JSC ATF Bank

(a joint stock company incorporated in the Republic of Kazakhstan)

U.S.$350,000,000
9.00% Notes due 2016
Issue Price 98.391%

The U.S.$350,000,000 9.00% Notes due 2016 (the "Notes") are issued by JSC ATF Bank ("ATF Bank", the "Issuer" or the "Bank"). Interest on the Notes will accrue from 11 May 2006 and will be payable semi-annually in arrear on 11 November and 11 May of each year, commencing on 11 November 2006. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 11 May 2006 (the "Trust Deed") between the Issuer and The Bank of New York, acting through its London branch as trustee for the holders of the Notes (the "Trustee"). Payments of interest on the Notes are subject to withholding taxes in Kazakhstan. The Issuer is, however, obliged to pay additional amounts in certain circumstances if there is such a withholding. See "Terms and Conditions of the Notes – Condition 10 (*Taxation*)", "Risk Factors – Risk Factors Relating to the Notes – Taxation in Kazakhstan" and "Taxation – Kazakhstan Taxation".

Application to list the Notes has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the "FSMA") (in such capacity the "UK Listing Authority") for such Notes to be admitted to trading on the London Stock Exchange plc.'s Gilt Edged and Fixed Interest Market. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange plc.'s Gilt Edged and Fixed Interest Market. The London Stock Exchange plc.'s Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC. In addition, the Bank shall cause the Notes to be listed on the Kazakhstan Stock Exchange ("KASE").

See "Risk Factors" beginning on page 13 for a discussion of certain factors that should be considered in connection with an investment in 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 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"). 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"). Each Global Note will be in registered form and without interest coupons attached, which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and shall be deposited on or about 11 May 2006 (the "Closing Date") with The Bank of New York as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes 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.$1000 although Notes sold to qualified institutional buyers in reliance on Rule 144A by the Managers have a minimum principal amount of U.S.$250,000. 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 Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Joint Lead Managers and Bookrunners

Deutsche Bank Securities | ING Wholesale Banking

Managers

ATF Bank | SC Parex Banka

The date of this Prospectus is 8 May 2006

This Prospectus constitutes a Prospectus for the purpose of Article 5 of Directive 2003/71/EC and for the purpose of giving information with regard to the Issuer, the Bank and the Notes which, according to the particular nature of the Issuer, the Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Bank and of the rights attaching to the Notes. This Prospectus is to be read in conjunction with the audited consolidated financial statements for the years ended 31 December 2005, 31 December 2004 and 31 December 2003, which form part of and are included herein.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in "Subscription and Sale") to subscribe or purchase, any Notes. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Issuer, the Trustee, the Managers, or the Notes other than as contained in this Prospectus. Any such representation or information must not be relied upon as having been authorised by the Issuer, the Trustee or the Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. This Prospectus may only be used for the purposes for which it has been published.

No representation or warranty, express or implied, is made by the Managers or the Trustee as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Managers or the Trustee assumes any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

None of the Issuer, the Managers, the Trustee or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

According to Article 22-1 of Kazakhstan's 2003 Law on the Securities Market, the consent of the Agency of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") is required before the Notes can be issued. In addition, The Kazakhstan Stock Exchange ("KASE") must agree to list the Notes following their issue on the "A" or "B" listing category. The consent of the FMSA was obtained on 26 April 2006 and KASE agreed in principle to list the Notes in its "A" category, subject to their issue in accordance with the terms of the Trust Deed.

In connection with this issue of the Notes, ING Bank N.V., London Branch as 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 for a limited period, provided that the aggregate principal amount of Notes allotted does not exceed 105% of the aggregate principal amount of the Notes. However, there is no assurance that ING Bank N.V., London Branch (or persons acting on its behalf) 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.

NOTICE TO RESIDENTS OF NEW HAMPSHIRE

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

ENFORCEABILITY OF JUDGMENTS

The Issuer is a joint stock company organised under the laws of Kazakhstan and all 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 most 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 on the Trust Deed in the courts of England.

The Notes and the Trust Deed are governed by the laws of England and the Issuer has agreed in the Trust Deed that disputes arising thereunder or in respect of the Notes are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder, to arbitration in London, England. Kazakhstan's courts 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 the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention") and, accordingly, such an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met. It should be noted that a new Law on International Commercial Arbitration was adopted by the Kazakhstan Parliament as of 28 December 2004. Such law is intended to resolve the uncertainty created by the prior decision of the Constitutional Council of Kazakhstan adopted as of 15 February 2002 as to how the provisions of the Convention were to be enforced in Kazakhstan, which uncertainty remained notwithstanding that this decision was later deemed by the Constitutional Council, pursuant to a further decision adopted as of 12 April 2002, not to apply to international arbitrations.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain 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, the Issuer's objective to increase its customer base and its loan portfolio and to grow its share of the retail market, the impact of the anticipated improvements in operational efficiency and management, statements regarding planned capital expenditures, expectations regarding the increase of the Issuer's equity capital, and improving the composition of the Issuer's loan portfolio. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions in Kazakhstan; the demand for the Issuer's services; competitive factors in the sectors in which the Issuer competes or in which its customers compete; 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 exchange rate fluctuations; economic and political conditions, 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 Issuer 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 attributable to the Issuer, or persons acting on the Issuer'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.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

Certain information in this Prospectus contained under the headings “Financial Review – Kazakhstan's economy” and “The Banking Sector in Kazakhstan” has been extracted from documents and other publications released by the National Bank of Kazakhstan (the “NBK”) and Kazakhstan's National Statistical Agency (the “NSA”). The Issuer accepts responsibility for accurately reproducing such extracts and as far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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 with the regulations in Kazakhstan, including the regulations of the NBK and since January 2004, the Bank is required to comply with the requirements of FMSA (collectively, "Kazakhstan Regulations"). Starting 1 January 2003, the Bank has maintained its books of account and prepared its accounts for regulatory purposes in accordance with International Financial Reporting Standards ("IFRS"). If not otherwise specified, in the financial analysis and management's discussion herein, the term "the Bank" shall mean ATF Bank and its consolidated subsidiaries.

The financial information of the Bank set forth herein, has, unless otherwise indicated, been extracted without material adjustment from its audited consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity as at and for the years ended 31 December 2005, 2004 and 2003 (the "Consolidated Financial Statements"). The Consolidated Financial Statements were prepared in accordance with IFRS.

The Consolidated Financial Statements were audited by Ernst & Young LLP, Kazakhstan, independent auditors ("Ernst & Young") in accordance with International Standards on Auditing.

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; and references to "Euro" 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 Community, 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 Kazakhstan 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 official exchange rates for U.S. Dollars on the KASE as reported by the NBK. Further details can be found in the section headed "Exchange Rates and Exchange Controls".

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 the sum of the figures which precede them.

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OVERVIEW OF THE BANK AND THE OFFERING

The following summary information is qualified in its entirety by, and should be read in conjunction with, the more detailed information and the Consolidated Financial Statements appearing elsewhere in this Prospectus. For a discussion of certain factors that should be considered in connection with an investment in the Notes, see "Risk Factors".

Overview

The Bank is the fourth largest commercial bank in Kazakhstan in terms of assets, according to data compiled by the NBK as at 31 December 2005. The Bank's total assets as at 31 December 2005 were KZT359,068 million. The Bank's net income for the 12 months ended 31 December 2005 was KZT4,057 million as compared to KZT2,320 million for the 12 months ended 31 December 2004 and KZT1,456 million for 12 months ended 31 December 2003. The Bank's shareholders' equity as at 31 December 2005 was KZT27,544 million as compared to KZT18,180 million as at 31 December 2004 and KZT8,342 million as at 31 December 2003.

The Bank's primary business focus is corporate and retail banking. The Bank accepts deposits, extends credits, provides custodian services, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. The Bank is also an active participant in the fixed income securities market and foreign currency markets in Kazakhstan.

As at the date of this Prospectus, the Bank, in addition to the Bank's head office in Almaty, had 38 full service branches and 26 limited service branches located throughout Kazakhstan as well as subsidiaries in Russia and Kyrgyzstan. During 2006 the Bank anticipates opening two full service branches and 27 limited service branches in Kazakhstan.

The Bank currently has three subsidiaries, ATF Policy in Kazakhstan, EnergoBank in Kyrgyzstan and Sibirbank in the Russian Federation, one associate company, SPF Otan, and one affiliated company, ATF Leasing.

Strategy

In order to capitalise on the growth of the Kazakhstan economy, the Bank aims to expand its market share and increase its profitability through:

- expanding its banking and other financial services
- diversifying and strengthening its funding base
- strengthening risk management
- enhancing operating efficiency and
- expanding its regional and international presence to meet the growing demands of its clients.

Credit Ratings

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

	Moody's		**Standard & Poor's**		**Fitch**
Long-term	Ba1	Long-term	B+	Long-term	BB-
Short-term	NP	Short-term	B	Short-term	B
Outlook	Stable	Outlook	Stable	Outlook	Stable

It is expected that, on issue, Moody's, Standard & Poor's and Fitch will assign Ba1, B+ and BB- ratings, 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.

The Offering

The following summary does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus and related documents referred to herein. Terms not specifically defined in this summary and defined in the "Terms and Conditions of the Notes" are used in the summary as so defined.

Issuer:	JSC ATF Bank
Joint Lead Managers:	Deutsche Bank Securities Inc. and ING Bank N.V., London Branch
Trustee:	The Bank of New York, acting through its London branch
Registrar:	The Bank of New York, acting through its London branch
Principal Paying and Transfer Agent:	The Bank of New York, acting through its London branch
Issue:	U.S.$350,000,000 principal amount of 9.00% Notes due 2016.
Issue Price:	98.391%
Yield:	9.25% The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 9.00% per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrears on the interest payment dates falling on 11 November and 11 May of each year, commencing on 11 November 2006.
Maturity Date:	11 May 2016
Status:	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge and Certain Covenants*)) 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 and, subject to Condition 5 (*Negative Pledge and Certain Covenants*)), with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Form:	The Notes will be issued in registered form. The Notes will be in denominations of U.S.$100,000 each and integral multiples of U.S.$1,000 in excess thereof and will be represented by Global Notes, which will be exchangeable for Notes in definitive form in the limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form."
Negative Pledge:	As long as the Notes remain outstanding neither the Issuer nor any of its subsidiaries shall create, or permit to be created, any Security Interest (other than a Permitted Security Interest). See Condition 5(a) (*Negative Pledge*).
Certain Covenants:	The Issuer will agree to certain covenants, including, without limitation, covenants with respect to limitation on certain transactions, limitation on payment of dividends and maintenance of capital adequacy.
Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes in taxation in Kazakhstan. See Condition 9(b) (*Redemption for Taxation Reasons*).
Withholding Tax:	Under Kazakhstan's laws as presently in effect, interest payable by a Kazakhstan obligor to non-residents and certain categories of residents is subject to Kazakhstan withholding tax at a rate of 15% unless, in the case of non-residents, reduced by a relevant double tax treaty. See "Taxation – Kazakhstan Taxation". The Issuer has, however, undertaken subject to certain exceptions, pursuant to Condition 10 (*Taxation*) of the Terms and Conditions, to pay such additional amounts such that Noteholders would receive (after any withholding required to be made on account of Kazakhstan taxes in respect of any payments under the Notes) such amount as would have been received by Noteholders had no such withholding been required. The enforceability in

	Kazakhstan of such an undertaking has not to date been determined by the courts in Kazakhstan and as such there may be some doubt as to whether they would enforce such an undertaking. See “Risk Factors – Risk Factors Relating to the Notes – Taxation in Kazakhstan”.
Governing Law:	The Notes and the Trust Deed are governed by, and will be construed in accordance with, the laws of England.
Listing:	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange plc. for such Notes to be admitted to trading on the London Stock Exchange plc.'s Gilt Edged and Fixed Interest Market. In addition, the Bank has obtained the “in-principle” preliminary consent of the KASE to list the Notes in its “A” category, and has undertaken to obtain such listing on or prior to the Closing Date.
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 net proceeds to the Issuer from the sale of the Notes are expected to be U.S.$342,618,500 before the deduction of certain expenses incurred in connection with the issue of the Notes. The net proceeds will be used by the Issuer to fund loans to its customers and for other general corporate purposes.
Risk Factors:	For a discussion of certain risk factors relating to Kazakhstan, the Issuer and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see “Risk Factors”.
Regulation S Security Codes	ISIN: XS0253723281
	Common Code: 25372328
Rule 144A Security Codes	ISIN: XS0253723950
	Common Code: 25372395

Summary Consolidated Financial and Other Information

The summary consolidated financial information presented below as at and for the years ended 31 December 2005, 2004 and 2003 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements contained elsewhere in this Prospectus.

The Consolidated Financial Statements have been prepared in accordance with IFRS and are presented in thousands of Tenge. The Consolidated Financial Statements, included on pages F-2 to F-53 in this Prospectus, were audited by Ernst & Young, whose audit report for the respective years is included on page F-4 in this Prospectus. Prospective investors should read the summary consolidated financial information in conjunction with the information contained in ''Risk Factors'', ''Capitalisation'', ''Selected Consolidated Financial Information'', ''Financial Review'', ''The Bank'', ''Selected Statistical and Other Information'', the Consolidated Financial Statements, and the other financial data appearing elsewhere in this Prospectus. See ''Index to Financial Statements''.

	For the year ended 31 December			
	2005[1]	**2005**	**2004**	**2003**
	(U.S.$ thousands)[2]	*(KZT millions)[2]*		
Consolidated Income Statement Information:				
Interest income	183,791	24,422	12,644	7,884
Interest expense	(121,441)	(16,137)	(5,808)	(3,227)
Net interest income before impairment charge	62,350	8,285	6,836	4,657
Impairment charge	(15,811)	(2,101)	(2,894)	(1,694)
Net interest income after impairment charge	46,539	6,184	3,942	2,963
Fees and commissions, net[3]	20,523	2,727	1,921	1,416
Non-interest income	21,735	2,888	2,052	1,310
Non-interest expense	(52,461)	(6,971)	(5,288)	(3,474)
Income before income tax expense	36,336	4,828	2,627	2,215
Income tax expense	(5,802)	(771)	(307)	(759)
Net income	30,534	4,057	2,320	1,456
Attributable to:				
Equity holders of the Parent	30,450	4,046	2,320	1,456
Minority interest	84	11	—	—
Earnings per share	2	235	224	248

(1) Translated at the official average U.S. Dollar exchange rate for the year ended 31 December 2005, as reported by the NBK, of KZT132.88 = U.S.$1.00.

(2) Except earnings per share data which is given in KZT or U.S.$ as indicated.

(3) Fee and commission income less fee and commission expense.

	As at 31 December			
	2005	2005	2004	2003
	(U.S.$ thousands) #[(1)]		*(KZT millions)*	
Consolidated Balance sheet information:				
Assets				
Cash and cash equivalents	246,678	33,050	14,048	5,836
Obligatory reserves	31,826	4,264	2,390	1,775
Amounts due from credit institutions[(3)]	25,309	3,391	3,511	—
Financial assets at fair value through profit or loss	196,894	26,380	8,650	23,890
Investment securities[(2)]	246,417	33,015	26,716	—
Commercial loans and advances[(3)]	1,827,691	244,874	112,090	60,488
Insurance reserves, reinsurance share	26,399	3,537	156	190
Premises and equipment[(4)]	39,110	5,240	3,316	2,280
Current tax assets	2,881	386	180	176
Deferred tax assets	—	—	515	86
Investments in associates	1,261	169	313	—
Other assets[(3)]	35,543	4,762	2,017	919
Total assets	2,680,009	359,068	173,902	95,640
Liabilities				
Amounts due to the Government and the NBK	69,114	9,260	3,341	3,445
Amounts due to credit institutions	624,295	83,643	38,763	33,638
Amounts due to customers	870,890	116,682	68,747	44,826
Insurance reserves	31,482	4,218	515	349
Debt securities issued	734,662	98,430	43,307	2,848
Subordinated debt	132,698	17,779	260	1,498
Provisions	2,112	283	254	159
Other liabilities	9,173	1,229	535	535
Total liabilities	2,474,426	331,524	155,722	87,298
Shareholders' equity				
Share capital:				
Common shares	123,899	16,600	12,871	4,340
Preferred shares	25,377	3,400	1,900	1,900
Additional paid in capital	1,806	242	202	202
Reserves	5,105	684	465	465
Retained earnings	47,977	6,428	2,742	1,435
Attributable to shareholders of the parent	204,164	27,354	18,180	8,342
Minority interest	1,419	190	—	—
Total shareholders' equity	205,583	27,544	18,180	8,342
Total liabilities and shareholders' equity	2,680,009	359,068	173,902	95,640

(1) Translated at the official U.S. Dollar exchange rate on the KASE as at 31 December 2005, as reported by the NBK, of KZT133.98 = U.S.$1.00

(2) Starting from 1 January 2004, the Bank classified investment securities as comprising those securities which are in the "held to maturity" portfolio, the "available for sale" portfolio or are financial assets at fair value through profit or loss. See note 3, "Summary of Significant Accounting Policies – Investment Securities" to the Consolidated Financial Statements appearing elsewhere in this Prospectus.

(3) Net of allowance for impairment.

(4) Net of accumulated depreciation.

	As at 31 December		
	2005	2004	2003
			(%)
Selected Financial Ratios:			
Profitability Ratios			
Net interest margin[(1) (2)]	3.4	5.7	6.7
Net interest income/average total assets[(2)]	3.2	5.3	6.2
Net income/average total assets[(2)]	1.6	1.8	1.9
Net income/average shareholders' equity[(2)]	17.5	17.5	22.0
Net interest income/total income[(3)]	59.6	63.2	63.1
Non-interest income not including fees and commission income/total income[(3)]	20.8	19.0	17.7
Fees and commissions, net/ total income[(3)]	19.6	17.8	19.2
Cost/income ratio[(4)]	49.2	48.2	43.5
Personnel expenses[(5)]/total income[(3)]	21.9	23.0	22.8
Personnel expenses[(5)]/average total assets[(2)]	1.2	1.9	2.2
Loan Portfolio Quality			
Non-performing loans[(6)]/gross commercial loans and advances[(7)]	1.6	2.0	2.4
Allowance for impairment/gross commercial loans and advances[(7)]	3.0	4.7	5.3
Allowance for impairment/non-performing loans[(6)]	191.4	234.5	218.9
Balance Sheet Ratios and Capital Adequacy			
Amounts due to customers/total liabilities	35.2	44.1	51.3
Shareholders' equity/total assets	7.7	10.5	8.7
Tier I ratio[(8)]	8.3	9.6	8.7
Capital adequacy ratio[(8)]	12.4	11.1	13.6
Regulatory total capital ratio[(9)]	12.7	13.4	13.2
Commercial loans and advances/total assets	68.2	64.5	63.2
Commercial loans and advances/amounts due to customers	209.9	163.0	134.9
Commercial loans and advances/shareholders' equity	889.0	616.6	725.1
Liquid assets[(10)]/total assets	26.7	30.5	31.1
Liquid assets[(10)]/amounts due to customers	82.1	77.0	66.3

(1) Net interest income before provisions as a percentage of daily average interest-earning assets.

(2) Averages were calculated on daily basis.

(3) Total income represents net interest income plus net fees and commissions plus non-interest income.

(4) Non-interest expense not including fee and commission expense minus other provisions expressed as a percentage of the sum of net interest income before impairment charge plus non-interest income plus net fees and commissions.

(5) Personnel expenses represent salaries and bonuses to employees plus payments for social costs, payroll taxes and other staff costs.

(6) Non-performing loans consist of loans in respect of which payment is more than 60 days overdue.

(7) Gross Commercial loans and advances represents commercial loans and advances before allowance for impairment.

(8) Calculated in accordance with the Capital Accord of the Basel Committee on Banking Supervision. See "Financial Review – Capital Adequacy and Other Ratios".

(9) Calculated in accordance with the requirements of the FMSA. See "Financial Review – Capital Adequacy and Other Ratios".

(10) Liquid assets comprise securities (which includes investment securities and financial assets at fair value through profit or loss) plus cash and cash equivalents and amounts due from credit institutions.

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with all other information contained in this Prospectus, the following risk factors associated with investment in Kazakhstan entities generally and in the Bank specifically. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in Kazakhstan which in some respects may differ from that prevailing in other countries.

General Risk Relating to Emerging Markets

Investors in emerging markets, such as 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 economies, such as Kazakhstan's, 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, investing in the Notes is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Risk Factors Relating to the Bank

Loan Portfolio Growth and Risk Management

The Bank's gross commercial loans and advances (before allowances) have increased rapidly in recent years growing by 75.7% in 2003 to KZT63,885 million, by 84.1% in 2004 to KZT117,593 million and by a further 114.7% in 2005 to KZT252,523 million. The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued monitoring by the Bank's management of credit quality and the adequacy of its impairment assessment and continued improvement in the Bank's credit risk management programme. Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain qualified personnel and to train new personnel.

In addition, the Bank's strategy of further diversifying its customer base, including through increased lending to medium and small corporate clients and retail customers, may also increase further the credit risk exposure in the Bank's loan portfolio. Small and medium sized enterprises (“SME”) and retail customers typically are less financially resilient than larger borrowers as there is generally less financial information available about smaller companies and retail customers. Negative developments in Kazakhstan's economy could also affect smaller companies and retail customers more significantly than larger borrowers. As a result, the Bank may need to change its estimates of impairment and implement additional credit risk management policies and procedures. Failure to manage growth and development successfully and to maintain the quality of its assets could have a material adverse effect on the Bank's results of operations and financial condition.

In addition, the growth in the Bank's loan portfolio over the last three years has been higher than the growth in its customer deposits resulting in a commercial loans and advances to amounts due to customers ratio of 209.9 %, 163.0% and 134.9% as at 31 December 2005 and 31 December 2004 and 2003, respectively. This has caused the Bank to look for other sources to fund the growth of its loan portfolio, primarily inter-bank loans and capital markets instruments which at 31 December 2005, 2004 and 2003 comprised 60.3%, 52.9% and 43.5% of total liabilities, respectively. This asset to liability structure is consistent with that of most other similar banks in Kazakhstan and as a result market interest rates on loans to customers in Kazakhstan are higher than those charged in more developed markets to cover the higher funding costs. As a consequence, if corporate and retail lending interest rate levels were to decrease significantly in Kazakhstan and the Bank could not raise additional funding through deposit-taking, this could negatively affect the Bank's ability to manage liquidity and to fund further profitable growth.

Concentration of Lending and Deposit Base

As at 31 December 2005, the Bank's 10 largest borrowers accounted for 24.7% of gross commercial loans and advances, compared to 19.8% in 2004, and 20.3% in 2003. The Bank will continue to place emphasis on credit quality and to further develop financial and management controls to monitor this credit exposure; a failure to achieve this could have a material adverse effect on the Bank's results of operations and financial condition.

As at 31 December 2005, the Bank's 10 largest corporate depositors accounted for approximately 34.7% of total amounts owed to customers, compared to 42.9% as at 31 December 2004, and 47.5% as at 31 December 2003. The Bank intends to reduce the concentration in its deposit base by attracting small and medium sized enterprises and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's results of operations and financial condition.

Low Capitalisation

In common with other banks in Kazakhstan, the Bank has previously suffered from being under capitalised. Since the start of 2002, the Bank has strengthened its capital base through the issuance of common shares, preferred shares and domestic subordinated debt securities.

If the Bank's loan portfolio continues to increase as rapidly as it has in previous years, capital will be required in the medium-term to strengthen further the Bank's capital base. The Bank is also required under certain of its financing arrangements to maintain liquid assets (including securities within its investment and financial assets at fair value through profit or loss) at a level of not less than 25% of total assets. In addition, commercial loans funded through increased levels of debt financing from financial institutions and capital markets will also require the Bank to raise additional capital in order to meet required capital adequacy levels. The Bank's current strategy to address its capitalisation requirements involves diversifying its sources of funding, including the use of various lending facilities and the issuance of additional equity, subordinated debt and other securities in the domestic and international capital markets. The Bank may also consider in the near term exploring strategic partnerships with investors to assist the Bank in managing its future capital requirements. The failure to raise capital in the future could substantially limit the Bank's ability to continue to increase the size of its loan portfolio whilst complying with applicable capital adequacy requirements. This could result in breach of the requisite capital adequacy rules and breach of covenants relating to the maintenance of a certain capital adequacy ratio contained in some of its outstanding financing documents. Any such events could have a material adverse effect on the Bank's prospects, business, financial condition and results of operations. See “Selected Statistical and Other Information – Funding and Liquidity” and “Share Capital and Principal Shareholders”.

Liquidity Risks

The Bank, like other commercial banks in Kazakhstan and elsewhere, is exposed to maturity mismatches between its assets and liabilities, which could lead to lack of liquidity at certain times. At 31 December 2004, the Bank had a negative cumulative maturity gap for the period up to three months. However, as at 31 December 2005, the Bank had no negative cumulative maturity gap. Although the Bank believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy, which includes maintaining liquidity reserves sufficient to meet the Bank's liquidity needs for a certain period, allow and will continue to allow the Bank to meet its short-term and long-term liquidity needs, any maturity mismatches between the Bank's assets and liabilities (including by reason of the withdrawal of large deposits) may have a material adverse effect on its results of operations and financial condition. See “Selected Statistical and Other Information – Asset and Liability Management – Liquidity Risk”.

Interest Rate Risks

The Bank is exposed to risks resulting from mismatches between the interest rates on its interest- bearing liabilities and interest-earning assets. While the Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments, interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of the Bank. See “Selected Statistical and Other Information – Asset and Liability Management – Interest Rate Risk”.

Foreign Currency Risks

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. Although the Bank is subject to limits on its open currency positions pursuant to NBK and FMSA regulations and the Bank's internal policies, future changes in currency exchange rates and the volatility of the Tenge may adversely affect the Bank's foreign currency positions. See “Selected Statistical and Other Information – Foreign Currency Management”.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to its economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that found in many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Bank relating to its prospective corporate borrowers or retail clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable impairment assessment and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of under provisioning and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it.

Competition

The Bank is subject to competition from both domestic and foreign banks. As at 31 December 2005, there were a total of 33 commercial banks in Kazakhstan, excluding the NBK and JSC Development Bank of Kazakhstan (“DBK”), of which 14 were banks with foreign ownership, including subsidiaries of foreign banks. The banking system in Kazakhstan is dominated by the three large domestic banks, JSC Kazkommertsbank, JSC Halyk Bank and JSC Bank TuranAlem, and despite the Bank's position as the fourth largest bank in Kazakhstan in terms of assets according to data compiled by the NBK, it faces significant competition from these banks. In addition, the Bank considers some of the banks with foreign shareholders as its competitors, primarily ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, as their international experience and low-cost funding allow them to attract large domestic and foreign corporate customers. See "The Bank – Competition".

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and the capital adequacy of banks. In addition, an institutional development plan was prepared for leading Kazakhstan banks. According to the plan, banks are required to prepare their accounts in accordance with IFRS and to apply the Basel Committee norms within a period determined on a case-by-case basis. These norms apply to the Bank. Further, Kazakhstan banks are also required to join a bank-funded deposit insurance scheme and be audited annually by a public accountancy firm approved by the FMSA. The FMSA's main task is to regulate and supervise the financial markets and financial institutions in Kazakhstan. See "The Banking Sector in Kazakhstan". Notwithstanding the FMSA's regulatory standards applicable to banks in Kazakhstan, the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. See "Risk Factors – Underdevelopment and Evolution of Legislative and Regulatory Framework". There can be no assurance that the Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation or exchange controls, or otherwise take action, that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes. In addition, the Government may implement additional regulations or polices, including with respect limitations on borrowings by Kazakhstan banks from foreign institutions or on extensions of credit to Kazakhstan borrowers.

As the Bank continues to expand its international operations, it will become increasingly exposed to additional regulatory risk, particularly in Kyrgyzstan, Russia and other CIS countries.

Reform of the International Capital Adequacy Framework

In 2001, the Basel Committee issued a proposal for a new capital adequacy framework to replace the current Capital Accord issued in 1988. With regard to the risk weightings to be applied to exposures to sovereign states, 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. If adopted, the new framework could require financial institutions lending to Kazakhstan banks to be subject to higher capital requirements as a result of the credit rating of Kazakhstan, possibly resulting in a higher cost of borrowing for Kazakhstan banks, including the Bank.

Dependence on Key Personnel

The Bank's success in growing its business will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in Kazakhstan for personnel with relevant expertise is intense due to a disproportionately low number of available qualified and/or experienced individuals compared to demand. The Bank's failure to manage successfully its personnel needs could adversely affect the Bank's business and results of operations.

Regional and International Expansion

According to its strategy, the Bank plans to further expand its revenue base through selective regional and international expansion. In furtherance of this strategy, in June 2004, the Bank acquired a 34.4% stake in JSC EnergoBank in Kyrgyzstan. During 2005 the Bank made an additional contribution of KZT135 million to the working capital of JSC EnergoBank and, as of the date of this Prospectus, the Bank owned 73.9% of JSC EnergoBank.

The Bank acquired CJSC OCB (Omsk Commercial Bank) Sibir ("Sibirbank") in November 2005 for KZT58.7 million. Sibirbank is a regional bank in the Omsk region of the Russian Federation, which borders Kazakhstan to the north and has a large ethnic Kazakh population. The Bank is also considering acquiring a bank in Moscow to expand its presence in the capital of the Russian Federation. In February 2006, the Bank announced that it had begun a due diligence process on Valut-Tranzit Bank, with a view to potentially acquiring a stake of more than 50%. As of the date of this Prospectus the Bank has postponed indefinitely consideration of this acquisition.

Although the Bank monitors closely the risks associated with its foreign operations, this international presence exposes the Bank to risks the Bank would not face as a purely domestic bank, including political and economic risks related to the countries into which it expands its operations as well as certain regulatory risks, compliance risks and foreign currency exchange risk. As the Bank further expands its international operations it will be exposed to additional risks. In any event, the Bank will be affected by political and economic developments in other CIS countries, particularly Russia and Kyrgyzstan. Any failure to manage such risks may cause the Bank to incur increased liabilities in respect of such operations. For more information on the recent acquisitions discussed above, see "The Bank – Subsidiaries, Associated and Affiliated Companies".

Risk Factors Relating to Kazakhstan

Most of the Bank's operations are conducted, and substantially all of its customers are located, in Kazakhstan. Accordingly, the Bank's ability to recover on its loans, financial position and results of operations are substantially dependent on the economic and political conditions prevailing in Kazakhstan.

Political and Regional Considerations

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

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free-market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than most other countries of the CIS. 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 for access to world markets for a number of its major exports, including oil, steel, copper, ferro-alloys, iron ore, alumina, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In addition to taking various steps to promote regional economic integration among neighbouring countries, Kazakhstan signed an agreement in September 2003 with Ukraine, Russia, and Belarus for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to co-ordinate their fiscal, credit and currency policies. To support further economic integration with the CIS countries, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, the economy of Kazakhstan could be adversely affected.

In March 2005, a revolution in Kyrgyzstan removed the incumbent president and in elections held in July 2005 the head of the provisional administration, who had governed the country since March, was elected president. However, the political situation in Kyrgyzstan is fragile and its economy is in poor condition so further instability is a distinct possibility.

Like other countries in Central Asia, Kazakhstan could be affected by continuing political unrest in the region and the effect any resulting military action may have on the world economy and political stability of other countries. Also, in common with other countries in Central Asia, Kazakhstan could be affected by military or other action taken against sponsors of terrorism in the region. In particular, 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 any resulting 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.

Macroeconomic Considerations and Exchange Rate Policies

Since Kazakhstan is heavily dependent upon export trade and commodity prices, it was particularly affected by the Asian financial crisis in early 1998 and by the Russian crisis later that year, both of which exacerbated the problems associated with falling commodity prices. Because Kazakhstan is negatively affected by low commodity prices and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. Moreover, to mitigate any such negative effect, the Government established the National Fund of Kazakhstan in 2000 for the purpose of supporting the financial markets and the Kazakhstan economy in the event of any sustained drop in oil revenues. Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect Kazakhstan's economy.

The Government began implementing market-based economic reforms following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 12 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. Whilst 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% in 2001, 9.8% in 2002, 9.2% in 2003, 9.4% in 2004 and 9.4% in 2005, there can be no assurance that the GDP will continue to grow and any fall in GDP in subsequent years could adversely affect Kazakhstan's development.

The Tenge is convertible for current account transactions, although it is not fully convertible outside Kazakhstan. Depressed export markets in 1998 and early 1999, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 64.6% against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7% in the year ended 31 December 1998. Following the adoption of a floating exchange rate policy in 1999, the Tenge continued to depreciate in value against the U.S. Dollar, although at a much lower rate, depreciating by 3.8% in 2001 and 3.3% in 2002. The Tenge appreciated in value against the U.S. Dollar during 2003 but since then it has generally depreciated and as at 31 December 2005, the exchange rate was KZT133.98 per US$1.00. See "Exchange Rates and Exchange Rate Control – Exchange Rates". 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 exchange rate 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.

Implementation of Further Market-Based Economic Reforms

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 economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the amount of non-cash transactions in the economy and the size of the shadow economy adversely affect the implementation of reforms and restrict the efficient collection of taxes. The Government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration and by continuing the privatisation process. Implementation of these measures, however, may not happen in the short term and any positive results of such actions may not materialise until the medium term, if at all.

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including a new tax code in January 2002, laws relating to foreign investments, 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 CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of social, economic and political forces and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Moreover, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous 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 any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system.

The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. It is expected that the tax legislation in Kazakhstan will become more sophisticated and that there will be additional revenue raising measures which may result in significant 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 operation of companies operating in Kazakhstan.

Less Developed Securities Market

An organised securities market was established in Kazakhstan in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may, therefore, be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are less well developed in Kazakhstan, and less strictly enforced, than in Western European countries and the United States and existing laws and regulations may be applied inconsistently with consequent irregularities in enforcement. 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 Western European countries or the United States.

Risk Factors Relating to the Notes

Taxation in Kazakhstan

Tax legislation in Kazakhstan currently levies income tax on gains from the sale of securities issued by Kazakhstan companies where such securities are not listed on the official "A" or "B" lists of the KASE. If the Notes are not so listed on the KASE , such income tax would be applicable to holders of the Notes, regardless of whether the holder is resident in Kazakhstan for tax purposes, unless reduced by an applicable double tax treaty. Under the terms of double tax treaties Kazakhstan has concluded with certain countries, including, among others, the United States, United Kingdom, France, Germany and the Netherlands, gains made by tax residents in such countries are not subject to such Kazakhstan income tax. Holders who are resident for tax purposes in the countries which do not have a double tax treaty with Kazakhstan, however, would be subject to such tax.

Under the terms of the current legislation, holders that realise such a gain and do not qualify for an exemption under the appropriate double tax treaty are obliged to file a tax declaration with the Kazakhstan tax authorities. There is, however, uncertainty as to how the Kazakhstan tax authorities would assess such tax on non-resident foreign holders of the Notes. Prospective purchasers and holders of Notes should consult their own professional advisers as to the tax consequences of them holding or transferring the Notes.

In addition, as discussed in "Taxation – Kazakhstan Taxation", payments of interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15%, unless, in the case of non-resident holders, reduced by a relevant double tax treaty. The Bank has agreed to pay additional amounts in respect of such withholding. See "Terms and Conditions of the Notes – Condition 10 (*Taxation*)". The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts in Kazakhstan and there may be some doubt as to whether they would enforce such an agreement. The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See "Terms and Conditions of the Notes – Condition 9(b) (*Redemption for Taxation Reasons*)".

Emerging Market Risks

The markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. Accordingly, the Notes may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank.

Credit Rating

Outstanding sovereign Eurobonds of Kazakhstan are rated Baa3 by Moody's and BBB- by Standard & Poor's. 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. The Bank has received a long-term rating of "Ba1" from Moody's, "B+" from Standard and Poor's and "BB-" from Fitch. Any change in the credit rating of either the Bank or Kazakhstan could affect the trading price of the Notes.

The Notes are Unsecured Obligations

The Notes are unsecured obligations of the Bank and, therefore, in an insolvency of the Bank rank junior to existing and/or future secured indebtedness of the Bank. The Bank has secured its repurchase agreements by a pledge over certain of the Bank's financial assets. The fair value of such pledged securities as at 31 December 2005 was KZT10 million. In addition the Bank, as of 31 December 2005, had pledged KZT4,732 million as collateral against interbank borrowings. The Bank may in the future secure repurchase agreements over other financial assets. In addition, the Terms and Conditions of the Notes will permit the Bank to incur substantial additional secured indebtedness under some circumstances. See "Terms and Conditions of the Notes – Condition 5 (*Negative Pledge and Certain Covenants*)". If an event of default occurs under a secured credit facility, the lenders may foreclose upon the respective collateral. Thus, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding, the holders of any secured indebtedness of the Bank will be entitled to proceed against the collateral that secured such indebtedness and such collateral will not be available for satisfaction of any amounts owed to holders of the Notes.

USE OF PROCEEDS

The net proceeds to the Bank from the sale of the Notes, after deduction of underwriting commissions but before certain expenses, are expected to be U.S.$342,618,500. Such proceeds will be used by the Bank to fund loans to its customers and for other general corporate purposes.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate being limited to interventions in the internal currency market in order to prevent volatile exchange rate fluctuations caused by short-term changes in supply and demand.

As a result of the economic crises in Asia and Russia in 1997 and 1998 and the resulting currency depreciations, primarily in Russia and other former Soviet Republics, Kazakhstan's exports became less competitive on international markets while imports from such countries increased. In addition, the decline in world commodity prices, particularly of oil, base and precious metals and grain, reduced Kazakhstan's foreign currency revenues. The resulting trade imbalance, as well as lower than expected privatisation revenues, weakened the Tenge. The NBK supported the Tenge by intervening in the foreign exchange markets.

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. This decision was supported by international financial organisations such as the IMF. As a result, the Tenge depreciated from a pre-announcement rate of KZT88 per U.S. Dollar to a rate of about KZT130.00 per U.S. Dollar by May 1999. The Tenge continued to depreciate in nominal terms against the U.S. Dollar until 2003, but towards the end of 2003 the trend reversed, although since then the Tenge has generally depreciated against the U.S. Dollar. The following table sets out certain period-end, high, average and low Tenge/U.S. Dollar official exchange rates as reported by the NBK:

	Period-end	High	Average	Low
2000	144.50	144.50	142.13	138.20
2001	150.20	150.20	146.74	144.50
2002	155.85	156.29	153.28	150.20
2003	144.22	155.89	149.58	143.66
2004	130.00	143.33	136.04	130.00
2005	133.98	136.12	132.88	130.00

Source: NBK

On 3 May 2006, the exchange rate for U.S. Dollars on the KASE, as reported by the NBK, was KZT124.36 = U.S.$1.00.

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 new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain outflowing and inflowing capital account operations need to be licensed by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

Following the inflow of U.S. Dollars into Kazakhstan due to the rising oil prices, a number of steps aimed to liberalise the currency control regime were taken between 2002 and 2005 substantially easing the rules for both external and inward investing.

Specifically, no NBK licence is currently required to open accounts in foreign banks for a Kazakhstan financial organisation in connection with transactions with financial instruments on international securities markets or a Kazakhstan legal entity for the purposes of securing its obligations towards non-resident lenders,, for certain Kazakhstan financial organisations or other residents acting through a licensed professional securities market participant, to acquire foreign securities or to enter into derivative transactions with non-residents or for the acquisition by residents of more than 10.0 per cent. of voting shares of a non-resident company.

Currency control limitations were further eased for Kazakhstan banks and, currently, with respect to most of their off-shore operations, banks are only obliged to notify the NBK as to such operations.

