Joint Stock Company Halyk Bank
Consolidated Financial Statements

Years ended December 31, 2005 and 2004
together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

Notes To The Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Halyk Bank

We have audited the accompanying consolidated balance sheets of Joint Stock Company Halyk Bank (the "Bank") and its subsidiaries (together the "Group") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

March 24, 2006

Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEETS

As of December 31, 2005 and 2004

(Thousands of Kazakhstani Tenge)

	Notes	December 31, 2005	2004	2003 (restated)
Assets				
Cash and cash equivalents	5	**57,101,691**	33,123,369	13,415,347
Obligatory reserves	6	**8,632,311**	7,578,394	5,212,050
Financial assets at fair value through profit or loss	7	**50,017,958**	62,382,235	39,914,328
Amounts due from credit institutions	8	**2,776,941**	695,379	7,290,929
Investment securities:	9			
- available-for-sale		**12,098,639**	20,618,422	3,231,735
- held-to-maturity		**–**	–	6,443,297
Loans to customers	10,11	**411,097,223**	254,590,193	163,888,497
Property and equipment	12	**10,979,050**	9,131,311	7,322,490
Other assets		**6,960,895**	5,134,597	2,804,569
Total assets		**559,664,708**	393,253,900	249,523,242
Liabilities				
Amounts due to customers	14	**320,629,650**	231,501,361	154,845,698
Amounts due to credit institutions	15	**107,284,147**	76,492,760	61,876,550
Debt securities issued	16	**58,813,594**	44,939,974	8,582,604
Provisions	11	**2,279,508**	1,801,039	920,576
Current tax liability		**–**	–	8,294
Deferred tax liability	13	**425,144**	450,824	174,392
Other liabilities		**5,788,620**	2,499,745	1,318,678
Total liabilities		**495,220,663**	357,685,703	227,726,792
Shareholders' equity				
Share capital	17	**29,016,188**	15,759,351	9,896,800
Share premium reserve		**2,192,147**	2,191,170	2,191,872
Treasury shares		**(16,336)**	(16,665)	(15,739)
Retained earnings and other reserves		**32,806,031**	17,417,312	9,520,261
		63,998,030	35,351,168	21,593,194
Minority interest		**446,015**	217,029	203,256
Total shareholders' equity		**64,444,045**	35,568,197	21,796,450
Total liabilities and shareholders' equity		**559,664,708**	393,253,900	249,523,242
Commitments and contingencies	18			

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

Grigory A. Marchenko Chairman of the Board

Alexandra G. Fedchenko Chief Accountant

March 24, 2006

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2005 and 2004

(Thousands of Kazakhstani Tenge)

	Notes	2005	2004	2003
Interest income				
Loans to customers		**47,548,528**	28,446,733	21,593,736
Debt securities		**3,450,002**	3,519,988	2,354,414
Amounts due from credit institutions		**1,386,093**	983,336	248,360
		52,384,623	32,950,057	24,196,510
Interest expense				
Amounts due to customers		**(11,872,599)**	(8,025,633)	(6,629,319)
Debt securities issued		**(4,908,743)**	(1,639,153)	(658,616)
Amounts due to credit institutions		**(4,374,605)**	(3,093,971)	(2,135,238)
		(21,155,947)	(12,758,757)	(9,423,173)
Net interest income before impairment		**31,228,676**	20,191,300	14,773,337
Impairment charge	11	**(11,969,525)**	(7,954,045)	(4,136,538)
Net interest income		**19,259,151**	12,237,255	10,636,799
Fee and commission income	19	**16,160,708**	10,116,897	7,558,880
Fee and commission expense	19	**(912,517)**	(798,476)	(755,396)
Fees and commissions, net		**15,248,191**	9,318,421	6,803,484
Gains less losses from foreign currencies				
- dealing		**1,963,951**	1,219,216	1,223,983
- translation differences		**(69,831)**	771,912	(112,622)
Gains less losses from financial assets at fair value through profit or loss		**1,362,905**	165,389	826,602
Gains less losses from available-for-sale investment securities		**342,380**	104,204	441,674
Share of income of associate		**248,841**	196,153	68,783
Other income		**570,604**	607,877	370,142
Non interest income		**4,418,850**	3,064,751	2,818,562
Salaries and other employee benefits		**(11,236,334)**	(6,876,651)	(5,285,192)
Administrative and operating expenses	20	**(5,242,155)**	(4,512,977)	(3,574,698)
Depreciation and amortization expenses		**(1,329,848)**	(1,111,526)	(1,007,296)
Taxes other than income tax		**(1,255,001)**	(1,041,779)	(735,339)
Other provisions	11	**(496,378)**	(986,679)	(1,384,671)
Non interest expense		**(19,559,716)**	(14,529,612)	(11,987,196)
Income before income tax expense		**19,366,476**	10,090,815	8,271,649
Income tax expense	13	**(3,538,576)**	(1,997,780)	(773,465)
Net income after income tax expense		**15,827,900**	8,093,035	7,498,184
Attributable to:				
Equity holders of the parent		**15,628,180**	8,088,143	7,460,278
Minority interest in net income		**199,720**	4,892	37,906
Net income		**15,827,900**	8,093,035	7,498,184
Basic earnings per share (in Kazakhstani Tenge)	21	**16.8**	10.1	9.8

