale investment securities	-	109,302	66	182	4,597	9,192	123,339
Loans to customers	2,405	24,267	49,929	251,183	144,508	123,924	596,216
Other financial assets	-	2,751	264	1,032	-	294	4,341
	90,645	237,180	72,405	272,793	154,685	134,337	962,045
FINANCIAL LIABILITIES:							
Amounts due to customers	148,844	149,704	27,941	219,707	41,981	9,758	597,935
Amounts due to credit institutions	524	48,824	11,384	32,909	5,108	19,970	118,719
Financial liabilities at fair value through profit or loss	10	-	-	-	-	-	10
Debt securities issued	-	-	-	3,926	103,530	26,957	134,413
Other financial liabilities	-	306	60	1,090	109	-	1,565
	149,378	198,834	39,385	257,632	150,728	56,685	852,642
Net position	(58,733)	38,346	33,020	15,161	3,957	77,652	
Accumulated gap	(58,733)	(20,387)	12,633	27,794	31,751	109,403	

	31 December 2005						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 Years**	**Over 3 years**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	29,104	26,231	1,767	-	-	-	57,102
Obligatory reserves	3,041	1,050	502	2,387	1,568	84	8,632
Financial assets at fair value through profit or loss	50,023	-	-	-	-	-	50,023
Amounts due from credit institutions	-	-	1,446	1,120	211	-	2,777
Available-for-sale investment securities	-	354	909	1,476	1,998	7,362	12,099
Loans to customers	1,411	13,212	27,435	129,749	179,407	59,883	411,097
Other financial assets	963	1,188	109	607	-	1,408	4,275
	84,542	42,035	32,168	135,339	183,184	68,737	546,005
FINANCIAL LIABILITIES:							
Amounts due to customers	112,966	38,992	21,516	88,642	58,250	3,149	323,515
Amounts due to credit institutions	557	14,938	14,575	38,295	30,356	8,563	107,284
Financial liabilities at fair value through profit or loss	2	-	-	-	-	-	2
Debt securities issued	48	-	-	-	7,719	51,047	58,814
Other financial liabilities	-	1,035	667	790	304	-	2,796
	113,573	54,965	36,758	127,727	96,629	62,759	492,411
Net position	(29,031)	(12,930)	(4,590)	7,612	86,555	5,978	
Accumulated gap	(29,031)	(41,961)	(46,551)	(38,939)	47,616	53,594	

32. 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 and 2005.

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

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

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

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

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

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

	Kazakhstan	OECD	Non OECD	Total
2006				
Total assets	892,586	97,124	1,649	991,359
External revenues	104,811	3,165	40	108,016
Capital expenditure	(8,584)	-	-	(8,584)
2005				
Total assets	526,620	31,536	1,509	559,665
External revenues	71,457	1,442	66	72,965
Capital expenditure	(3,180)	-	-	(3,180)

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.

33. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

	31 December 2006		31 December 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Amounts due from credit institutions	2,049	2,049	2,777	2,777
Loans to customers	596,216	597,849	411,097	438,905
Financial liabilities				
Amounts due to customers	597,935	598,249	323,515	325,585
Amounts due to credit institutions	118,719	122,911	107,284	109,983
Debt securities issued	134,413	134,867	58,814	58,550

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

34. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

In December 2007, the Group established two subsidiaries in Mongolia LLP Halyk Dornod and LLP Halyk Astana Dornod. Share capital of LLP Halyk Dornod and LLP Halyk Astana Dornod are equal to KZT 1.2 million and KZT 1.2 million, respectively. As at 31 December 2007 registered activities of both subsidiaries include only external and internal trading. LLP Halyk Dornod was registered in accordance with Mongolian law with the purpose of obtaining a licence for provision of banking services. LLP Halyk Astana Dornod was also registered in accordance with Mongolian law with the purpose of obtaining a licence to provide broker and dealer services.

On 8 January 2008, the Bank established a wholly owned subsidiary JSC Halyk Bank Georgia. This subsidiary is incorporated under Georgian law and obtained license for providing banking activities in Georgia. The share capital of JSC Halyk Bank Georgia is 16 million Georgian Laryis which was fully paid on 28 January 2008.

35. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2006 and 2005 with related parties:

	31 December 2006		31 December 2005	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers before allowance for impairment losses	5,246	629,870	1,910	437,018
- the parent	229		681	
- entities with joint control or significant influence over the entity	4,972		1,157	
- key management personnel of the entity or its parent	45		72	
Allowance for impairment losses	959	33,654	-	25,921
- entities with joint control or significant influence over the entity	959		-	
Amounts due to customers	217,993	597,935	16,677	323,515
- the parent	101,025		807	
- entities with joint control or significant influence over the entity	116,306		15,447	
- associates	239		183	
- key management personnel of the entity or its parent	423		240	
Guarantees issued	593	39,897	2,562	29,330
- entities with joint control or significant influence over the entity	586		2,562	
- associates	7		-	

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:	1,043	15,931	879	11,236
- short-term employee benefits	1,043		879	

Included in the consolidated income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		**Year ended 31 December 2005**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	464	80,647	301	52,385
- *the parent*	73		277	
- *entities with joint control or significant influence over the entity*	385		17	
- *key management personnel of the entity or its parent*	6		7	
Interest expense	4,664	34,184	3,325	21,156
- *the parent*	1,944		93	
- *entities with joint control or significant influence over the entity*	2,696		3,204	
- *associates*	4		15	
- *key management personnel of the entity or its parent*	20		13	

36. CAPITAL ADEQUACY

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

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