CAPITALISATION

The following table sets out the consolidated capitalisation of the Bank as at 31 December 2005 on an actual basis and as adjusted to reflect the issuance of the Notes. This information should be read in conjunction with "Use of Proceeds", "Financial Review" and "Selected Consolidated Financial Information" included elsewhere in this Prospectus.

	As at 31 December 2005			
	Actual		As Adjusted	
	(U.S.$ thousands) [(1)]	*(KZT millions)*	*(U.S.$ thousands)* [(1)]	*(KZT millions)*
Long-term debt	87,073	11,666	87,073	11,666
Debt securities issued	733,139	98,226	1,083,139	145,119
Subordinated long-term debt	132,699	17,779	132,699	17,779
Total long-term debt	952,911	127,671	1,302,911	174,564
Common Shares[(2)]	123,899	16,600	123,899	16,600
Preferred Shares[(2)(3)]	25,377	3,400	25,377	3,400
Additional paid in capital	1,806	242	1,806	242
Reserves	5,105	684	5,105	684
Retained earnings	47,977	6,428	47,977	6,428
Total shareholders' equity, attributable to shareholders of the parent	204,164	27,354	204,164	27,354
Total capitalisation	1,157,076	155,025	1,507,075	201,918

(1) Translated at the official U.S. Dollar/Tenge exchange rate on the KASE, as reported by the NBK, on 31 December 2005 of KZT133.98 = U.S.$1.00.

(2) As at 31 December 2005, the Bank's authorised share capital comprised 16,600,000 common and 3,400,000 preferred shares, each having a par value of KZT1,000, which were fully paid.

(3) In February 2006 the Bank's general meeting of shareholders approved the issuance of 27,000,000 common shares of which 3,120,000 were issued in March 2006. As of 3 April 2006, 1,273,106 newly issued common shares were placed among certain existing shareholders for a total amount of KZT6.37 billion or KZT5,000 per share.

Save as disclosed above, there has been no material change in the Bank's capitalisation since 31 December 2005.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The summary financial information set forth below for the years ended 31 December 2005, 2004 and 2003 has been extracted from the Consolidated Financial Statements which are included elsewhere in this Prospectus. The Consolidated Financial Statements have been prepared in accordance with IFRS. The information should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements.

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	2005	2005	2004	2003
	(U.S.$ thousands) (1)	*(KZT millions)*		
Consolidated Income Statement:				
Interest income				
Loans	163,238	21,691	10,992	6,655
Securities	14,788	1,965	1,466	1,116
Credit institutions	5,765	766	186	113
	183,791	24,422	12,644	7,884
Interest expense				
Deposits	(38,727)	(5,146)	(2,795)	(2,126)
Borrowings	(20,741)	(2,756)	(1,437)	(958)
Subordinated debt	(6,893)	(916)	(63)	(130)
Debt securities issued	(55,080)	(7,319)	(1,513)	(13)
	(121,441)	(16,137)	(5,808)	(3,227)
Net interest income	62,350	8,285	6,836	4,657
Impairment of interest earning assets	(15,811)	(2,101)	(2,894)	(1,694)
	46,539	6,184	3,942	2,963
Fees and commissions				
Fee and commission income	24,007	3,190	2,349	1,635
Fee and commission expense	(3,484)	(463)	(428)	(219)
	20,523	2,727	1,921	1,416
Non-interest income				
Gains less losses from financial assets at fair value through profit or loss	459	61	456	308
Gains less losses from available-for-sale security	38	5	15	—
Dealing profits less losses, precious metals	(60)	(8)	2	35
Gains less losses from foreign currencies:				
dealing	9,332	1,240	781	528
translation differences	(346)	(46)	(122)	(76)
Underwriting income	7,601	1,010	810	436
Share of income from associates	301	40	50	—
Other income	4,410	586	60	79
	21,735	2,888	2,052	1,310
Non-interest expense				
Salaries and benefits	(22,930)	(3,047)	(2,481)	(1,686)
Administrative and operating expenses	(17,806)	(2,366)	(1,702)	(1,056)
Depreciation and amortisation	(4,440)	(590)	(378)	(251)
Taxes other than income taxes	(3,033)	(403)	(311)	(220)
Other impairment and provisions	(1,008)	(134)	(83)	(128)
Insurance claims incurred	(3,244)	(431)	(333)	(133)
	(52,461)	(6,971)	(5,288)	(3,474)
Income before income tax expense	36,336	4,828	2,627	2,215
Income tax expense	(5,802)	(771)	(307)	(759)
Net income	30,534	4,057	2,320	1,456
Attributable to:				
Equity holders of the parent	30,450	4,046	2,320	1,456
Minority interest	84	11	—	—

(1) Translated at the official average U.S. Dollar exchange rate for the year ended 31 December 2005, as reported by the NBK, of KZT132.88 = U.S.$1.00.

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	2005	2005	2004	2003
	(U.S.$ thousands) (1)	*(KZT millions)*		
Consolidated Balance Sheet:				
Assets				
Cash and cash equivalents	246,678	33,050	14,048	5,836
Obligatory reserves	31,826	4,264	2,390	1,775
Amounts due from credit institutions(3)	25,309	3,391	3,511	—
Financial assets at fair value through profit or loss	196,894	26,380	8,650	23,890
Investment securities(2)	246,417	33,015	26,716	—
Commercial loans and advances(3)	1,827,691	244,874	112,090	60,488
Insurance reserves, reinsurance share	26,399	3,537	156	190
Premises and equipment(4)	39,110	5,240	3,316	2,280
Current tax assets	2,881	386	180	176
Deferred tax asset	—	—	515	86
Investments in associates	1,261	169	313	—
Other assets(3)	35,543	4,762	2,017	919
Total assets	2,680,009	359,068	173,902	95,640
Liabilities				
Amounts due to the Government and the NBK	69,114	9,260	3,341	3,445
Amounts due to credit institutions	624,295	83,643	38,763	33,638
Amounts due to customers	870,890	116,682	68,747	44,826
Insurance reserves	31,482	4,218	515	349
Debt securities issued	734,662	98,430	43,307	2,848
Subordinated debt	132,698	17,779	260	1,498
Provisions	2,112	283	254	159
Other liabilities	9,173	1,229	535	535
Total liabilities	2,474,426	331,524	155,722	87,298
Shareholders' equity				
Share capital:				
Common shares	123,899	16,600	12,871	4,340
Preferred shares	25,377	3,400	1,900	1,900
Additional paid in capital	1,806	242	202	202
Reserves	5,105	684	465	465
Retained earnings	47,977	6,428	2,742	1,435
Attributable to shareholders of the parent	204,164	27,354	18,180	8,342
Minority interest	1,419	190	—	—
Total shareholders' equity	205,583	27,544	18,180	8,342
Total liabilities and shareholders' equity	2,680,009	359,068	173,902	95,640

(1) Translated at the official U.S. Dollar exchange rate fixed on the KASE as at 31 December 2005, as reported by the NBK, of KZT133.98 = U.S.$1.00.

(2) Starting from 1 January 2004, the Bank classified securities in held-to-maturity and available-for-sale portfolios in addition to the financial assets at fair value through profit or loss held by the Bank as at 31 December 2003. See note 3, “Summary of Significant Accounting Policies – Investment Securities” to the Consolidated Financial Statements appearing elsewhere in this Prospectus.

(3) Net of allowance for impairment.

(4) Net of accumulated depreciation.

	As at 31 December		
	2005	2004	2003
		(%)	
Selected Financial Ratios:			
Profitability Ratios			
Net interest margin[(1)(2)]	3.4	5.7	6.7
Net interest income/average total assets[(2)]	3.2	5.3	6.2
Net income/average total assets[(2)]	1.6	1.8	1.9
Net income/average shareholders' equity[(2)]	17.5	17.5	22.0
Net interest income/total income[(3)]	59.6	63.2	63.1
Non-interest income including fees and commission income / total income[(3)]	20.8	19.0	17.7
Fees and commissions, net/total income[(3)]	19.6	17.8	19.2
Cost/income ratio[(4)]	49.2	48.2	43.5
Personnel expenses[(5)]/total income[(3]	21.9	23.0	22.8
Personnel expenses[(5)]/average total assets[(2)]	1.2	1.9	2.2
Loan Portfolio Quality			
Non-performing loans[(6)]/gross commercial loans and advances[(7)]	1.6	2.0	2.4
Allowance for impairment/gross commercial loans and advances[(7)]	3.0	4.7	5.3
Allowance for impairment/non-performing loans[(6)]	191.4	234.5	218.9
Balance Sheet Ratios and Capital Adequacy			
Amounts due to customers/total liabilities	35.2	44.1	51.3
Shareholders' equity/total assets	7.7	10.5	8.7
Tier I ratio[(8)]	8.3	9.6	8.7
Capital adequacy ratio[(8)]	12.4	11.1	13.6
Regulatory total capital ratio[(9)]	12.7	13.4	13.2
Commercial loans and advances/total assets	68.2	64.5	63.2
Commercial loans and advances/amounts due to customers	209.9	163.0	134.9
Commercial loans and advances/shareholders' equity	889.0	616.6	725.1
Liquid assets[(10)]/total assets	26.7	30.5	31.1
Liquid assets[(10)]/amounts due to customers	82.1	77.0	66.3

(1) Net interest income before provisions as a percentage of average daily interest-earning assets.

(2) Averages were calculated on daily basis.

(3) Total income represents net interest income plus net fees and commissions plus non-interest income.

(4) Non-interest expense not including fee and commission expense minus other provisions expressed as a percentage of the sum of net interest income before impairment charge plus non-interest income plus net fees and commissions.

(5) Personnel expenses represent salaries and bonuses to employees plus payments for social costs, payroll taxes and other staff costs.

(6) Non-performing loans consist of loans in respect of which payment has been suspended for more than 60 days.

(7) Gross commercial loans and advances represents commercial loans and advances before allowance for impairment.

(8) Calculated in accordance with the Capital Accord of the Basel Committee on Banking Supervision. See "Financial Review – Capital Adequacy and Other Ratios".

(9) Calculated in accordance with the requirements of the FMSA. See "Financial Review – Capital Adequacy and Other Ratios".

(10) Liquid assets comprise securities (which includes investment securities and financial assets at fair value through profit or loss) plus cash and cash equivalents and amounts due from credit institutions.

FINANCIAL REVIEW

The following discussion should be read in conjunction with the Consolidated Financial Statements appearing elsewhere in this Prospectus. This discussion includes forward-looking statements based on assumptions about the Bank's future business. The Bank's actual results could differ materially from those contained in such forward-looking statements.

Introduction

The Bank is the fourth largest commercial bank in Kazakhstan in terms of assets according to data compiled by the NBK as at 31 December 2005. The Bank's total assets as at 31 December 2005 were KZT359,068 million. The Bank's net income for the 12 months ended 31 December 2005 was KZT4,057 million as compared to KZT2,320 million for the year ended 31 December 2004 and KZT1,456 million for the year ended 31 December 2003. The Bank's shareholders' equity as at 31 December 2005 was KZT27,544 million as compared to KZT18,180 million as at 31 December 2004 and KZT8,342 million as at 31 December 2003.

Kazakhstan's Economy

Overview

Kazakhstan has been recognised by both the European Union and the United States as having a market economy. It has experienced extensive economic transformation since independence; for example, real GDP, which fell by 38.6% between 1990 and 1995, is estimated to have grown by roughly the same amount since then, assisted substantially by the flotation of the Tenge in April 1999 and its subsequent devaluation, improvement in the global economic environment and rising commodity prices.

Raw minerals extraction is the biggest sector of Kazakhstan's economy which makes it overly dependent on the world market prices for mineral resources. Therefore, the main tasks facing Kazakhstan in the long-term are diversifying its economy and shifting its production towards value- added products.

Gross Domestic Product

The black market sector constitutes a significant portion of Kazakhstan's economy and the NSA makes adjustments to its GDP data in accordance with approved IMF practices in order to reflect this. The NSA's estimate of the size of the black market (including the household sector) has been that, at times, it has exceeded 35% of GDP. Even higher estimates of the contribution of the black market economy, however, have been given.

The following table sets forth certain information on Kazakhstan's GDP for the periods indicated:

	Year ended 31 December			
	2005	**2004**	**2003**	**2002**
Nominal GDP (*KZT billions*)	7,453	5,870	4,612	3,776
Real GDP (*percentage change during the 12 months then ended*)	9.4	9.2	9.5	13.5
Nominal GDP per capita (*KZT*)	489,685	389,516	308,701	254,105
Population (*millions average annual*)	15.22	15.07	14.94	14.86

Source: NSA, NBK

Real GDP increases over the period are principally the result of systemic reforms (including price and trade liberalisation as well as privatisation), foreign investment (particularly in the oil and gas and non-ferrous metallurgy sectors), increases in agricultural production and strong commodity prices in recent years.

GDP by Source

The following table sets forth the composition of nominal GDP by source for the periods indicated:

	Year ended 31 December					
	2005	**2004**	**2003**	**2002**	**2001**	**2000**
						(% share of GDP)
Industry	29.7	31.1	29.5	29.3	30.7	31.9
Construction	7.4	5.9	6.2	6.1	5.5	5.3
Agriculture	6.4	7.9	7.3	7.9	8.7	8.7
Transportation and Telecommunications	11.6	12.2	12.1	11.5	11.2	12.0
Trade	12.4	11.4	12.1	12.0	12.1	12.6
Other[(1)]	32.4	31.4	32.8	33.2	31.8	29.5
Total	100.00	100.0	100.0	100.0	100.0	100.0

Source: NSA

(1) Includes finance and non-production sectors such as medicare, education, culture, defence and state administration, as well as taxes.

The composition of Kazakhstan's GDP has changed over recent years, with the contribution of agriculture decreasing from 8.7% in 2000 to 6.4% in 2005. During the same periods the Industrial and Construction sectors have grown in terms of contribution to GDP (from 31.9% to 29.7% and from 5.3% to 7.4% respectively) representing the general move in the Kazakhstan economy as the extraction and production of hydrocarbons and minerals has become more important.

Inflation

The year-on-year rate of consumer price inflation has decreased from 9.8% at the end of 2000 to 7.7% as at the end of December 2005, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

The following table sets forth the year-on-year rates of consumer price inflation and producer price inflation as at the dates indicated:

	As at 31 December					
	2005	**2004**	**2003**	**2002**	**2001**	**2000**
						(%)
Consumer prices	7.7	6.7	6.8	6.6	6.4	9.8
Producer prices	20.3	23.8	5.9	11.9	(14.1)	19.4

Source: NSA, NBK

Current Account

Based on NBK data, Kazakhstan's current account deficit in 2003 was U.S.$39.0 million as compared to U.S.$843.4 million and U.S.$1,209.3 million in 2002 and 2001, respectively. The current account surplus for 2004 was U.S.$454.9 million and in the current account deficit in 2005 was U.S.$485.7 million.

Capital and Financial Account

The current account deficit has been offset by inflows of foreign direct investment. In 2001, foreign direct investment in the amount of U.S.$4,557 million resulted in a capital and financial account surplus of U.S.$2,428.7 million. In 2002, foreign direct investment for the year amounted to U.S.$4,106.5 million, which resulted in a capital and financial account surplus of U.S.$1,239.2 million. In 2003, foreign direct investment was U.S.$4,607 million and the capital and financial account surplus was U.S.$2,755.2 million. In 2004, foreign direct investment was U.S.$8,872.7 million and the capital and financial account deficit was U.S.$20.26 million. In 2005, foreign direct investment was U.S.$6,416.4 million and the capital and financial account surplus was U.S.$13.94 million.

Critical Accounting Policies

The Bank's results of operations and financial condition presented in the Consolidated Financial Statements, notes thereto and the selected statistical and other information appearing elsewhere in this Prospectus are substantially influenced by the Bank's accounting policies.

The Bank's significant accounting policies are described in Note 3 to the Consolidated Financial Statements. The Bank has identified the following accounting policies that it believes are the most critical to an understanding of its results of operations and financial condition. These policies require a complex and subjective judgement by management about matters that are inherently uncertain. The effect of and any associated risks related to the Bank's critical accounting policies on its business operations are discussed in this section where these policies affect the Bank's financial results as presented in this Prospectus.

Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect principal and interest according to the contractual terms of the related loans issued, securities held-to-maturity and other financial assets, which are carried at cost and amortised cost. The allowances for impairment of financial assets are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realise the financial instrument.

The allowances are based on the Bank's own loss experience and management's judgement as to the level of losses that are currently inherent from assets in each credit risk category by reference to the debt service capability and repayment history of the relevant borrower. The allowances for impairment of financial assets are determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods. If actual loan losses are higher or market conditions are less favourable than those projected by management, additional allowances may be required.

Deferred Taxes

Deferred income tax is calculated using the liability method, which is based on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition 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; and
- in respect of taxable temporary differences with investments in subsidiaries, associates and interests in 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.

Deferred income tax assets are recognised for deductible temporary differences, carry-forwards of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forwards of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition 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 nor loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Financial assets at fair value through profit or loss

As of 1 January 2005, a new category of financial instruments has been introduced, “Financial assets at fair value through profit or loss”. This category comprises trading financial assets (financial assets which are acquired for the purpose of sale in the short term) as well as any financial assets designated into this category at initial recognition. These assets are measured at fair value with recognition of gains or losses on re-measurement to fair value in the income statement. The financial assets at fair value through profit or loss are initially recognised at fair value and subsequently re-measured at fair value based on their market value. In determining market value, all financial assets at fair value through profit or loss are valued at the last bid price. Directly attributable transaction costs are recognised as expenses when they are incurred.

Investment securities

The Bank classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity. The Bank does not classify any financial assets as held-to-maturity if the Bank had, during the current financial year or during the preceding two financial years sold, transferred or exercised a put option on more than insignificant portion of held-to-maturity investments before their maturity; and
- Securities that are not classified by the Bank as held-to-maturity or financial assets at fair value through profit or loss are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Available-for-sale investment securities are subsequently re-measured at fair value, which is equal to the market value as at the balance sheet date.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

Since a significant amount of the held-to-maturity securities were sold during the reporting period, the Bank is prohibited to classify any securities as held-to-maturity until January 1, 2008.

Results of Operations for the Years ended 31 December 2005, 2004 and 2003.

Net Income

The following table sets forth the main components of the Bank's net income for the years ended 31 December 2005, 2004 and 2003:

	2005	2005	2004	2003
	(U.S.$ thousands) (1)	*(KZT millions)*		
Interest income	183,791	24,422	12,644	7,884
Interest expense	(121,441)	(16,137)	(5,808)	(3,227)
Net interest income before impairment charge	62,350	8,285	6,836	4,657
Impairment charge	(15,811)	(2,101)	(2,894)	(1,694)
Net interest income after impairment charge	46,539	6,184	3,942	2,963
Fees and commissions, net(2)	20,523	2,727	1,921	1,416
Non-interest income	21,735	2,888	2,052	1,310
Non-interest expense	(52,461)	(6,971)	(5,288)	(3,474)
Income before income tax expense	36,336	4,828	2,627	2,215
Income tax expense	(5,802)	(771)	(307)	(759)
Net income	30,534	4,057	2,320	1,456
Attributable to:				
Equity holders of the parent	30,450	4,046	2,320	1,456
Minority interest	84	11	—	—

(1) Translated at the official average U.S. Dollar exchange rate for the year ended 31 December 2005, as reported by the NBK, of KZT132.88= U.S.$1.00.

(2) Fee and commission income less fee and commission expense.

The Bank's net income increased by 74.9% to KZT4,057 million in 2005 from KZT2,320 million in 2004, which represented an increase of 59.3% in 2004 from the Bank's recorded net income of KZT1,456 million in 2003. The increase in net income in 2005 compared to 2004 was primarily a result of the increase in net interest income due to the significant growth of the Bank's loan and securities portfolios in 2005. The growth in the Bank's loan and securities portfolio reflected the continued expansion of the Kazakh economy, as domestic GDP grew by 9.4% in 2005 relative to 2004 and there was continued increased demand for loan and investment capital across the principal sectors of the Kazakh economy. Another factor which contributed to the growth of the Bank's net income in 2005 relative to 2004 was higher profits resulting from dealing in foreign currencies due to the increasing volume of applications received from the Bank's clients for the purchase or sale of foreign currency. Moreover, the continued domestic confidence in the Tenge in 2005 encouraged substantial growth in the Bank's customer and deposit base, resulting in increases in the Bank's net fees and commissions. Net fee and commission income was also enhanced by increased commissions from higher levels of use of debit and credit cards by the Bank's customers. These gains were offset in part by lower interest rates as a result of increased competition in the banking sector and higher overall levels of interest expense due in large part to significant issuances of debt securities by the Bank in both the international and domestic markets in 2005.

The Bank's net income increased by 59.3% to KZT2,320 million in 2004 from KZT1,456 million in 2003. The increase in net income in 2004 compared to 2003 was primarily a result of the increase in net interest income due to the significant growth of the Bank's loan and securities portfolios in 2004. The growth in the Bank's loan and securities portfolio reflected the continued expansion of the Kazakh economy, as domestic GDP grew by 9.2% in 2004 relative to 2003 and there was continued increased demand for loan and investment capital across the principal sectors of the Kazakh economy. Another factor which contributed to the growth of the Bank's net income in 2004 relative to 2003 was higher profits resulting from a greater volume of securities dealings. This growth in securities dealings was a result of the Bank having significant higher amounts of capital to invest in its securities portfolio due to increased deposits and increased borrowings from capital markets issuances and new and existing syndicated loan facilities. Moreover, the increased domestic confidence in the Tenge in 2004 encouraged substantial growth in the Bank's customer and deposit base, resulting in increases in the Bank's net fees and commissions. These gains were offset in part by lower interest rates as a result of increased competition in the banking sector and higher impairment charges for loan losses and increased staff and administrative costs as the Bank continued to expand its operations.

Interest Income

The following table sets forth the components of the Bank's interest income for the years ended 31 December 2005, 2004 and 2003:

	Year ended 31 December			Change from Prior Year	
	2005	2004	2003	2005	2004
		(KZT millions)		*(%)*	
Loans	21,691	10,992	6,655	97.3	65.2
Securities	1,965	1,466	1,116	34.0	31.4
Credit Institutions	766	186	113	311.8	64.6
Total	24,422	12,644	7,884	93.2	60.4

The Bank's interest income increased by 93.2% to KZT24,422 million in 2005 from KZT12,644 million in 2004, reflecting the substantial growth of the Bank's interest-earning assets, as the Bank's loan and securities portfolios grew significantly, in that period. In 2005, the Bank's loan portfolio expanded by 114.7% to KZT252,523 million from KZT117,593 million in 2004 due in large part to significantly higher demand from the Bank's corporate customer base and the growing retail business. Consequently, in 2005 interest income on loans to customers grew by 97.3% to KZT21,691 million from KZT10,992 million in 2004 and the average net loan balance in that period increased by 114.6% to KZT172,774 million from KZT80,521 million. See also “Selected Statistical and Other Information – Loan Portfolio.”

Interest income on the Bank's securities portfolio, which historically has primarily consisted of Kazakh sovereign securities and U.S. treasury bills, increased by 34.0% to KZT1,965 million in 2005 from KZT1,466 million in 2004 due to the higher levels of funding available to the Bank for investment purposes because of the growth in the deposit and capital base.

The positive effect on interest income attributable to the larger loan and securities portfolio was offset, in part, by a decrease in the average interest rates earned by the Bank on its loan portfolio during this period, which decreased from 13.7% in 2004 to 12.6% in 2005 due to increased competition among banks operating in Kazakhstan. The Bank's interest income growth in 2005 was also partially offset by a decline in the average interest rates earned on securities the Bank classifies as “financial assets at fair value through profit or loss” (which category comprises all of the Bank's trading securities), which decreased from 5.8% in 2004 to 3.3% in 2005 and the lower interest rate earned on the investment portfolio portion of the Bank's total securities in 2005, which was approximately 4.0% as compared to 4.8% in 2004. The decreasing returns on the Bank's securities portfolio were due in large part to declining interest rates for Kazakh sovereign securities. See “Selected Statistical and Other Information – Average Balances”.

Interest income earned from deposits with credit institutions increased by 311.8% to KZT766 million in 2005 from KZT186 million in 2004, which in turn represented an increase of 64.6% from KZT113 million in 2003. The increase in interest income earned on deposits with credit institutions in 2005 was attributable, in part, to an increase in the volume of transactions with banks and in part due to the Bank depositing with banks the proceeds from the issuance of the Bank's U.S.$200 million 9.25% Notes due 2012 in April 2005 and the U.S.$200 million 8.125% Notes due 2010 in October 2005 prior to the Bank utilising such funds, as well as to increased interest rates obtained by the Bank on deposits with certain Kazakh domestic banks in 2005 as compared to 2004.

The Bank's interest income increased by 60.4% to KZT12,644 million in 2004 from KZT7,884 million in 2003, reflecting the substantial growth of the Bank's interest-earning assets, as the Bank's loan and securities portfolios grew significantly, in that period. In 2004, the Bank's loan portfolio expanded by 84.1% to KZT117,593 million from KZT63,885 million in 2003 due in large part to significantly higher demand from the Bank's corporate customer base and the growing retail business. Consequently, in 2004 interest income on loans to customers grew by 65.2% to KZT10,992 million from KZT6,655 million in 2003 and the average net loan balance in that period increased by 72.1% to KZT80,521 million from KZT46,778 million. See also “Selected Statistical and Other Information – Loan Portfolio”.

In addition, in 2005 the Bank's total securities portfolio increased by 67.9% to KZT59,395 million. In 2004 the Bank's total securities portfolio increased by 48.0% to KZT35,366 million from KZT23,890 million in 2003 due to the significantly higher levels of funding provided by the Bank's growing deposit base and increased borrowings by the Bank under its existing credit facilities and issuances of additional debt and equity securities in 2005 and 2004. The Bank uses its securities portfolio principally to manage liquidity in compliance with Kazakh banking regulations. In addition, the Bank is required under certain of its financing arrangements to maintain liquid assets (which are cash and cash equivalents and securities held within its investment and trading portfolios) at a level of not less than 20% of total assets.

The positive effect on interest income attributable to the larger loan and securities portfolio was offset, in part, by a decrease in the average interest rates earned by the Bank on its loan portfolio during this period, which decreased from 14.2% in 2003 to 13.7% in 2004 and to 12.6% in 2005 due to increased competition among banks operating in Kazakhstan. The Bank's interest income growth in 2004 was also partially offset by a decline in the average interest rates earned on its financial assets at fair value through profit or loss portfolio, which decreased from 6.6% in 2003 to 5.8% in 2004 and to 3.3% in 2005 and the lower interest rate earned on the investment portfolio portion of the Bank's total securities in 2005, which was approximately 4.0%. The decreasing returns on the Bank's securities portfolio were due in part to declining interest rates for Kazakh sovereign securities. See “Selected Statistical and Other Information – Average Balances”.

Interest income earned from deposits with credit institutions increased by 64.6% to KZT186 million in 2004 from KZT113 million in 2003. The increase in interest income earned on deposits with credit institutions in 2004 was attributable, in part, to an increase in the volume of transactions with foreign banks due in part to the Bank depositing with foreign banks the proceeds from the issuance of the Bank's U.S.$100 million 8.5% Notes due 2007 prior to the Bank utilising such funds in May 2004.

Interest Expense

The following table sets out the components of the Bank's interest expense for the years ended 31 December 2005, 2004, and 2003:

	Year ended 31 December			Change from Prior Year	
	2005	**2004**	**2003**	**2005**	**2004**
		(KZT millions)		*(%)*	
Deposits	(5,146)	(2,795)	(2,126)	84.1	31.5
Borrowings	(2,756)	(1,437)	(958)	91.8	50.0
Subordinated Debt	(916)	(63)	(130)	1,354.0	(51.5)
Debt securities issued	(7,319)	(1,513)	(13)	383.7	11,538.5
	(16,137)	(5,808)	(3,227)	177.8	80.0

Interest expense increased by 177.8% in 2005 to KZT16,137 million from KZT5,808 million in 2004, which, in turn, represented a 80.0% increase from KZT3,227 million in 2003.

In 2005, 2004 and 2003, the growth in interest expense was largely due to higher payments of interest in connection with the Bank's strategy of expanding and diversifying its funding base, including the issuance of U.S.$200 million 9.25% Notes due 2012 in April 2005, U.S.$200 million, 8.125% Notes due 2010 in October 2005, KZT13 billion 8.5% Notes due 2012 in May 2005, U.S.$100 million 8.5% Notes due 2007 in May 2004 and KZT2.9 billion of bonds in December 2003, respectively.

In addition, the significant growth of the Bank's deposit base contributed to the growth in interest expense between 2003 and 2005 as the volume of customer deposits increased by 69.7% in 2005 to KZT116,682 million from KZT68,747 million in 2004 and by 53.4% in 2004 from KZT44,826 million in 2003. See “Selected Statistical and Other Information – Funding and Liquidity – Customer Accounts”.

Due to the increased activity of the Bank in utilising higher interest bearing external credit facilities and issuing debt instruments in the international capital markets in 2005 and 2004, the average interest rates paid by the Bank for such securities increased to 10.5% in 2005 from 9.1% in 2004. In 2003, the Bank issued debt securities in KZT at 8.5% per annum. The increase in interest expense from the Bank's deposit base was partially offset by declining interest rates in Kazakhstan over the same period as inflation rates declined in Kazakhstan. Under the Kazakh deposit insurance system to which the Bank is a member, maximum interest rates are established for deposits covered by the scheme. The maximum interest rates are pegged to the NBK Refinancing Rate which in turn is effected by the prevailing rate of inflation. As a result, the average interest rate paid by the Bank in respect of customer deposits decreased from 5.2% in 2003 to 4.8% in 2004 and increased to 5.5% in 2005. Along with higher inflation rates in Kazakhstan in 2005, the increase in 2005 was due to increased competition for customer deposits in the Kazakh market and an increase in longer-term deposits held with the Bank. See “Selected Statistical and Other Information – Average Balances”.

An expansion of the Bank's funding base through the issuance of higher interest bearing Eurobonds, led to an increase between 2003, 2004 and 2005 in average interest paid.

Net interest income

Net interest income increased by 21.2% to KZT8,285 million in 2005 and by 46.8% to KZT6,836 million in 2004 from KZT4,657 million in 2003. The Bank's net interest margin decreased from 6.7% in 2003 to 5.7% in 2004 and to 3.4% in 2005. The principal reason for the decline in margins between 2003 and 2005 was the general increase in the Bank's funding costs. Consequently, between 2003 and 2005, the Bank needed to access more expensive additional sources of funding than customer deposits such as tapping its existing credit lines and new issuances of securities and the Bank's aggregate debt issuances increased from KZT2,848 million in 2003 to KZT43,307 million in 2004 and to KZT98,430 million in 2005. In addition, further pressure on the Bank's margins was exerted by declining interest rates both in respect of the Bank's securities and loan portfolios. See also “Selected Statistical and Other Information – Loan Portfolio – Loan Portfolio Structure by Maturity”, and “ – Funding and Liquidity – Customer Accounts”.

Impairment of interest-earning assets

The Bank recorded impairment of interest-earning assets of KZT2,101 million in 2005, which represented a decrease of 27.4% from KZT2,894 million in 2004, which represented an increase of 70.8%, from KZT1,694 million in 2003. The decrease in 2005 was due to an improvements in the quality of the loan portfolio as a result of repayments made by certain higher risk borrowers and better overall credit quality. The Bank's credit policy also became more strict in relation to its borrowers and the Bank increased its monitoring of borrowers. The increase in the years 2004 and 2003 was due to the growth of the Bank's commercial loans and advances. However, non-performing commercial loans and advances as a percentage of total commercial loans and advances decreased to 2.0% in 2004 from 2.4% in 2003. These improvements were due to improved credit risk analysis and lending procedures by the Bank, which strengthened the loan portfolio. Moreover, allowances as a percentage of commercial loans and advances decreased from 5.3% in 2003 to 4.7% in 2004 and to 3.0% in 2005. The decrease between 2004 and 2003 was due to improved credit risk analysis and lending procedures by the Bank. In addition, in compliance with the requirement of the NBK, the strength of the Bank's loan portfolio has been historically supported by the high proportion of collateralised loans, which was 98.9%, 99.7% and 99.7%, respectively as at 31 December 2005, 2004 and 2003, respectively.

Fees and Commissions

In 2005, net fee and commission income increased by 42.0% to KZT2,727 million from KZT1,921 million in 2004. The Bank derives its fee and commissions from services including maintaining and servicing accounts, transaction fees for cash and foreign exchange operations, guarantee fees for corporate customers and credit and debit card fees. Fees and commissions increased in 2005 relative to 2004 principally due to the increased level of activities undertaken by the Bank as a result of the real growth of the Bank's customer base. The overall increase in fee and commission income in 2005 relative to 2004 was driven in part by increased commissions relating to the Bank's settlement options, which grew by 46.0% to KZT1,009 million in 2005 compared to KZT691 million in 2004. Other factors which contributed to overall growth in the Bank's fee and commission income in 2005 included an increase in fees charged in respect of cash operations, which increased by 60.9% to KZT774 million in 2005 from KZT481 million in 2004 and an increase in credit card fees from the Bank's expanding retail business by 26.1% in 2005 to KZT251 million from KZT199 million in 2004.

Fees and commissions increased in 2004 relative to 2003 principally due to the increased level of activities undertaken by the Bank as a result of the real growth of the Bank's customer base. The overall increase in fee and commission income in 2004 relative to 2003 was driven in part by increased commissions charged by the Bank to its corporate customers in respect of performance guarantees, which grew by 55.0% to KZT386 million in 2004 compared to KZT249 million in 2003. Other factors which contributed to overall growth in the Bank's fee and commission income in 2004 included an increase in fees charged in respect of foreign exchange transactions, which increased by 27.9% to KZT335 million in 2004 from KZT262 million in 2003 and an increase in credit card fees from the Bank's expanding retail business by 32.7% to KZT199 million from KZT150 million in 2003.

Non-interest Income

The Bank's non-interest income increased by 40.7% in 2005 to KZT2,888 million from KZT2,052 million in 2004. The increase in the Bank's non-interest income in 2005 compared to 2004 was mainly due to an increase in dealing gains less losses in 2005 of KZT1,240 million in 2005 as compared to KZT781 million in 2004 as well as increases in other income to KZT586 million in 2005 from KZT60 million in 2004. The increase in other income in 2005 was largely due to fees received in 2005 by the Bank for consulting services provided to a large Kazakh raw materials producer.

The Bank's non-interest income increased by 56.6% in 2004 to KZT2,052 million from KZT1,310 million in 2003. The increase in non-interest income was generally due to the significant growth in the Bank's capital and funding base between 2002 and 2004. The increase in the Bank's non-interest income in 2004 compared to 2003 was mainly due to net gains from financial assets at fair value through profit or loss of KZT456 million and increased profits from dealing in foreign currencies of KZT253 million as compared to 2003. These gains were offset by a net loss of KZT122 million as a result of the foreign exchange translation into U.S. dollars.

Non-interest Expense

The Bank's non-interest expense increased by 31.8% in 2005 to KZT6,971 million from KZT5,288 million in 2004. The increase in the Bank's non-interest expense in 2005 compared to 2004 was mainly due to an increase in staff costs and administrative and other expenses. In 2005, staff costs increased by 22.8% to KZT3,047 million. This increase reflected the 34.8% increase in the Bank's employees to 2,616 in 2005 from 1,940 in 2004 due to the acquisitions of Sibirbank and EnergoBank and the expansion of the Banks operations in Kazakhstan. In addition, the increase in staff costs reflected higher annual salaries and bonuses paid to the Bank's management and employees in 2005 due to the competitive employment market and the need to attract and retain quality staff.

During 2004 the Bank opened four additional full service branches. 2005 was the first full year of operation for these branches and as a result leasing expenses increased by 31.6% to KZT312 million in 2005 from KZT237 million in 2004.

Advertising expenditures increased in 2005 by 131.0% to KZT536 million from KZT232 million in 2004, partially as a result of the celebration of 10th Anniversary of the Bank. In addition, consulting expenses increased by 280.0% in 2005 to KZT95 million from KZT25 million in 2004, largely in connection with increased consulting fees paid in connection with the Bank's Eurobond issuances and IT services.

The Bank's non-interest expense increased by 52.2% in 2004 to KZT5,288 million from KZT3,474 million in 2003. The increase in the Bank's non-interest expense in 2004 compared to 2003 was mainly due to an increase in staff costs and administrative and other expenses. In 2004, staff costs increased 47.2% to KZT2,481 million. This increase reflected the 21.8% increase in the Bank's employees to 1,940 in 2004 from 1,593 in 2003. In addition, this increase reflected higher annual salaries and bonuses paid to the Bank's management and employees in 2004 due to the competitive employment market and the need to attract and retain quality staff and additional costs in connection with the opening of the four additional full service branches. In addition, leasing expenses increased in 2004 by 200.0% to KZT237 million from KZT79 million in 2003 as the Bank opened additional branches and expanded its headquarters to provide space for additional staff and equipment. Advertising expenditures increased in 2004 by 39.8% to KZT232 million from KZT166 million in 2003 as the Bank completed a re-branding campaign as part of its strategy to expand its retail customer base and strengthen its corporate brand.

Income Tax Expense

The Bank's effective tax rate was 16.0% in 2005 as compared to 11.7% in 2004 and 34.3% in 2003. The decrease in the Bank's effective tax rate in 2004 relative to 2003 was mainly due to the re-assessment of taxes in relation to prior years. In addition, the Bank's tax exempt income increased from KZT418 million in 2003 to KZT582 million in 2004 and to KZT1,514 million in 2005. The tax-exempt income increased in 2005 due to active lending in 2003-2004 of long-term loans classified as investment and mortgage loans, the income of which is not subject to tax, while non-deductible expenses increased from KZT496 million in 2003 to KZT76 million in 2004 and to KZT820 million in 2005.

Cash Flow

The following table sets out the Bank's main sources of cash for the years ended 31 December 2005, 2004, and 2003:

	Year ended 31 December			Change from Prior Year	
	2005	2004	2003	2005	2004
		(KZT millions)		(%)	
Net cash flows from operating activities	(48,383)	(15,578)	(2,324)	(210.6)	(570.3)
Net cash flow from investing activities	(8,630)	(29,076)	(783)	70.3	(3,613.4)
Net cash flow from financing activities	75,679	53,492	4,602	41.5	1,062.4
Effect of exchange rate changes on cash and cash equivalents	336	(626)	(137)	53.7	(356.9)
Cash and cash equivalents at beginning of the year	14,048	5,836	4,478	140.7	30.3
Cash and cash equivalents at the end of the year	33,050	14,048	5,836	135.3	140.7

In 2005, 2004 and 2003, the Bank used cash in the amount of KZT48,383 million, KZT15,578 million and KZT2,324 million from its operating activities. In 2005, the Bank used cash to grant loans to customers in the amount of KZT129,123 million, which was largely generated from its operating activities and the issuance of debt securities. In 2004, the Bank used cash to grant loans to customers in the amount of KZT60,072 million, which was largely generated from its operating activities and from the issuance of debt securities. In 2003, the Bank used cash to grant loans to customers in the amount of KZT29,276 million, which was largely generated from its operating activities. In 2005, 2004 and 2003, the Bank used net cash in the amounts of KZT8,630 million, KZT29,076 million and KZT783 million, respectively, in its investing activities. In 2005, 2004 and 2003, the Bank generated net cash in the amounts of KZT75,679 million, KZT53,492 million and KZT4,602 million, respectively, from its financing activities.

Financial Condition as at 31 December 2005, 2004 and 2003

The following discussion of the Bank's assets and liabilities should be read in conjunction with "Selected Statistical and Other Information".