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2005 and 2004

(Thousands of Kazakhstani Tenge)

	Share Capital-Common Shares	*Share Capital-Non-Convertible Preferred Shares*	*Share Capital-Convertible Preferred Shares*	*Share Premium Reserve*	*Treasury Shares*	*Revaluation reserve of available-for-sale investment securities*	*Other Reserves*	*Retained Earnings*	*Total*	*Minority Interest*	*Total Shareholders' Equity*
December 31, 2004	**13,285,151**	**2,474,200**	**–**	**2,191,170**	**(16,665)**	**223,932**	**295,530**	**16,897,850**	**35,351,168**	**217,029**	**35,568,197**
Fair value change of available-for-sale investment securities, net of tax	–	–	–	–	–	419,548	–	–	419,548	29,266	448,814
Realized fair value change of available-for-sale investment securities	–	–	–	–	–	(342,380)	–	–	(342,380)	–	(342,380)
Release of property and equipment revaluation reserve on disposal of previously revalued assets	–	–	–	–	–	–	(5,491)	5,491	–	–	–
Total income for the year recognized directly in equity	–	–	–	–	–	77,168	(5,491)	5,491	77,168	29,266	106,434
Net income	–	–	–	–	–	–	–	15,628,180	15,628,180	199,720	15,827,900
Total income	–	–	–	–	–	77,168	(5,491)	15,633,671	15,705,348	228,986	15,934,334
Common shares issued	936,618	–	–	–	–	–	–	–	936,618	–	936,618
Preferred shares issued	–	–	12,320,219	–	–	–	–	–	12,320,219	–	12,320,219
Treasury shares sold	–	–	–	977	329	–	–	–	1,306	–	1,306
Dividends – preferred shares	–	–	–	–	–	–	–	(316,629)	(316,629)	–	(316,629)
December 31, 2005	**14,221,769**	**2,474,200**	**12,320,219**	**2,192,147**	**(16,336)**	**301,100**	**290,039**	**32,214,892**	**63,998,030**	**446,015**	**64,444,045**

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

For the years ended December 31, 2005 and 2004

(Thousands of Kazakhstani Tenge)

	Share Capital-Common Shares	Share Capital-Non-Convertible Preferred Shares	Share Capital-Convertible Preferred Shares	Share Premium Reserve	Treasury Shares	Revaluation reserve of available-for-sale investment securities	Other Reserves	Retained Earnings	Total	Minority Interest	Total Shareholders' Equity
December 31, 2003 (restated)	7,422,600	2,474,200	–	2,191,872	(15,739)	60,088	307,863	9,152,310	21,593,194	203,256	21,796,450
Fair value change of available-for-sale investment securities, net of tax	–	–	–	–	–	268,048	–	–	268,048	–	268,048
Realized fair value change of available-for-sale investment securities	–	–	–	–	–	(104,204)	–	–	(104,204)	–	(104,204)
Total income for the year recognized directly in equity	–	–	–	–	–	163,844	–	–	163,844	–	163,844
Net income	–	–	–	–	–	–	–	8,088,143	8,088,143	4,892	8,093,035
Total income	–	–	–	–	–	163,844	–	8,088,143	8,251,987	4,892	8,256,879
Common shares issued	5,862,551	–	–	–	–	–	–	–	5,862,551	–	5,862,551
Treasury shares purchased	–	–	–	(702)	(926)	–	–	–	(1,628)	–	(1,628)
Dividends – preferred shares	–	–	–	–	–	–	–	(354,936)	(354,936)	–	(354,936)
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	8,881	8,881
Transfers	–	–	–	–	–	–	(12,333)	12,333	–	–	–
December 31, 2004	13,285,151	2,474,200	–	2,191,170	(16,665)	223,932	295,530	16,897,850	35,351,168	217,029	35,568,197

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

For the years ended December 31, 2005 and 2004

(Thousands of Kazakhstani Tenge)