"

	As at 31 December		Change from 31 December 2004 to 31 December 2005	As at 31 December		Change from 31 December 2003 to 31 December 2004
	2005			2004	2003	
	(U.S.$ thousands)[(1)] (Unaudited)	*(KZT millions)*	*(%)*	*(KZT millions)*		*(%)*
Cash on hand	54,269	7,271	119.7	3,310	2,477	33.6
Correspondence accounts with other banks	95,798	12,835	32.7	9,672	1,617	498.1
Time deposits with the NBK	—	—	(100.0)	501	1,002	(50.0)
Correspondent account with the NBK	67,495	9,043	1,500.5	565	262	115.6
Short term deposits with other banks	29,116	3,901	100.0	—	478	(100.0)
Cash and cash equivalents	246,678	33,050	135.3	14,048	5,836	140.7
Correspondent account with the NBK allocated to obligatory reserves	31,826	4,264	78.4	2,390	1,775	34.6
Obligatory reserves	31,826	4,264	78.4	2,390	1,775	34.6
Time deposits	24,145	3,235	108.8	1,549	—	100.0
Correspondent accounts with other banks	—	—	(100.0)	1,180	—	100.0
Loans to local credit institutions	1,164	156	(80.1)	783	—	100.0
Less allowance for impairment	—	—	(100.0)	(1)	—	(100.0)
Amounts due from credit institutions	25,309	3,391	(3.4)	3,511	—	100.0
Notes of the NBK	98,380	13,181	2,093.2	601	9,454	(93.6)
Euronotes of the Republic of Kazakhstan	16,614	2,226	(28.8)	3,125	—	100.0
Treasury bills of the Ministry of Finance	45,604	6,110	40.8	4,340	6,560	(33.8)
Sovereign bonds of the Republic of Kazakhstan	—	—	0.0	—	4,239	(100.0)
U.S. Treasury bills	17,226	2,308	100.0	—	2,582	(100.0)
Bonds of local financial organisations	10,546	1,413	183.2	499	556	(10.3)
Equity investments	—	—	0.0	—	416	(100.0)
Government securities of OECD based countries	5,031	674	100.0	—	—	—
Corporate bonds	3,493	468	450.6	85	83	2.4
Financial assets at fair value through profit and loss	196,894	26,380	205.0	8,650	23,890	(63.8)
available-for-sale	246,417	33,015	4,569.7	707	—	100.0
held-to-maturity	—	—	(100.0)	26,009	—	100.0
Investment securities	246,417	33,015	23.6	26,716	—	100.0
Commercial loans	1,876,288	251,385	114.8	117,016	63,481	84.3
Advances	8,494	1,138	97.2	577	404	42.8
Less – Allowance for impairment	(57,091)	(7,649)	39.0	(5,503)	(3,397)	(62.0)
Commercial loans and advances	1,827,691	244,874	118.5	112,090	60,488	85.3
Insurance reserves, reinsurance share	26,399	3,537	2,167.3	156	190	17.9

Premises and equipment	39,110	5,240	58.0	3,316	2,280	45.4
Current tax assets	2,881	386	114.4	180	176	2.3
Deferred tax assets	—	—	(100.0)	515	86	498.8
Tax assets	2,881	386	(44.5)	695	262	165.3
Investments in associates	1,261	169	(46.0)	313	—	100.0
Other assets	35,543	4,762	136.1	2,017	919	119.5
Total assets	2,680,009	359,068	106.5	173,902	95,640	81.8

(1) Translated at the official U.S. Dollar exchange rate on the KASE as at 31 December 2005, as reported by the NBK, of KZT133.98 = U.S.$1.00.

As at 31 December 2005, the Bank had total assets of KZT359,068 million compared to total assets of KZT173,902 million as at 31 December 2004 and KZT95,640 million as at 31 December 2003. The increase in total assets of 106.5% in 2005 as compared to 31 December 2004 was primarily due to the significant increase in the Bank's gross loan portfolio, which grew by 114.8% as at 31 December 2005 to KZT252,523 million from KZT117,593 million as at 31 December 2004 as a consequence of general growth in the Kazakh economy and the generally higher demand for loans from the Bank's customer base. Similarly, the increase in total assets of 81.8% in 2004 was also attributable to the significant increase in the Bank's loan portfolio, which grew by 84.3% to KZT117,593 million in 2004 from KZT63,885 million in 2003 which was attributable to the growth of the Kazakh economy and the increased demand for loans from the Bank's customer base. Although the stabilisation of the Tenge, higher wages and increased contributions from an emerging pensions fund market has increased the Bank's sources of deposits, the demand for loans between the end of 2004 and the end of 2005 increased. Thus, the Bank's commercial loans and advances to amounts due to customers ratio as at 31 December 2005, 31 December 2004 and 31 December 2003 was 209.9%, 163.0% and 134.9%, respectively. In order to fund this significant demand, the Bank's strategy has been and will be in the near term to diversify its sources of funding to include syndicated loans and various subordinated debt and other capital markets issuances. Although this funding strategy is consistent with that of other similar banks in Kazakhstan, it has resulted in higher market interest on loans to customers in Kazakhstan who are charged at rates that are higher than those charged in more developed markets to cover the higher funding costs. Consequently, if interest rate levels were to decrease significantly in Kazakhstan and the Bank could not raise additional funding through deposit-taking, this could affect the Bank's ability to fund further growth and manage liquidity. See “Risk Factors – Loan Portfolio Growth and Risk Management”.

Cash and cash equivalents increased by 135.3% to KZT33,050 million as at 31 December 2005 from KZT14,048 million as at 31 December 2004 which, in turn, represented a 140.7% increase from KZT5,836 million as at 31 December 2003. The increase as at 31 December 2005 was caused by a significant deposit from a pension fund placed by the Bank overnight in correspondent accounts and with the NBK prior to it clearing and being characterised as an amount due to customers. As at 31 December 2005, short-term deposits with other banks amounted to KZT3,901 million, in comparison to 31 December 2004 when the Bank had none. This increase in the volume of transactions with foreign banks was partly due to the Bank depositing with such banks the proceeds from the issuance in April 2005 of its U.S.$200 million notes due 2012 and the proceeds from the issuance in October 2005 of its U.S.$200 million notes due 2010 prior to its utilising such funds, and partly due to an increase in demand deposits of the Bank's customers in 2005.

The Bank's total securities portfolio (which comprises both financial assets at fair value through profit and loss and investment securities), increased by 67.9% to KZT59,395 million as at 31 December 2005 from KZT35,366 million as at 31 December 2004 which, in turn, represented a 48.0% increase from KZT23,890 million as at 31 December 2003. This increase in the Bank's securities portfolio was due to the need to adequately manage liquidity as a result of the significant overall growth of the Bank's loan portfolio.

Tax assets (current and deferred) decreased by 44.5% to KZT386 million as at 31 December 2005 from KZT695 million as at 31 December 2004 which, in turn, represented a 165.3% increase from KZT262 million as at 31 December 2003. The 2004 increase was primarily attributable to increased deferred tax assets which were related to provisions created against loans and written off assets and provisions.

Total Liabilities

The following table sets out certain information as to the Group's liabilities as at 31 December 2005, 2004 and 2003:

“

	As at 31 December		Change from 31 December 2004 to 31 December 2005	As at 31 December		Change from 31 December 2003 to 31 December 2004
		2005		**2004**	**2003**	
	(U.S.$ thousands)(1) *(Unaudited)*	*(KZT millions)*	*(%)*	*(KZT millions)*		*(%)*
Time deposit from NBK	15,368	2,059	1.5	2,029	2,007	1.1
Kreditanstalt für Wiederaufbau	5,068	679	(25.1)	907	923	(1.7)
Local municipal authorities	1,067	143	(58.1)	341	343	(0.6)
World Bank	216	29	(54.7)	64	172	(62.8)
EBRD	47,395	6,350	100.0	—	—	—
Amounts due to the Government and NBK	69,114	9,260	177.2	3,341	3,445	(3.0)
Loans from foreign banks in USD	340,461	45,615	120.9	20,652	22,438	(8.0)
Loans from foreign banks in Euro	65,920	8,832	(13.8)	10,247	2,864	257.8
Loans from foreign banks in Swedish Krona	202	27	100.0	—	—	—
Repurchase agreements	75	10	(99.7)	3,703	1,120	230.6
Loans from the Small Business Development Fund of Kazakhstan	14,689	1,968	41.3	1,393	1,761	(20.9)
Time deposits from local banks.	193,118	25,874	1,699.3	1,438	4,491	(68.0)
Current accounts	9,830	1,317	(1.0)	1,330	6	22,066.7
Overnight deposits	—	—	—	—	958	(100.0)
Amounts due to credit institutions	624,295	83,643	115.8	38,763	33,638	15.2
Customer current accounts:						
Individuals	35,587	4,768	106.6	2,308	1,397	65.2
Commercial	338,207	45,313	140.7	18,825	15,334	22.8
Term deposits:						
Individuals	166,383	22,292	75.0	12,740	7,854	62.2
Commercial	323,481	43,340	26.9	34,163	19,557	74.7
Held as security against letters of credit	7,232	969	36.3	711	684	3.9
Amounts due to customers	**870,890**	116,682	69.7	68,747	44,826	53.4
Reserves for claims	31,482	4,218	719.0	515	349	47.6
USD denominated notes	707,210	94,752	141.8	39,191	—	100.0
KZT denominated bonds	33,826	4,532	—	4,532	2,920	55.2
Own USD bonds held by the Group	—	—	—	—	(72)	100.0
Less unamortised cost of issuance	(6,374)	(854)	(105.3)	(416)	—	(100.0)
Debt securities issued	734,662	98,430	127.3	43,307	2,848	1,420.6
KTZ denominated notes	131,542	17,624	100.0	—	—	—
USD denominated subordinated bonds	10,046	1,346	0.1	1,344	1,498	(10.3)
Own USD subordinated bonds held by the Group	(7,979)	(1,069)	(1.4)	(1,084)	—	(100.0)
Less unamortized cost of issuance	(911)	(122)	100.0	—	—	—
Subordinated debt	132,698	17,779	6738.1	260	1,498	(82.6)

Provisions	2,112	283	11.4	254	159	59.7
Other liabilities	9,173	1,229	129.7	535	535	—
Total liabilities	2,474,42 6	331,524	112.9	155,722	87,298	78.4

(1) Translated at the official U.S. Dollar exchange rate on the KASE as at 31 December 2005, as reported by the NBK, of KZT133.98 = U.S.$1.00.

As at 31 December 2005, the Group had total liabilities of KZT331,524 million compared to KZT155,722 million as at 31 December 2004 and KZT87,298 million as at 31 December 2003. The increase in the Bank's total liabilities of 112.9% as at 31 December 2005 relative to 31 December 2004 was primarily attributable to the 69.7% growth of the Bank's deposit base and the increase in the issuance of debt securities by the Bank in 2005. The increase in the Bank's total liabilities of 78.4% in 2004 relative to 2003 was primarily attributable to the 53.4% growth of the Bank's deposit base and the significant increase in the issuance of debt securities by the Bank in 2004.

Amounts due to credit institutions increased by 115.8% to KZT83,643 million as at 31 December 2005 from KZT38,763 million as at 31 December 2004, which, in turn, represented a 15.2% increase from KZT33,638 million as at 31 December 2003. Amounts due to customers increased by 69.7% to KZT116,682 million as at 31 December 2005 from KZT68,747 million as at 31 December 2004, which, in turn, represented a 53.4% increase from KZT44,826 million as at 31 December 2003.

Debt securities issued increased by 127.3% to KZT98,430 million as at 31 December 2005 from KZT43,307 million as at 31 December 2004, which, in turn, represented a 1,420.6% increase from KZT2,848 million as at 31 December 2003. Subordinated debt increased by 6,738.1% to KZT17,779 million as at 31 December 2005 from KZT260 million as at 2004 which, in turn, represented a 82.6% decrease from KZT1,498 million as at 31 December 2003.

As at 31 December 2005, amounts outstanding under repurchase agreements were KZT10 million. The Bank has in the past, and may in the future, secure repurchase agreements by a pledge over certain of the Bank's financial assets at fair value through profit or loss. The fair value of such pledged securities as at 31 December 2004 was KZT3,989 million.

Provisions increased by 11.4% to KZT283 million as at 31 December 2005 from KZT254 million as at 31 December 2004 which, in turn, represented a 59.7% increase from KZT159 million as at 31 December 2003 due to the increase in absolute terms of the guarantees and letters of credit commitments.

Off-Balance Sheet Arrangements

In the normal course of business, the Bank enters into certain financial instruments in order to meet the needs of its customers. These instruments, which include undrawn loan commitments, letters of credit and guarantees, involve varying degrees of risk and are not reflected on the balance sheet of the Bank but which are reflected in a footnote as financial commitments and contingencies.

The following table sets forth the financial commitments and contingencies of the Bank as at 31 December 2005, 2004 and 2003:

	As at 31 December		
	2005	**2004**	**2003**
			(KZT millions)
Undrawn loan commitments	33,306	17,930	7,544
Guarantees	15,029	16,108	6,364
Open letters of credit	3,601	5,037	2,987
Total commitments and contingencies	51,936	39,075	16,895

The Bank's maximum exposure to credit losses for these commitments is reflected in the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total contractual amount does not necessarily represent future cash requirements.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as for its on-balance sheet operations. To mitigate against potential losses on guarantees, the Bank sets aside provisions applying similar principles as those applied in assessing the required allowances for losses under other credit facilities. As at 31 December 2005, 2004 and 2003, the Bank set aside provisions of KZT283 million, KZT254 million, and KZT159 million, respectively. The increase in the amount of provisions is due to the increase in the size of the commitments.

In respect of commercial letters of credit, as these credit lines are extended to customers who generally use them in transactions to purchase goods, the Bank mitigates its risk by taking collateral over the goods.

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies but may include deposits held by the Bank, government securities, guaranteed letters of credits and other assets. As at 31 December 2005, 2004 and 2003, the Bank had cash collateral against such commitments of KZT969 million, KZT771 million and KZT683 million, respectively as security against letters of credit and guarantees.

As at 31 December 2005, 2004 and 2003, the top 10 guarantees of the Bank accounted for 62%, 70% and 67% of total financial guarantees, respectively, and represented 34%, 63% and 51% of total shareholders' equity. As at 31 December 2005, 2004 and 2003, the top 10 letters of credit of the Bank accounted for 64%, 81% and 84% of total commercial letters of credit, respectively, and represented 8%, 23%, and 30% of total shareholders' equity.

Foreign Currency Borrowings

Since 1998, the Bank has participated in a number of special programmes for the financing of small and medium sized enterprises and enterprises in specific industries arranged and sponsored by the Ministry of Agriculture, the Ministry of Finance, several local (regional) executive bodies, as well as international financial institutions such as the World Bank, Asian Development Bank (“ADB”), EBRD and Kreditanstalt für Wiederaufbau (“KfW”).

The Bank participates in the Governmental Programme for State Support of Small Business Development funded by the EBRD and ADB, under which the EBRD and ADB provide funds to the Small Business Development Fund, a “quasi-governmental” financial institution, which in turn distributes funds to various participating Kazakhstan banks for further on-lending to small businesses. The Bank grants loans to small businesses on the basis of its analysis of their credit worthiness. The Bank currently has a credit facility through the Small Business Development Fund funded by the EBRD with a total outstanding amount of U.S.$6 million, maturing in 2007. Additionally the Bank has U.S.$6.7 million outstanding under the EBRD's Grain Receipts Programme, maturing in July 2006, U.S.$19.5 million and Euro 6.1 million outstanding under the EBRD's Trade Finance Programme, maturing at the end of 2006, U.S.$10 million outstanding under the Kazakhstan small business programme, maturing in 2008 and U.S.$3 million under AGRI-EQUIPMENT Program maturing in 2010.

As at 31 December 2005, the Bank had U.S.$214,599 outstanding under its U.S.$2.6 million facility with the Ministry of Finance funded by the World Bank as part of that institution's U.S.$15 million programme for Kazakhstan's agricultural sector.

As at 31 December 2005, the Bank had an outstanding loan from the Ministry of Finance funded by KfW to finance small and medium importers with a total outstanding amount of Euro 4.269 million maturing during the period 2005 to 2009.

Over the course of the past several years, the Bank has entered into several financing arrangements with foreign banks and other financial institutions. Details of some of the more important of these are set out below.

In April 2005, the Bank entered into a one-year loan for U.S.$20 million arranged by HSH Nordbank AG. Interest payments on the facility are linked to LIBOR.

In addition, as part of its programme to increase its capital base, in January 2002, the Bank issued U.S.$10 million 9% subordinated notes due in 2007. The notes were primarily placed with pension funds and other financial institutions in Kazakhstan. Since these issues the Bank has repurchased a substantial portion of these notes. In addition, the Bank placed a further KZT17.5 billion 8.5% of subordinated notes on the domestic market on 5 August 2005.

In May 2004, the Bank issued U.S.$100 million of its 8.5% Notes due 2007, its debut international capital markets transaction, and, in November 2004, issued U.S.$200 million of its 8.875% Notes due 2009. In April 2005, the Bank made its debut Rule 144A offering through an issue of U.S.$200 million of its 9.25% Notes due 2012. In October 2005, the Bank issued U.S.$200million of its 8.125% Notes due 2010.

The following tables set out certain information as to currency and tenor of the Bank's foreign currency liabilities as at 31 December 2005 in millions Tenge.

	2006	**2007**	**2008**	**2009**	**2010**	**2010 and later**	**Total**
U.S. Dollars..	92,105.6	16,710.0	4,417.3	27,798.9	29,548.3	30,021.4	200,601.5
Euro...	5,187.6	736.0	1,627.9	2,705.2	1,705.9	0.0	11,962.6

The Bank believes that it will be able to meet its obligations under these facilities through an increase in borrowings (including the Notes) and an increase in demand and time deposits.

Capital Adequacy and Other Ratios

The following table sets out certain ratios calculated in accordance with the requirements of the FMSA, formerly the requirements of the NBK, as at the dates indicated:

	FMSA minimum requirements	As at 31 December		
		2005	2004	2003
		(%, unless otherwise indicated)		
Minimum Share Capital[1]	Not less than KZT2,000 million[3]	KZT20,000 million	KZT14,771 million	KZT6,240 million
Capital Adequacy Ratios				
K1 – Tier I capital to total risk-weighted assets	Not less than 6 %	8.3	8.8	7.3
K2 – Own capital to total risk-weighted assets	Not less than 12 %	12.4	13.4	13.2
K4 – Current Liquidity ratio	Greater than 30 %	169.0	169.7	91.8
K5 – Short-term Liquidity Ratio	Greater than 50 %	119.6	127.0	72.5
Reserves with the NBK and cash	A monthly average of not less than 6% of average balances of deposits with a maturity of less than three months	10.4	12.4	13.4
K6 – investments into fixed assets and non financial assets to equity	Not greater than 50% of bank's own capital	15.8	21.1	26.9
Maximum aggregate net open foreign currency position[2]	30% of bank's own capital[3]	11.3	22.0	4.8
Maximum net open (short or long) position in currencies of countries rated "A" or higher and the Euro	15% of bank's own capital[3]	12.2	22.7	4.1
Maximum net short open position in currencies of countries rated from "B" to "A"	5% of bank's own capital[3]	0.3	0.04	0.3
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	100% of bank's own capital[3]	3.3	11.7	8.3
Maximum exposure to any single borrower:				
related parties	Not greater than 10 %	1.1	4.1	3.7
other borrowers	Not greater than 25 %	14.3	23.3	23.9
on unsecured loans	Not greater than 10 %	3.8	0.5	0.4

(1) Under Kazakhstan law, "share capital" means capital which must be provided in order to establish a company or a bank. A bank's share capital may only be formed with cash contributions. No borrowed funds are permitted as a contribution to a charter fund.

(2) Ratio of net currency position (including balance sheet items) to equity in accordance with FMSA requirements.

(3) The FMSA's definition of "own capital" is the sum of Tier I capital plus Tier II capital (to the extent it does not exceed Tier I capital) and, starting from 1 January 2006, Tier III capital (not exceeding 250 per cent. of the part of Tier I capital aimed to cover market risk) less equity investments. Tier I capital is the sum of share capital plus share premium plus retained earnings less intangible assets, and, starting from 22 November 2005, qualified term-less debt obligations or Tier I subordinated debt in an amount not exceeding 15 per cent. of Tier I capital. 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) plus Tier II subordinated debt (but no more than 50 per cent. of Tier I capital) and, starting from 22 November 2005, Tier I subordinated debt not included into the calculation of Tier I capital. Starting from 1 January 2006, Tier III capital is the sum of Tier III subordinated debt plus Tier II subordinated debt not included into the calculation of Tier II capital. Since November 2005, for a bank with a 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, K1 must be not less than 5.0 per cent. and for other banks it must not be less than 6.0 per cent., as before, and K2 must be not less than 10.0 per cent. and for other banks it must be not less than 12.0 per cent., as before. In addition, starting from 1 January 2006, assets weighted by credit, market and operational risk (as opposed to only credit risk-weighted before) have to be taken into account when calculating the K2 ratio.

	As at 31 December					
	2005		2004		2003	
	(U.S.$ thousands)	*(KZT millions)*	*(U.S.$ thousands)*	*(KZT millions)*	*(U.S.$ thousands)*	*(KZT millions)*
Tier I capital	205,587	27,545	125,231	16,280	44,668	6,442
Tier II capital..	103,207	13,828	22,692	2,950	25,848	3,728
Gross Tier I and Tier II capital	308,794	41,373	147,923	19,230	70,516	10,170
Less investments..	0	0	(2,409)	(313)	(132)	(19)
Tier I and Tier II capital.................................	308,794	41,373	145,514	18,917	70,384	10,151
Total risk weighted assets................................	2,483,788	332,778	1,306,031	169,784	515,684	74,372
Tier I capital adequacy ratio(1)	8.3%	8.3%	9.6%	9.6%	8.7%	8.7%
Total risk weighted capital adequacy ratio(2)	12.4%	12.4%	11.1%	11.1%	13.6%	13.6%

(1) Comprising Tier I capital divided by total risk weighted assets.

(2) Comprising Tier I and Tier II capital divided by total risk weighted assets.

Using ratios established by the Bank for International Settlements to monitor capital adequacy, the Bank had a Tier I capital adequacy ratio of 8.3% at 31 December 2005 compared to 9.6% at 31 December 2004 and 8.7% at 31 December 2003, and a capital adequacy ratio of 12.4% at 31 December 2005 compared to 11.1% at 31 December 2004 and 13.6% at 31 December 2003 compared to the minimum of 6% for Tier I and 8% for total capital.

THE BANK

Overview

The Bank is the fourth largest commercial bank in Kazakhstan in terms of assets according to data compiled by the NBK as at 31 December 2005. The Bank's total assets as at 31 December 2005 were KZT359,068 million, compared to KZT173,902 million as at 31 December 2004. The Bank's net income for the 12 months ended 31 December 2005 was KZT4,046 million as compared to KZT2,320 million for the year ended 31 December 2004. The Bank's shareholders' equity as at 31 December 2005 was KZT27,544 million compared to KZT18,180 million as at 31 December 2004 and KZT8,342 million as at 31 December 2003.

The Bank's primary business focus is corporate (including small and medium sized enterprises) and retail banking. The Bank accepts deposits, extends credits, provides custodian services, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. The Bank is also an active participant in the fixed income securities market and foreign currency markets in Kazakhstan.

As at the date of this Prospectus, the Bank, in addition to the Bank's head office in Almaty, had 38 full service branches and 26 limited service branches located throughout Kazakhstan as well as three subsidiaries, ATF Policy, EnergoBank in Kyrgyzstan, Sibirbank in the Russian Federation, one associate company, SPF Otan, and one affiliate company, ATF Leasing. During 2006 the Bank anticipates opening full service branches in Petropavlovsk and Taldykorgan and 27 limited service branches.

During 2005 the Bank made an additional contribution of KZT135 million to the working capital of JSC EnergoBank and as of the date of this Prospectus the Bank owned 73.9% of EnergoBank having purchased an initial 34.4% in June 2004. EnergoBank is the sixth largest bank in Kyrgyzstan in terms of assets, according to data compiled by the National Bank of the Kyrgyz Republic, with assets of U.S.$24 million or KZT3,476 million as at 31 December 2005.

The common and preferred shares of the Bank are currently listed on the “A” list of KASE.

The Bank is registered with the Ministry of Justice under certificate number 345-1900-JSC(FI). The registered office and the head office of the Bank are at 100 Furmanov Street, Almaty 050000, Kazakhstan. The Bank's telephone number is +7 3272 583 022 and its fax number is +7 3272 501 995. The Bank's current banking licence No. 239 was issued to it by the FMSA in March 2004.

History

The Bank was incorporated on 3 November 1995 as a closed joint-stock company, CJSC Almaty Merchant Bank, by a number of domestic and overseas shareholders, including Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and MeesPierson, with the purpose of developing a trade finance banking business in Kazakhstan. In 1997, following the acquisition of MeesPierson by the Fortis Group, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and MeesPierson sold their shareholdings to local investors as Fortis Group had a different international strategy.

In April 2001, the Bank changed its status from a closed joint-stock company to an open joint-stock company and, in June 2002, the Bank's name was changed to OJSC ATF Bank. On 3 October 2003, the Bank completed its re-registration as a joint stock company and adopted a new charter, each in accordance with the Law on Joint Stock Companies of 2003. The Bank is incorporated for an unlimited duration.

In April 2001, shareholders of the Bank acquired all of the share capital of CJSC Kazprombank (“Kazprombank”), a small Kazakhstan bank servicing mainly Kazzinc JSC, a large non-ferrous metals producer company located in eastern Kazakhstan. In August 2001, Kazprombank was merged into the Bank by exchanging all Kazprombank's shares for new common shares in the Bank with a nominal value of KZT1,088 million.

In January 2002, the Bank purchased 89.7% of the issued share capital of OJSC Apogei Bank (“Apogei Bank”), a small Kazakhstan bank operating in the Kostanai region, increasing its holding to 92.8% later that year. In March 2003, the shareholders of both banks agreed to transfer the assets and liabilities of Apogei Bank to the Bank and to exchange their shares in Apogei Bank for the Bank's common shares at a ratio of one Apogei Bank share for 10 common shares in the Bank. In April 2003, Apogei Bank was merged into the Bank.

Strategy

In order to capitalise on the growth of the Kazakhstan economy, the Bank aims to expand its market share and increase its profitability through:

- expanding its banking and other financial services;
- diversifying and strengthening its funding base;
- strengthening risk management;
- enhancing operating efficiency; and

- expanding its regional and international presence to meet the growing demands of its clients.

The components of this strategy are discussed below.

Expanding Banking and Other Financial Services

The Bank's strategy is to continue to diversify its business operations as a full-scale universal bank by offering high quality and diverse banking products and services to large, medium and small corporate clients and retail customers. In relation to retail customers, the Bank intends to focus on high net worth individuals and not the broad retail market.

The Bank is committed to developing further its corporate banking services. The Bank plans to focus on diversifying and expanding its loan portfolio, while maintaining its quality, by attracting new large, medium and small corporate clients (with a particular emphasis on small and medium corporate clients), continuing expansion of its trade financing activities and introducing and expanding new and existing services and products to its corporate clients, such as safe custody, payroll management, investment advisory and custodial services. The Bank's primary objective with respect to its lending activities is to diversify into different sectors of the economy in order to reduce its exposure to particular industries and to increase the proportion of its portfolio represented by small and medium enterprises and the retail sector.

In order to diversify its deposit base and to increase its market share in fee earning retail products, the Bank is increasing its business with high net worth (with an annual income in excess of U.S.$50,000) and middle income (with an annual income ranging from U.S.$30,000 to U.S.$50,000) individuals, primarily management and employees of its corporate clients. The Bank offers these clients a range of retail banking services and products, including traditional services, such as deposit taking and consumer lending (primarily mortgage and car loans), as well as more sophisticated products and services, such as safe custody services, insurance products and credit and debit cards with special attention being paid to the quality of service. As part of its strategy to better service the needs of this target group, the Bank is developing a separate private banking/wealth management service.

As Kazakhstan's capital markets gradually develop, the Bank is taking steps to further develop its expertise in this area and to expand its securities trading and financial advisory activities. To improve its investment banking capabilities, in 2001 the Bank established a Corporate Finance Department. This department provides a broad range of services including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice.

The Bank is also focused on increasing revenue from its wholly-owned non-life insurance subsidiary, ATF Policy. The Bank believes that the insurance sector will be a high growth area and is positioning itself to take advantage of this perceived opportunity.

Diversifying and Strengthening Funding Base

The Bank intends to continue to diversify its funding base and reduce its funding costs through borrowing on the local and international capital markets, borrowing from international development organisations and other multilateral financial institutions and attracting deposits from a wider range of small, medium and large corporate customers and retail clients. See “Financial Review – Foreign Currency Borrowings”.

Strengthening Risk Management

The Bank has established internal rules, policies and guidelines for risk management in line with the requirements of the FMSA, and, previously, the NBK. The Bank's four Credit Committees are responsible for credit risks related to corporate and retail clients. The Bank's Assets and Liability Committee (the “ALCO”) is involved in management of liquidity, maturity, interest rate and foreign exchange risks. In addition, in 2002 the Bank established a Risk Management Department which is primarily responsible for the development and supervision of the Bank's risk management polices and reports directly to the Bank's Board of Directors. The Bank is committed to continue to develop further and strengthen its risk management capabilities. See “Selected Statistical and Other Information – Asset and Liability Management”.

Enhancing Operating Efficiency

The Bank is committed to improving its operational efficiency through organisational restructuring, investment in human resources and increasing use and upgrading of information technology. All of the Bank's full service branches are integrated into a wide area network allowing for on-line communication with the Bank's head office. The branches maintain their own databases independent of the mainframe at the head office and use an email system to connect to the head office for data transmission. Whilst the Bank has certain real-time communication capabilities at branch level (including monitoring cash withdrawals and deposits), management believes that further efficiencies can be obtained through the establishment of additional real-time communications with the branch network, particularly with respect to treasury risk management functions, asset and liability management, liquidity management and monitoring of lending activities. In order to address this, the Bank plans to invest in a more advanced banking information system and to establish a unified computer system connecting all branches on a real-time basis and is in the process of tendering for a supplier to provide such a system. See “The Bank – Technology”.

The Bank has designed internal and external training programmes to improve the skill base of its employees. The Bank believes that such programmes together with more clearly defined staffing guidelines and human resources policies will improve the quality of the Bank's personnel.

Expanding Regional and International Presence

As part of its growth strategy, the Bank aims to have a presence in the main industrial regions of Kazakhstan. With its current branch network, the Bank believes it covers the main business centres where it needs to be present.

The Bank believes that high growth potential opportunities exist in neighbouring countries such as Russia and Kyrgyzstan, and as such it plans to establish a presence there. As part of such strategy and following the growing demand from its customers, the Bank opened a representative office in Moscow in 2004.

The Bank also intends to further enhance its presence in Kyrgyzstan where all top five Kazakh banks are currently represented. This is primarily driven by current customer demand, growing trade between the two countries and existing opportunities in the Kyrgyzstan banking sector, including operations in relation to precious metals. During 2005 the Bank made an additional contribution of KZT135,378 thousand to the working capital of JSC EnergoBank and as of the date of this Prospectus the Bank owned 73.9% of EnergoBank having purchased an initial 34.4% in June 2004. EnergoBank is the sixth largest bank in Kyrgyzstan in terms of assets, according to data compiled by the National Bank of the Kyrgyz Republic, with assets of U.S.$24 million or KZT3,476 million as at 31 December 2005.

The Bank owns Sibirbank in the Omsk region of the Russian Federation. With a population in excess of one million people, the city of Omsk is one of the larger cities in the Russian Federation, and management believes that there is high growth potential for developing banking services for small and medium enterprises in the region, which is currently under serviced by the banking sector. Additionally, the Bank was actively looking to acquire a Moscow-based bank and in February 2006 announced that it had begun a due diligence process on Valut-Transit Bank, with a view to potentially acquiring a stake of more than 50%. As of the date of this Prospectus the Bank has postponed indefinitely consideration of this acquisition.

Business of the Bank

Overview

The Bank is a commercial bank in Kazakhstan servicing private commercial enterprises, state-owned enterprises and individual customers. Pursuant to its current banking licence, the Bank is authorised to offer products and services such as retail and corporate deposit taking, discount operations, settlements, custody, issuance of payment cards, foreign currency exchange transactions, issuance of bank guarantees, correspondent banking, securities, cash and transfer operations, lending, trust operations, collateral operations, cash collection, transactions in precious metals, leasing, factoring, forfeiting, broker-dealer transactions, clearing operations, safe keeping operations, issuance of cheque books and promissory note and bill of exchange operations.

Group Structure

As at the date of this Prospectus, the Bank, in addition to the Bank's head office in Almaty, had 38 full service branches and 26 limited service branches located throughout Kazakhstan as well as three subsidiaries, ATF Policy in Kazakhstan, EnergoBank in Kyrgyzstan, Sibirbank in the Russian Federation, one associate company, SPF Otan, and one affiliate, ATF Leasing. During 2006 the Bank anticipates opening full service branches in Petropavlovsk and Taldykorgan and 27 limited service branches.

The Bank also has a representative office in Moscow, Russia. See “Strategy – Expanding Regional and International Presence”.

The Bank has three core operating divisions:

- Corporate Banking which provides services to corporate clients and includes the Credit Department (divided into three divisions each responsible for particular industry sectors), the Medium Term Credit Division (which operates the special lending programmes of the Bank. See “Corporate Banking”) and the SME Credit Division;
- Retail Banking which provides services to retail clients; and
- Investment Banking which provides investment banking services to large corporate clients including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice and includes the Corporate Finance Department, the Client Relationships Division and the International Department.

The core divisions are supported by the Operational Department, Treasury Department, Risk Management Department, Analysis Department, Credit Security Department, Credit Administrative Division, Custody Division, Economic Research Division, Marketing Divisions, Administrative Division, Accounting Department, Legal Department, Security Department, Information Technology Department, Human Resources Division, Branch Development Division and Branch and Subsidiaries Division.

In addition, the Bank carries on a non-life insurance business through its wholly-owned insurance subsidiary, ATF Policy.

Corporate Banking

When first established in 1995, the majority of the Bank's clients were large industrial and trading companies in Kazakhstan as its initial focus was trade finance. Since then, the Bank has expanded its presence in the small and medium-sized business market. Today, the Bank provides a full range of commercial banking products and services to small, medium and large businesses in Kazakhstan. The Bank currently classifies its corporate clients based on annual turnover. Corporate clients with an annual turnover of less than U.S.$10 million are classified as small and medium sized enterprises and corporate clients with annual turnover in excess of U.S.$10 million or with more than 200 employees as “large”.

The Bank's primary objectives with respect to its corporate lending activities are to diversify into different sectors of the economy in order to reduce its exposure to particular industries and to expand its entire corporate client base and increase the quality of its loan portfolio.

As at 31 December 2005, the Bank had approximately 24,851 corporate accounts and lending to corporate clients represented approximately 58.6% of the Bank's total assets and 83.3% of the Bank's gross loan portfolio. As at 31 December 2005, according to information compiled by the NBK, the Bank's share of the corporate lending market in Kazakhstan was approximately 8.5%.

A major part of the Bank's corporate banking activities is the provision of trade finance and short to medium term credit facilities, mostly in Tenge and in U.S. Dollars, including letters of credit, guarantees and working capital facilities. The Bank operates in conjunction with various export credit agencies, such as Hermes Kreditversicherung, Oesterreichische KontrollBank Aktiengesellschaft, L'Istituto peri Servizi Assicurativi del Commercio Estero and Nederlandsche Credietverzekering Maatschappij, and offers various banking products to its corporate customers with the benefit of guarantees from such agencies.

Through various credit facilities offered within a framework of inter-governmental agreements, the Bank participates in a number of special programmes for financing small and medium sized enterprises and enterprises in targeted industries, which have been arranged and sponsored by the Ministry of Agriculture, the Ministry of Finance and several local or regional executive bodies as well as international financial institutions such as the EBRD, KfW, ADB and the World Bank. See “Financial Review – Foreign Borrowings” and “Selected Statistical and Other Information – Funding and Liquidity”.

In addition to lending, the Bank offers a wide range of banking products and services to its corporate clients, which include deposit taking, payroll management and custody services.

Historically, the Bank was one of the leading participants in Kazakhstan's precious metals markets. The Bank offers a broad range of services including sales of standard gold bullion domestically, gold loans, hedging and is engaged in financing Kazakhstan's gold mining industry. The country's major gold producers are among the Bank's clients. Due to changes in Kazakhstan tax legislation in 2002, which introduced value-added taxation of precious metals sales, the Bank reduced the volume of its business in precious metals in Kazakhstan. In an effort to restore the Bank's overall volume of business in precious metals, the Bank established a presence in Kyrgyzstan, where there are a number of gold producers. The Bank also introduced a new product line for paper trading of gold and is currently developing internal policies and guidelines in relation to this new product.

In line with other banks, the Bank plans to start offering limited tele-banking and internet banking to its corporate customers. The Bank does not anticipate significant demand for these services and in particular for internet banking services, in the short term, as the penetration of appropriate telecommunications capacities in Kazakhstan remains relatively low.

Retail Banking

The retail banking market in Kazakhstan experienced considerable expansion following the introduction of the bank-funded deposit insurance system in 1999. The Bank is a participant in the system. Furthermore, the Government announced a tax amnesty during June and July 2001 in relation to any amounts deposited with banks during those months. The programme was successful and brought approximately U.S.$480 million into the banking system.

Historically, the Bank did not have a significant retail business. However, following the expansion of the retail banking market in 2001 and in an effort to position ATF as a full service bank for its corporate clients, management has recognised the retail banking market as an increasingly important source of business. As part of this strategy, the Bank is developing its business with high net worth (with an annual income in excess of U.S.$50,000) and middle income (with an annual income ranging from U.S.$30,000 to U.S.$50,000) individuals, primarily management and employees of the Bank's existing corporate clients. The Bank offers these clients a range of retail banking services and products, including traditional services, such as deposit taking and consumer lending (primarily mortgage and car loans), as well as more sophisticated products and services, such as safe custody services, insurance products and credit and debit cards. The Bank aims to distinguish itself from competitors in the retail market by focusing on the quality of service it provides to its customers.

The Bank believes that its network of full service branches and limited service branches will allow it to expand its individual customer and depositor base. As at 31 December 2005, the Bank held KZT22,292 million of retail term deposits in approximately 133,532 individual accounts.

The Bank also provides loans to its retail customers. As at 31 December 2005, such loans represented 16.7% of the Bank's gross loan portfolio compared to 14.5% as at 31 December 2004. Of the Bank's retail loan portfolio, mortgages account for 48.1%, consumer loans account for 16.5% and car loans account for 7.8%. In addition, the Bank provides loans to individuals under programmes for the financing of small and medium sized enterprises, representing 13.1% of the Bank's gross loan portfolio, and EBRD programmes, representing 14.5% of the Bank's gross loan portfolio. Security is taken in respect of all mortgages, consumer loans and car loans and the Bank requires borrowers to insure any cars acquired using such car loans and to insure any real estate acquired using such mortgage loans. See "Selected Statistical and Other Information – Loan Portfolio – Loan Portfolio Structure by Sector".

In March 1999, the Bank became a participating member in the VISA system and began issuing VISA Classic, VISA Gold and VISA Business debit and credit cards. Up until March 2006 the Bank used the card processing centres of CJSC Processing Centre, a subsidiary of the NBK, and Halyk Bank. The Bank introduced its own processing centre in March 2006. As at 31 December 2005, the Bank had issued approximately 39,659 debit and 6,854 credit cards which represents approximately 1.52% market share according to data provided by the NBK, with total payments for the year ended 31 December 2005 amounting to KZT16,486 million compared to KZT10,885 million for the full year in 2004. The Bank requires customers to have cash in the amount of U.S.$1,000 for VISA Gold and U.S.$500 for VISA Classic debit and credit cards deposited in their accounts as security for credit cards. The Bank plans to increase its market share of the debit and credit card market aligned to the growth in its retail clients.

Currently, the Bank has 30 ATMs in almost all regions of Kazakhstan and is in the process of installing an additional 14 ATMs. The Bank has also entered into ATM sharing agreements with all the major banks including Halyk Bank, Bank TuranAlem and Kazkommertsbank, allowing its customers to use their ATM networks, giving the Bank's customers access to around 1,000 ATMs in Kazakhstan. In common with other retail banks in Kazakhstan, customers of the Bank are charged a small fee per withdrawal.

In September 1999, the Bank became a participating member of the Western Union payment system for international money transfers within Central Asia and Kazakhstan.

Early in 2003, the Government adopted a programme for gradual liberalisation of the currency regime in Kazakhstan through 2003 and 2004 and the removal of restrictions on individuals investing in foreign investment-grade securities and opening accounts with OECD banks. The Bank's management expects that such developments will increase demand for new product lines from retail customers, and as such, the Bank intends to introduce domestic and foreign investment advisory and consultancy services and asset management services.

Investment Banking

Kazakhstan's capital markets are gradually developing as the economy grows. An important factor in this was the establishment in 1998 of domestic private pension funds and asset management companies.

The Bank has been active as a broker dealer on the Kazakhstan securities market since November 1995. In 1997, the Bank was granted the status of a Primary Dealer for Government securities, providing a full range of services to corporate and retail clients wishing to invest in Government securities.

To further enhance its investment banking services, the Bank established its Corporate Finance Department in 2001. This department provides a broad range of investment banking services including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice. In 2003, the Bank was appointed as the financial adviser and sole lead manager for the issue of municipal bonds by the Western Kazakhstan region. The Bank intends to expand its securities trading and financial advisory activities.

Insurance Services

The insurance market is developing rapidly in Kazakhstan following enhanced regulatory supervision and general economic development in Kazakhstan. According to data provided by the NBK, there are currently 37 insurance companies operating in Kazakhstan, with a total capital estimated at approximately KZT28 billion as at 31 December 2005 compared to KZT29.6 billion as at 31 December 2004.

The Bank offers a broad range of property and casualty insurance products through its wholly-owned subsidiary, ATF Policy. Based on data compiled by the NBK, as at 31 December 2005, ATF Policy had approximately a 7.8% share of the insurance market in Kazakhstan (in terms of premium income) and total assets of KZT5,542 million compared to a market share as at 31 December 2004 of approximately a 3.1% and total assets of KZT992 million. ATF Policy's obligations are reinsured with various international insurance organisations. The Bank is focused on enhancing its penetration of the insurance market over the next few years and, in the longer term, intends to obtain authorisation to expand its range of products to include life insurance as the market for such products develops. See "– Subsidiaries and Associate Companies – ATF Policy".

Branch Operations

As at the date of this Prospectus, the Bank, in addition to the Bank's head office in Almaty, had 38 full service branches and 26 limited service branches located throughout Kazakhstan as well as three subsidiaries. During 2006 the Bank anticipates opening full service branches in Petropavlovsk and Taldykorgan and 27 limited service branches. According to the recent amendments to the banking legislation, limited service branches (in the language of the legislation “retail units”) will have to be converted to full service branches or units of existing full service branches by end of 2006. Each full service branch provides a broad range of banking services. In comparison with full service branches, limited service branches provide a limited number of banking services such as utility payments, cash withdrawals and money transfers, mainly for individual customers.

Each branch has limits on its lending authority set by the Principal Credit Committee which range from U.S.$3,000 to U.S.$150,000 for any single corporate borrower and from U.S.$3,000 to U.S.$75,000 for any single retail borrower. The aggregate lending limit of an individual branch is limited by the total deposit base of such branch. The Credit Department co-ordinates and plans the operations of the branches and monitors their operations and financial results. It is also responsible for the development of branch policies and expansion strategies. See “Selected Statistical and Other Information – Lending Policies and Procedures – General”. Limited service branches do not make loans.

Technology

The Bank operates an integrated banking system and has a unified payment system, which allows for on-line interactive communication between the head office of the Bank and its branches throughout the entire branch network. In addition, branches maintain their own databases, independent of the mainframe at the head office, and use an email system to connect to the head office for data transmission. However, whilst the Bank has certain real-time communication capabilities at branch level, management believes that inefficiencies and technical capability issues may arise in the absence of further real-time communication with the branches, particularly with respect to treasury risk management functions, asset and liability management, liquidity management and monitoring of lending activities. In order to address these problems, the Bank plans to invest in a more advanced banking information system and to establish a unified computer system to provide comprehensive real-time, interactive communication between the branches and the head office, and has recently concluded a tender for the supplier to provide a system for such purpose. The Bank will roll out the new system, the T24 provided by Temenos, over the next 18 months throughout its entire branch network. The Bank has a budgeted capital expenditure amount of U.S.$14 million allocated for its technology systems in 2005 to 2009.

Competition

As at 31 December 2005, there were 33 commercial banks, excluding the NBK and the DBK, operating in Kazakhstan. The commercial banks can be divided into four groups: large domestic banks, such as Kazkommertsbank, Halyk Bank and Bank TuranAlem; foreign owned or controlled banks, known as banks with foreign participation, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan; medium sized domestic banks, such as ATF Bank, Bank CenterCredit and Alliance Bank, and various small domestic banks.

The banking system in Kazakhstan is dominated by the three large domestic banks, Kazkommertsbank, Halyk Bank and Bank TuranAlem from which the Bank faces significant competition. In addition, the Bank considers some of the banks with foreign participation as its competitors, primarily ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, as their international experience and low cost funding allow them to attract large domestic and foreign corporate customers. The management of the Bank believes that the Bank faces materially less competition from other medium and small domestic banks.

The following table sets out total assets and shareholders' equity (based on Kazakhstan Regulations) relating to the Bank and several other domestic banks and banks with foreign participation:

	As at 31 December 2005	
	Assets	**Shareholders' Equity**
		(KZT millions)
Large Domestic Banks		
Kazkommertsbank	1,131,763	74,047
Bank TuranAlem	963,653	91,900
Halyk Bank	558,455	60,275
Medium-sized Domestic Banks		
ATF Bank	353,220	27,491
Alliance Bank	336,956	29,233
Bank CenterCredit	333,332	25,922
Banks with Foreign Participation		
ABN AMRO Bank Kazakhstan	55,183	8,095

HSBC Kazakhstan	35,775	4,075
Citibank Kazakhstan	55,277	5,969

Source: Published financial statements (based on Kazakhstan Regulations) filed with the NBK.

In 2001, the Government and a number of local executive bodies founded DBK. The purpose of DBK is to provide medium- and long-term financing for large industrial projects (at least U.S.$5 million), export financing, guarantees for investment projects and to act as principal paying and collection agent for the Government. DBK is restricted from lending to financial institutions and taking deposits and, as such, is not considered a competitor of the commercial banks in Kazakhstan, including the Bank. DBK has a special status and is regulated by the FMSA only in relation to accounting matters and money transfers. DBK is not treated as a commercial bank for the purposes of market share and ranking computations in this Prospectus.

Subsidiaries, Associated and Affiliated Companies

As at the date of this Prospectus, the Bank has three subsidiaries, ATF Policy, EnergoBank in Kyrgyzstan, Sibirbank in the Russian Federation, one associate company, SPF Otan, and one affiliate company, ATF Leasing.

ATF Policy

ATF Policy was established in December 1999 as a closed joint stock company and as at 31 December 2005, it had an authorised issued and fully paid up share capital of KZT1,075 million, shareholders' equity of KZT1,147 million and total assets of KZT5,542million. For the years ended 31 December 2004 and 2003, ATF Policy did not pay any dividends. ATF Policy offers a full range of property and casualty insurance products and according to data provided by the NBK as at 31 December 2005, it had approximately a 7.8% share of the insurance market in Kazakhstan (in terms of premium income) compared to 3.1% as at 31 December 2004. The Bank is focused on furthering its penetration of the insurance market over the next few years and, in the longer term, intends to obtain authorisation to expand its range of products to include life insurance as the market for such products develops.

ATF Policy holds state insurance licence No. 24-1/1 issued in March 2001. The registered address of ATF Policy is 83 Kabanbai Batyr Street, Almaty 480091, Kazakhstan.

EnergoBank

During 2005 the Bank made an additional contribution of KZT135,378 thousand to the working capital of JSC EnergoBank and as of the date of this Prospectus the Bank owned 73.9% of EnergoBank having purchased an initial 34.4% in June 2004. EnergoBank is the sixth largest bank in Kyrgyzstan in terms of assets, according to data compiled by the National Bank of the Kyrgyz Republic, with assets of U.S.$24 million or KZT3,476 million as at 31 December 2005. EnergoBank has its head office in Bishkek and currently has seven branches located in Kyrgyzstan. The Bank views EnergoBank as a strategic opportunity to expand its operations in Kyrgyzstan.

Savings Pension Fund Otan

In April 2004, the Bank purchased a 24.3% holding in SPF Otan for KZT119 million. As at 31 December 2005, SPF Otan had assets under management exceeding KZT513 million, and, according to data provided by the NBK, it had a 1.9% market share of the pension fund market in Kazakhstan. For the 12 months ended 31 December 2005, SPF Otan's net income, as derived from unaudited management records of SPF Otan was KZT69 million compared to KZT153 million for the same period in 2004.

ATF Leasing

As at 31 December 2005, the Bank held 9% of the issued share capital of its former wholly-owned subsidiary ATF Leasing, having sold 91% of its shares in April 2001 for U.S.$91,000 to various third parties. Prior to the disposal of these shares, ATF Leasing depended on the Bank for its funding and, as a related party under Kazakh law, the Bank was prohibited from making loans to ATF Leasing that exceeded 10% of the Bank's capital. Consequently, to free ATF Leasing from this limitation, the Bank reduced its ownership interest. Whilst the Bank is represented on the supervisory board of ATF Leasing, it does not now exercise any significant influence over the operating and financial affairs of ATF Leasing and is no longer consolidated in the Bank's financial statements. As the Bank's total capital has grown considerably since 2001, the Bank believes it has sufficient capital to fund ATF Leasing and intends to reacquire a controlling interest in ATF Leasing in the medium term. ATF Leasing provides financial expertise and leasing services to various corporate clients.

Employees

As at 31 December 2005, the Group had 2,616 full-time employees, of which 1,364 were employed at the Bank's branches. Currently, none of the Bank's employees are represented by a labour union. The Bank has never experienced industrial action or other work stoppages resulting from labour disputes. All employees in professional positions hold university degrees. A number of key staff have been trained at the Bank's main correspondent banks including Deutsche Bank AG, Dresdner Bank AG, ING Bank N.V., Commerzbank AG and within the Credit Suisse Group.

The Bank's growth plans will require the recruitment of new staff in the branches established in 2006 and in other areas of the Bank.

The Bank also intends to introduce a new social plan for employees, including a training programme, in the short-term.

Property

The Bank owns its head office at 100 Furmanov Street, Almaty and the nearby building in Almaty which houses the Almaty full service branch. In addition, the Bank owns the properties used by all of its other full service branches apart from the full service branches which are leased premises.

The Bank leases offices used by its limited service branches.

Legal Proceedings

Neither the Bank nor any of its subsidiaries is party to any material legal proceedings and there are no material legal proceedings pending or, to the knowledge of the Bank, threatened, with respect to the properties, assets or operations of the Bank or any of its subsidiaries.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical information and ratios for the Bank as of and for the periods indicated. Accordingly, the information below should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, and included elsewhere in this Prospectus and the information included in "Financial Review".

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

Average Balances

The following table sets out the average daily balances of assets and liabilities of the Bank for the periods indicated.

	Year ended 31 December								
	2005			2004			2003		
	Weighted-average balance	**Interest**	**Interest rate**	**Weighted-average balance**	**Interest**	**Interest rate**	**Weighted-average balance**	**Interest**	**Interest rate**
	in KZT millions except percentages								
ASSETS									
Correspondent accounts with NBK........	3,497.4	0.0	0.00%	2,552.5	0.0	0.00%	1,473.3	0.0	0.00%
Correspondent accounts with other banks..	4,291.9	83.9	1.95%	3,959.4	15.6	0.39%	2,498.6	19.2	0.77%
Term deposits with NBK......................	302.5	19.0	6.28%	1,023.9	31.6	3.09%	995.3	45.2	4.54%
Term deposits with other banks............	9,122.9	599.2	6.57%	3,239.7	119.9	3.70%	339.4	33.3	9.81%
Amounts due from credit institutions									
in tenge..	235.0	42.2	17.96%	644.7	8.5	1.32%	328.3	13.9	4.23%
in foreign currency..............................	192.5	21.8	11.32%	207.0	10.4	5.02%	24.0	0.7	2.92%
Financial assets at fair value through profit and loss......................................	17,515.0	571.3	3.26%	13,642.4	796.7	5.84%	17,005.8	1,115.9	6.56%
Investment securities									
available for sale................................	29,155.2	793.4	2.72%	2,208.6	115.7	5.24%	—	—	—
held-to-maturity..................................	5,286.7	600.0	11.35%	11,834.6	553.3	4.68%	—	—	—
Commercial loans and advances									
in tenge..	65,687.9	8,623.8	13.13%	26,760.9	3,504.1	13.09%	14,845.1	2,190.5	14.76%
in foreign currency..............................	107,085.6	13,066.8	12.20%	53,760.2	7,487.9	13.93%	31,932.9	4,464.9	13.98%
Interest-earning assets	***242,372.6***	24,421.4	10.08%	119,833.9	12,643.7	10.55%	69,442.7	7,883.6	11.35%
Cash..	5,290.7	—	—	2,931.4	—	—	1,792.7	—	—
Premises and equipment.......................	4,278.3	—	—	2,615.2	—	—	1,990.7	—	—
Tax assets..	393.8	—	—	390.7	—	—	94.8	—	—
Investments in associates......................	81.9	—	—	145.7	—	—	0.0	—	—
Other assets...	3,192.9	—	—	3,531.6	—	—	2,180.6	—	—
Non-interest assets	13,237.6	—	—	9,614.6	—	—	6,058.8	—	—
Total assets...	**255,610.2**	24,421.4	—	129,448.5	12,643.7	—	75,501.5	7,883.6	—
Amounts due to Government and NBK .	4,893.	340.8	6.96%	2,050.	93.3	4.55%	2,378.	106.7	4.49%

	6			1			7		
Amounts due to credit institutions	49,599.0	2,415.5	4.87%	33,422.5	1,344.2	4.02%	20,606.8	850.6	4.13%
Amounts due to customers	92,857.7	5,146.3	5.54%	58,114.7	2,794.6	4.81%	40,885.9	2,126.1	5.20%
Issued debt securities	69,721.9	7,318.8	10.50%	16,580.1	1,513.3	9.13%	77.0	13.0	16.88%
subordinated debt.................................	10,774.8	916.0	8.50%	1,174.1	62.6	5.33%	1,464.9	130.0	8.87%
Interest-bearing liabilities	***227,847.0***	16,137.4	7.08%	111,341.5	5,808.0	5.22%	65,413.3	3,226.4	4.93%
Reserves for insurance claims...............	519.8	—	—	307	—	—	107.9	—	—
Reserves...	2,391.3	—	—	4,771.6	—	—	2,567.4	—	—
Other liabilities....................................	1,710.1	—	—	880.8	—	—	792.3	—	—
Non-interest liabilities..........................	4,621.2	—	—	5,959.4	—	—	3,467.6	—	—
Total liabilities	**232,468.2**	16,137.4	—	117,300.9	5,808.0	—	68,880.9	3,226.4	—
Shareholders's equity and reserves.....	**23,142.0**	—	—	12,147.6	—	—	6,620.6	—	—
Shareholders's equity and Total liabilities...	**255,610.2**	16,137.4	—	129,448.5	5,808.0	—	75,501.5	3,226.4	—

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); (2) changes in interest rate (changes in average interest rate times the average outstanding balances at the end of the period); and (3) changes not solely attributable to volume or rate are allocated on a pro-rata basis.

	2004/2005			**2003/2004**		
	Increase/decrease due to change in					
	Volume	**Interest rate**	**Net change**	**Volume**	**Interest rate**	**Net change**
	in KZT millions except percentages					
Correspondent accounts with NBK.................	0.0	0.0	0.0	0.0	0.0	0.0
Correspondent accounts with other banks	1.3	67.0	68.3	11.2	(14.8)	(3.6)
Term deposits with NBK	(22.3)	9.7	(12.6)	1.3	(14.9)	(13.6)
Short-term deposits with other banks..............	217.7	261.6	479.3	284.6	(198.0)	86.6
Amounts due from credit institutions						
in tenge..	(5.4)	39.1	33.7	13.4	(18.8)	(5.4)
in foreign currency..	(0.7)	12.1	11.4	5.3	4.4	9.7
Financial assets at fair value through profit and loss	226.2	(451.6)	(225.4)	(220.7)	(98.5)	(319.2)
Investment securities						
available-for-sale	1,411.6	(733.9)	677.7	0.0	115.7	115.7
held-to-maturity..	(306.1)	352.8	46.7	0.0	553.3	553.3
Commercial loans and advances						
in tenge..	5,097.1	22.6	5,119.7	1,758.3	(444.7)	1,313.6
in foreign currency..	7,427.3	(1,848.4)	5,578.9	3,051.9	(28.9)	3,023.0
Interest-bearing assets	14,046.8	(2,269.1)	11,777.7	4,905.3	(145.2)	4,760.1
Amounts due to Government and NBK	129.4	118.1	247.5	(14.7)	1.3	(13.4)
Amouts due to credit institutions	650.6	420.7	1,071.3	529.0	(35.4)	493.6
Amounts due to customers	1,670.7	681.0	2,351.7	895.9	(227.4)	668.5
Issued debt securities......................................	4,850.4	955.1	5,805.5	2,786.2	(1,285.9)	1,500.3

Subordinated debt	511.9	341.5	853.4	(25.8)	(41.6)	(67.4)
Interest-bearing liablities	***7,813.0***	2,516.4	10,329.4	4,170.6	(1,589.0)	2,581.6
Net position/change	6,233.83	(4,785.53)	1,448.30	734.69	1,443.81	2,178.50

Asset and Liability Management

Introduction

The Bank's operations are subject to various risks, including risks relating to changes in interest rates and foreign exchange rates, declines in liquidity and deterioration in credit quality of its loan and securities portfolios. The Bank monitors and manages the maturities of its loans, its interest rate and exchange rate exposure and credit quality in order to minimise the effect of changes in them relative to the Bank's profitability and liquidity position.

The Bank monitors and manages its asset and liability position through ALCO, which reports to the Management Board. The ALCO is headed by the Chairman of the Management Board and comprises the Bank's First Deputy Chairman, the Managing Director of the Treasury Department, the Managing Director of the Credit Department, the Managing Director of the Retail Business Department, the Director of the Risk Management Department, the Director of the International Department and the Head of the Analysis Division. The ALCO's principal duty is to manage the Bank's liquidity and to maximise the Bank's net interest margin within liquidity parameters prescribed by the Bank's management. The ALCO meets every other week to review the Bank's asset and liability position based on information provided by the Bank's Analysis Division and the Treasury Department on various matters, including: maturities, interest rates and yields, the size and maturity of the Bank's loan portfolio, demand and term deposits and investments, the Bank's net foreign currency position, the Bank's compliance with operational ratios established by the NBK and FMSA, exchange rates, inflation rates and other economic data and general national and international political and economic trends.

Based on a review of this information, the Bank manages its credit risk by placing limits on the amount of risk accepted in relation to one borrower or counterparty, or group of borrowers or counterparties and to industry and geographical segments. Compliance with limits is monitored continuously and limits are reviewed at least monthly. In 2002, the Bank established the Risk Management Department which is responsible for devising, implementing and monitoring the Bank's risk management policies.

The Bank conducts its risk management at several levels, depending upon the amount of risk involved. The Bank has four main credit committees located within its head office which are responsible for approving credit decisions within the Bank: the Retail Business Credit Committee, the Small Credit Committee, the Medium Credit Committee and the Principal Credit Committee. See “Lending Policies and Procedures”.

Liquidity Risk

The following table summarises the Bank's banking assets and liabilities by maturity as at 31 December 2005 and contains certain information regarding the liquidity risk facing the Bank. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they fall due. See also “– Funding and Liquidity”.

	As at 31 December 2005						
	On demand	**Up to 1 Month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	29,149,169	3,900,780	—	—	—	—	33,049,949
Obligatory reserves	—	—	—	—	—	4,264,255	4,264,255
Amounts due from credit institutions	—	65,982	625,135	2,030,096	670,165	—	3,391,378
Financial assets at fair value through profit or loss	26,379,619	—	—	—	—	—	26,379,619
Investment securities:							
– available-for-sale	33,015,441	—	—	—	—	—	33,015,441
Commercial loans and advances	—	5,465,005	7,182,429	92,010,943	117,124,487	30,740,332	252,523,196

Insurance reserves, reinsurance share..........	3,537,255	—	—	—	—	—	3,537,255
Current tax assets......................................	—	—	385,626	—	—	—	385,626
Other assets..	1,042,144	2,412,921	3,962	24,113	355,432	—	3,838,572
	93,123,628	11,844,688	8,197,152	94,065,152	118,150,084	35,004,587	360,385,291
Amounts due to the Government and the NBK..	—	581	—	6,667,688	2,592,173	—	9,260,442
Amounts due to credit institutions	1,316,776	28,904,750	716,640	43,631,100	9,074,109	—	83,643,375
Amounts due to customers	50,080,310	15,149,153	8,433,242	28,881,387	11,437,315	2,700,448	116,681,855
Debt securities issued.................................	—	204,142	—	—	71,469,231	26,756,472	98,429,845
Subordinated debt	—	—	—	—	277,251	17,502,223	17,779,474
Insurance reserves.....................................	4,217,523	—	—	—	—	—	4,217,523
Other liabilities	659,130	490,817	1,817	58,986	17,857	—	1,228,607
	56,273,739	44,749,443	9,151,699	79,239,161	94,867,936	46,959,143	331,241,121
Net position	36,849,889	(32,904,755)	(954,547)	14,825,991	23,282,148	(11,954,556)	29,144,170
Accumulated gap	36,849,889	3,945,134	2,990,587	17,816,578	41,098,726	29,144,170	

The above table does not include the effect of allowances for impairment of loans, amounts due from credit institutions and other assets totalling KZT7,811 million as at 31 December 2005.

The following tables summarises the Bank's banking assets and liabilities by maturity as at 31 December 2004 and contains certain information regarding the liquidity risk facing the Bank.

	As at 31 December 2004						
	On demand	**Up to 1 Month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	13,547,255	500,625	—	—	—	—	14,047,880
Obligatory reserves	—	—	—	—	—	2,389,710	2,389,710
Amounts due from credit institutions	—	71,855	1,268,769	2,151,664	20,000	—	3,512,288
Financial assets at fair value through profit or loss	8,650,301	—	—	—	—	—	8,650,301
Investment securities:							
– available-for-sale	707,475	—	—	—	—	—	707,475
– held-to-maturity	—	319,223	7,271,303	14,084,069	1,021,389	3,312,136	26,008,120
Commercial loans and advances	—	6,416,233	7,479,362	32,655,260	62,341,415	8,701,285	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	—	—	—	156,257
Current tax assets	—	—	180,294	—	—	—	180,294
Other assets	197,456	1,390,483	6,382	59,251	33,549	65,591	1,752,712
	23,258,744	8,698,419	16,206,110	48,950,244	63,416,353	14,468,722	174,998,592
Amounts due to the Government and the NBK	—	22,501	4,390	2,181,045	1,133,012	—	3,340,948
Amounts due to credit institutions	1,329,573	3,752,643	406,184	22,978,695	9,396,154	899,457	38,762,706
Amounts due to customers	21,132,548	19,346,902	3,907,468	11,763,174	10,979,395	1,617,341	68,746,828
Debt securities issued	—	—	—	—	43,307,137	—	43,307,137
Subordinated debt	—	—	—	—	259,695	—	259,695
Reserves for insurance claims	515,510	—	—	—	—	—	515,510
Other liabilities	370,339	139,314	789	9,001	15,961	—	535,404
	23,347,970	23,261,360	4,318,831	36,931,915	65,091,354	2,516,798	155,468,228
Net position	(89,226)	(14,562,941)	11,887,279	12,018,329	(1,675,001)	11,951,924	19,530,364
Accumulated gap	(89,226)	(14,652,167)	(2,764,888)	9,253,441	7,578,440	19,530,364	

The above table does not include the effect of allowances for impairment of loans, amounts due from credit institutions and other assets totalling KZT5,574 million as at 31 December 2004.

The Bank's liquidity management policies seek to ensure that funds will be available at all times to honour all cash flow obligations as they become due. The above maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

The issuance of the Notes is one of the steps being taken by management to extend the maturity of its funding sources. In addition, on 21 October 2004, the FMSA approved an additional increase in the Bank's share capital by KZT8.4 billion. Consequently, the Bank commenced an offering of common shares and preference shares in October 2004 which resulted in the Bank issuing an additional 3,180,000 common shares which were subscribed for by certain existing shareholders for a total consideration of KZT3.2 billion. On 20 February 2006 the Bank's general meeting of shareholders approved the issuance of an additional 27,000,000 common shares. As of 3 April 2006, 1,273,106 of these additional newly issued common shares had been placed with existing shareholders for a total amount of KZT6.37 billion. See "Share Capital and Principal Shareholders". The Bank issued U.S.$131 million of subordinated bonds to investors on the domestic market during 2005.

Interest Rate Risk

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 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 and hedges interest rate exposure on a non-speculative basis.

Although the relative maturities of the Bank's assets and liabilities shown under "Liquidity Risk" above 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 frequency with which the Bank is able to reprice its assets and liabilities.

The Bank believes that its sensitivity to interest rate changes is largely reduced by the Bank's ability to adjust the applicable rate of interest or call for repayment in another currency under some of its loan agreements. Furthermore, in the event of material changes in circumstances, the Bank is also entitled to call for prepayment of loans. Accordingly, a substantial portion of the Bank's assets are susceptible to repricing prior to maturity. Nevertheless, as the average maturity of the Bank's loan portfolio increases, the Bank will, without a matching increase in the average maturity of its liabilities, face increasing interest rate risk and will be obliged to introduce more sophisticated risk management techniques and/or more sophisticated standard terms and conditions in its loan agreements.

Funding and Liquidity

Introduction

The Bank's funding and liquidity management policy seeks to ensure that, even under adverse conditions, the Bank maintains sufficient funds available to meet its operational needs and to ensure compliance with NBK and FMSA regulations and covenants contained in the Bank's various EBRD credit facilities. See "Financial Review – Foreign Currency Borrowings". Liquidity risk exists in the general funding of the Bank's lending and investment activities. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Liquidity is centrally managed on a daily basis by the Treasury Department according to real-time requirements and forecasts for all the Bank's divisions and branches. The Risk Management Department sets daily limits on the minimum proportion of maturing funds available to cover cash outflows and the minimum level of inter-bank and other borrowed facilities required to cover deposit withdrawals at unexpected levels of demand. In addition, the ALCO reviews the Bank's liquidity guidelines and strategy on a monthly basis.

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

	As at 31 December(1)		
	2005	2004	2003
	(%)	*(%)*	
Commercial loans and advances/total assets	68.2	64.5	63.2
Commercial loans and advances/amounts due to customers	209.9	163.0	134.9
Commercial loans and advances/shareholders' equity	889.0	616.6	725.1
Liquid assets(1)/total assets	26.7	30.5	31.1
Liquid assets(1)/amounts due to customers	82.1	77.0	66.3

(1) Liquid assets comprise securities (which include investment securities and financial assets at fair value through profit or loss) plus cash and cash equivalents and amounts due from credit institutions.

The Bank's funding base consists largely of customer deposits, and as at 31 December 2004, 42.9% of total deposits comprised those of the Bank's 10 largest corporate depositors. As at 31 December 2005, this ratio had fallen to 34.7%. This structure positively affects funding costs and improves the Bank's liquidity. Other important sources of funding are bilateral and special purpose facilities from banks and financial institutions, as well as issuance of senior and subordinated debt securities, including U.S.$500 million in senior debt issued in 2004 and 2005 in the international capital markets and U.S.$131 million of subordinated debt issued in the domestic market during 2005. The Bank intends to reduce the concentration in its deposit base by attracting small and medium corporate and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's result of operations and financial condition. New borrowings, together with the proceeds of the offering of the Notes, will contribute to the Bank's medium-to long-term funding base.

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Amounts due to customers	116,682	35.7	68,747	44.4	44,826	51.6
Loans due to credit institutions........................	56,452	17.3	35,995	23.2	28,183	32.5
Deposits from banks.......................................	27,191	8.3	2,768	1.8	5,455	6.3
Amounts due to the Government and the NBK	9,260	2.8	3,341	2.2	3,445	4.0
Debt securities issued.....................................	98,430	30.1	43,307	27.9	2,848	3.3
Subordinated debt	17,779	5.4	260	0.2	1,498	1.7
Other liabilities	1,229	0.4	535	0.3	535	0.6
Total liabilities..	327,023	100.0	154,953	100.0	86,790	100.0

Customer Accounts

The Bank increased the total amount of its deposits by 69.7% to KZT116,682 million as at 31 December 2005 from KZT68,747 million as at 31 December 2004 which, in turn, represented a 53.4% increase from KZT44,826 million as at 31 December 2003. A significant portion of the Bank's funding base is represented by corporate customer accounts. The share of corporate deposits in the Bank's deposit base has remained relatively unchanged amounting to 76.0%, 77.1% and 77.8% of amounts owed to customers as at 31 December 2005, 31 December 2004 and 31 December 2003 respectively. As at 31 December 2005, the Bank's 10 largest depositors accounted for approximately 34.7% of total amounts owed to customers, compared to 42.9% as at 31 December 2004 and 47.5% as at 31 December 2003. Such depositors include leading industrial companies and trading corporations, such as JSC KazMunaiGas, JSC KazTranOil, JSC Kazakhstan Temir Zholy and JSC Kazzinc. The Bank intends further to reduce the concentration of domestic funding by attracting small and medium enterprises and retail depositors.

The Bank continued to increase its retail deposit funding base in 2005, which represents an increasingly important source of funding for the Bank and the Bank hopes to continue to do so in 2006. Because retail funding mainly consists of term deposits, it is less volatile than corporate funding, but also more costly for the Bank. The Bank intends to expand its market share of the high net worth and middle-income customers retail market by increasing the range and quality of services it offers. Retail deposits represented 23.2%, 21.9% and 20.6% of the Bank's total amounts owed to customers as at 31 December 2005, 31 December 2004 and 31 December 2003, respectively. As at 31 December 2005, approximately 56.2% of the Bank's retail accounts were covered by the deposit insurance scheme, compared to 74.1% as at 31 December 2004 and 46.5% as at 31 December 2003. See “The Banking Sector in Kazakhstan”.

As at 31 December 2005, term deposits were KZT65,632 million or 56.2% of total amounts owed to customers, as compared to KZT46,903 million or 68.2% of total amounts owed to customers as at 31 December 2004 and KZT27,411 million or 61.1% of total amounts owed to customers as at 31 December 2003, respectively.

The following table sets out details of customer accounts (retail and corporate) broken down into term and demand deposits as at the dates indicated:

	As at 31 December		
	2005	2004	2003
	(KZT millions)	*(KZT millions)*	
Demand deposits:			
Retail	4,768	2,308	1,397
Corporate	45,313	18,825	15,334
Total	50,081	21,133	16,731
Term deposits:			
Retail	22,292	12,740	7,854
Corporate	43,340	34,163	19,557
Total	65,632	46,903	27,411
Held as security against letters of credit and guarantees	969	711	684
Total deposits	116,682	68,747	44,826

Interest rates on the Bank's deposits are close to the average rates on the market and the Bank offers rates which are competitive with those of other institutions in Kazakhstan. Restrictions on the maximum deposit rate are imposed by the Deposit Insurance Fund on insured retail deposits, which only insures deposits that do not exceed KZT7 million. According to the Deposit Insurance Fund, the maximum deposit rate varies depending on the tenor of the deposit as set out in the table below:

	Year ended 31 December					
	2005		2004		2003	
	Deposits in KZT	Deposits in Foreign Currency	Deposits in KZT	Deposits in Foreign Currency	Deposits in KZT	Deposits in Foreign Currency
	(% per annum)					
Tenor						
Up to 6 months	6	4	6	4	7.5	5
Up to 12 months	9	5	9	5	10.5	6
Up to 36 months	10	6.5	10	6.5	11.5	7.5
Over 36 months	11	7.5	11	7.5	12.5	8.5

The following table sets out the average interest rates on the Bank's deposits calculated on the basis of average daily balances as at the years ended 31 December 2005, 2004 and 2003:

	Year ended 31 December[(1)]		
	2005	2004	2003
	(%)		
KZT deposits:			
Demand deposits	0.5	0.7	0.6
Time deposits	8.2	6.5	6.0
Foreign currency deposits:			
Demand deposits	0.4	0.7	0.9
Time deposits	7.2	7.1	7.5

(1) Derived from management accounts.

The following table indicates average net interest-earning assets, interest income, interest expense, yield, margin and spread calculated on the basis of average daily balances the years ended 31 December 2005, 2004 and 2003:

	As at 31 December[1]		
	2005	2004	2003
Average interest-earning assets	242,372	119,834	69,443
Interest income	24,421	12,644	7,884
Net interest income	8,284	6,836	4,657
Yield (%)[2]	10.1	10.6	11.4
Net interest margin (%)[3]	3.4	5.7	6.7
Spread (%)[4]	3.00	5.33	6.42

(1) Derived from management accounts.

(2) Interest income before impairment charge as a percentage of average interest-earning assets.

(3) Net interest income before impairment charge as a percentage of average interest-earning assets.

(4) Average rate on interest-earning assets minus average rate on interest-bearing liabilities.

Securities Portfolio

The Bank classifies assets held in its securities portfolio as financial assets at fair value through profit or loss or investment securities. Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin fall within the category of financial assets at fair value through profit or loss.

As of 1 January 2004, the Bank expanded the classification of its securities portfolio to include investment securities, including securities held-to-maturity and securities available-for-sale in addition to the trading portfolio held by the Bank as at 31 December 2003. As of 1 January 2005, a new category of financial instruments has been introduced, "Financial assets at fair value through profit or loss". This category, which replaced the Bank's trading securities portfolio, includes trading financial assets as well as any financial assets designated into this category at initial recognition. These assets are measured at fair value with recognition of gains or losses on re-measurement to fair value in net profit or loss. Management of the Bank decided to designate as "financial assets at fair value through profit or loss" all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, some securities held in its available-for-sale portfolio, loans issued and held-to-maturity instruments. Such designation is performed at initial recognition of the respective assets. The financial assets at fair value through profit or loss are initially recognised at fair value and subsequently re-measured at fair value based on their market value. In determining market value, all financial assets at fair value through profit or loss are valued at the last bid price. Directly attributable transaction costs are recognised as expenses when they are incurred.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase of such securities. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. See also "Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies – Financial Assets of Fair Value through profit and loss" and "Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies – Investment Securities".

The Bank structures its securities portfolio based on a number of factors, including the liquidity, diversification and yield-to-maturity of the securities held by it. Due to its status as a primary dealer for Government securities in Kazakhstan, a significant portion of the Bank's total securities portfolio (53.0% as at 31 December 2005 compared to 87.8% as at 31 December 2004 and 84.8% as at 31 December 2003) is comprised of Government, Ministry of Finance and NBK securities. The remaining portfolio consists of Government securities of OECD countries, bonds of local financial institutions, corporate bonds and securities issued by Kazakhstan issuers.

The following table shows the composition of the Bank's securities portfolio as at the dates indicated:

	As at 31 December		
	2005	2004	2003[1]
		(KZT millions)	
Financial assets at fair value through profits or loss[2]:			
Notes of the NBK	13,181	601	9,454
Treasury bills of the Ministry of Finance	6,110	4,340	6,560
U.S. Treasury bills	2,308	—	2,582
Euronotes of the Republic of Kazakhstan	2,226	3,125	—
Bonds of local financial organisations	1,413	499	556
Corporate bonds	468	85	83
Government securities of OECD based countries	674	—	—
Equity investments	—	—	416
Sovereign bonds of the Republic of Kazakhstan	—	—	4,239
Total financial assets at fair value through profit or loss	26,380	8,650	23,890
Investment Securities			
Available-for-sale securities			
Government securities of OECD based countries	10,034	—	—
Treasury bills of the Ministry of Finance	9,856	—	—
Bonds of foreign financial institutions	5,439	—	—
Corporate Bonds	3,691	—	—
U.S. Treasury bills	2,154	707	—
Bonds of local financial institutions	1,453	—	—
Sovereign bonds of the Republic of Kyrgyzstan	260	—	—
Notes of the NBK	128	—	—
Held-to-maturity securities			
Notes of the NBK	—	21,675	—
Treasury bills of the Ministry of Finance	—	1,325	—
U.S. Treasury bills	—	3,009	—
Total investment securities	33,015	26,716	—
Total securities	59,395	35,366	23,890

(1) Prior to 1 January 2004, the Bank did not have an investment securities portfolio.

(2) As from 1 January 2005, the Bank's Trading Securities portfolio was reclassified as "Financial assets at fair value through profit or loss".

The Bank's total securities portfolio increased by 67.9% to KZT59,395 million in 2005 compared to KZT35,366 million as at 31 December 2004, which in turn, represented a 48.0% increase from KZT23,890 million in 2003. A significant portion of this increase was due to significant increases in the Bank's holding of Government securities of other countries and NBK notes. The Bank's holdings of Government securities of other OECD based countries increased from nil as at 31 December 2004 to KZT10,708 million as at 31 December 2005.

In 2005, in order to manage country risks and improve the liquidity of its securities portfolio, the Bank decided to diversify its securities portfolio to include U.S. Treasury bills. A significant portion of the increase between 2002 and 2003 in the Bank's total securities portfolio was due to increased investment in U.S. Treasury bills. Total trading and investment in U.S. Treasury bills increased by 20.1% to KZT4,462 million as at 31 December 2005 and by 43.9% to KZT3,716 million as at 31 December 2004, compared to KZT2,582 million as at 31 December 2003, which in turn, represented an increase of 288.3% compared with the Bank's U.S. Treasury bill holdings of KZT665 million as at 31 December 2002. As at 31 December 2005, the Bank held U.S. Treasury bill holdings of KZT4,462 million.