	Share Capital-Common Shares	*Share Capital-Non-Convertible Preferred Shares*	*Share Capital-Convertible Preferred Shares*	*Share Premium Reserve*	*Treasury Shares*	*Revaluation reserve of available-for-sale investment securities*	*Other Reserves*	*Retained Earnings*	*Total*	*Minority Interest*	*Total Shareholders' Equity*
December 31, 2002 (restated)	7,422,600	2,261,150	–	2,085,600	(14,043)	431,100	332,724	2,062,447	14,581,578	–	14,581,578
Fair value change of available-for-sale investment securities, net of tax	–	–	–	–	–	70,662	–	–	70,662	–	70,662
Realized fair value change of available-for-sale investment securities	–	–	–	–	–	(441,674)	–	–	(441,674)	–	(441,674)
Total income for the year recognized directly in equity	–	–	–	–	–	(371,012)	–	–	(371,012)	–	(371,012)
Net income	–	–	–	–	–	–	–	7,460,278	7,460,278	37,906	7,498,184
Total income	–	–	–	–	–	(371,012)	–	7,460,278	7,089,266	37,906	7,127,172
Capital contributions	–	213,050	–	106,272	–	–	–	–	319,322	165,350	484,672
Treasury shares purchased	–	–	–	–	(1,696)	–	–	–	(1,696)	–	(1,696)
Dividends - preferred shares	–	–	–	–	–	–	–	(394,459)	(394,459)	–	(394,459)
Transfers	–	–	–	–	–	–	(24,861)	24,861	–	–	–
Difference on translation of foreign subsidiaries	–	–	–	–	–	–	–	(817)	(817)	–	(817)
December 31, 2003 (restated)	7,422,600	2,474,200	–	2,191,872	(15,739)	60,088	307,863	9,152,310	21,593,194	203,256	21,796,450

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005 and 2004

(Thousands of Kazakhstani Tenge)

	Notes	*2005*	*2004*	*2003*
Cash flows from operating activities:				
Income before income tax expense		**19,366,476**	10,090,815	8,271,649
Adjustments for:				
Impairment charge and other provisions	11	**12,465,903**	8,940,724	5,521,209
Depreciation and amortization		**1,329,848**	1,111,526	1,007,296
Loss / (gain) from disposal of property and equipment		**36,984**	81,916	(70,806)
Gains less losses from financial assets at fair value through profit and loss		**(1,362,905)**	(165,389)	(826,602)
Share of income of associate		**(248,841)**	(196,153)	(68,783)
Unrealized foreign exchange (income) / loss		**(67,347)**	554,586	549,182
Operating income before changes in net operating assets		**31,520,118**	20,418,025	14,383,145
(Increase) / decrease in operating assets:				
Obligatory reserves		**(1,053,917)**	(2,366,344)	(686,669)
Financial assets at fair value through profit or loss		**13,501,513**	(22,302,518)	(15,297,604)
Amounts due from credit institutions		**(2,092,207)**	4,707,199	16,263,455
Loans to customers		**(161,451,640)**	(109,610,929)	(46,941,578)
Other assets		**(2,451,069)**	(1,676,011)	(151,321)
Increase / (decrease) in operating liabilities:				
Amounts due to customers		**85,275,266**	84,053,107	8,273,462
Amounts due to credit institutions		**28,396,708**	21,055,808	19,236,030
Other liabilities		**3,157,762**	170,854	(366,625)
Net cash flows from operating activities before income taxes		**(5,197,466)**	(5,550,809)	(5,287,705)
Income tax paid		**(2,843,162)**	(2,337,895)	(790,152)
Net cash flows used in operating activities		**(8,040,628)**	(7,888,706)	(6,077,857)
Cash flows from investing activities:				
Net cash received through acquisition of subsidiaries		**–**	219,902	(241,803)
Purchase of property and equipment		**(3,179,634)**	(2,952,895)	(1,289,834)
Proceeds from sale of property and equipment		**119,067**	141,672	223,389
Proceeds from sale of available-for-sale investment securities		**14,560,294**	4,382,311	20,569,557
Purchase of available-for-sale investment securities		**(6,238,850)**	(21,156,320)	(18,359,448)
Purchase of held-to-maturity investment securities		**–**	–	(6,949,461)
Proceeds from redemption of held-to-maturity investment securities		**–**	5,355,185	3,770,977
Net cash flows from / (used in) investing activities		**5,260,877**	(14,010,145)	(2,276,623)
Cash flows from financing activities:				
Proceeds from common shares issued		**936,618**	5,862,551	319,322
Proceeds from preferred shares issued		**12,320,219**	–	–
Purchase of treasury shares		**–**	(1,628)	(1,696)
Sale of treasury shares		**1,306**	–	–
Dividends paid		**(316,629)**	(354,936)	(394,459)
Debt securities issued		**13,910,257**	36,357,370	4,445,405
Purchase of debt securities issued		**(950,367)**	–	–
Net cash flows from financing activities		**25,901,404**	41,863,357	4,368,572
Effects of exchange rate changes on cash and cash equivalents		**856,669**	(256,484)	(286,573)
Net change in cash and cash equivalents		**23,978,322**	19,708,022	(4,272,481)
Cash and cash equivalents at the beginning of the year		**33,123,369**	13,415,347	17,687,828
Cash and cash equivalents at the end of the year	5	**57,101,691**	33,123,369	13,415,347
Supplementary information:				
Interest received		**49,437,638**	33,792,367	19,831,665
Interest paid		**19,418,270**	8,441,702	5,555,199
Commission received		**15,440,890**	10,109,693	7,435,857

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.