The following table[1] sets out the Bank's securities portfolio by maturity and average weighted yield as at 31 December 2005:

“

	Up to 1 month	Average Weighted Yield	1-3 months	Average Weighted Yield	3 months - 1 year	Average Weighted Yield	1-5 years	Average Weighted Yield	More than 5 years	Average Weighted Yield	Total
						(KZT millions)					
Notes of the NBK	13,181	2.0	—	—	—	—	—	—	—	—	13,181
Treasury bills of the Ministry of Finance	—	—	—	—	2,525	2.3	3,585	3.3	—	—	6,110
Euronotes	—	—	—	—	—	—	2,226	5.0	—	—	2,226
U.S. treasury bills	—	—	—	—	—	—	—	—	2,308	4.7	2,308
Bonds of local finance organisations	—	—	—	—	—	—	984	7.6	429	9.5	1,413
Bonds of Germany Government Agency	—	—	—	—	—	—	674	4.8	—	—	674
GVT securities of OECD based countries											
Corporate bonds	—	—	—	—	43	4.8	45	5.0	380	8.4	468
Trading securities	13,181		—		2,568		7,514		3,117		26,380
Available-for-sale securities											
Notes of the NBK	—	—	128	2.0	—	—	—	—	—	—	128
U.S. Treasury bills	—	—	—	—	—	—	2,154	3.7	—	—	2,154
Bonds of Germany Government Agency	—	—	—	—	—	—	5,988	4.5	—	—	5,988
Bonds of Government Mortgage Agency of France	—	—	—	—	—	—	4,046	4.7	—	—	4,046
Notes with fixed par value	—	—	—	—	—	—	810	—	—	—	810
Treasury bills of the Ministry of Finance	—	—	175	2.0	7,991	2.4	1,690	3.0	—	—	9,856
Bonds of ADB	—	—	—	—	—	—	—	—	1,317	4.6	1,317
Bonds of European Investment Bank	—	—	—	—	—	—	3,312	4.5	—	—	3,312
Bonds of local financial organisations (banks)	—	—	—	—	1,428	3.5	1,264	8	2,452	8.2	5,144
Sovereign bonds of the Republic of Kyrgyzstan	—	—	—	—	260	5.0	—	—	—	—	260
Investment securities	—		303		9,679		19,264		3,769		33,015

(1) Derived from management accounts.

Foreign Currency Management

In 2004 and 2003, the Tenge appreciated against the U.S. Dollar by 9.3% and 7.3%, respectively. In 2005 it declined by 3.1%.

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk Management Department monitors the Bank's net currency position and advises on the Bank's strategy accordingly. The ALCO sets the Bank's limits on the level of exposure to various currencies. These limits comply with the requirements of the NBK or the FMSA, as applicable.

The FMSA carries out the regulation and monitoring of the net foreign currency positions of banks in Kazakhstan. According to current FMSA Regulations, the ratio of a bank's net open foreign currency position relative to its own capital must not exceed 30.0 per cent., and the open (long and short positions) foreign currency position for any currency of a country rated “A” or higher or the Euro must not exceed 15.0 per cent. of its own capital. The open (long and short positions) for any currency of a country rated from “B” to “A” are both limited to 5.0 per cent. of a bank's own capital.

The following table shows details of the net foreign currency position of the Bank as at the dates indicated:

	As at 31 December(1)		
	2005	**2004**	**2003**
Net long (short) position (KZT millions)	1,703	(1,901)	1,320
Net position as a percentage of shareholders' equity (%)	6.18	(10.5)	15.8
Net position as a percentage of foreign currency liabilities (%)	0.79	(1.82)	2.57

(1) Derived from management accounts.

Treasury Operations

The main objective of the Bank's treasury operations is efficient management of the Bank's liquidity, interest rate and market risk by using the foreign exchange and money markets, thus managing foreign currency exposure and funding costs and maximising investment returns. The Treasury Department calculates the Bank's cash position on a daily basis and provides the Bank's management with weekly reports on the Bank's liquidity and cash flows.

The Bank's treasury operations consist largely of spot transactions in Tenge and foreign currencies, transactions in government securities and currency swap and forward transactions for hedging purposes. The lack of a developed framework and trading and accounting mechanisms in the derivatives market in Kazakhstan combined with the underdeveloped nature of the local banking sector means that futures, options and forward currency trading is rare. The Bank is one of the principal banks in Kazakhstan involved in money market operations and Government securities trading. See “- Securities Portfolio”.

Loan Portfolio

Introduction

Loans to customers represent the largest part of the Bank's assets. Financing is provided for various purposes, although the majority of corporate loans are for working capital and trade finance purposes with a maturity of two years or less. However, as demand for longer-term financing from existing customers and other high quality corporate credits increases, the Bank intends to increase its maturity limits, provided that it can match its funding base with longer-term funding through an increase in borrowings and term deposits. Lending to individuals primarily comprises mortgages, car loans and other loans to finance purchases of consumer products.

The Bank's loan portfolio, net of allowances for impairment, grew by 118.5% to KZT244,874 million as at 31 December 2005 from KZT112,090 million as at 31 December 2004 which, in turn, represented a 85.3% increase from KZT60,488 million as at 31 December 2003. As at 31 December 2005, the 10 largest borrowers accounted for 24.7% of the Bank's gross loan portfolio, as compared to 19.8% as at 31 December 2004 and 20.3% as at 31 December 2003.

Loans, Guarantees and Letters of Credit

The following table sets out the composition of the Bank's loans and contingent liability exposure as at the dates indicated:

	As at 31 December		
	2005	**2004**	**2003**
	(KZT millions)		
Loans			
Loans and advances to customers, gross	252,523	117,593	63,885
Allowances for impairment	(7,649)	(5,503)	(3,397)
Loans and advances to customers	244,874	112,090	60,488
Contingent liabilities			
Undrawn loan commitments	33,306	17,930	7,544
Guarantees	15,029	16,108	6,364
Letters of credit	3,601	5,037	2,987
Provisions	(283)	(254)	(159)
Cash collateral	(969)	(711)	(684)
Total contingent liabilities	50,684	38,110	16,052
Total loans and contingent liabilities	295,558	150,200	76,540

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance commitments. See "Lending Policies and Procedures".

The following table sets out the breakdown of the Bank's gross commercial loans and advances (before allowances) by loan amount as at the dates indicated:

	As at 31 December(1)					
	2005		2004		2003	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Up to U.S.$50,000	28,718	11.3	14,568	12.4	9,101	14.2
U.S.$50,001 – 200,000	22,241	8.8	8,880	7.6	6,737	10.5
U.S.$200,001 – 1,000,000	25,147	10.0	12,807	10.9	11,635	18.2
U.S.$1,000,001 – 3,000,000	29,295	11.5	17,548	14.9	14,484	22.7
U.S.$3,000,001 – 5,000,000	22,183	8.9	14,365	12.2	9,499	14.9
Over U.S.$5,000,000	124,939	49.5	49,425	42.0	12,429	19.5
Total	252,523	100.0	117,593	100.0	63,885	100.0

(1) Derived from management accounts.

Loan Portfolio Structure by Maturity

The following table sets out the breakdown of the Bank's gross commercial loans and advances (before allowances) by maturity:

	As at 31 December(1)					
	2005		2004		2003	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Up to 1 month	5,465	2.2	6,417	5.5	2,083	3.3
1-3 months	7,182	2.8	7,479	6.4	6,954	10.9
3-6 months	18,491	7.3	10,195	8.6	9,719	15.2
6-12 months	73,520	29.1	22,460	19.1	14,666	23.0
1-2 years	21,791	8.6	19,417	16.5	10,437	16.2
2-3 years	27,978	11.1	15,888	13.5	9,634	15.1
3-5 years	67,356	26.7	27,036	23.0	5,015	7.9
Over 5 years	30,740	12.2	8,701	7.4	5,377	8.4
Total	252,523	100.0	117,593	100.0	63,885	100.0

(1) Derived from management accounts.

Loan Portfolio Structure by Sector

The Bank's primary objective with respect to its lending activities is to diversify into different sectors of the economy in order to reduce its exposure to particular industries.

The following table sets out certain information as to the structure of the Bank's gross commercial loans portfolio, not including advances and before allowances, by economic sector, as at the dates indicated:

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Wholesale trading	46,856	18.6	21,565	18.3	14,416	22.6
Individuals	42,208	16.7	17,017	14.5	7,034	11.0
Food industry	25,642	10.2	17,023	14.5	5,456	8.5
Construction	29,328	11.6	10,570	9.0	9,600	15.0
Agriculture	13,559	5.4	8,773	7.5	6,722	10.5
Transport	5,876	2.3	3,931	3.3	1,135	1.8
Retail trading	10,330	4.1	6,232	5.3	6,348	9.9
Hospitality	7,652	3.0	3,208	2.7	1,107	1.7
Textile industry	5,197	2.1	4,876	4.1	187	0.3
Services	32,186	12.7	4,648	4.0	2,629	4.1
Mining	2,493	1.0	2,391	2.0	355	0.6
Oil and Gas	2,331	1.0	3,124	2.7	1,134	1.8
Communications	723	0.3	1,866	1.6	518	0.8
Metallurgy	2,480	1.0	1,727	1.5	898	1.4
Real Estate	3,638	1.4	1,211	1.0	241	0.4
Chemical	1,694	0.7	777	0.7	863	1.4
Entertainment	640	0.3	264	0.2	217	0.3
Other	19,690	7.7	8,390	7.1	5,025	7.9
	252,523	100.0	117,593	100.0	63,885	100.0

The Bank increased its gross commercial loans and advances to customers by 114.7% to KZT252,523 million as at 31 December 2005 from KZT117,593 million as at 31 December 2004 which, in turn, represented an 84.1% increase from KZT63,885 million in 2003. Wholesale trading companies continued to represent the Bank's largest borrowing sector, borrowing a total of KZT46,856 million for the year ended 31 December 2005, KZT21,565 million for the year ended 31 December 2004 and KZT14,416 million as at 31 December 2003, or 18.6%, 18.3% and 22.6% respectively of the total volume of loans extended. Despite the continued predominance of lending to this sector loans to it decreased in percentage terms between 2003 and 2005 due mainly to the growth in the total volume of the Bank's lending and the Bank's decision to diversify its lending activities into other sectors.

The Bank had KZT42,208 million in loans to individuals outstanding by the end of 2005, which represented 16.7% of the Bank's loan portfolio. As at 31 December 2004, the Bank had KZT17,017 million in loans to individuals outstanding which represented 14.5% of the Bank's loan portfolio. As at 31 December 2003, loans to individuals were KZT7,034 million, or 11.0% of total gross loans. The increase is attributable to expanding consumer confidence in the economy and the Bank's strategic decision to increase its exposure to retail customers, in particular high net worth and middle-income individuals. The Bank anticipates significant growth in applications for car loans and mortgages, and expects its lending activities to increase in these areas accordingly.

Loans to the food industry also comprised 10.2% of the Bank's loan portfolio and increased to KZT25,642 million as at 31 December 2005 from KZT17,023 million as at 31 December 2004 which, in turn, represented 14.5% of the Bank's loan portfolio and an increase from KZT5,456 million as at 31 December 2003.

Construction companies increased their borrowing to KZT29,328 million as at 31 December 2005 from KZT10,570 million as at 31 December 2004. Following an announcement by the Government in mid-2004 to promote low-cost housing in major cities such as Astana and Almaty, the Bank decided to reduce its exposure to this sector in anticipation of a downward trend in the high-end construction market which formed a significant portion of the market serviced by its construction customers. However, at the same time, the Bank decided to increase its exposure to companies supplying construction materials to low-cost housing construction companies and to construction companies. The Bank's total exposure to the construction sector was 11.6% as at 31 December 2005 as compared to 9.0% and 15.0% as at 31 December 2004 and 31 December 2003 respectively.

Loans to the agricultural sector increased from KZT6,722 million as at 31 December 2003 to KZT8,773 million as at 31 December 2004 and to KZT13,559 million as at 31 December 2005. Despite this year-on-year growth as a proportion of the Bank's total loan portfolio, lending to this sector decreased to 5.4% as at 31 December 2005 and 7.5% as at 31 December 2004 as compared to 10.5% as at 31 December 2003.

Loan Portfolio Structure by Currencies

In line with the Bank's policy of limiting its exposure to currency fluctuations, non-Tenge loans comprise the major part of the Bank's loan portfolio, of which U.S. Dollar obligations are the most significant. As at 31 December 2005 and 31 December 2004 and 2003, U.S. Dollar and Euro denominated or indexed loans comprised 68.6%, 68.9% and 66.4% of the Bank's gross commercial loans and advances, respectively. However, following increased domestic demand and an expanded Tenge funding base as well as relatively stable interest rates on Tenge loans, the Bank increased its Tenge denominated loan portfolio between 2003, 2004 and 2005 from KZT21,490 million to KZT36,562 million and further to KZT78,360 million. However, such loans have a shorter-term maturity profile and usually contain provisions to allow the Bank to increase interest rates or demand early repayment in the event of devaluation of the Tenge.

The following table sets out certain information as to the currency profile of the Bank's gross commercial loans and advances as at the dates indicated:

	As at 31 December(1)					
	2005		2004		2003	
	(KZT millions)	*(share %)*	*(KZT millions)*	*(share %)*	*(KZT millions)*	*(share %)*
Tenge	78,360	31.0	36,562	31.1	21,490	33.6
U.S. Dollars	162,303	64.3	71,204	60.6	38,208	59.8
Euro	10,928	4.3	9,827	8.3	4,187	6.6
Others	932	0.4	—	—	—	—
Total	252,523	100.0	117,593	100.0	63,885	100.0

(1) Derived from management accounts.

Lending Policies and Procedures

General

The FMSA sets strict guidelines in relation to the credit approval process of banks, credit levels, terms, and interest rates of loans. Relevant regulations limit the exposure to any single borrower or group of borrowers to 10% of a bank's equity, for parties related to the bank, and to 25% of a bank's equity for unrelated parties. See “Financial Review – Capital Adequacy and Other Ratios” and “Transactions with Related Parties”. The Bank's own credit approval process is based on FMSA regulations and the internal procedures are established by the Management Board and the Board of Directors.

The Bank has four main credit committees based at its head office which are responsible for approving credit decisions within the Bank. The Retail Business Credit Committee is responsible for implementation of the Bank's credit policy in respect of retail customers and approving the terms of loans to individuals extended by the Bank for amounts up to U.S.$150,000. The Small Credit Committee is responsible for approving the terms of credit facilities and/or guarantees extended by the Bank to corporate clients for amounts up to U.S.$100,000. The Medium Credit Committee is responsible for implementation of the Bank's credit policy in respect of small and medium-sized enterprises and approving the terms of credit facilities and/or guarantees extended by the Bank to corporate clients for amounts from U.S.$100,000 to U.S.$600,000. The Principal Credit Committee is responsible for implementation of the Bank's credit policy in respect of large corporate customers and approving the terms of credit facilities and/or guarantees extended by the Bank for amounts above U.S.$150,000 for retail customers and U.S.$600,000 for corporate clients. The Management Board must also approve any loan in excess of U.S.$10,000,000 in addition to the approval of the Principal Credit Committee. The Board of Directors must approve all transactions above U.S.$15,000,000 and all transactions with related parties.

Within each branch, credit decisions on loans below the credit level set for that branch are approved by the credit committee within the branch. The levels for each branch are set by the Principal Credit Committee and range from U.S.$3,000 to U.S.$150,000 for any single corporate borrower and from U.S.$3,000 to U.S.$75,000 for any single retail borrower. As the Bank grows, these limits are expected to be increased. The Credit Administration Division monitors loans approved by individual branches. Individual branch lending limits can be increased up to the maximum limit approved for branches, or revoked, depending on the individual branch's compliance with the Bank's credit policies. Lending limits are reviewed on a quarterly basis.

All applications for credit/guarantee by corporate and retail customers must be submitted to the Bank on its standard forms. In the case of corporate customers, an application submitted to the head office, depending on the type of the borrower, the credit and the industry sector, is reviewed by one of three divisions of the Credit Department (each of which is responsible for a particular industry sector), the SME Credit Division (which is responsible for small and medium businesses) or the Medium Term Credit Division (which is responsible for credits financed under the Bank's programmes with EBRD, KfW, ADB or the World Bank), as appropriate. In the case of retail clients, an application is reviewed by the Retail Business Department. The relevant division/ department undertakes a thorough review and analysis of the application, including carrying out feasibility studies and analysis of the financial standing, reputation and experience of the potential borrower and then prepares a credit dossier based upon such results. If applicable, the Security Department obtains references on the potential borrower from third parties including other banks and various governmental authorities, such as taxation bodies, the NBK, the FMSA and the Interior Ministry. If the loan is collateralised, the Credit Security Department of the Bank makes an appraisal of the collateral being offered, including an appraisal as to valuation, legality and enforceability. The Bank's Legal Department or external legal counsel retained by the Bank from time to time reviews legal documentation involved in the lending process.

Depending on the amount of the credit/guarantee, the credit dossier is examined by the appropriate credit decision making body of the Bank for a final decision on the extension of the credit.

The application review process within the branches is similar to that of the head office. If the application is for an amount in excess of U.S.$500,000 a representative of the relevant division/ department of head office of the Bank, as described above, is involved in an on-site review and analysis of the application.

Maturity Limit

The maximum maturity of a loan depends on the type of loan as indicated in the following table:

Nature of the Loan	**Maximum Maturity**
Working capital facilities	1.5 years
Consumer credits	3 years
Project finance	5 years
Inter-bank credit	up to 1 year
Mortgage loans	10 years
Mortgage loans to employees	15 years

Collateralisation

To reduce its credit risks, the Bank requires collateral from borrowers. Collateral includes but is not limited to real estate, inventories and equipment (including machinery and motor vehicles, industrial equipment, industrial goods and food stocks and other commercial goods), as well as cash deposits, securities and financial institution guarantees. The Bank regularly monitors the quality of the collateral. In certain cases when existing collateral declines in value, additional collateral may be requested. In addition, the terms of its loan agreements usually provide the Bank with the flexibility to adjust interest rates or request a prepayment of the loan or a portion thereof upon changes in circumstances, including a decline in the value of collateral.

The following table sets out the loan amount as a percentage of collateral value based on the type of collateral:

Collateral Categories	**Loan/Collateral Value**
	(%)
Cash	100
Guarantees from financial institutions	100
Government debt securities	100
Precious metals	100
Real estate	60-80
Inventories	50-60
Equipment	50-70

The following table sets forth the nominal amount of the Bank's collateralised and non-collateralised gross commercial loans (not including advances and before allowances) and such amount as a percentage of total gross commercial loans as at the dates indicated:

	As at 31 December					
	2005		**2004**		**2003**	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Collaterised	249,903	98.9	116,661	99.2	63,718	99.7
Uncollaterised	2,620	1.1	932	0.8	167	0.3
Total gross loans	252,523	100.0	117,593	100.0	63,885	100.0

(1) Derived from management accounts.

Where borrowers of the Bank are connected or related in some way, by for example, having common shareholders or being owned by other related companies, these borrowers are treated as a single borrower by the Bank and are required to provide collateral for each other. Thus, if there is a default by one company in the group, all the other companies of the same group become jointly and severally liable and the Bank can enforce collateral given by the other connected companies to repay the defaulted obligations.

The laws of Kazakhstan allow a secured creditor to foreclose on collateral upon the occurrence of an event of default through both judicial and non-judicial procedures. Non-judicial foreclosure allows the secured creditor to seize collateral in the event of a default and to hold an auction, if necessary, to dispose of such collateral after 60 days' notice. The Bank's security documents provide for both non- judicial and judicial foreclosure. To be enforceable, security over immovable property and certain types of movable property is required to be registered with local departments of the Ministry of Justice (for immovable property and certain types of movable property), the Interior Ministry (for vehicles) or with other relevant registering authorities (for securities and some others). No such registration is required for security over certain types of movable property. However, registration of security over either immovable or movable property establishes priority of that security over an unregistered security. The Bank requires all of its security to be so registered.

Loan Classification and Impairment Assessment

General

The Bank's Risk Management Department, which is not involved in the loan approval process, is responsible for evaluating of the Bank's loan portfolio and establishing allowances and provisions in relation thereto. In order to establish adequate allowances and provisions, loans are classified by their perceived risk criteria in accordance with the Bank's policies and the requirements of IFRS taking into account the FMSA's classification and impairment assessment guidelines. The Risk Management Department also conducts evaluations of other assets and off-balance sheet contingent liabilities.

NBK and FMSA Classification and Impairment Assessment Guidelines

Until 2003, banks classified their portfolio and established allowances for impairment for regulatory purposes under NBK policies based on event-oriented criteria relying primarily on the timeliness of a borrower's payment of interest and principal. In January 2003, these policies were revised and new policies were adopted regarding loan classifications and requirements for provisions and allowances.

Pursuant to revised FMSA guidelines, the Risk Management Department, in classifying the Bank's loan and off-balance sheet exposures, performs detailed credit reviews and assesses the borrower's financial condition and operating results, if these have deteriorated since the origination of the loan, the current performance of the borrower with regard to the timely repayment of principal and interest, if there has been any extensions of interest or principal payments granted or if other modifications have been made to the original loan agreement, the quality and quantity of any collateral provided, the basic fundamentals of the purpose of the loan and whether there has been any unauthorised use of the loan proceeds. In addition to these assessments, the Risk Management Department performs other analytical procedures and takes into consideration any macro and microeconomic factors specifically relating to the Kazakhstan economy and industry sector analysis.

Based on these assessments and other analytical procedures, the Risk Management Department classifies loans according to their risk and the exposure that they potentially present to the Bank. At present, the Risk Management Department uses the following classifications as set out in the NBK/ FMSA regulations:

"Standard" – the financial condition of the borrower is assessed as good and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. Interest and principal is being repaid in full in a timely fashion. The borrower is considered as having the capability of repaying the loan in accordance with its terms and conditions. Security provided for the loan is highly liquid (which may include a guarantee of the government or a bank with an individual rating not lower than AA from one of the rating agencies, cash collateral, government securities or precious metals, the value of which covers 100% of exposure).

Borrowers with Temporary Deterioration in Financial Condition

"Doubtful 1" – 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, there is evidence to suggest that the borrower will be able to cope with such temporary difficulties and there is a low probability that the borrower will be unable to repay the loan and interest in full. The borrower is repaying the loan principal and the interest without delay and in full.

"Doubtful 2" – 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, there is evidence to suggest that the borrower will be able to cope with such temporary difficulties and there is a low probability that the borrower will be unable to repay the loan and interest in full, but the borrower is repaying the loan with delays and not in full. The value of collateral covers 90% of the Bank's exposure.

Borrowers with Severe Deterioration in their Financial Condition

"Doubtful 3" – 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 raises concerns as to the ability of the borrower to stabilise and improve its current financial performance and casts doubt on the borrower's ability to repay the loan and the interest in full, but notwithstanding the more severe deterioration, the borrower is still repaying the loan and interest in full and without a delay.

"Doubtful 4" – 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 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 and the borrower is repaying the loan with delays and not in full. The quality of collateral is classified as satisfactory, covering not less than 100% of borrower's outstanding debt (including both principal and interest), or is highly liquid collateral, the value of which covers not less than 75% of the borrower's outstanding debt.

"Doubtful 5" – the deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative shareholders' equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral is classified as unsatisfactory, the value of which covers nearly but not less than 50% of 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% of borrower's 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 the NBK and FMSA regulations.

The following provisioning rates are used by the Bank to establish regulatory allowances:

Standard – 0% to 5%
Doubtful 1 – 5%
Doubtful 2 – 10%
Doubtful 3 – 20%
Doubtful 4 – 25%
Doubtful 5 – 50%
Loss – 100%.

The following table sets out the Bank's loans according to there classification under FMSA regulations as at 31 December 2005:

	As at 31 December 2005[1]	
Loan classification	**Total principal amount**	**Total amount of actual created provision**
	(KZT millions)	
Standard	189,236	—
Doubtful 1st Category (5%)	*50,519*	2,526
Doubtful 2nd Category (10%)	711	71
Doubtful 3rd Category (20%)	6,041	1,214
Doubtful 4th Category (25%)	1,389	352
Doubtful 5th Category (50%)	2,284	1,143
Total Doubtful	60,944	5,306
Loss Loans (100%)	2,343	2,343
Total	252,523	7,649

(1) Derived from management accounts.

IFRS Impairment Assessment

For the purposes of the IFRS financial statements closing and preparation, the Bank makes specific allowances for possible loan losses on a case-by case basis and actual allowances established take into account the value of any collateral or third party guarantees. The allowances for impairment of loans are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. The allowances for impairment of financial assets in the accompanying consolidated financial statements are determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment for financial assets in future periods.

The following table sets out certain information relating to the Bank's gross loans and allowances in relation to them in accordance with IFRS as at the dates indicated:

	As at 31 December 2005[1]			As at 31 December 2004[1]					
Rate of Estimated Impairment	**Total exposure**	**Total Allowances**	**Allowances Exposure[1]**	**Total Exposure**	**2004 Total Allowances**	**Allowances Exposure[1]**	**Total Exposure**	**2003 Total Allowances**	**Allowances Exposure[1]**
	(KZT millions except for percentages)								
Standard (0% – 5%)	189,236	—	—	107,380	2,008	1.9%	43,635	569	1.3%
Sub-standard (5% – 10%)	51,230	2,597	5.1%	3,334	158	4.7%	15,486	1,000	6.5%
Unsatisfactory (10% – 25%)	7,430	1,566	21.1%	1,921	403	21.0%	3,006	589	19.6%
Doubtful (25% – 50%)	2,284	1,143	50.0%	2,947	1,271	43.1%	985	467	47.4%
Loss (50% – 100%)	2,343	2,343	100.0%	2,011	1,663	82.7%	773	772	99.9%
Total	252,523	7,649	3.0%	117,593	5,503	4.7%	63,885	3,397	5.3%

(1) Derived from management accounts.

(2) Allowances are stated net of the estimated value of any realisable collateral that could be estimated with reasonable accuracy.

The effective level of allowances in accordance with IFRS decreased to 3.0% as at 31 December 2005 as compared to 4.7% as at 31 December 2003 as compared to 5.3% as at 31 December 2003, which represented an increase of 0.9% from 2002. Allowances as at 31 December 2005 declined further to 3.0% since there were several large repayments by borrowers of the Bank in the amount of KZT2 billion which had been classified as “doubtful” and “loss” as of 31 December 2004. These borrowings were repaid in the first half of 2005.

Provisions are made against off-balance sheet exposures when it is more likely than not that there will be a loss. In such cases an adequate provision is made.

Portfolio Monitoring and Write Offs

The review and monitoring of the loan portfolio of the Bank is conducted by the Risk Management Department and the Credit Administration Division. The Credit Administration Division is responsible for daily monitoring through an automated centralised programme of timely debt service of particular loan or off-balance sheet exposure. This allows the Credit Administration Division to identify problem loans at an early stage. Immediate action is taken by the relevant division of the Credit Department, the Small and Medium Business Credit Division, the Medium Term Credit Division or the Retail Business Department, as appropriate, if any principal or accrued interest repayment problems arise. The Risk Management Department reviews and monitors the Bank's credit activity on a weekly basis. The Risk Management Department provides weekly and monthly reports to the Bank's Management Board detailing all aspects of the Bank's credit activity. In addition, an in-depth review of each borrower is carried out on site by representatives of the relevant division of the Credit Department, the Small and Medium Business Credit Division, the Medium Term Credit Division or Retail Business Division, as appropriate, on a semi-annual basis in order to assess the financial condition of the borrower and the status of any collateral. Any overall deterioration in the quality of the Bank's loan portfolio or increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Bank's Management Board.

The Bank's determination of whether a repayment problem has arisen is based on a number of objective and subjective criteria, including changes in the borrower's turnover in accounts held by the Bank, changes in the borrower's economic and financial activity giving rise to a suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfil the terms and conditions of its loan agreement and refusal of a borrower to co-operate in supplying current information. Once any repayment problem arises the Bank's Credit Security Department is immediately notified. The Bank believes that it has a good record of enforcing its security and attempts to resolve security enforcement without resorting to court action or arbitration where possible. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any collateral either in reliance on its legal rights or with the co-operation of the customer.

MANAGEMENT

Management

The Bank's management bodies comprise the Board of Directors (a supervisory body) and the Management Board (an executive body). Members of the Board of Directors and the Management Board cannot be appointed as the Reviser. The Reviser audits the financial statements of the Bank prior to approval by the general shareholders' meeting. The general shareholders' meeting represents the highest corporate body of the Bank. Kazakhstan law and the Charter of the Bank vests in the general shareholders' meeting authority for the final approval of certain major corporate decisions, including the authorisation to issue the Notes.

The shareholders elect the Board of Directors and the Reviser. The Board of Directors in turn elects the members of the Management Board. The Board of Directors represents the interests of shareholders and is responsible for the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. Overall responsibility for the administration of the Bank's activities is vested in the Management Board. In accordance with Kazakhstan legislation, the members of the Board of Directors and the Chairman and Deputy Chairman of the Management Board of banks are appointed only with the consent of the FMSA. The FMSA does not have a representative on the Board of Directors or the Management Board. Bank's accounting and internal control process is overseen by the Internal Audit Department that reports to the Board of Directors.

Board of Directors

The Board of Directors is not directly involved in day-to-day management and has no authority to act on its own behalf or to perform any executive functions. The authorities of the Board of Directors include defining the investment, credit and other policies of the Bank, nominating the Chairman and members of the Management Board, approving material contracts (major transactions), calling extraordinary general shareholders' meetings and approving the Bank's budget.

The current members of the Board of Directors are:

Name	Position	Other Significant Positions
Serik Svyatov.............................	Chairman of the Board of Directors	None
Timur Issatayev	Director	Chairman of the Management Board
Timur Bergaliyev.........................	Director	President of JSC Fintrade
Nurlan Smagulov	Director	President of LLP Astana Motors
Marat Mukhambetov..................	Director	President of ATF Group

The business address of the Members of the Board of Directors is 100 Furmanov Street, Almaty 050000, Kazakhstan.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank's activities. The Management Board's responsibilities include making executive business decisions, implementing the Bank's business strategy, appointing senior management and branch representatives, approving all loans in excess of U.S.$10 million and dealing with all other matters not reserved to the Board of Directors or the general meeting of shareholders.

The Management Board consists of nine members. The members of the Management Board are elected for a period of five years. The business address of the Members of the Management Board is 100 Furmanov Street, Almaty 050000, Kazakhstan.

The current members of the Management Board are:

Name	Position
Timur Issatayev	Chairman
Berik Beisengaliyev	First Deputy Chairman
Kairat Rakhmanov	Managing Director
Aidar Seitbekov	Managing Director
Irina Sindonis	Managing Director
Talgat Abdukhalikov	Managing Director
Nurlan Kosakov	Managing Director
Aida Derevyanko	Chief Accountant
Nadim Shaidarov	Managing Director

The name, age and certain other information about each of the current members of the Management Board are set out below:

Timur Issatayev (36), Chairman, graduated from the Kazakhstan State University in 1991 with a degree in philosophy and from Yale University in 1993 with a Masters degree in economics. Mr. Issatayev was the head of the representative office of ING Bank in Kazakhstan from April 1996 to April 1999 and the First Deputy Chairman of ABN AMRO Bank Kazakhstan from April 1999 to April 2001. Mr. Issatayev has been Chairman of the Management Board since September 2003. Previously he had been Deputy Chairman since joining the Bank in May 2003.

Berik Beisengaliyev (39), First Deputy Chairman, graduated from the Karaganda State University in 1990 with a degree in finance and in 1999 graduated from the Kazakhstan State University with a degree in law. In 1997, Mr. Beisengaliyev was appointed Director of the Akmola branch of TuranAlem Bank. In 1998, he joined the Bank as Director of the Akmola branch; Mr. Beisengaliyev has been in his current position since March 2004.

Kairat Rakhmanov (40), Managing Director, graduated from the Kazakhstan State University of Management in 1995 with a degree in economics. Mr. Rakhmanov was the Deputy Director of the Operations Department at Alem Bank Kazakhstan from September 1993 to February 1997. In July 1997, Mr. Rakhmanov joined the Bank as the Director of the Operations Department. In January 2002, he took up the position of Managing Director of Investment Activities at Halyk Bank until June 2004, at which time he returned to the Bank in his current position.

Aidar Seitbekov (40), Managing Director, was educated at Lomonosov Moscow State University, from which he graduated in 1987 with a degree in mathematics. He also holds a degree in finance and credit studies from Eurasia Market Institute. Mr. Seitbekov joined the Bank in 1995, as head of its IT division and has been in his current position since November 1998.

Irina Sindonis (43), Managing Director, graduated from Finance College in 1980 with a degree in banking accounting and the Almaty Institute of National Economy in 1986 with a degree in finance. Mrs. Sindonis was Managing Director of the Halyk Savings Bank of Kazakhstan from March 1999, before being appointed Director of Operations in February 2000 and Chief Accountant in June 2000. Mrs. Sindonis has been in her current position since joining the Bank in May 2001.

Talgat Abdukhalikov (42), Managing Director, graduated from the Almaty Managers School in 1998 with a degree in finance and credit studies. Mr. Abdukhalikov started his career at the Bank in 1995 as head of the Securities division and became head of the Assets Management division in 1996. In 1998, Mr. Abdukhalikov was appointed Director of the Treasury Department and he has been in his current position since January 2002.

Nurlan Kosakov (32), Managing Director, graduated from the Kazakhstan State University of Management in 1994 with a degree in Accounting and Cybernetics. Mr. Kosakov started his career at the Bank in 1997 as a leading specialist of the Credit Department and was appointed Director of the Credit Department in 2002. He has been in his current position since July 2002.

Aida Derevyanko (43), Chief Accountant, graduated from Finance College in 1980 with a degree in banking accounting and the Almaty Institute of National Economy in 1987 with a degree in accounting and business analysis. Mrs. Derevyanko was appointed Chief Accountant of the Almaty branch of Alem Bank Kazakhstan in 1993 and Deputy Chief Accountant in 1991 of Commercial Bank Bereke. Mrs. Derevyanko has been in her current position since October 1997.

Nadim Shaidarov (40), Managing Director, graduated from the University of Moscow in 1990 with a degree in economy and business planning. In 1997, Mr. Shaidarov was appointed Deputy Director of commercial activity of the Almaty branch of Halyk Bank and in 1998 he was appointed First Deputy Director of the Akmola branch of Halyk Bank. Mr. Shaidarov has been in his current position since joining the Bank in July 2002.

Corporate Governance

A new code on corporate governance was introduced by the Bank in 2005.

Controller

The current Controller is Mrs. Nelchai Satova, Chief Accountant of Otan Accumulation Pension Fund. She was elected in 2003 for a three-year term.

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 Company towards the Bank and their private interests and/or other duties.

Management Remuneration

In accordance with the Bank's charter, the remuneration of the senior management of the Bank and members of the Board of Directors and Management Board is determined by the shareholders of the Bank.

The following table sets out the principal amount of loans outstanding to the senior and middle management of the Bank as at 31 December 2005:

Name	**As at 31 December 2005**
	(KZT thousands)
Timur Issatayev	44,964
Talgat Abdukhalikov	27,960
Aida Derevyanko	30,265
Aidar Seitbekov	6,364
Nurlan Kosakov	7
Kairat Rakhmanov	6,587
Timur Bergaliyev	0
Nadim Shaidarov	48,533
Total	164,680

There are no other outstanding loans or guarantees granted by the Bank to the senior and middle management of the Bank, nor to any parties related to them.

SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

Share Capital

As at 31 December 2005, the Bank's issued and outstanding share capital comprised 16.6 million common voting shares and 3.4 million preferred shares each having a nominal value of KZT1,000. Each common voting share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 10% of the nominal value per annum and do not have voting rights unless the Bank fails to make payment of dividends.

The Bank declared dividends of KZT198 million on preferred shares and no dividend on ordinary shares in relation to 2004, and of KZT319 million on preferred shares and KZT694 million on its ordinary shares in relation to 2003. In relation to 2002 the Bank declared dividends of KZT241 million on its preferred shares and KZT1,164 million on its common shares.

The Bank's share capital was increased by KZT588 million in 2004 and by KZT903 million in 2003 through the capitalisation of dividends on common shares.

During 2003, the Bank's share capital was increased by KZT20 million through conversion of the minority shareholders' shares in the former banking subsidiary Apogei Bank to common shares of the Bank.

In December 2003, the Bank commenced an equity offering of up to 5,351,238 shares to existing and new shareholders for a total consideration of KZT5.4 billion (KZT1,000 per share). The equity issue was fully subscribed prior to August 2004.

In 2005 the Bank increased its equity by KZT5,229,239 through the placement of ordinary shares. The issuance of the Notes is one of the steps being taken by management to extend the maturity of its funding sources. In addition, on 21 October 2004, the FMSA approved an additional increase in the Bank's share capital by KZT8.4 billion. Consequently, the Bank commenced an offering of common shares and preference shares in October 2004 which resulted in the Bank issuing an additional 3,180,000 common shares which were subscribed for be certain existing shareholders for a total consideration of KZT3.2 billion. On 20 February 2006 the Bank's general meeting of shareholders approved the issuance an additional of 27,000,000 common shares. As of 3 April 2006, 1,273,106 of these additional newly issued common shares had been placed with existing shareholders for a total amount of KZT6.37 billion. See "Principal Shareholders". The Bank issued U.S.$131 million of subordinated bonds to investors on the domestic market during 2005.

The Bank's common voting shares and preferred shares are listed on the "A" list of the KASE. Among the Bank's shareholders are various industrial companies, pension funds and private investors.

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:

Shareholder	**Number of Common Shares**	**Percentage of Common Shares**
The Bank of New York (nominal shareholder)	3,833,859	23.10
OJSC Accumulation Pension Fund of Halyk Bank of Kazakhstan	833,509	5.02
Rink-Invest LLP	3,188,767	19.21
JSC Pension Fund BTA Kurmet-Kazakhstan	999,676	6.02
JSC Olzha	1,150,000	6.93
KMC Astana Motors LLP	830,000	5.00
Other	5,764,189	34.72
Total	16,600,000	100.00

As at 31 December 2005, entities related to certain members of the Board of Directors held in aggregate 1,451.376 common shares representing 11.73% of the Bank's voting share capital or 7.26% of placed shares of the Bank, also they hold 580 preferred shares representing 0.0029%. In addition, as at 31 December 2005, the Bank's senior and middle management directly or indirectly held in aggregate 9,469 preferred shares of the Bank which represents less than 0.047% of the issued and outstanding share capital of the Bank.

As at 28 April 2006, following the exercise by certain shareholders of their pre-emptive rights over the newly issued 3,120,000 shares and secondary market trades, the Bank has the following shareholders owning 5 or more per cent of the outstanding and fully paid common shares:

Shareholder	**Number of Common Shares**	**Percentage of Common Shares**
The Bank of New York (nominal shareholder)	3,833,859	21.45
Rink-Invest LLP	3,429,782	19.19
JSC Olzha	1,312,645	7.34
JSC Pension Fund BTA Kurmet-Kazakhstan	975,676	5.46
KMC Astana Motors LLP	986,000	5.52
Stels Company LLP	982,009	5.49
Other	6,353,135	35.55
Total	17,873,106	100.00

TRANSACTIONS WITH RELATED PARTIES

As at the dates indicated, the Bank had the following outstanding transactions with related parties:

	As at 31 December 2005		As at 31 December 2004	
	Related party balances	**Total asset or liability category**	**Related party balances**	**Total asset or liability category**
	(KZT thousands, unless otherwise indicated)			
Loans and advances	1,407,117	244,874,389	1,994,205	112,090,157
Shareholders	*270,035*	—	290,035	—
Management	*362,140*	—	194,946	—
Associates	*774,942*	—	1,509,224	—
Amounts owed to customers	693,085	116,681,855	548,556	68,746,828
Shareholders	*131,937*	—	16,797	—
Management	*254,820*	—	245,853	—
Associates	*306,328*	—	285,906	—
Commitments and guarantees	262,518	51,936,346	1,998	39,075,029
Shareholders	*761*	—	466	—
Management	*12,791*	—	—	—
Associates	*248,966*	—	1,532	—

	For the year ended 31 December 2005		For the year ended 31 December 2004	
	Related party transaction	**Total category**	**Related party transaction**	**Total category**
	(KZT thousands, unless otherwise indicated)			
Interest income – loans	225,147	21,690,614	213,139	10,992,017
Shareholders	*27,613*	—	31,879	—
Management	*31,435*	—	23,985	—
Associates	*166,099*	—	152,275	—
Fee and commission income	83	3,190,309	—	2,349,227
Shareholders	—	—	—	—
Management	—	—	—	—
Associates	*83*	—	—	—
Interest and expense – deposits	30,353	5,146,252	21,039	2,794,551
Shareholders	*361*	—	486	—
Management	*16,476*	—	6,872	—
Associates	*13,516*	—	13,681	—

All the above transactions were on normal conditions.

As at 31 December 2005 and 2004 in respect of loans to and deposits by related parties the following interest rates applied:

Loans	**%**
Management	10.0-14.0
Shareholders	10.0-15.0
Associates	10.0-23.0
Deposits	
Management	2.82-11.2
Shareholders	2.86-8.72
Associates	3.00-10.00

Related parties for purposes of this discussion follows the definition set out in International Accounting Standard 24. Under such definition, related parties include:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

All transactions with related parties outstanding at the dates indicated above, were made in the normal course of business and at arm's length and were approved by the Board of Directors of the Bank.

As at 31 December 2005, the Bank held 9% of the issued share capital of its former wholly-owned ATF Leasing. Accordingly, ATF Leasing is not regarded as a related party although the Bank provides financial support to ATF Leasing (which would be a related party if the Bank held 10% of its issued share capital) and, in the medium term, intends to reacquire a controlling stake in ATF Leasing.

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 Governor, to appoint and remove the NBK's Deputy Governors, to confirm the annual report of the NBK on the recommendation of the Governor, 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 Governor, 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 to, 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 in relation to capital adequacy requirements and liquidity ratios in order to regulate and protect the banking system and over time these have been modified and now include limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions amongst other matters as well as permitting the issuance of hybrid capital instruments, as described below. 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 November 1999, a self-funded domestic deposit insurance scheme was established and as at 31 December 2005, 33 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal time deposits in any currency and current accounts and operates on a sliding scale of coverage up to a maximum amount per customer at any given bank. As of 2004, 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% or more (whether held independently or jointly with another legal entity) in a Kazakhstan bank. Furthermore, a foreign entity holding 10% or more of a Kazakhstan bank must have a minimum required credit rating from one of the rating agencies a list of which is set by the authorised body.

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% for the K1 ratio (compared to a generally applicable ratio of 6%) and 10% for the K2 ratio (compared to a generally applicable ratio of 12%). A bank holding company is an entity, whether domestic or foreign, that owns more than 25% of the voting shares of a Kazakh 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).

Commercial Banks

According to the NBK, as at 31 December 2005, there were 33 commercial banks in Kazakhstan, excluding the DBK and NBK, compared to 44 as at the end of 2001 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.

In 2001, the Government established the DBK to provide medium- and long-term financing and otherwise facilitate industrial projects in Kazakhstan. DBK was established with a charter fund of KZT30 billion. Within the commercial banking sector, DBK is not considered a competitor of banks as it is not licensed to accept commercial or retail deposits or to provide corporate settlement services.

In November 2001, the Government divested its remaining 33% stake in Halyk Savings Bank, by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT2.1 billion. In June 2005, the banking licence granted to JSC Nauryz Bank was terminated by the FMSA, and currently JSC Nauryz Bank is in the process of liquidation as required by a court ruling in November 2005.

On 24 December 2005, the FMSA adopted a resolution to suspend the banking licence granted to JSC Industrial Bank of Kazakhstan for six months due to violations of prudential standards. As of 31 December 2005, all of the commercial banks licensed in Kazakhstan were in compliance with prudential regulatory requirements as to capital adequacy, single borrower limits, liquidity ratios, foreign currency limits and reserve requirements.

The financial standing of Kazakhstan's banks varies. As at 31 December 2005, 21 of the 34 commercial banks (excluding DBK) had registered capital of over KZT2 billion, 12 banks had registered capital of KZT1 billion to KZT2 billion and 1 bank had registered capital of KZT500 million to KZT1 billion. There are no banks with registered capital of less than KZT500 million; any bank whose capital falls below that level is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

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 2005, 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 NBK, the total capital of commercial banks increased 44.9% in 2003, 62.4% in 2004 and 69.3% in 2005, amounting to approximately KZT587.2 billion. During such period, the total assets of such banks increased by 68.0% and, as at 31 December 2005, amounted to approximately KZT4,515 billion. In 2005, the aggregate liabilities of such banks increased by 68.6% and amounted to approximately KZT4,073 billion as at 31 December 2005 and their aggregate net income increased 131.2% in 2005, amounting to KZT73 billion in 2005. The share of total assets of the second-tier banks in Kazakhstan's GDP as at 31 December 2005 amounted to 61.8% as compared to 48.5% at the end of 2004 and 37.7% at the end of 2003.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Note Certificate (if issued):

The U.S.$350,000,000 9.00% Notes due 2016 (the "Notes", which expression includes any further notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series therewith) of JSC ATF Bank (the "Issuer") are (a) subject to, and have the benefit of, a trust deed dated 11 May 2006 (as amended or supplemented from time to time, the "Trust Deed") between the Issuer and The Bank of New York, acting through its London branch as trustee (the "Trustee", which expression includes all persons for the time being appointed as trustee for the holders of the Notes ("Noteholders") under the Trust Deed) and (b) are the subject of a paying agency agreement dated 11 May 2006 (as amended or supplemented from time to time, the "Agency Agreement") between the Issuer, the Trustee and The Bank of New York, acting through its London branch as principal paying and transfer agent (the "Principal Paying and Transfer Agent", which expression includes any successor principal paying and transfer agents appointed from time to time in connection with the Notes), the other paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the "Paying and Transfer Agents", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes), and The Bank of New York, acting through its New York branch in its capacity as Registrar (the "Registrar", which expression shall include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Agency Agreement) of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. Copies are also available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London, E14 5AL, United Kingdom.

1. Form, Denomination and Title

(a) *Form and denomination*

The Notes are in registered form, serially numbered. Notes 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 such denomination an "authorised denomination").

(b) *Title*

Title to the Notes will pass by transfer and registration as described in Conditions 2 and 3. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, "Person" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, "Noteholder" or "holder" means the Person in whose name a Note is registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "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 an Unrestricted Global Note. The Global Notes will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Ownership of beneficial interests in the Restricted Global Note and 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 Euroclear, Clearstream, Luxembourg and their participants as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances.

(c) *Third party rights*

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

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.

3. Transfer of Notes

(a) *Transfer*

Notes may, subject to the terms of the Agency Agreement and to Conditions 3(b), 3(c) and 3(e), be transferred in whole or in part in an authorised denomination by lodging 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.

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, not exceeding four in number).

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, 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.

(b) *Formalities Free of Charge*

Such transfer 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.

(c) *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.

(d) *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 both New York City and the city in which the specified office of the Principal Paying and Transfer Agent is located.

(e) *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 Trust Deed. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar and the Trustee.

4. Status

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge and Certain Covenants*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Negative Pledge and Certain Covenants

(a) *Negative Pledge*

So long as any Note remains outstanding (as defined in the Trust Deed) the Issuer shall not, and shall not permit any of its Subsidiaries to create, incur, assume or permit to arise 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 Indebtedness for Borrowed Money of the Issuer, any such Subsidiary or any other Person or any Indebtedness Guarantee in respect of any Indebtedness for Borrowed Money 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 absolute discretion shall deem to be not materially less beneficial to the Noteholders.

(b) *Limitations on Certain Transactions*

For so long as any Note remains outstanding, the Issuer will 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.$3,000,000 unless such transaction or series of transactions is or are at a Fair Market Value.

(c) *Limitation on Payment of Dividends*

For so long as any Note remains outstanding, the Issuer will 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 12 (*Events of Default*)) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default or (ii) at any time when no such Event of Default or event exists, (x) more frequently than once during any calendar year or (y) in an aggregate amount exceeding 50% of the Issuer'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 Issuer's net income shall be determined by reference to its audited financial statements for the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to the payment of (i) any dividends in respect of any preferred shares of the Issuer which may be issued by the Issuer from time to time and (ii) any dividends in respect of any common shares of the Issuer which are paid through the issuance of additional common shares.

(d) *Maintenance of Capital Adequacy*

The Issuer shall not permit its total capital ratio calculated in accordance with the recommendations of the Basel Committee on Banking Supervision (the "Committee") to fall below 10%, such recommendations to be as provided in the Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988 as amended in November 1991 and as further amended, replaced or substituted by the Committee, such calculation to be made by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS and to other financial data derived from the Bank's accounting records.

(e) *Provision of Financial Information*

So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer shall deliver to the Trustee:

(i) not later than 120 days after the end of each of the Issuer's financial years, copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS, together with the corresponding financial statements for the preceding period, and all such annual financial statements of the Issuer shall be accompanied by the report of the Issuer's independent auditors thereon; and

(ii) not later than 90 days after the end of the first six months of each of the Issuer's financial years, copies of its unaudited or, as the case may be, audited consolidated financial statements for such six-month period, prepared in accordance with IFRS, together with the corresponding interim financial statements for the preceding period.

(f) *Certificate of Directors*

The Issuer shall send to the Trustee, within 14 days (or such longer period as the Trustee may determine) of its annual audited financial statements (which are to be prepared in accordance with IFRS) and its interim financial statements being made available to its members, and also within 14 days (or such longer period as the Trustee may determine) of any request by the Trustee, a certificate of the Issuer signed by any two of its authorised directors that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "Certification Date") (i) not more than five days before the date of the certificate no Event of Default or Potential Event of Default (as defined in the Trust Deed) or other breach of the Trust Deed had occurred since the Certification Date of the last such certificate or (if none) the date on which the Trust Deed was first executed by the Issuer or, if such an event had occurred, giving details of it, (ii) the total amount of transactions or series of transactions that the Issuer has entered into or suffered to exist at less than Fair Market Value since the date on which the Trust Deed was first executed by the Issuer, (iii) a statement that the Issuer has not paid any dividends or made any other distributions which would breach Condition 5(c) (*Limitation on Payment of Dividends*), (iv) a statement of the Issuer's total capital ratio calculated in accordance with the recommendation of the Committee, as at the date of the certificate and (e) a statement that the Issuer is in compliance with Condition 5(a) (*Negative Pledge*) and that the Issuer has not exceeded the limits imposed by Permitted Security Interests generally, and, in particular, Clauses (h), (i) and (j) of the definition thereof.

(g) Restricted Securities Covenant

For so long as the Notes are "**restricted securities**" within the meaning of Rule 144A(a)(3) under the Securities Act, the Issuer shall 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 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 is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule 12g3 2(b) thereunder.

6. Definitions

For the purposes of these Conditions:

"Development Organisation" means any of Asian Development Bank, European Bank for Reconstruction and Development, International Bank for Reconstruction and Development, International Finance Corporation, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. or Deutsche Investitions- und Entwicklungsgesellschaft GmbH 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 Indebtedness for Borrowed Money by one or more of the foregoing development finance institutions.

"Fair Market Value" of a transaction means 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 Issuer 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.

"IFRS" means International Financial Reporting Standards as in effect from time to time (formerly referred to as International Accounting Standards).

"Indebtedness Guarantee" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (a) any obligation to purchase such Indebtedness, (b) 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 Indebtedness, (c) any indemnity against the consequences of a default in the payment of such Indebtedness and (d) any other agreement to be responsible for repayment of such Indebtedness, including bonds, standby letters of credit or other similar instruments issued in connection with the performance of contracts.

"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 (a) moneys borrowed, (b) amounts raised by acceptance under any acceptance credit facility, (c) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (d) 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, (e) 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 (f) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing.

"Permitted Security Interest" means any Security Interest:

(a) granted in favour of the Issuer by any Subsidiary to secure Indebtedness for Borrowed Money owed by such Subsidiary to the Issuer,

(b) 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 time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer held by financial institutions,

(c) arising in the ordinary course of the Issuer's or a Subsidiary's business and (i) which is necessary in order to enable the Issuer 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 Issuer's or such Subsidiary's business or (ii) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer's or such Subsidiary's customers,

(d) 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,

(e) 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 Issuer or any Subsidiary), in connection with (i) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (ii) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (iii) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, entered into by the Issuer in the ordinary course of its business for liquidity management purposes,

(f) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money 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 Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest,

(g) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness for Borrowed Money 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,

(h) granted by the Issuer in favour of a Development Organisation to secure Indebtedness for Borrowed Money owed by the Issuer to such Development Organisation pursuant to any loan agreement or other credit facility entered into between the Issuer and such Development Organisation, provided, however, that (i) the amount of Indebtedness for Borrowed Money so secured pursuant to this clause (h) shall not exceed in the aggregate an amount in any currency or currencies equivalent to 15% of the Issuer's loans and advances to customers before allowances for impairment (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS) and (ii) the relevant Security Interest only extends to the asset financed by the relevant Indebtedness for Borrowed Money and/or any Security Interest or other claim held by the Issuer in relation thereto,

(i) created or outstanding upon any property or assets of the Issuer or any Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Indebtedness for Borrowed Money secured by such property or assets is limited to such property or assets, provided that, the amount of Indebtedness for Borrowed Money so secured pursuant to this clause (i) at any one time shall not exceed an amount in any currency or currencies equivalent to 15% of the Issuer's loans and advances to customers before allowances for impairment (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS),

(j) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money or Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.$20,000,000 (or its equivalent in other currencies) 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 for the foregoing and for purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or other derivative, whether issued by any private or public company, any government or agency or instrumentality thereof or any supernational, international or multilateral 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% 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.

7. Interest

(a) *Interest Accrual*

Each Note bears interest from 11 May 2006 (the "Issue Date") at the rate of 9.00% per annum payable semi-annually in arrear on 11 November and 11 May in each year (each, an "Interest Payment Date"), subject as provided in Condition 8 (*Payments*). 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".

(b) *Cessation of Interest*

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (as well after as before 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 Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Calculation of Interest for an Interest Period*

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) *Calculation of Interest for any other period*

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and 7(d) (*Calculation of Interest for any other period*) by the Principal Paying Agent shall, in the absence of manifest error, be binding on all parties.

8. Payments

(a) *Principal*

Payment of principal in respect of the Notes and payment of interest due 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.

(b) *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.

(c) *Record Date*

"Record Date" means the fifteenth day before the due date for the relevant payment.

(d) *Payments*

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and (b) (*Interest and other Amounts*) will be made by United States 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. However, 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 United States 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(a) (*Principal*), if later, on the business day on which the relevant Note is surrendered as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

(e) *Agents*

The names of the initial Paying and Transfer Agents and Registrar and their specified offices are set out below. The Issuer reserves the right under the Agency Agreement at any time with the prior written approval of the Trustee to remove any Paying and Transfer Agent or the Registrar and to appoint other or further Paying and Transfer Agents or another Registrar, provided that it will at all times maintain (i) a Principal Paying and Transfer Agent, (ii) Paying and Transfer Agents in at least two major European cities approved by the Trustee, including London, for so long as the Notes are listed on the Official List of the Financial Services Authority and admitted to trading on the Gilt Edged and Fixed Income Interest Market of the London Stock Exchange plc. (the "**London Stock Exchange**"), (iii) a Paying 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 European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; 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 15 (*Notices*).

(f) *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. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) *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, (ii) if a cheque mailed in accordance with this Condition arrives after the date for payment.

(h) *Business Days*

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

9. Redemption and Purchase

(a) *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 11 May 2016, subject as provided in Condition 8 (*Payments*).

(b) *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 Noteholders (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 (i) the Issuer has or will become obliged to pay on the next date on which any amount would be payable with respect to the Notes additional amounts as provided or referred to in Condition 10 (*Taxation*) with respect to Kazakstan withholding taxes imposed at a rate in excess of 15% as a result of any change in, or amendment to, the laws or regulations of the Republic 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 but excluding any such change or amendment which obliges the Issuer to pay additional amounts in respect of Notes held by or on behalf of a person resident, domiciled or organised in the Republic of Kazakhstan, in respect of whom no additional amounts would be required to be paid in relation to a payment of interest on the Notes if it were required to be made on 8 May 2006), which change or amendment becomes effective on or after 8 May 2006 and (ii) such obligation cannot be avoided by the Issuer 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 would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (x) 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 (y) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts 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 (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

(c) *No other redemption*

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(a) and 9(b) (*Redemption for Taxation Reasons*) above.

(d) *Purchase*

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase for its account the Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*).

(e) *Cancellation of Notes*

All Notes which are redeemed pursuant to Condition 9(b) (*Redemption for Taxation Reasons*) or submitted for cancellation pursuant to Condition 9(d) (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes listed on the Official List of the Financial Services Authority and admitted to trading on the Gilt Edged and

Fixed Income Interest Market of the London Stock Exchange plc., the Issuer shall promptly inform the London Stock Exchange of the cancellation of any Notes under this Condition 9(e) (*Cancellation of Notes*).

10. Taxation

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

(a) *Other Connection*

by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Republic of Kazakhstan other than the mere holding of the Note;

(b) *Presentation more than 30 days after the Relevant Date*

more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days;

(c) *Payment to Individuals*

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) *Payment by another Paying and Transfer Agent*

by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying and Transfer Agent in a Member State of the European Union.

(e) *Taxing jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Kazakhstan, references in this Condition 10 (*Taxation*) to the Republic of Kazakhstan shall be construed as references to the Republic of Kazakhstan and/or such other jurisdiction.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

The Trust Deed provides that if and for so long as the Notes are represented by a Global Note Condition 10(a) (Other Connection) will not apply to any of the Notes unless the Trustee agrees that such Condition shall apply.

11. 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.

12. 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 (subject in each case to being indemnified to its satisfaction) shall, 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:

(a) *Non-payment*

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

(b) *Breach of other obligations*

The Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 12 (*Events of Default*)) and, where such default or breach is, in the opinion of the Trustee, capable of remedy, such default or breach 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 by the Trustee; or

(c) *Cross-default*

(a) any Indebtedness for Borrowed Money of the Issuer or any of its Subsidiaries (i) becomes (or becomes capable of being declared) due and payable prior to the due date for the payment thereof by reason of default of the Issuer or (as the case may be) the relevant Subsidiary, or (ii) is not paid when due or within any originally applicable grace period, if any; or (b) any Indebtedness Guarantee given by the Issuer or any of its Subsidiaries is not honoured when due and called, provided that the amount of Indebtedness for Borrowed Money referred to in (a) above and/or the amount payable under any Indebtedness Guarantee referred to in (b) above individually or in the aggregate exceeds U.S.$5,000,000 (or its equivalent in any other currency or currencies (as determined by the Trustee)); or

(d) *Judgment default*

A judgment or order or arbitration award for the payment of an aggregate amount in excess of U.S.$5,000,000 (or its equivalent in any other currency or currencies) is rendered or granted against the Issuer or any Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or

(e) *Bankruptcy*

(a) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any of its Material Subsidiaries or all or substantially all of their respective properties 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

(b) the Issuer or any of its Material Subsidiaries shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be 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, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any of its Material Subsidiaries, as the case may be, or in respect of its 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 or any of its Material Subsidiaries commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, materially prejudicial to the interests of the Noteholders (in the opinion of the Trustee in its sole discretion); or

(f) *Substantial Change in Business*

The Issuer 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 in its sole discretion) materially prejudicial to the interests of the Noteholders; or

(g) *Maintenance of Business*

The Issuer fails to take any action as is required of it under applicable banking regulations in the Republic of 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 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

(h) *Material Compliance with Applicable Laws*

The Issuer fails to comply in any (in the opinion of the Trustee) material 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 Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect; or

(i) *Invalidity or unenforceability*

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

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

(c) all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 12(i) (*Invalidity or unenforceability*), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(j) *Government intervention*

(a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary is condemned, seized, nationalised or otherwise appropriated by any person acting under the authority of any national, regional or local government; or

(b) the Issuer or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 12(j) *(Government Intervention*), the Trustee is of the opinion in its sole discretion that such occurrence is materially prejudicial to the interests of the Noteholders.

As used in this Condition 12 (*Events of Default*), "Material Subsidiary" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 10% of the consolidated gross assets or, as the case may be, consolidated gross revenues of the Issuer and its consolidated Subsidiaries and for these purposes (i) the gross assets and gross revenues 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 and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements, in each case prepared in accordance with IFRS.

13. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Paying and Transfer Agent with its specified office in London 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 may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "Reserved Matter")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

(b) *Written resolution*

A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(c) *Modification without Noteholders' consent*

The Trustee may, without the consent of the Noteholders agree (a) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (b) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

15. Notices

Notices to Noteholders will be valid if published, for so long as the Notes are listed on the Official List of the Financial Services Authority and admitted to trading on the Gilt Edged and Fixed Income Interest Market of the London Stock Exchange plc. and the rules of such exchange so require, in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as any of the Notes are represented by a Global Note, notices required to be published in accordance with Condition 15 (*Notices*) may be given by delivery of the relevant notice to the Euroclear Operator and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided: (i) that such notice is also delivered to the London Stock Exchange; and (ii) so long as the Notes are listed on the Official List of the Financial Services Authority and admitted to trading on the Gilt Edged and Fixed Income Interest Market of the London Stock Exchange plc. and the rules of the London Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times).

16. Trustee

(a) *Indemnification*

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

(b) *Exercise of power and discretion*

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

(c) *Enforcement; Reliance*

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do unless:

(i) it has been so requested in writing by the holders of a least one-fifth in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified or provided with security to its satisfaction.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer with the Conditions (including Conditions 5 (*Negative Pledge and Certain Covenants*) and 12 (*Events of Default*)) and may rely upon the information provided pursuant to Condition 5(e) (*Provision of Financial Information*) and the certificates provided pursuant to Condition 5(f) (*Certificate of Directors*).

(d) *Failure to act*

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

(e) *Confidentiality*

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the London Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer.

17. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount ("OID"), as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

18. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable under these Conditions or such order or judgment into another currency (the "second currency") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Registrar or any Paying and Transfer Agent with its specified office in London against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19. Governing Law; Jurisdiction and Arbitration

(a) *Governing law*

The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English Law.

(b) *Submission to Jurisdiction; Arbitration*

The Issuer has in the Trust Deed (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated Bracewell & Giuliani LLP at 1 Cornhill, London EC3V 3ND to accept service of any process on its behalf in England; (iv) consented to the enforcement of any judgement; (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (vi) agreed that the Trustee may elect by written notice to the Issuer that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration as at present in force and as modified by the Trust Deed.

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 and Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note will be deposited on or about the Closing Date with The Bank of New York, as common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for such common depositary. 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 Certificate" 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, which is expected to be 11 May 2006, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. 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 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 in minimum principal amounts of U.S.$250,000 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 followso (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 the Notes for its own account or for the account of such a qualified institutional buyer and (C) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A.

(ii) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below.

(iii) The Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Bank determines otherwise in accordance with applicable law:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED 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 BANK THAT

(A) THIS NOTE (AND ANY INTERESTS HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE BANK OR A SUBSIDIARY OF THE BANK, (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.

(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 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 Offering Circular 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 Bank or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes 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 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

A Global Note will become exchangeable for Note Certificates in definitive form if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*)) occurs. In such circumstances, such Note Certificates (“Restricted Note Certificates” in the case of those to be delivered in exchange for the Restricted Global Note and “Unrestricted Note Certificates” in the case of those to be delivered in exchange for the Unrestricted Global Note) will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Bank will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

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 the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Bank 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 Bank and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) a fully completed, signed certification substantially in the form contained in the Agency Agreement to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, a certification that the transfer is being made in compliance with the provisions of Rule 144A or, as the case may be, Regulation S. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “– Transfer Restrictions”. Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under "– Transfer Restrictions", the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (*Transfer of Notes*) 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 Bank 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 Bank and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Bank 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 and Clearstream, Luxembourg

So long as Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Bank, 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 depositary 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.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the fifteenth day before the due date for such payment (the "Record Date"). Principal and interest with respect to the Restricted Note Certificates and the Unrestricted Note Certificates on redemption will be paid to the holder shown on the register on the Record Date upon delivery and surrender of the relevant Note Certificate. 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 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 and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Clearstream, Luxembourg and Euroclear, none of Euroclear or Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Bank, 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 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

Deutsche Bank Securities Inc. and ING Bank N.V., London Branch (the “Joint Lead Managers”), JSC ATF Banks and SC Parex Banka (together with the Joint Lead Managers, the “Managers”), have, pursuant to a subscription agreement (the “Subscription Agreement”) dated 8 May 2006, jointly and severally agreed with the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Bank has agreed to pay certain costs and expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Bank. The Bank has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States

The Notes 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 provided that Notes sold to qualified institutional buyers in reliance on Rule 144A by the Managers will be sold in minimum principal amounts of U.S.$250,000.

ING Bank N.V., London Branch will offer notes in the United States through its selling agent, ING Financial Markets LLC, a US registered broker-dealer.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (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:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Company; and

(b) 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 only 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, in compliance with the laws of Kazakhstan.

General

No action has been or will be taken in any jurisdiction by the Bank or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Bank and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

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. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Kazakhstan Taxation

Under Kazakhstan's laws as presently in effect, interest payable by a Kazakhstan obligor to (i) an individual who is not a resident of Kazakhstan or to a legal entity that is neither established under Kazakhstan law nor has its actual governing body (place of actual management) in or maintains a permanent establishment in or has a taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") or (ii) residents of Kazakhstan or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, "Kazakhstan Holders") other than individuals, banks resident in Kazakhstan and Kazakhstan investment funds or accumulative pension funds, will be subject to Kazakhstan withholding tax at a rate of 15 per cent., unless in the case of the Non-Kazakhstan Holders, it is reduced by an applicable double taxation treaty (although there can be no assurance that such relief will be obtained). Noteholders entitled to the benefits of the double taxation treaties between Kazakhstan and certain countries, including, without limitation, Germany, Italy, Sweden, the United Kingdom or the United States would be entitled to a reduced rate of withholding tax on interest of 10 per cent. The Bank has agreed to pay additional amounts in respect of such withholding, subject to certain exceptions. See "Terms and Conditions of the Notes-Condition 9 (*Taxation*)". The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts of Kazakhstan and, therefore, there may be some doubt as to whether they would enforce such an agreement.

Gains realised by Non-Kazakhstan Holders or Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes in Kazakhstan will be subject to Kazakhstan income tax, unless the Notes are listed on the "A" or "B" lists of the KASE or, in the case of Non-Kazakhstan Holders, such income tax is reduced by an applicable double taxation treaty. As from 1 January 2007, such gains will not be subject to Kazakhstan income tax if the Notes are included as of the date of sale in one of the two highest categories of listing on the KASE and the sale is made through an open auction on the KASE.

Under the terms of current legislation, holders that realise such a gain and do not qualify for an exemption under double tax treaty are obliged to file a tax declaration with the Kazakh tax authorities. There is, however, uncertainty as to how the Kazakh tax authorities would assess such tax on non-resident foreign holders of Notes. Prospective purchasers and holders of Notes should consult their own professional advisers as to the tax consequences of them holding or transferring the Notes.

United States Federal Income Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a holder thereof. This summary deals only with initial purchasers of Notes at the issue price that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes. A "Non-U.S. Holder" is a beneficial owner of Notes other than a U.S. Holder.

The U.S. federal income tax treatment of a partnership, or a partner in a partnership, that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and the Republic of Kazakhstan (the "Treaty"), all as currently in effect and available and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO 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 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 ADVISOR.

Payments of Interest

General. It is expected and this discussion assumes that the issue price of the Notes will equal the stated principal amount of the Notes. 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 paid by the Issuer on the Notes constitutes income from sources outside the United States.

Effect of Kazakhstan Withholding Taxes. As discussed in "Kazakhstan Taxation", under current law payments of interest on the Notes to foreign investors are subject to a 15% Kazakhstan withholding tax. The rate of withholding tax applicable to U.S. Holders that are eligible for benefits under the Treaty is reduced to a maximum of 10%. Subject to certain exceptions, the Issuer is liable for the payment of additional amounts to U.S. Holders (see "Terms and Conditions of the Notes - Condition 10 (Taxation)") so that U.S. Holders receive the same amounts they would have received had no Kazakhstan withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Kazakhstan taxes withheld by the Issuer with respect to a Note, and as then having paid over the withheld taxes to the Kazakhstan taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Kazakhstan income taxes withheld by the Issuer. For purposes of the foreign tax credit limitation, foreign source income is classified in one of several "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. In taxable years beginning before 2007, interest on the Notes generally will constitute foreign source income in the "high withholding tax interest" basket if the Notes are subject to Kazakhstan withholding tax at a rate of 5% or higher. If the Notes are not subject to such a withholding tax, or in any case in taxable years beginning after 2006, interest generally will be either "passive category income" or "general category income". In certain circumstances a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for Kazakhstan taxes imposed on a payment of interest if the U.S. Holder has not held the Notes for at least 16 days during the 31-day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of these Kazakhstan taxes.

Subject to the discussion below under the caption "Backup Withholding Tax and Information Reporting", payments of interest on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless such income is effectively connected with the conduct by such Non- U.S. Holder of a trade or business in the United States.

Purchase, Sale and Retirement of the Notes

A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost. A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source gain or loss. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

Subject to the discussion below under the caption "Backup Withholding Tax and Information Reporting", any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange or retirement and certain other conditions are met.

Backup Withholding Tax and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of, Notes within the United States, or by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury Regulations. Backup withholding tax may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding tax. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax. Payments within the United States or by a U.S. paying agent or other U.S. intermediary of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28% for years through 2010.

In the case of payments to a "foreign simple trust," a "foreign grantor trust" or a "foreign partnership" (other than payments to a foreign simple trust, a foreign grantor trust or foreign partnership that qualifies as a "withholding foreign trust" or a "withholding foreign partnership" within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States), the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a payee that is not a United States person only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is incorrect. Holders should consult their tax advisers as to their qualification for exemption from backup withholding tax and the procedure for obtaining an exemption.

European Union Taxation

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another 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 Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Unrestricted Global Note is 25372328 and the Common Code for the Restricted Global Note is 25372395. The International Securities Identification Number for the Unrestricted Global Note is XS025372381 and the International Securities Identification Number for the Restricted Global Note is XS025373950.

2. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange plc. for such Notes to be admitted to trading on the London Stock Exchange plc.'s Gilt Edged and Fixed Interest Market.

3. In addition, the Bank shall cause the Notes to be listed on the Kazakhstan Stock Exchange.

4. So long as any of the Notes remains listed on the Official List of the Financial Services Authority and admitted to trading on the Gilt Edged and Fixed Income Interest Market of the London Stock Exchange plc., copies in English of the following documents will, when published, be available from the specified office of the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted)

   (a) the Charter of the Company;

   (b) copies of the authorisations listed below;

   (c) a copy of this Prospectus, together with any supplement to this Prospectus;

   (d) the Agency Agreement;

   (e) the Trust Deed, which includes the forms of the Global Notes and the definitive note certificates; and

   (f) the audited consolidated financial statements of the Bank for the years ended 31 December 2005, 2004 and 2003.

5. The Bank has obtained all necessary consents, approvals and authorisations required in connection with the issue and performance of the Notes. The issuance of the Notes was authorised by the Bank by a resolution of the board passed on 13 March 2006 and a decision of the general shareholders' meeting passed on 17 April 2006.

6. The Bank's independent auditors are Ernst & Young. The Bank's consolidated financial statements for the years ended 31 December 2005, 2004 and 2003, included in this Prospectus, were audited by Ernst & Young. Ernst & Young's audit report is included on page F-4 of this Prospectus.

7. The Trust Deed provides that any certificate or report of any expert called for by or provided to the Trustee in accordance with or pursuant to the Conditions or the Trust Deed may be relied upon by the Trustee without liability to the Noteholders, whether or not the expert's liability in respect thereof is limited by a monetary cap or otherwise.

8. Since 31 December 2005. Since 31 December 2005, there has been no significant change in the financial or trading position of the Bank and its subsidiaries nor any material adverse change in the prospects of the Bank and its subsidiaries

9. Neither the Bank nor any of its subsidiaries are, nor have been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank or its subsidiaries are aware) during the 12 months before the date of this Prospectus which may have, or have had in the recent past, significant effects on the Bank or its subsidiaries' financial position or profitability.

10. The Bank has not entered into any material contracts outside the ordinary course of its business which could result it being under an obligation or entitlement that is material to the Bank's ability to make payments under the Notes.

11. The total fees and expenses in connection with the admission of the Notes to trading on the London Stock Exchange plc.'s Gilt Edged and Fixed Interest Market are expected to be approximately U.S.$1,017,300.

INDEX TO FINANCIAL STATEMENTS

Consolidated Financial Statements as at and for the Years Ended 31 December 2005, 2004 and 2003

ATF Bank

Consolidated Financial Statements

December 31, 2005, 2004 and 2003

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REPORT OF INDEPENDENT AUDITORS

FINANCIAL STATEMENTS:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*:*

!GRAPHIC "OPINION_TIFF" TO BE INSERTED!

CONSOLIDATED BALANCE SHEET

At December 31, 2005

	Notes	*2005*	*2004*	*2003*
				(Thousands of Kazakh Tenge)
Assets				
Cash and cash equivalents	4	33,049,949	14,047,880	5,835,819
Obligatory reserves	5	4,264,255	2,389,710	1,775,133
Amounts due from credit institutions	6	3,391,378	3,511,038	—
Financial assets at fair value through profit or loss	7	26,379,619	8,650,301	23,890,146
Investment securities:				
– available-for-sale	8	33,015,441	707,475	—
– held-to-maturity	8	—	26,008,120	—
Commercial loans and advances	9,10	244,874,389	112,090,157	60,487,547
Premises and equipment	11	5,240,414	3,316,174	2,279,691
Insurance reserves, reinsurance share	12	3,537,255	156,257	189,823
Current tax assets		385,626	180,294	176,480
Deferred tax assets	13	—	514,982	85,787
Investments in associates	14	169,480	313,143	—
Other assets		4,761,137	2,016,365	919,221
Total assets		359,068,943	173,901,896	95,639,647
Liabilities				
Amounts due to the Government and NBK	15	9,260,442	3,340,948	3,445,225
Amounts due to credit institutions	16	83,643,375	38,762,706	33,637,685
Amounts due to customers	17	116,681,855	68,746,828	44,825,775
Insurance reserves	12	4,217,523	515,510	349,054
Debt securities issued	18	98,429,845	43,307,137	2,848,226
Subordinated debt	19	17,779,474	259,695	1,497,743
Provisions	10	283,270	253,679	158,964
Other liabilities		1,228,607	535,404	534,742
Total liabilities		331,524,391	155,721,907	87,297,414
Shareholders' equity:				
Share capital:				
– common shares	20	16,600,000	12,870,761	4,339,523
– preferred shares	20	3,400,000	1,900,000	1,900,000
Additional paid-in capital		242,185	201,900	201,900
Reserves		684,921	465,325	465,325
Retained earnings		6,427,584	2,742,003	1,435,485
Attributable to shareholders of the parent		27,354,690	18,179,989	8,342,233
Minority interest		189,862	—	—
Total shareholders' equity		27,544,552	18,179,989	8,342,233
Total liabilities and shareholders' equity		359,068,943	173,901,896	95,639,647
Financial commitments and contingencies	**21**			

Signed and authorized for release on behalf of the Board of the Bank

Timur Issatayev	*Chairman of the Board*

Aida Derevyanko *Chief Accountant*

March 24, 2006

The accompanying notes on pages F-11 to F-53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2005

	Notes	*2005*	*2004*	*2003*
			(Thousands of Kazakh Tenge)	
Interest income				
Loans		*21,690,614*	*10,992,017*	*6,655,362*
Securities		*1,964,704*	*1,465,739*	*1,115,935*
Credit institutions		*766,093*	*185,902*	*112,307*
		24,421,411	*12,643,658*	*7,883,604*
Interest expense				
Deposits		*(5,146,252)*	*(2,794,551)*	*(2,126,092)*
Borrowings		*(2,756,301)*	*(1,437,454)*	*(957,269)*
Subordinated debt		*(916,031)*	*(62,585)*	*(130,020)*
Debt securities issued		*(7,318,762)*	*(1,513,328)*	*(12,981)*
		(16,137,346)	*(5,807,918)*	*(3,226,362)*
Net interest income		*8,284,065*	*6,835,740*	*4,657,242*
Impairment of interest earning assets	*10*	*(2,101,002)*	*(2,894,106)*	*(1,693,954)*
		6,183,063	*3,941,634*	*2,963,288*
Fee and commission income	*22*	*3,190,309*	*2,349,227*	*1,635,435*
Fee and commission expense	*22*	*(463,393)*	*(428,114)*	*(219,780)*
Fees and commissions		*2,726,916*	*1,921,113*	*1,415,655*
Gains less losses from financial assets at fair value through profit or loss		*61,470*	*455,832*	*307,734*
Gains less losses from available-for-sale securities		*5,040*	*15,460*	*—*
Dealing gains less losses on precious metals		*(7,579)*	*1,533*	*35,160*
Gains less losses from foreign currencies:				
– dealing		*1,239,560*	*780,724*	*527,928*
– translation differences		*(45,837)*	*(121,799)*	*(76,186)*
Underwriting income	*23*	*1,009,964*	*810,282*	*436,630*
Share of income from associates	*14*	*39,708*	*49,787*	*—*
Other income		*585,860*	*60,752*	*79,021*
Non interest income		*2,888,186*	*2,052,571*	*1,310,287*
Salaries and benefits	*24*	*(3,047,003)*	*(2,481,425)*	*(1,685,764)*
Administrative and other operating expenses	*24*	*(2,365,775)*	*(1,702,175)*	*(1,056,381)*
Depreciation and amortization	*11*	*(590,023)*	*(378,321)*	*(251,008)*
Taxes other than income taxes		*(402,720)*	*(311,180)*	*(219,568)*
Other provisions	*10*	*(134,482)*	*(82,961)*	*(127,992)*
Insurance claims incurred	*12*	*(430,863)*	*(332,520)*	*(133,305)*
Non interest expense		*(6,970,866)*	*(5,288,582)*	*(3,474,018)*
Income before income tax expense		*4,827,299*	*2,626,736*	*2,215,212*
Income tax expense	*13*	*(771,077)*	*(306,894)*	*(759,199)*
Net income		*4,056,222*	*2,319,842*	*1,456,013*

Attributable to:

Equity holders of the parent		*4,045,552*	*2,319,842*	*1,456,013*
Minority interest		*10,670*	*—*	*—*
Basic and diluted earnings per share, (Tenge)	***25***	*235*	*224*	*248*

The accompanying notes on pages F-11 to F-53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2005

	Attributable to shareholders of the parent									*Minority Interest*	*Total shareholders' equity*
	Share Capital-Common Shares	*Share Capital-Preferred Shares*	*Additional paid-in capital*	*Treasury stock*	*General Reserves*	*Retained earnings*	*Revaluation reserve of available-for-sale securities*	*Currency translation reserve*	*Total*		
									(Thousands of Kazakh Tenge)		
At December 31, 2002	2,700,000	400,000	193,306	(26)	465,325	1,384,212	—	—	5,142,817	—	5,142,817
Net income	—		—	—	—	1,456,013	—	—	1,456,013	—	1,456,013
Total income	—	—	—	—	—	1,456,013	—	—	1,456,013	—	1,456,013
Acquiring minority interest – share conversion	20,180	—	8,545	—	—	—	—	—	28,725	—	28,725
Dividends capitalized	902,782	—	—	—	—	(902,782)	—	—	—	—	—
Dividends declared	—	—	—	—	—	(159,314)	—	—	(159,314)	—	(159,314)
Sale of treasury stock	—	—	—	26	—	—	—	—	26	—	26
Dividends declared – preferred shares	—	—	—	—	—	(240,807)	—	—	(240,807)	—	(240,807)
Dividends declared – common shares	—	—	—	—	—	(101,837)	—	—	(101,837)	—	(101,837)
Capital contributions	716,561	1,500,000	49	—	—	—	—	—	2,216,610	—	2,216,610
At December 31, 2003	4,339,523	1,900,000	201,900	—	465,325	1,435,485	—	—	8,342,233	—	8,342,233
Net income	—	—	—	—	—	2,319,842	—	—	2,319,842	—	2,319,842
Total income	—	—	—	—	—	2,319,842	—	—	2,319,842	—	2,319,842
Dividends capitalized	588,078	—	—	—	—	(588,078)	—	—	—	—	—
Dividends declared	—	—	—	—	—	(106,246)	—	—	(106,246)	—	(106,246)
Dividends declared – preferred shares	—	—	—	—	—	(319,000	—	—	(319,000	—	(319,000

						)			)		)
Capital contributions	7,943,160	—	—	—	—	—	—	—	7,943,160	—	7,943,160
At December 31, 2004	12,870,761	1,900,000	201,900	—	465,325	2,742,003	—	—	18,179,989	—	18,179,989

	Attributable to shareholders of the parent									*Minority Interest*	*Total shareholders' equity*
	Share Capital-Common Shares	*Share Capital-Preferred Shares*	*Additional paid-in capital*	*Treasury stock*	*General Reserves*	*Retained earnings*	*Revaluation reserve of available-for-sale securities*	*Currency translation reserve*	*Total*		
									(Thousands of Kazakh Tenge)		
At December 31, 2004	12,870,761	1,900,000	201,900	—	465,325	2,742,003	—	—	18,179,989	—	18,179,989
Fair value change of available-for-sale securities, net of tax	—	—	—	—	—	—	(139,269)	—	(139,269)	1,117	(138,152)
Realised fair value change of available-for-sale securities	—	—	—	—	—	—	(5,040)	—	(5,040)	—	(5,040)
Exchange difference	—	—	—	—	—	—	—	3,934	3,934	1,388	5,322
Total income and expense recognised directly in equity	—	—	—	—	—	—	(144,309)	3,934	(140,375)	2,505	(137,870)
Net income	—	—	—	—	—	4,045,552	—	—	4,045,552	10,670	4,056,222
Total income	—	—	—	—	—	4,045,552	(144,309)	3,934	3,905,177	13,175	3,918,352
Transfers	—	—	—	—	359,971	(359,971)	—	—	—	—	—
Minority interest arising on acquisition of subsidary	—	—	—	—	—	—	—	—	—	176,687	176,687
Capital contributions	3,729,239	1,500,000	40,285	—	—	—	—	—	5,269,524	—	5,269,524
At December 31, 2005	**16,600,000**	3,400,000	242,185	—	825,296	6,427,584	(144,309)	3,934	27,354,690	189,862	27,544,552

The accompanying notes on pages F-11 to F-53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2005

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
Cash flows from operating activities:			
Net income before income tax expense and minority interest	4,827,299	2,626,736	2,215,212
Adjustments for:			
Depreciation and amortization	590,023	378,321	251,008
Income from associates	(39,708)	(49,787)	—
Impairment of interest earning assets	2,101,002	2,894,106	1,693,954
Other impairment and provision	134,482	82,961	127,992
Provision for claims, and change in unearned premium reserves	682,759	526,610	238,645
Loss on sale of premises and equipment	6,177	9,333	15,018
Unrealised foreign exchange loss/(gain)	49,293	299,148	(383,134)
Unrealized gain on securities	97,944	(285,195)	(147,068)
Income from acquisition of subsidiary	(4,938)	—	—
Operating income before changes in net operating assets	8,444,333	6,482,233	4,011,627
(Increase) decrease in operating assets:			
Obligatory reserves	(1,874,545)	(614,577)	(545,096)
Financial assets at fair value through profit or loss	(17,698,416)	15,115,732	(8,769,507)
Commercial loans and advances	(129,123,278)	(60,072,156)	(29,275,926)
Amounts due from credit institutions	573,177	(3,604,613)	—
Other assets	(1,993,625)	(913,208)	(310,554)
Increase (decrease) in operating liabilities:			
Amounts due to the Government and the NBK	5,796,669	(104,277)	2,010,056
Short-term borrowings received from credit institutions	43,055,567	3,022,214	16,936,237
Amounts due to customers	44,384,127	26,191,216	14,571,708
Claims paid net of reinsurance	(361,744)	(326,579)	(124,785)
Other liabilities	867,575	(14,337)	191,537
Net cash flow from operating activities before income tax	(47,930,160)	(14,838,352)	(1,304,703)
Income tax paid	(452,625)	(739,902)	(1,019,297)
Net cash flows from operating activities	**(48,382,785)**	(15,578,254)	(2,324,000)
Cash flows from investing activities:			
Cash received on acquisition of subsidiaries	709,272	—	—
Cash paid on acquisition of subsidiaries and associates	(300,859)	(212,540)	—
Purchases of premises and equipment	(2,245,635)	(1,374,922)	(800,276)
Proceeds from sale of premises and equipment	31,184	10,614	42,802
Purchases of intangible assets	(859,343)	(282,828)	(25,890)
Purchase of available-for-sale securities	(228,744,506)	(7,100,717)	—
Proceeds from sale of available-for-sale securities	217,250,143	6,275,169	—
Purchase of held-to-maturity securities	(12,081,688)	(47,139,565)	—
Proceeds from redemption of held-to-maturity securities	17,611,133	20,748,458	—
Net cash flows from investing activities	**(8,630,299**	(29,076,33	(783,364)

) 1)

	2005	2004	2003
		(Thousands of Kazakh Tenge)	
Cash flows from financing activities:			
Subordinated debt received	17,511,564	—	—
Subordinated debt repaid	—	(1,199,871)	(95,852)
Debt securities issued	53,095,947	42,477,951	2,848,226
Capital contributions	5,269,524	7,943,160	2,216,610
Sale (purchase) of treasury stock	—	—	26
Dividends paid (Note 20)	(198,000)	(410,246)	(366,846)
Long term borrowings received from credit institutions	—	4,680,683	—
Net cash flow from financing activities	**75,679,035**	53,491,677	4,602,164
Effects of exchange rates changes on cash and equivalents	336,118	(625,031)	(136,971)
Net change in cash and cash equivalents	**19,002,069**	8,212,061	1,357,829
Cash and cash equivalents at the beginning of year	**14,047,880**	5,835,819	4,477,990
Cash and cash equivalents at the end of year (Note 4)	**33,049,949**	14,047,880	5,835,819
Supplemental information:			
Interest received	21,804,662	11,971,787	7,073,820
Interest paid	12,728,151	4,438,669	3,169,065

The accompanying notes on pages F-11 to F-53 are an integral part of these consolidated financial statements.

1. Principal Activities

ATF Bank and subsidiaries ("the Group") provide retail, corporate banking and insurance services in Kazakhstan. The parent company of the Group, ATF Bank (the "Bank"), is registered as an open joint stock company and incorporated and domiciled in the Republic of Kazakhstan.

The Bank operates under a general banking license issued on September 2, 2005 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Institutions, which also allows the Bank to conduct operations with precious metals and foreign currency operations. The Bank also possesses licenses for securities operations and custody services from the National Bank of the Republic of Kazakhstan granted on November 27, 2003.

The Bank accepts deposits from the public, extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank has three subsidiaries and one associate (Note 2). The Bank's registered legal address is 100 Furmanov Avenue, Almaty, Republic of Kazakhstan.

The Bank has a primary listing on the Kazakhstani Stock Exchange and certain of its debt securities are listed on the Luxemburg Stock Exchange. At December 31, 2005 and 2004 the Group had thirty seven and thirty six branches located throughout Kazakhstan, respectively.

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), except per share amount and unless otherwise indicated. The KZT is utilized as the functional currency of the Bank as the shareholders, the managers and the regulators measure the Bank's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies. Financial statements of subsidiaries, domiciling out of Kazakhstan, have been translated to KZT with the translation effect recognized in the statement of changes in shareholders' equity. KZT is the presentation currency of the Group.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets at fair value through profit or loss and available-for-sale securities.

Changes in Accounting Policies

The International Accounting Standards Board ("IASB") has developed several new IFRSs and revised certain IASs. IFRS 3 "Business Combinations" replaced IAS 22 "Business Combinations" and SIC-9, SIC-22 and SIC-28. IFRS 3 `Business Combinations' and IAS 36 "Impairment of Assets" (revised in 2004) were consistently applied for all acquisitions that took place on or after March 31, 2004.

From January 1, 2005, IFRS 2 `Share-based Payment', IFRS 4 `Insurance Contracts', IFRS 5 `Non-current Assets Held for Sale and Discontinued Operations' as well as fifteen revised IASs are effective.

IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" (revised in 2004)

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. Upon acquisition the Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority proportion of the net fair values of those items.

The goodwill acquired in a business combination is recognized as an asset and initially is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized in accordance with IFRS 3.

Goodwill relating to acquisitions from March 31, 2004 is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from March 31, 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Additionally, for business combinations for which the agreement date is before March 31, 2004, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing goodwill amortization and to test for impairment annually at the cash generating unit level from January 1, 2005 (unless an event occurs during the year, which requires the goodwill to be tested more frequently).

IAS 27 “Consolidated and Separate Financial Statements”

Minority interests in net assets of the Group's subsidiaries are presented within equity, separately from parent shareholders' equity.

IAS 39 “Financial instruments: recognition and measurement”

Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity, through the statement of changes in equity.

The impact from the newly issued accounting guidance was not material for the Group.

IFRSs and IFRIC interpretations not yet effective

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

IAS 19 (amended 2004) “Employee Benefits”;

IAS 21 (amended 2005) “The Effects of Changes in Foreign Exchange Rates”;

IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”;

IFRS 6 “Exploration for and Evaluation of Mineral Resources”;

IFRS 7 “Financial Instruments: Disclosures”;

IFRIC 4 “Determining whether an Arrangement contains a Lease”;

IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”;

IFRIC 6 “Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment”;

IFRIC 7 “Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	*Holding %*			*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
	December 31						
	2005	*2004*	*2003*				
ATF Policy	100.0%	100.0%	100.0%	Kazakhstan	December 1999	Insurance	December 1999
Energobank OJSC	73.9%	—	—	Kyrgyzstan	August 1991	Bank	May-September 2005
Sibir Bank	100.0%	—	—	Russia	November 1992	Bank	November 2005

During 2004, the Bank acquired 34.4% of the share capital of Energobank OJSC, which had been accounted for under the equity method until April 30, 2005. On May 1, 2005, the Bank obtained control over the activities of Energobank OJSC by having a majority in the shareholders' council and appointing a new chairman to the Board followed by the decision to acquire an additional 18.1% of the Energobank's share capital by the end of July 2005. The Bank commenced consolidating Energobank OJSC within its financial statements starting from May 1, 2005. By the end of 2005, the Bank increased its holding in the share capital to 73.9% by additional contribution to the share capital of Energobank of KZT 135,378.

As of the purchase date, the estimated fair value of the Energobank's OJSC net assets as at May 1, 2005, comprised:

	May 1, 2005
Cash and cash equivalents	638,223
Amounts due from credit institutions	371,632
Available-for-sale securities	129,849
Loans to customers	1,663,097
Property and equipment and intangibles	195,490
Other assets	74,959
Amounts due to credit institutions	(154,680)
Amounts due to customers	(2,340,283)
Other liabilities	(45,850)
Net assets	532,437
Less minority interest	(349,066)
Share in net assets at the date of obtaining control/acquisition	(183,371)
Consideration paid	—
(Shortage)/ Excess of share in the net fair value of the identifiable assets and liabilities over consideration paid	—

The Bank acquired 100% of the share capital of Sibirbank CJSC (Russia) on November 2, 2005.

As of the purchase date, the estimated fair value of the net assets of Sibirbank CJSC comprised:

	November 2, 2005
Cash and cash equivalents	71,049
Loans to customers	147,637
Property and equipment and intangibles	2,909
Other assets	35,609
Amounts due to customers	(181,256)
Other liabilities	(12,311)
Net assets	63,637
Purchase consideration paid in cash	(58,699)
Excess share in the net fair value of the identifiable assets and liabilities over consideration paid recognised in income statement	4,938

As of the purchase dates of both subsidiaries, the estimated fair values of their net assets approximated carrying values.

The Energobank's financial results from May 1, 2005, the date of acquisition, to December 31, 2005 were KZT 52,599 net income. The Sibirbank's financial results from November 2, 2005, the date of acquisition, to December 31, 2005 were net loss of KZT 964. Had the Bank consolidated in its financial statement of income results of Energobank and Sibirbank starting from January 1, 2005, the revenue and net income would be KZT 40,843,665 and KZT 4,771,148, respectively.

Associate accounted for under the equity method

The following associates are accounted for under the equity method and included into other assets:

Associate	*Holding, %*			*Country*	*Activities*	*Share in net income*		
	December 31							
	2005	*2004*	*2003*			*2005*	*2004*	*2003*
National Pension Fund Otan	24.3%	24.3%	—	Kazakhstan	Pension Fund	16,995	37,298	—
Energobank OJSC	—	34.4%	—	Kyrgyzstan	Bank	22,713	12,489	—

Share of income from associates in the consolidated statement of income for the period ended December 31, 2005, includes income from Energobank OJSC of KZT 22,713, which was accounted for under the equity method during the first four months of 2005.

3. Summary of Significant Accounting Policies

Subsidiaries

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

Acquisition of Subsidiaries

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

The excess of purchase consideration over the Bank's share of the fair value of the net assets is recorded as goodwill. If the cost of the acquisition is less than the Bank's share of the fair value of the net assets of the subsidiary acquired the difference is recognized directly in the statement of income.

Minority interest represents the interest in Subsidiaries not held by the Group. The minority interest is presented in the consolidated balance sheet within shareholders' equity, separately from the parent shareholders' equity.

Increase in ownership interest in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Recognition of Financial Instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are recognized at fair value plus, in case of a financial asset of financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the 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. Securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Offsetting

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

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand, amounts due from NBK – excluding obligatory reserves, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory Reserves

Obligatory reserves represent mandatory reserve deposits and cash, which are not available to finance the Bank's daily operations and, are not considered as part of cash and cash equivalents for the purpose of 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.

Repurchase and Reverse Repurchase Agreements and Securities Lending

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

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

Financial Assets at Fair Value through Profit or Loss

A new category of financial instruments has been introduced, “Financial assets at fair value through profit or loss”. This category includes trading financial assets acquired for the purpose of selling in the near term. These assets are measured at fair value with recognition of gains or losses on re-measurement to fair value in net profit or loss. The financial assets at fair value through profit or loss are initially recognized at fair value and subsequently re-measured at fair value based on their market value. In determining market value, all financial assets at fair value through profit or loss are valued at the last bid price. Directly attributable transaction costs are expensed when incurred.

Investment securities

The Group classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity. The Group does not classify any financial assets as held-to-maturity if the Group had, during the current financial year or during the preceding two financial years sold, transferred or exercised a put option on more than insignificant portion of held-to-maturity investments before their maturity; and
- Securities that are not classified by the Bank as held-to-maturity or financial assets at fair value through profit or loss are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Available-for-sale investment securities are subsequently re-measured at fair value, which is equal to the market value as at the balance sheet date.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

Since a significant amount of the held-to-maturity securities were sold during the reporting period, the Bank is prohibited to classify any securities as held-to-maturity until January 1, 2008 according to IFRS.

Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax authorities and of the cities in which the Group has affiliates, branches and subsidiaries.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except were 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.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The Republic of Kazakhstan also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component in the statement of income.

Investments in Associates

The Groups' investment in its associates is accounted for under the equity method of accounting. This is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group (generally investments of between 20% to 50% in a company's equity). The investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value.

Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when there is objective evidence that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that are currently inherent from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying 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 the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and constructions	25
Furniture, fixtures and equipment	8
Vehicles	7
Computers	5

Leasehold improvements are amortized over the life of the related leased asset. 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. Impairment is recognized in the respective period and is included in administrative and operating expenses.

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

Amounts Due to Government, NBK, Credit Institutions and to Customers

Amounts due to the Government, NBK, credit institutions and to customers are initially recorded in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of income.

Debt Securities Issued

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

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 the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

Share capital, additional paid-in capital and treasury stock are recognized at the fair value of consideration received or paid. Purchases of treasury stock are recorded at nominal value with any premium or discount recorded in additional paid in capital. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Non-redeemable preferred shares are classified as equity.

Dividends on common shares are recognized as a reduction in shareholders' equity in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 “Events after the Balance Sheet Date” and disclosed accordingly.

Contingencies

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

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at market exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies (translation differences).

Underwriting Income

Underwriting income (loss) 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 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 accompanying consolidated balance sheets.

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

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

Reserve for Insurance Losses and Loss Adjustment Expenses

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

Due to the absence of prior experience, the reserve for incurred but not reported claims (“IBNR”) was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in current income.

Reinsurance

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

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

Reinsurance assets are recorded gross unless a right of offset exists and are included in the accompanying consolidated balance sheets within other assets.

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

Segment reporting

The Group's operations are highly integrated and primarily constitute a single industry segment, banking, that accounts for more than 95% of the Group's business. Accordingly for the purposes of IAS No. 14 “Segment Reporting” the Group is treated as one business segment. The Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Claims liability arising from insurance contracts

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

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
Correspondent accounts with other banks	12,834,827	9,671,876	1,617,342
Correspondent account with the NBK	9,043,005	565,265	262,132
Cash on hand	7,271,337	3,310,114	2,476,142
Short term deposits with other banks	3,900,780	—	478,036
Time deposits with the NBK	—	500,625	1,002,167
Cash and cash equivalents	**33,049,949**	14,047,880	5,835,819

Interest rates and maturity of the term deposits follow:

	2005		*2004*		*2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Short term deposits with other banks..............	7.0%	2006	—	—	8.0%-15.1%	2004
Time deposits with the NBK	—	—	2.5%	2005	4%	2004

At December 31, 2005, the top ten counterparty banks accounted for 63.16% (74.3% and 28.0% in 2004 and 2003, respectively) of total cash and cash equivalents and represented 75.8% (58.0% and 20.0% in 2004 and 2003, respectively) of the Group's total shareholders' equity.

At December 31, 2005 top ten counterparty banks accounted for 95.4% (96.0% and 83.0% in 2004 and 2003, respectively) of total correspondent accounts with other banks and represented 75.8% – 51% and 16.0% in 2004 and 2003, respectively) the Group's shareholders' equity.

5. Obligatory Reserves

Obligatory reserves represent correspondent account with the NBK allocated as obligatory reserves of KZT 4,260,089, KZT 2,389,710 and KZT 1,775,133 at December 31, 2005, 2004 and 2003, respectively and correspondent account with the Central Bank of Russia KZT 4,166 (2004 and 2003: nil).

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Such reserves must be held in either non-interest bearing deposits with NBK, gold or in physical cash and maintained based on average monthly balances of the aggregate of deposits with NBK and physical cash. The use of such funds is, therefore, subject to certain restrictions.

6. Amounts Due from Credit Institutions

Amounts due from credit institutions at December 31 comprise:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Time deposits...	3,235,378	1,548,577	—
Loans to local credit institutions..	156,000	783,389	—
Correspondent accounts with other banks	—	1,180,322	
	3,391,378	3,512,288	—
Less – Allowance for impairment..	—	(1,250)	—
Amounts due from credit institutions.......................................	**3,391,378**	3,511,038	—

At December 31, 2005, the annual interest rates earned by the Bank on time deposits ranged from 7.1% to 10.0% per annum (2004: 3.60% to 14.00%). The deposits mature in 2006-2010 (2004: February and May 2005). Correspondent accounts with other banks represent restricted amounts held with a counter bank as collateral for letter of credits.

As of December 31, 2004, inter-bank time deposits include KZT 1,306,781 (84% of time deposit) paced with one Russian bank.

7. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss consisted of the following at December 31:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Notes of the NBK	13,181,205	601,289	9,454,076
Treasury bills of the Ministry of Finance	6,110,160	4,340,452	6,559,534
US Treasury bills	2,308,014	—	2,581,952
Euronotes of the Republic of Kazakhstan	2,226,444	3,125,184	—
Bonds of local financial organizations	1,413,021	499,400	556,067
Corporate bonds	466,888	83,976	83,565
Government securities of OECD based countries	673,887	—	—
Sovereign bonds of the Republic of Kazakhstan	—	—	4,239,264
Equity investments	—	—	415,688
Financial assets at fair value through profit or loss	**26,379,619**	8,650,301	23,890,146
Subject to repurchase agreements	**10,004**	3,989,005	1,241,553

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

	2005		*2004*		*2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Notes of the NBK	3.0%-4.0%	2006	5.1%	2005	4.9%-5.5%	2004
Treasury bills of the Ministry of Finance	3.5%-7.0%	2006-2013	4%-8.3%	2005-2013	3.8%-16.8%	2004-2013
US Treasury bills	5.4%	2031	—	—	4.3%-5.4%	2013-2031
Euronotes of the Republic of Kazakhstan	11.1%	2007	11.1%	2007	—	—
Bonds of local financial organizations	7.5%-15.0%	2006-2015	8.5%-12.0%	2006-2009	6.3%-9.0%	2007-2009
Corporate bonds	8.0%-10.4%	2006-2012	8.0%-13.0%	2005-2010	8.0%-13.0%	2005-2010
Government securities of OECD based countries	4.6%	2008	—	—	—	—
Sovereign bonds of the Republic of Kazakhstan	—	—	—	—	11.2%-13.6%	2004-2007

8. Investment Securities

Available-for-sale securities at December 31 comprise:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Government securities of OECD based countries	10,033,843	—	—
Treasury bills of the Ministry of Finance	9,855,912	—	—
Bonds of foreign financial institutions	5,438,745	—	—
Corporate bonds	3,691,141	—	—
US Treasury bills	2,154,342	707,475	—
Bonds of local financial institutions	1,453,202	—	—
Sovereign bonds of the Republic of Kyrgyzstan	260,154	—	—
Notes of the NBK	128,102	—	—
	33,015,441	707,475	—

Interest rates and maturity of these securities follow

	2005		2004		2003	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Government securities of OECD based countries	3.5%-4.2%	2007-2008	—	—	—	—
Treasury bills of the Ministry of Finance	4.1%-8.9%	2006-2010	—	—	—	—
Bonds of foreign financial institutions	3.5%-8.1%	2008-2014	—	—	—	—
Corporate bonds	7.0%-9.0%	2006-2014	—	—	—	—
US Treasury bills	3.5%-4.2%	2006-2011	5.37%	2031	—	—
Bonds of local financial institutions	5.0%-9.0%	2007-2013	—	—	—	—
Sovereign bonds of the Republic of Kyrgyzstan	5.1%-13.9%	2006	—	—	—	—
Notes of the NBK	1.8%-3.1%	2006	—	—	—	—

As of December 31, 2005 securities in the total amount of KZT 4,731,713 were pledged as collateral against interbank borrowings.

Held-to-maturity securities comprise:

	2005		2004		2003	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Notes of the NBK	—	—	21,674,595	22,020,830	—	—
Treasury bills of the Ministry of Finance	—	—	1,325,137	1,300,000	—	—
US Treasury bills	—	—	3,008,388	2,990,000	—	—
	—	—	26,008,120	26,310,830		

Interest rates and maturity of these securities follow:

	2005		2004		2003	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Notes of the NBK	—	—	2.8%-5.1%	2005	—	—
Treasury bills of the Ministry of Finance	—	—	5.7%-6.4%	2006-2011	—	—
US Treasury bills	—	—	4.3%	2012-2014	—	—

9. Commercial Loans and Advances

Commercial loans and advances consisted of the following at December 31:

	2005	2004	2003
			(Thousands of Kazakh Tenge)

Commercial loans	251,385,322	117,016,420	63,481,410
Advances	1,137,874	577,135	403,340
	252,523,196	117,593,555	63,884,750
Less – Allowance for impairment	(7,648,807)	(5,503,398)	(3,397,203)
Commercial loans and advances	**244,874,389**	112,090,157	60,487,547

The Group's gross commercial loan portfolio is concentrated in the following main sectors at December 31:

	2005	*%*	*2004*	*%*	*2003*	*%*
				(Thousands of Kazakh Tenge)		
Wholesale trading:	46,855,912	18.6	21,565,067	18.3	14,416,121	22.6
— Working capital increase	34,516,206	13.7	17,855,641	15.2	10,939,444	17.1
— Purchase and sale of grain	4,750,804	1.9	1,756,685	1.5	815,378	1.3
— Purchase and sale of gasoline	4,046,702	1.6	1,730,482	1.5	2,648,203	4.1
— Agriculture	2,223,669	0.9	—	—	—	—
— Flour production and sale	1,318,531	0.5	222,259	0.2	13,096	0.1
Individuals	42,208,255	16.7	17,017,001	14.5	7,034,254	11.0
Services	32,186,042	12.7	4,648,118	4.0	2,628,779	4.1
Construction	29,328,396	11.6	10,570,038	9.0	9,600,197	15.0
Food industry	25,641,601	10.2	17,023,359	14.5	5,456,412	8.5
Agriculture	13,558,870	5.4	8,773,040	7.5	6,721,801	10.5
Retail trading	10,330,050	4.1	6,231,723	5.3	6,347,996	9.9
Hotel business	7,652,057	3.0	3,208,190	2.7	1,107,370	1.7
Transport	5,876,032	2.3	3,930,903	3.3	1,135,134	1.8
Textile industry	5,197,151	2.1	4,875,541	4.1	186,598	0.3
Real estate	3,637,970	1.4	1,211,382	1.0	240,466	0.4
Metallurgy	2,480,430	1.0	1,727,231	1.5	898,297	1.4
Mining	2,492,672	1.0	2,390,743	2.0	354,624	0.6
Oil and Gas	2,331,378	0.9	3,123,715	2.7	1,134,458	1.8
Chemical	1,694,110	0.7	776,564	0.7	862,879	1.4
Communications	723,044	0.3	1,866,056	1.6	517,762	0.8
Entertainment	639,559	0.3	264,287	0.2	217,078	0.3
Other	19,689,667	7.7	8,390,597	7.1	5,024,524	7.9
	252,523,196	100.0	117,593,555	100.0	63,884,750	100.0

At December 31, 2004, the largest ten borrowers accounted for 24.7% of the Group's gross commercial loans and advances (2004: 19.79%, 2003: 20.3%).

10. Allowance for Impairment and Provisions

The movements in the allowance for impairment were as follows:

	Loans to customers	*Due from Banks*	*Total*
	(Thousands of Kazakh Tenge)		
December 31, 2002	(1,595,876)	—	(1,595,876)
Charge	(1,693,954)	—	(1,693,954)
Write-offs	642,314	—	642,314
Recoveries	(749,687)	—	(749,687)
December 31, 2003	(3,397,203)	—	(3,397,203)
Charge	(2,892,856)	(1,250)	(2,894,106)
Write-offs	1,141,021	—	1,141,021
Recoveries	(354,360)	—	(354,360)
December 31, 2004	(5,503,398)	(1,250)	(5,504,648)
(Charge)/Reversal	(2,102,252)	1,250	(2,101,002)
Write-offs	2,729,875	—	2,729,875
Recoveries	(2,640,115)	—	(2,640,115)
Translation effect	(132,917)	—	(132,917)
December 31, 2005	**(7,648,807)**	—	(7,648,807)

The movements in allowances for other provisions were as follows:

	Other assets	*Letters of credit and guarantees*
		(Thousands of Kazakh Tenge)
December 31, 2002	(4,838)	(109,037)
Charge	(78,065)	(49,927)
Write-offs	1,910	—
Recoveries	(3,195)	—
December 31, 2003	(84,188)	(158,964)
Charge	11,754	(94,715)
Write-offs	4,916	—
Recoveries	(2,089)	—
December 31, 2004	(69,607)	(253,679)
Charge	(105,513)	(28,969)
Write-offs	12,758	—
Recoveries	(86)	(622)
December 31, 2005	**(162,448)**	(283,270)

11. Premises and Equipment

The movements on the Group's premises and equipment during the year were as follows:

Initial Cost	*Land and Buildings*	*Vehicles*	*Computers*	*Other assets*	*CIP*	*Total*
				(Thousands of Kazakh Tenge)		
At December 31, 2002	1,187,354	239,603	206,351	553,756	—	2,187,064
Additions	199,416	77,112	120,336	403,412	—	800,276
Disposal	(42,676)	(8,152)	(17,487)	(23,954)	—	(92,269)
At December 31, 2003	1,344,094	308,563	309,200	933,214	—	2,895,071
Additions	546,540	91,324	163,873	463,202	109,983	1,374,922
Disposal	(12,288)	(7,698)	(17,791)	(15,060)	—	(52,837)
At December 31, 2004	1,878,346	392,189	455,282	1,381,356	109,983	4,217,156
Acquisition of subsidiaries	130,434	9,325	22,854	35,785	—	198,398
Additions	1,176,036	241,641	173,522	654,227	209	2,245,635
Disposal	(24,624)	(17,028)	(25,214)	(39,186)	—	(106,052)
At December 31, 2005	**3,160,192**	626,127	626,444	2,032,182	110,192	6,555,137
Accumulated Depreciation						
At December 31, 2002	(80,316)	(53,972)	(114,332)	(180,071)	—	(428,691)
Charge	(38,023)	(32,167)	(58,148)	(92,800)	—	(221,138)
Disposals	2,987	4,525	13,450	13,487	—	34,449
At December 31, 2003	(115,352)	(81,614)	(159,030)	(259,384)	—	(615,380)
Charge	(58,957)	(47,958)	(85,348)	(126,228)	—	(318,491)
Disposals	1,978	4,072	15,729	11,110	—	32,889
At December 31, 2004	(172,331)	(125,500)	(228,649)	(374,502)	—	(900,982)
Charge	(82,982)	(75,617)	(122,125)	(201,708)	—	(482,432)
Disposals	3,775	15,218	21,173	28,525	—	68,691
At December 31, 2005	**(251,538)**	(185,899)	(329,601)	(547,685)	—	(1,314,723)
At December 31, 2005	**2,908,654**	440,228	296,843	1,484,497	110,192	5,240,414
At December 31, 2004	1,706,015	266,689	226,633	1,006,854	109,983	3,316,174
At December 31, 2003	1,228,742	226,949	150,170	673,830	—	2,279,691

Depreciation and amortization in the consolidated statements of income also include amortization of intangible assets of KZT 107,591, KZT 59,830and KZT 29,870 for 2005, 2004 and 2003 respectively.

12. Insurance Reserves

Insurance reserves comprised the following at December 31:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Unearned premiums, reinsurance share	3,534,096	153,696	166,961
Reserves for claims, reinsurance share	3,159	2,561	22,862
	3,537,255	156,257	189,823
Gross unearned premiums	(4,122,331)	(490,035)	(309,210)
Reserves for claims	(95,192)	(25,475)	(39,844)
	(4,217,523)	(515,510)	(349,054)
Net insurance reserves	**(680,268)**	(359,253)	(159,231)

Reserves have been established on the basis of information currently available, including potential outstanding loss notifications, experience with similar claims and case law. The reserve for claims incurred but not reported is actuarially determined by lines of business and is based on statistical claims' data for the period typical for loss development of the classes and sub-classes of business, the Group's previous experience and availability of data. While the management consider that the gross reserve for claims and the related reinsurance recoveries are fairly stated on the basis of the information available to them, the ultimate liability may vary as a result of subsequent information and events and may result in adjustments to the amounts provided.

Any adjustments to the amount of reserves will be reflected in the financial statements in the period in which the necessary adjustments become known and estimable.

The movements on claims reserves during 2005 were as follows:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Reserves for claims, January 1	25,475	39,835	30,120
Reserves for claims, reinsurers' share January 1	(2,561)	(22,862)	(21,658)
Net reserves for claims, January 1	**22,914**	16,973	8,462
Plus claims incurred	430,863	332,520	133,305
Less claims paid	(361,744)	(326,579)	(124,785)
Net reserves for claims, December 31	**92,033**	22,914	16,982

The movements on unearned premiums during 2005 were as follows:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Gross unearned premiums reserves, January 1	490,035	309,210	107,012
Unearned premiums reserves, reinsurance share, January 1	(153,696)	(166,961)	(70,103)
Net unearned premiums reserves, January 1	**336,339**	142,249	36,909
Change in unearned premiums reserves	3,632,296	180,825	202,198
Change in unearned premiums reserves, reinsurance share	(3,380,400)	13,265	(96,858)
Change in unearned premiums reserves, net	**251,896**	194,090	105,340
Unearned premiums, net	**588,235**	336,339	142,249

13. Income Taxes

The components of income tax expense were as follows for the years ended December 31:

	2005	2004	2003
	(Thousands of Kazakh Tenge)		
Current tax charge	256,095	1,016,822	844,986
Current tax of prior periods	—	(280,733)	—
Deferred tax charge (benefit)	514,982	(429,195)	(85,787)
Income tax expense	**771,077**	306,894	759,199

Reconciliation between the provision for income taxes in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the years ended December 31 is as follows:

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
IFRS income before tax	**4,827,299**	2,626,736	2,215,212
Statutory income tax	30%	30%	30%
Income tax computed at the statutory tax rate	1,448,190	788,020	664,563
Non deductible expenses:			
Non-deductible allowance	—	(167,500)	189,161
Interest on deposits	494,316	97,470	240,000
Non deductible business expenses	303,381	82,341	62,331
Other, net	21,838	63,349	4,866
Tax exempt income:			
Government securities	(389,256)	(409,598)	(355,078)
Income on long-term loans granted for modernization of property and equipment	(1,063,960)	(135,280)	(62,505)
Other	(60,657)	(37,518)	—
Income of subsidiaries taxed at different rate	17,225	25,610	15,861
Income tax expense	**771,077**	306,894	759,199

During 2003 the bank changed its estimate of prior year taxes in the amount of KZT 280,733 thousand to take a more prudent position with regard to the deductibility of certain impairment charges. During 2004 the tax authorities clarified the tax code with respect of those items, thus allowing those charges to be included as a deduction. Accordingly, the Bank adjusted its income taxes in 2004.

Deferred tax assets and liabilities comprised the following:

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
Tax effect of deductible temporary differences:			
Provision for loan impairment	—	422,938	—
Written off assets and provisions for other losses	306,508	334,805	161,048
Deferred tax assets	**306,508**	757,743	161,048
Tax effect of deductible temporary differences:			
Fixed assets	(272,498)	(208,913)	(75,261)
Associates accounted for equity method	(34,010)	(23,242)	—
Other	—	(10,606)	—
Deferred tax liabilities	**(306,508)**	(242,761)	(75,261)
Deferred tax assets	**—**	514,982	85,787

Kazakhstan currently has a number of laws related to various taxes imposed by both republican and regional governmental authorities. Applicable taxes include value added tax, income tax, a number of turnover-based taxes, 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.

14. Investments in Associates

At December 31, investments in associated companies comprised:

	2005	2004	2003
	(Thousands of Kazakh Tenge)		
Balance, beginning of the period	313,143	—	—
Purchase cost	—	263,356	—
Share of net income	39,708	49,787	—
Transfer due to acquisition and full consolidation	(183,371)	—	—
Investments in associates	**169,480**	313,143	—

For the full list of associates please refer to Note 2.

The following is a summary of the financial statements of associates as of December 31, 2005 and for the year then ended:

	2005		2004
	NPF Otan	*NPF Otan*	*EnergoBank*
	(Thousands of Kazakh Tenge)		
Cash and cash equivalents	25,833	37,854	305,916
Amounts due from credit institutions	—	—	770,284
Investment securities	376,486	333,306	164,452
Commissions receivable	38,202	16,581	—
Loans to customers	—	—	1,631,392
Due from credit institutions	45,181	55,232	—
Property and equipment and intangibles	16,932	14,386	193,680
Other assets	11,137	3,311	11,844
Amounts due to credit institutions	—	—	(218,774)
Amounts due to customers	—	—	(2,355,993)
Taxes payable	(2,708)	(5,065)	—
Other liabilities	(11,025)	(9,062)	(47,387)
Net assets	500,038	446,543	455,414

Statement of income for the years ended December 31, 2005 is presented below:

	2005		2004
	NPF Otan	*NPF Otan*	*EnergoBank*
	(Thousands of Kazakh Tenge)		
Interest income	—	—	295,695
Interest expense	—	—	(67,757)
Net interest income	—	—	227,938
Impairment of interest earning assets	—	—	(28,770)
Fee and commission, net	251,261	258,186	83,098
Administrative and other operating expenses	(153,203)	(90,000)	(224,228)
Income before income tax expense	98,058	168,186	58,038
Income tax expense	(28,120)	(14,696)	(21,733)
Net income	69,938	153,490	36,305

15. Amounts due to the Government and the NBK

At December 31, amounts due to the Government of the Republic of Kazakhstan and NBK consisted of the following:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
EBRD	6,349,854	—	—
Time deposit from the NBK	2,059,333	2,028,667	2,006,500
Kreditanshtalt fur Wideraufbau	678,806	906,549	922,694
Local municipal authorities	143,644	341,961	342,624
World Bank	28,805	63,771	173,407
Amounts due to the Government and the NBK	9,260,442	3,340,948	3,445,225

During 2005, the Bank received pass through loan from EBRD program. The Bank will be granting loans to the entities engaged in the export of producing goods. The credit line bears interest ranging from 5.0% to 7.4% and mature from 2006 to 2010. The Bank bears the credit risks related to the loans issued from the borrowings obtained from the EBRD.

At December 31, 2005, the Group had a KZT denominated time deposit from the NBK bearing interest at 6% (2004 – 6%, 2003 – 6.5%) per annum and maturing on July 6, 2006 (2004 – July 6, 2005, 2003 – February 5, 2004).

At December 31, 2005, 2004 and 2003, amounts due to the Government include a loan obtained under a program for co-financing development of small businesses within a framework agreement with Kreditanshtalt fur Wideraufbau (Germany). The balance outstanding at December 31, 2005, amounted to Euro 4,269,491 (2004: Euro 5,118,853, 2003: Euro 5,119,534) and matures between 2005 and December 2009. The interest rate on this indebtedness is 5% per annum, payable semi-annually. The Bank bears the credit risks related to the loans issued from the borrowings obtained from Kreditanshtalt fur Wideraufbau (Germany).

The Group participates in the small and medium size business development program funded by the local authorities of the Atyrau, Almaty and Karaganda regions. The loans mature between 2006 and 2007 and bear interest at rates up to 5.78% (2004 and 2003 – 7%) per annum.

At December 31, 2005, 2004 and 2003, the Group had a loan from the World Bank through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. The loan matures between 2005 and December 2007 and bears interest at 2.86% (2004 -2.05%, 2003-1.63%) per annum. The Bank bears the credit risks related to the loans issued from the borrowings obtained from the World Bank.

16. Amounts due to Credit Institutions

Amounts due to credit institutions consisted of the following at December 31:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Loans from foreign banks in USD	45,615,180	20,652,412	22,438,351
Time deposits from local banks	25,873,655	1,437,828	4,490,600
Loans from foreign banks in Euro	8,831,795	10,246,925	2,863,595
Loans from the Small Business Development Fund of Kazakhstan	1,968,489	1,393,014	1,761,001
Current accounts	1,316,521	1,329,573	5,502
Loans from foreign banks in Swedish Krona (“SEK”)	27,731	—	—
Repurchase agreements	10,004	3,702,954	1,120,071
Overnight deposits	—	—	958,565
Amounts due to credit institutions	**83,643,375**	38,762,706	33,637,685

The interest rates and maturities follow:

	2005		2004		2003	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Loans from foreign banks in USD	4.6%-8.8%	2006-2009	2.8%-6.1%	2005-2009	1.7% - 4.8%	2004-2009
Time deposits from local banks						
– USD	4.25%-6.5%	2006	3.0%	2005	3.25 %	2004
– KZT	0.5%-8.0%	2006	9.7%	2005	8.0%	2004
Loans from foreign banks in Euro	2.8%-5.3%	2006-2010	2.9%-6.0%	2005	2.8%-6%	2004
Loans from the Small Business Development Fund of Kazakhstan	3.6%-6.1%	2005-2008	5.2%-10.19%	2004-2007	5.2%-10.1%	2004-2007
Loans from foreign banks in SEK	4.3%-4.4%	2006	—	—	—	—
Repurchase agreements	7.0%	January 4, 2006	3.7%-7.0%	January 19, 2006	0.5% - 3.0%,	January 5, 2004

17. Amounts due to Customers

The amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and were analyzed as follows at December 31:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Customer current accounts:			
Commercial	45,312,597	18,825,197	15,334,203
Individuals	4,767,713	2,307,351	1,396,432
Term deposits:			
Commercial	43,340,168	34,163,151	19,556,674
Individuals	22,292,017	12,739,805	7,854,609
Held as security against letters of credit and guarantees	969,360	711,324	683,857
Amounts due to customers	**116,681,855**	68,746,828	44,825,775

At December 31 2005, 2004 and 2003 the Group's ten largest customers accounted for approximately 34.7%, 42.9% and 47.5% respectively, of the total amounts due to customers. An analysis of amounts due to customers by sector follows:

	2005	*%*	*2004*	*%*	*2003*	*%*
				(Thousands of Kazakh Tenge)		
Individuals	27,059,730	23.2	15,047,156	21.9	9,251,041	20.6
Financial activities	22,732,814	19.5	5,549,862	8.1	616,165	1.4
Transport and Communication	16,452,172	14.1	10,499,462	15.3	10,510,754	23.4
Non-credit financial companies	13,046,107	11.2	1,754,574	2.6	3,857,590	8.6
Oil and Gas	9,829,115	8.4	12,902,086	18.8	6,718,325	15.0
Trade	7,034,755	6.0	6,021,265	8.8	3,984,129	8.9
Construction	6,901,757	5.9	2,268,225	3.3	1,600,587	3.6
Manufacturing	5,298,539	4.5	4,176,236	6.1	743,176	1.7
Services provided to enterprises	2,606,483	2.2	3,074,764	4.5	759,727	1.7
Education	1,145,610	1.0	300,542	0.4	102,491	0.2
Energy	1,143,948	1.0	2,093,549	3.0	2,575,966	5.7
Agriculture	897,766	0.8	504,197	0.7	1,520,779	3.4
Metallurgy	687,294	0.6	990,390	1.4	655,753	1.5
Research and Development	651,489	0.6	565,684	0.8	527,056	1.2
Government	24,257	0.1	21,680	0.1	768,141	1.7
Others	1,170,019	0.9	2,977,156	4.2	634,095	1.4
Total	**116,681,855**	100.0	68,746,828	100.0	44,825,775	100.0

18. Debt Securities Issued

Securities issued at December 31 comprised:

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
USD denominated notes	94,751,991	39,189,711	—
KZT denominated bonds	4,531,640	4,533,136	2,919,723
	99,283,631	43,722,847	2,919,723
Own bonds held by the Group	—	—	(71,497)
	99,283,631	43,722,847	2,848,226
Less unamortized cost of issuance	(853,786)	(415,710)	—
Debt securities issued	**98,429,845**	43,307,137	2,848,226

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

	2005		2004		2003	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
USD denominated notes	8.1%-9.3%	2007-2012	8.5%-8.8%	2007-2009	—	—
KZT denominated bonds	8.5%	2008	8.5%	2008	8.5%	2008

In accordance with the terms of USD notes the Bank is required to maintain certain financial ratios, particularly with regard to liquidity, capital adequacy, and lending exposures. Management believes that the Bank maintains these ratios as of December 31, 2005 and 2004.

19. Subordinated Debt

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
KZT denominated notes	17,624,356	—	—
USD denominated subordinated bonds	1,346,525	1,343,551	1,497,743
Own USD subordinated bonds held by the Group	(1,069,274)	(1,083,856)	—
	17,901,607	259,695	1,497,743
Less unamortized cost of issuance	(122,133)	—	—
Subordinated debt	**17,779,474**	259,695	1,497,743

The interest rates and maturities of subordinated debt issued follow:

	2005		*2004*		*2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
KZT denominated notes	8.5%	2012-2014	—	—	—	—
USD denominated subordinated bonds	9.0%	2007	9.0%	2007	9.0%	2007

20. Shareholders' Equity

At December 31, 2005 the authorized share capital comprised 16,600,000 common and 3,400,000 preferred shares, which were fully paid by the year end (December 31, 2004: 12,870,761 and 1,900,000, December 31, 2003: 4,339,523 and 1,900,000). Each share has a nominal value of KZT 1. Each common share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 10 % per annum and do not have any voting rights.

Preferred share give the holder the right to participate in general shareholders' meeting without voting rights except in instance where decision are made in relation to reorganization and liquidation of the Bank, and where changes and amendments to the Bank's charter which restrict the rights of preferred shareholders are proposed. The preferred share has no rights of redemption or conversion but carry cumulative dividends per share at least of 10% of nominal value. If the Bank fails to pay dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of preferred shares have the right to dividends not less than declared dividends on common shares.

During 2005, the Bank paid dividends on preferred shares, which were declared in 2004. During 2004 the Bank declared and paid dividends on preferred shares of KZT 319,000. In May 2004, and in accordance with a general shareholders' meeting resolution, the Group declared dividends of KZT 694,324 on common shares (2003: KZT 1,163,933 on common shares), part of which was directed to the increase of Share Capital through the capitalization of dividends of KZT 588,078 (2003: KZT 902,782) and the rest amount of KZT 106,246 (2003: KZT 159,314) was paid as withholding tax.

Dividends payments comprise:

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
Dividends declared	—	106,246	261,151
Dividends declared on preferred shares	—	319,000	240,807
Unpaid declared dividends on preferred shares	—	(198,000)	(183,000)
Payment of previously declared dividends on preferred shares	198,000	183,000	47,888
	198,000	410,246	366,846

	2005	*2004*	*2003*
			(Thousands of Kazakh Tenge)
Dividends declared	—	106,246	261,151
Number of common shares as of the date of dividends declaration	—	9,783,043	4,339,523
Dividends per common shares, Tenge	—	11	60
Dividends declared on preferred shares	—	319,000	240,807
Number of preferred shares as of the date of dividends declaration	—	1,900,000	1,900,000
Dividends per preferred shares, Tenge	—	168	127

Nature and purpose of other reserves

General reserves

General reserves include income that is not distributable in accordance with shareholder's decision.

Revaluation reserve of available-for-sale securities

This reserve records fair value changes on available-for-sale investment securities.

Currency translation reserve

Currency translation reserve reflects the translation effect of the subsidiaries financial statements into KZT, which are domiciling out of Kazakhstan.

21. Commitments and Contingencies

Operating Environment

The Kazakhstani economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have higher than normal historical inflation and lack of liquidity in capital markets in the past, as well as an existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

At December 31, the Group's financial commitments and contingencies comprised the following:

	2005	2004	2003
	(Thousands of Kazakh Tenge)		
Undrawn loan commitments	33,305,967	17,929,827	7,543,664
Guarantees	15,029,449	16,107,883	6,363,603
Letters of credit	3,600,930	5,037,319	2,986,545
	51,936,346	39,075,029	16,893,812
Less – Provisions	(283,270)	(253,679)	(158,964)
Less – Cash collateral	(969,360)	(711,324)	(683,857)
Financial commitments and contingencies	**50,683,716**	38,110,026	16,050,991

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as involved in extend facilities to other customers.

The Group applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under a guarantee. Commercial letters of credit represent a financing transaction by the Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction. The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in bank, government securities, and other.

At December 31, 2005, the top ten guarantees accounted for 61.7% (2004: 70.3%, 2003: 67%) of total financial guarantees and represented 33.7% (2004: 63%, 2003: 51%) of the Group's total shareholders' equity. At December 31, 2005, the top ten letters of credit accounted for 63.5% (2004: 80.7%, 2003: 84%) of total commercial letters of credit and represented 8.3% (2004: 22.7%, 2003: 30%) of the Group's total shareholders' equity.

Insurance

The Group in 2005 obtained insurance coverage related to property, vehicles as motor insurance is obligatory in accordance with the legislation of the Republic of Kazakhstan, and insurance for responsibility of the employer.

22. Fee and Commission Income

Fees and commissions income for the year ended December 31, comprised the following:

	2005	2004	2003
	(Thousands of Kazakh Tenge)		
Settlement operations	1,009,357	690,824	510,818
Cash operations	773,621	480,589	311,468
Guarantees	458,198	385,934	248,500
Foreign currency trading	434,099	334,779	262,339
Debit/credit cards	251,009	199,113	149,636
Projects management	49,467	48,196	24,467
Cash collection	40,664	25,779	20,598
Reinsurance commission	26,506	26,177	8,071
Custodian activity	14,488	33,119	23,446
Bank references	118,408	113,068	62,799
Other	14,492	11,649	13,293
Fee and commission income	**3,190,309**	2,349,227	1,635,435

Fee and commission expense for the year ended December 31, comprised the following:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Debit/credit cards	(143,506)	(115,739)	(83,785)
Settlement operations	(95,956)	(75,704)	(42,747)
Insurance	(69,479)	(48,693)	(7,162)
Reinsurance commission	(48,343)	(73,276)	(11,357)
Foreign currency banknote transactions	(41,977)	(20,426)	(20,935)
Securities	(36,215)	(29,640)	(29,058)
Guarantees	(678)	(1,739)	(11,357)
Custodian services	(617)	(22,198)	(8,580)
Other	(26,622)	(40,699)	(4,799)
Fee and commission expense	**(463,393)**	(428,114)	(219,780)

23. Underwriting income

Underwriting income, for the year ended December 31 comprise the following:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Premiums written, gross	5,261,030	1,245,081	925,951
Ceded reinsurance share	(3,999,170)	(240,709)	(383,981)
Change in unearned premiums, net	(251,896)	(194,090)	(105,340)
	1,009,964	810,282	436,630

24. Salaries and Administrative and Other Operating Expenses

Salaries and administrative and other operating expenses comprise:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Salaries and bonuses	(2,618,989)	(2,220,820)	(1,392,073)
Social costs	(339,090)	(208,898)	(266,238)
Other payments	(88,924)	(51,707)	(27,453)
Salaries and benefits	**(3,047,003)**	(2,481,425)	(1,685,764)
Advertising	(535,795)	(231,593)	(166,300)
Leasing expenses	(311,765)	(236,931)	(78,728)
Communications	(267,188)	(241,777)	(176,004)
Maintenance and repairs	(233,251)	(163,354)	(66,820)
Business trip expenses	(222,809)	(145,950)	(96,400)
Stationery, publications and training	(180,030)	(92,815)	(73,984)
Audit and consulting services	(95,049)	(25,301)	(34,031)
Transport expenses	(71,960)	(45,586)	(40,741)
Entertainment	(54,074)	(34,388)	(27,317)
Security systems and guards	(43,462)	(29,900)	(27,749)
Charity	(41,766)	(23,421)	(26,066)
Insurance expenses	(11,017)	(12,006)	(57,326)
Loss from sale of premises and equipment	(6,177)	(9,333)	(15,018)
Penalties	(2,183)	(41,437)	(1,396)

Customs charges – foreign currency banknote transactions	—	—	(17,132)
Other	(289,249)	(368,383)	(151,369)
Administrative and other operating expenses	**(2,365,775)**	(1,702,175)	(1,056,381)

The Group does not have pension arrangements separate from the State pension system of the Republic of Kazakhstan. This system requires current contributions by the employer calculated as a percentage of current gross salary payments and a contribution withheld from employees; such expense is charged to the consolidated statement of income in the period the related compensation is earned by the employee.

The remuneration, including related social costs, and bonuses paid to members of the Shareholders' Council and Management Boards for 2005 were KZT 150,880 and KZT 15,804 respectively (2004 – KZT 146,185 and KZT 110,045; 2003 – KZT 139,359 and KZT 66,923).

The Group's lease agreements are subject to the annual renewal.

25. Basic and Diluted Earnings per Share

Basic earnings per share is 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. The Bank does not have any options or convertible debt or equity instruments.

The following reflects the income attributable to equity holders of the parent and share data used in the basic and diluted earnings per share computations:

	2005	*2004*	*2003*
	(Thousands of Kazakh Tenge)		
Net income attributable to equity holders of the parent	4,045,552	2,319,842	1,456,013
Weighted average number of participating shares	17,236,682	10,337,468	5,853,078
Basic and diluted earnings per share (Tenge)	**235**	224	248

Participating shares comprise common shares and preferred shares that have the right to participate equally with common shares in net income distribution. Prior year basic and diluted earnings per share were recalculated by adding back of dividends on preferred shares, which were previously deducted from the net income attributable to equity holders of the parent. The previously reported amounts were 194 Tenge and 208 Tenge in 2004 and 2003, respectively.

26. Risk Management Policies

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 group of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and by industry sector are approved monthly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee which is called once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

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.

Concentration

The geographical concentration of monetary assets and liabilities were as follows at December 31:

2005

	Kazakhstan	*OECD*	*Other non-OECD*	*Total*
				(Thousands of Kazakh Tenge)
Cash and cash equivalents	28,781,748	3,311,618	956,583	33,049,949
Obligatory reserves	4,260,089	—	4,166	4,264,255
Amounts due from credit institutions	641,388	670,165	2,079,825	3,391,378
Financial assets at fair value through profit or loss	23,397,717	2,981,902	—	26,379,619
Investment securities:				
— available-for-sale	15,128,356	17,626,930	260,155	33,015,441
Commercial loans and advances	249,875,037	—	2,648,159	252,523,196
Insurance reserves, reinsurance share	3,537,255	—	—	3,537,255
Current tax assets	385,626	—	—	385,626
Other assets	2,482,712	1,308,666	47,194	3,838,572
	328,489,928	25,899,281	5,996,082	360,385,291
Amounts due to the Government and the NBK	2,910,588	6,349,854	—	9,260,442
Amounts due to credit institutions	29,078,895	54,474,451	90,029	83,643,375
Amounts due to customers	114,331,162	—	2,350,693	116,681,855
Debt securities issued	4,531,640	93,898,205	—	98,429,845
Subordinated debt	17,777,377	—	2,097	17,779,474
Insurance reserves	4,217,523	—	—	4,217,523
Other liabilities	799,883	383,326	45,398	1,228,607
	173,647,068	155,105,836	2,488,217	331,241,121
	154,842,860	(129,206,555)	3,507,865	29,144,170

2004

	Kazakhstan	*OECD*	*Other non-OECD*	*Total*
				(Thousands of Kazakh Tenge)
Cash and cash equivalents	4,404,706	9,314,205	328,969	14,047,880
Obligatory reserves	2,389,710	—	—	2,389,710
Amounts due from credit institutions	1,939,181	—	1,573,107	3,512,288
Financial assets at fair value through profit or loss	8,650,301	—	—	8,650,301
Investment securities:				
— available-for-sale	—	707,475	—	707,475
— held-to-maturity	22,999,732	3,008,388	—	26,008,120
Commercial loans and advances	117,593,555	—	—	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	156,257
Current tax assets	180,294	—	—	180,294
Other assets	1,449,118	162,282	141,312	1,752,712
	159,762,854	13,192,350	2,043,388	174,998,592
Amounts due to the Government and the NBK	3,340,948	—	—	3,340,948
Amounts due to credit institutions	8,290,062	30,396,448	76,196	38,762,706
Amounts due to customers	68,746,828	—	—	68,746,828
Debt securities issued	4,533,136	38,774,001	—	43,307,137
Subordinated debt	259,695	—	—	259,695
Insurance reserves	515,510	—	—	515,510
Other liabilities	535,404	—	—	535,404
	86,221,583	69,170,449	76,196	155,468,228
	73,541,271	(55,978,099)	1,967,192	19,530,364

2003

	Kazakhstan	*OECD*	*Other non-OECD*	*Total*
			(Thousands of Kazakh Tenge)	
Cash and cash equivalents	4,026,497	1,682,542	126,780	5,835,819
Obligatory reserves	1,775,133	—	—	1,775,133
Financial assets at fair value through profit or loss	21,043,959	2,846,187	—	23,890,146
Commercial loans and advances	63,884,750	—	—	63,884,750
Insurance reserves, reinsurance share	189,823	—	—	189,823
Current tax assets	176,480	—	—	176,480
Other assets	761,252	149,106	93,051	1,003,409
	91,857,894	4,677,835	219,831	96,755,560
Amounts due to the Government and the NBK	3,445,225	—	—	3,445,225
Amounts due to credit institutions	8,718,165	24,761,512	158,008	33,637,685
Amounts due to customers	44,825,775	—	—	44,825,775
Debt securities issued	2,848,226	—	—	2,848,226
Subordinated debt	1,497,743	—	—	1,497,743
Insurance reserves	349,054	—	—	349,054
Other liabilities	461,883	72,822	37	534,742
	62,146,071	24,834,334	158,045	87,138,450
	29,711,823	(20,156,499)	61,786	9,617,110

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 7,811,255, KZT 5,574,255 and KZT 3,481,391 as of December 31, 2005, 2004 and 2003 respectively.

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of NBK. The Group's exposure to foreign currency exchange rate risk follows.

The Group's monetary assets and liabilities were denominated as follows at December 31:

2005

	KZT	*Freely convertible currencies*	*Other foreign currencies*	*Total*
			(Thousands of Kazakh Tenge)	
Cash and cash equivalents	17,920,130	14,285,973	843,846	33,049,949
Obligatory reserves	4,260,089	—	4,166	4,264,255
Amounts due from credit institutions	1,141,388	2,092,634	157,356	3,391,378
Financial assets at fair value through profit or loss	21,128,026	5,251,593	—	26,379,619
Investment securities:				
— available-for-sale	13,708,312	19,046,974	260,155	33,015,441
Commercial loans and advances	78,360,518	173,231,096	931,582	252,523,196
Insurance reserves, reinsurance share	3,537,255	—	—	3,537,255
Current tax assets	385,626	—	—	385,626
Other assets	2,408,674	1,429,898	—	3,838,572
	142,850,018	215,338,168	2,197,105	360,385,291
Amounts due to the Government and the NBK	2,202,978	7,057,464	—	9,260,442
Amounts due to credit institutions	9,244,443	74,394,490	4,442	83,643,375
Amounts due to customers	77,047,937	37,958,192	1,675,726	116,681,855
Debt securities issued	4,531,640	93,898,205	—	98,429,845
Subordinated debt	17,502,223	277,251	—	17,779,474
Insurance reserves	4,217,523	—	—	4,217,523
Other liabilities	662,323	523,089	43,195	1,228,607
	115,409,067	214,108,691	1,723,363	331,241,121
Net position	27,440,951	1,229,477	473,742	29,144,170

2004

	KZT	Freely convertible currencies	Other foreign currencies	Total
				(Thousands of Kazakh Tenge)
Cash and cash equivalents	2,720,697	10,984,261	342,922	14,047,880
Obligatory reserves	2,389,710	—	—	2,389,710
Amounts due from credit institutions	324,304	3,177,631	10,353	3,512,288
Financial assets at fair value through profit or loss	5,480,615	3,169,686	—	8,650,301
Investment securities:				
— available-for-sale	—	707,475	—	707,475
— held-to-maturity	22,999,732	3,008,388	—	26,008,120
Commercial loans and advances	36,562,232	81,031,323	—	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	156,257
Current tax assets	180,294	—	—	180,294
Other assets	1,628,885	6,844	116,983	1,752,712
	72,442,726	102,085,608	470,258	174,998,592
Amounts due to the Government and the NBK	2,370,628	970,320	—	3,340,948
Amounts due to credit institutions	3,928,834	34,785,689	48,183	38,762,706
Amounts due to customers	39,130,658	29,320,286	295,884	68,746,828
Debt securities issued	4,533,136	38,774,001	—	43,307,137
Subordinated debt	—	259,695	—	259,695
Insurance reserves	515,510	—	—	515,510
Other liabilities	532,524	2,880	—	535,404
	51,011,290	104,112,871	344,067	155,468,228
Net position	21,431,436	(2,027,263)	126,191	19,530,364

2003

	KZT	*Freely convertible currencies*	*Other currencies*	*Total*
			(Thousands of Kazakh Tenge)	
Cash and cash equivalents	2,505,834	3,179,105	150,880	5,835,819
Obligatory reserves	1,775,133	—	—	1,775,133
Financial assets at fair value through profit or loss	17,045,965	6,844,181	—	23,890,146
Commercial loans and advances	21,490,000	42,394,750	—	63,884,750
Insurance reserves, reinsurance share	189,823	—	—	189,823
Current tax assets	176,480	—	—	176,480
Other assets	848,748	154,546	115	1,003,409
	44,031,983	52,572,582	150,995	96,755,560
Amounts due to the Government and the NBK	2,349,123	1,096,102	—	3,445,225
Amounts due to credit institutions	4,500,746	29,136,939	—	33,637,685
Amounts due to customers	25,245,572	19,404,429	175,774	44,825,775
Debt securities issued	2,848,226	—	—	2,848,226
Subordinated debt	—	1,497,743	—	1,497,743
Insurance reserves	349,054	—	—	349,054
Other liabilities	442,517	92,225	—	534,742
	35,735,238	51,227,438	175,774	87,138,450
Net position	8,296,745	1,345,144	(24,779)	9,617,110

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 7,811,255, KZT 5,574,255 and KZT 3,481,391 as of December 31, 2005, 2004 and 2003 respectively.

A substantial portion of the Group's net position in freely convertible currencies is held in USD.

Interest Rate Risk

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

The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the reprising of assets and liabilities through risk management strategies.

The interest rates earned and incurred by the Group on its assets and liabilities are disclosed in the relevant notes to the financial statements.

A significant portion of the Group's assets and liabilities reprice within one year. In addition, in accordance with the contractual terms with its customers, the Group is entitled to reprice a significant portion of its assets and liabilities that mature after more than one year. Accordingly there is a limited exposure to interest rate risk. As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

	2005		*2004*		*2003*	
	KZT	*Foreign currency*	*KZT*	*Foreign currency*	*KZT*	*Foreign currency*
Amounts due from credit institutions	5.1%	4.8%	4.3%	5.1%	4.2%	2.9%
Financial assets at fair value through profit or loss	3.1%	4.7%	5.1%	6.3%	5.5%	5.2%
Available-for-sale investment securities	3.5%	4.3%	—	4.1%	—	—
Held-to-maturity investment securities	—	—	3.7%	3.2%	—	—
Commercial loans and advances	13.3%	12.2%	13.1%	13.9%	14.7%	13.9%
Amounts due to the Government and the NBK	3.3%	4.8%	3.1%	4.3%	3.9%	4.6%
Amounts due to credit institutions	2.9%	4.2%	3.9%	4.0%	5.2%	3.7%
Amounts due to customers	4.8%	6.1%	3.4%	5.1%	3.2%	6.1%
Debt securities issued	8.5%	9.1%	8.4%	5.7%	0.9%	—
Subordinated debt	8.5%	8.5%	—	7.1%	—	8.4%

The Group monitors its interest rate margins on a regular basis and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual repricing date, which are shown as if they can be repriced within one month as management is able to liquidate those securities within a short period of time.

2005

	On demand	*Up to 1 Month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
					(Thousands of Kazakh Tenge)		
Cash and cash equivalents	29,149,169	3,900,780	—	—	—		33,049,949
Obligatory reserves	—	—	—	—	—	4,264,255	4,264,255
Amounts due from credit institutions	—	65,982	625,135	2,030,096	670,165	—	3,391,378
Financial assets at fair value through profit or loss	—	13,181,205	—	2,568,585	7,514,314	3,115,515	26,379,619
Investment securities:							
– available-for-sale	—	—	303,732	9,678,615	19,262,666	3,770,428	33,015,441
Commercial loans and advances	—	5,465,005	7,182,429	92,010,943	117,124,487	30,740,332	252,523,196
Reserves for insurance claims, reinsurance share	3,537,255	—	—	—	—	—	3,537,255
Tax assets	—	—	385,626	—	—	—	385,626
Other assets	1,042,144	2,412,921	3,962	24,113	355,432	—	3,838,572
	33,728,568	25,025,893	8,500,884	106,312,352	144,927,064	41,890,530	360,385,291
Amounts due to the Government and the NBK	—	581	—	6,667,688	2,592,173	—	9,260,442
Amounts due to credit institutions	—	20,856,094	12,370,565	49,737,910	678,806	—	83,643,375
Amounts due to customers	50,080,310	15,149,153	8,433,242	28,881,387	11,437,315	2,700,448	116,681,855
Debt securities issued	—	204,142	—	—	71,469,231	26,756,472	98,429,845
Subordinated debt	—	—	—	—	277,251	17,502,223	17,779,474
Reserves for insurance claims	4,217,523	—	—	—	—	—	4,217,523
Other liabilities	659,130	490,817	1,817	58,986	17,857	—	1,228,607
	54,956,963	36,700,787	20,805,624	85,345,971	86,472,633	46,959,143	331,241,121
Net position	(21,228,395)	(11,674,894)	(12,304,740)	20,966,381	58,454,431	(5,068,613)	29,144,170
Accumulated gap	(21,228,395)	(32,903,289)	(45,208,029)	(24,241,648)	34,212,783	29,144,170	

2004

	On demand	*Up to 1 Month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
					(Thousands of Kazakh Tenge)		
Cash and cash equivalents	13,547,255	500,625	—	—	—	—	14,047,880
Obligatory reserves	—	—	—	—	—	2,389,710	2,389,710
Amounts due from credit institutions	—	71,855	1,268,769	2,151,664	20,000	—	3,512,288
Financial assets at fair value through profit or loss	—	—	—	1,624,778	6,963,588	61,935	8,650,301
Investment securities:							
– available-for-sale	—	—	—	—	—	707,475	707,475
– held-to-maturity	—	319,223	7,271,303	14,084,069	1,021,389	3,312,136	26,008,120
Commercial loans and advances	—	6,416,233	7,479,362	32,655,260	62,341,415	8,701,285	117,593,555
Reserves for insurance claims, reinsurance share	156,257	—	—	—	—	—	156,257
Tax assets	—	—	180,294	—	—	—	180,294
Other assets	197,456	1,390,483	6,382	59,251	33,549	65,591	1,752,712
	13,900,968	8,698,419	16,206,110	50,575,022	70,379,941	15,238,132	174,998,592
Amounts due to the Government and the NBK	—	22,501	4,390	2,181,045	1,133,012	—	3,340,948
Amounts due to credit institutions	—	—	—	37,856,155	906,551	—	38,762,706
Amounts due to customers	21,132,548	19,346,902	3,907,468	11,763,174	10,979,395	1,617,341	68,746,828
Debt securities issued	—	—	—	—	43,307,137	—	43,307,137
Subordinated debt	—	—	—	—	259,695	—	259,695
Reserves for insurance claims	515,510	—	—	—	—	—	515,510
Other liabilities	370,339	139,314	789	9,001	15,961	—	535,404
	22,018,397	19,508,717	3,912,647	51,809,375	56,601,751	1,617,341	155,468,228
Net position	(8,117,429)	(10,810,298)	12,293,463	(1,234,353)	13,778,190	13,620,791	19,530,364
Accumulated gap	(8,117,429)	(18,927,727)	(6,634,264)	(7,868,617)	5,909,573	19,530,364	

2003

	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
					(Thousands of Kazakh Tenge)		
Monetary assets:							
Cash and cash equivalents	4,355,616	1,323,802	156,401	—	—	—	5,835,819
Obligatory reserves	—	—	—	—	—	1,775,133	1,775,133
Financial assets at fair value through profit or loss	415,688	498,250	3,814,132	6,609,584	12,483,014	69,478	23,890,146
Commercial loans and advances	—	2,083,382	6,953,567	24,384,909	25,085,456	5,377,436	63,884,750
Reserves for insurance claims, reinsurance share	189,823	—	—	—	—	—	189,823
Tax assets	—	—	176,480	—	—	—	176,480
Other assets	116	611,998	96,349	55,073	25,372	214,501	1,003,409
	4,961,243	4,517,432	11,196,929	31,049,566	37,593,842	7,436,548	96,755,560
Monetary liabilities:							
Amounts due to the Government and the NBK	—	7,400	2,006,500	36,395	472,236	922,694	3,445,225
Amounts due to credit institutions	—	4,799,803	2,006,500	25,908,689	922,693	—	33,637,685
Amounts due to customers	16,730,635	7,188,692	2,673,013	10,005,363	8,224,184	3,888	44,825,775
Debt securities issued	—	—	—	—	2,848,226	—	2,848,226
Subordinated debt	—	—	—	14,787	1,482,956	—	1,497,743
Reserves for insurance claims	349,054	—	—	—	—	—	349,054
Other liabilities	85,598	420,488	7,767	20,813	76	—	534,742
	17,165,287	12,416,383	6,693,780	35,986,047	13,950,371	926,582	87,138,450
Net position	(12,204,044)	(7,898,951)	4,503,149	(4,936,481)	23,643,471	6,509,966	9,617,110
Accumulated gap	(12,204,044)	(20,102,995)	(15,599,846)	(20,536,327)	3,107,144	9,617,110	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 7,811,255, KZT 5,574,255 and KZT 3,481,391 as of December 31, 2005, 2004 and 2003 respectively.

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. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management 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 banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date, except for trading and available-for-sale securities which are included in column “On demand” as they are available to meet the Bank's short-term liquidity needs.

The contractual maturities of monetary assets and liabilities at December 31 were as follows:

2005

	On demand	Up to 1 Month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
					(Thousands of Kazakh Tenge)		
Cash and cash equivalents	29,149,169	3,900,780	—	—	—	—	33,049,949
Obligatory reserves	—	—	—	—	—	4,264,255	4,264,255
Amounts due from credit institutions	—	65,982	625,135	2,030,096	670,165	—	3,391,378
Financial assets at fair value through profit or loss	26,379,619	—	—	—	—	—	26,379,619
Investment securities:							
– available-for-sale	33,015,441	—	—	—	—	—	33,015,441
Commercial loans and advances	—	5,465,005	7,182,429	92,010,943	117,124,487	30,740,332	252,523,196
Insurance reserves, reinsurance share	3,537,255	—	—	—	—	—	3,537,255
Current tax assets	—	—	385,626	—	—	—	385,626
Other assets	1,042,144	2,412,921	3,962	24,113	355,432	—	3,838,572
	93,123,628	11,844,688	8,197,152	94,065,152	118,150,084	35,004,587	360,385,291
Amounts due to the Government and the NBK	—	581	—	6,667,688	2,592,173	—	9,260,442
Amounts due to credit institutions	1,316,776	28,904,750	716,640	43,631,100	9,074,109	—	83,643,375
Amounts due to customers	50,080,310	15,149,153	8,433,242	28,881,387	11,437,315	2,700,448	116,681,855
Debt securities issued	—	204,142	—	—	71,469,231	26,756,472	98,429,845
Subordinated debt	—	—	—	—	277,251	17,502,223	17,779,474
Insurance reserves	4,217,523	—	—	—	—	—	4,217,523
Other liabilities	659,130	490,817	1,817	58,986	17,857	—	1,228,607
	56,273,739	44,749,443	9,151,699	79,239,161	94,867,936	46,959,143	331,241,121
Net position	36,849,889	(32,904,755)	(954,547)	14,825,991	23,282,148	(11,954,556)	29,144,170
Accumulated gap	36,849,889	3,945,134	2,990,587	17,816,578	41,098,726	29,144,170	

2004

	On demand	*Up to 1 Month*	*1 to 3 Months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
					(Thousands of Kazakh Tenge)		
Cash and cash equivalents	13,547,255	500,625	—	—	—	—	14,047,880
Obligatory reserves	—	—	—	—	—	2,389,710	2,389,710
Amounts due from credit institutions	—	71,855	1,268,769	2,151,664	20,000	—	3,512,288
Financial assets at fair value through profit or loss	8,650,301	—	—	—	—	—	8,650,301
Investment securities:							
– available-for-sale	707,475	—	—	—	—	—	707,475
– held-to-maturity	—	319,223	7,271,303	14,084,069	1,021,389	3,312,136	26,008,120
Commercial loans and advances	—	6,416,233	7,479,362	32,655,260	62,341,415	8,701,285	117,593,555
Insurance reserves, reinsurance share	156,257	—	—	—	—	—	156,257
Current tax assets	—	—	180,294	—	—	—	180,294
Other assets	197,456	1,390,483	6,382	59,251	33,549	65,591	1,752,712
	23,258,744	8,698,419	16,206,110	48,950,244	63,416,353	14,468,722	174,998,592
Amounts due to the Government and the NBK	—	22,501	4,390	2,181,045	1,133,012	—	3,340,948
Amounts due to credit institutions	1,329,573	3,752,643	406,184	22,978,695	9,396,154	899,457	38,762,706
Amounts due to customers	21,132,548	19,346,902	3,907,468	11,763,174	10,979,395	1,617,341	68,746,828
Debt securities issued	—	—	—	—	43,307,137	—	43,307,137
Subordinated debt	—	—	—	—	259,695	—	259,695
Insurance reserves	515,510	—	—	—	—	—	515,510
Other liabilities	370,339	139,314	789	9,001	15,961	—	535,404
	23,347,970	23,261,360	4,318,831	36,931,915	65,091,354	2,516,798	155,468,228
Net position	(89,226)	(14,562,941)	11,887,279	12,018,329	(1,675,001)	11,951,924	19,530,364
Accumulated gap	(89,226)	(14,652,167)	(2,764,888)	9,253,441	7,578,440	19,530,364	

2003

	On demand	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
					(Thousands of Kazakh Tenge)		
Monetary assets:							
Cash and cash equivalents	4,355,616	1,323,802	156,401	—	—	—	5,835,819
Obligatory reserves	—	—	—	—	—	1,775,133	1,775,133
Financial assets at fair value through profit or loss	23,890,146	—	—	—	—	—	23,890,146
Commercial loans and advances	—	2,083,382	6,953,567	24,384,909	25,085,456	5,377,436	63,884,750
Insurance reserves, reinsurance share	189,823	—	—	—	—	—	189,823
Current tax assets	—	—	176,480	—	—	—	176,480
Other assets	116	611,998	96,349	55,073	25,372	214,501	1,003,409
	28,435,701	4,019,182	7,382,797	24,439,982	25,110,828	7,367,070	96,755,560
Monetary liabilities:							
Amounts due to the Government and the NBK	—	7,400	2,006,500	36,395	472,236	922,694	3,445,225
Amounts due to credit institutions	964,068	2,628,406	3,993,266	21,356,437	4,423,023	272,485	33,637,685
Amounts due to customers	16,730,635	7,188,692	2,673,013	10,005,363	8,224,184	3,888	44,825,775
Debt securities issued	—	—	—	—	2,848,226	—	2,848,226
Subordinated debt	—	—	—	14,787	1,482,956	—	1,497,743
Insurance reserves	349,054	—	—	—	—	—	349,054
Other liabilities	85,598	420,488	7,767	20,813	76	—	534,742
	18,129,355	10,244,986	8,680,546	31,433,795	17,450,701	1,199,067	87,138,450
Net position	10,306,346	(6,225,804)	(1,297,749)	(6,993,813)	7,660,127	6,168,003	9,617,110
Accumulated gap	10,306,346	4,080,542	2,782,793	(4,211,020)	3,449,107	9,617,110	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totaling KZT 7,811,255, KZT 5,574,255 and KZT 3,481,391 as of December 31, 2005, 2004 and 2003 respectively.

The maturity gap analysis does not reflect the historical stability of customers' current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Long-term loans and overdraft facilities are generally not available in Kazakhstan. However, in Kazakhstan marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. While, financial assets at fair value through profit and loss and available-for-sale investment securities are shown on demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security position may not be liquidated in a short period of time without adverse price effect.

27. Fair Values of Monetary Assets and Liabilities

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 on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank'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.

Amounts Due to Credit Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates.

Commercial Loans and advances

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

Amounts Due to Customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	Carrying Amount			*Fair Value*		
	2005	*2004*	*2003*	*2005*	*2004*	*2003*
				(Thousands of Kazakh Tenge)		
Financial assets:						
Due from credit institutions.............................	3,391,378	3,511,038	—	3,576,137	3,840,559	—
Commercial loans and advances......................	244,874,389	112,090,157	60,487,547	241,097,912	112,096,500	64,553,436
Financial liabilities:						
Amounts due to the Government and the NBK	9,260,442	3,340,948	3,445,225	8,865,167	3,155,581	3,431,905
Amounts due to credit institutions	83,643,375	38,762,706	33,637,685	82,449,740	37,038,416	33,856,029
Amounts due to customers	116,681,855	68,746,828	44,825,775	114,188,856	67,055,508	43,084,436
Debt securities	98,429,845	43,307,137	2,848,226	100,366,640	44,842,806	3,096,609
Subordinated debt securities............................	17,779,474	259,695	1,497,743	17,781,741	260,023	1,596,003

28. Capital Adequacy

The NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2005, 2004 and 2003, the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratios computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments excluding the amendment to incorporate market risks at December 31, 2005, 2004 and 2003, were 12.4%, 11.1% and 13.6%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

29. Related Party Transactions

At December 31, 2005, 2004 and 2003 the Group had balances with related parties, which comprised the following:

	2005		*2004*		*2003*	
	Related party balances	*Total asset or liability category*	*Related party balances*	*Total asset or liability category*	*Related party balances*	*Total asset or liability category*
						(Thousands of Kazakh Tenge)
Loans and advances	**1,407,117**	244,874,389	1,994,205	112,090,157	847,495	63,884,750
Shareholders	270,035		290,035		370,035	
Management	362,140		194,946		144,781	
Associates	774,942		1,509,224		332,679	
Amounts owed to customers	**693,085**	116,681,855	548,556	68,746,828	448,197	44,825,775
Shareholders	131,937		16,797		191,582	
Management	254,820		245,853		92,866	
Associates	306,328		285,906		163,749	
Commitments and guarantees	**262,518**	51,936,346	1,998	39,075,029	—	16,893,812
Shareholders	761		466		—	
Management	12,791		—		—	
Associates	248,966		1,532		—	

	2005		*2004*		*2003*	
	Related party transaction	*Total category*	*Related party transaction*	*Total category*	*Related party transaction*	*Total category*
						(Thousands of Kazakh Tenge)
Interest income – loans	**225,147**	21,690,614	213,139	10,992,017	87,298	6,655,362
Shareholders	27,613		31,879		38,882	
Management	31,435		23,985		9,476	
Associates	166,099		157,275		38,940	
Fees and commission income	**83**	3,190,309	—	2,349,227	—	1,635,435
Shareholders	—		—		—	
Management	—		—		—	
Associates	83		—		—	
Interest expense – deposits	**30,353**	5,146,252	21,039	2,794,551	10,887	2,126,092
Shareholders	361		486		5,383	
Management	16,476		6,872		4,999	
Associates	13,516		13,681		505	

Included in the table above are the following transactions with related parties outstanding as of December 31:

- Operations with associates such as: loans – including provisioning matters, interest free financial assistance, deposits placed with the Bank and guarantees and letters of credit to investees, and mutual investments.
- Shareholders, including: loans – including provisioning matters, deposits placed with the Bank, and guarantees and letters of credit.

- Members of Board of Directors, including: loans – including provisioning matters, deposits placed with the Bank, total remuneration paid during the year.

As of December 31, 2005, 2004 and 2003 the loans and deposits to and from related parties were issued/accepted at the following interest rates:

Loans:	*%*
Management	10.0-14.0
Shareholders	10.0-15.0
Associates	10.0-23.0
Deposits:	
Management	2.82-11.2
Shareholders	2.86-8.72
Associates	3.00-10.00

30. Subsequent Events

Subsequently the Bank decided to increase share capital of Sibirbank CJSC by KZT 1,409,995.

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