December 31, 2005 and 2004

1. Principal Activities

Joint Stock Company Halyk Bank (the "Bank") and its subsidiaries (together the "Group") mainly provide retail and corporate banking, pension and asset management services in Kazakhstan. The parent company of the Group, Joint Stock Company Halyk Bank was incorporated in 1995 and is domiciled in the Republic of Kazakhstan. The Bank operates under a general banking licence issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of Kazakhstan ("FMSA") on September 30, 2005. The Bank also possesses licences for securities operations and custody services from the FMSA issued on February 19, 2004. The Bank is a member of the obligatory deposit insurance system provided by the CSJC Kazakhstani Fund for Individuals' Deposits Insurance.

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

The address of the Bank's registered office is: 97 Rozybakiyev Street, Almaty, 050046, Republic of Kazakhstan. The Bank has a primary listing in the Kazakhstan Stock Exchange ("KASE"). In addition, certain of the Bank's debt securities issued are primarily listed on Luxembourg Stock Exchange with security listing on KASE. The Bank operates through its head office in Almaty and its 19 regional branches, 126 sub-regional offices and 393 cash settlement units (2004 − 20 regional branches, 126 sub-regional offices and 378 cash settlements units, 2003 – 20 regional branches, 129 sub-regional offices and 379 cash settlement units) located throughout Kazakhstan and representative offices in Chelyabinsk, Russia; Amsterdam, the Netherlands; and Bishkek, the Kyrgyz Republic.

As of December 31, 2005 the Bank was controlled by JSC Holding Group Almex via its 82.03% share in the Bank's equity (2004 − 80.92%, 2003 – 43.71%). The Bank is ultimately controlled by Mr. Timur Kulibayev.

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the functional currency being the national currency of the Republic of Kazakhstan and the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. In addition, shareholders, management and regulators measure the Bank's performance in KZT.

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 investment securities as required by IAS 39 "Financial Instruments: Recognition and Measurement".

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

Consolidated Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	*Holding, %*			*Country*	*Industry*
	December 31, 2005	*December 31, 2004*	*December 31, 2003*		
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Accumulated Pension fund of Halyk Bank	85	85	85	Kazakhstan	Pension assets accumulation and management
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.	100	100	100	Netherlands	Issue and placement of Eurobonds
JSC Bank Khlebny	77	77	–	Russia	Banking
AIRI LLP	100	100	–	Kazakhstan	Financial markets research
OJSC Halyk Bank Kyrgyzstan	100	100	–	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	–	Kazakhstan	Broker and dealer activities
LLP Halyk Inkassatsiya	100	–	–	Kazakhstan	Cash collection services

During 2005, the Bank established wholly-owned subsidiary LLP Halyk Inkassatsiya.

At December 31, 2002 the Bank held 20.77% of the issued and paid shares of JSC Accumulating Pension Fund of Halyk Bank ("the Fund"). During 2003, the Bank acquired additional 266,768 shares of the Fund (59.3% of all issued and paid shares) for KZT 363,245. The control was obtained on May 1, 2003, and, accordingly, the assets, liabilities and results of operations of the Fund are consolidated from that date.

At the date of acquisition (May 1, 2003), the estimated fair value of the net assets of the Fund comprised:

Cash and cash equivalents	101
Due from financial institutions	60,515
Investment securities available-for-sale	364,293
Premises and equipment	82,290
Other assets	52,948
Other creditors	(18,726)
Net assets	541,421
Less minority interest	(165,350)
Net assets less minority interest	376,071
Purchase consideration paid in cash	(363,245)
Excess of share in the net fair value of the identifiable assets and liabilities over consideration paid	12,826

During 2004, the Bank acquired 77% of the share capital of JSC Bank Khlebny for KZT 163,378. The consideration was paid and control was obtained on April 15, 2004.

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

On April 15, 2004, the date of acquisition, the estimated fair value of the net assets of JSC Bank Khlebny comprised:

Cash and cash equivalents	71,687
Loans to customers	66,997
Property and equipment	41,050
Other assets	8,119
Other creditors	(116,437)
Net assets	71,416
Less minority interest	(16,511)
Net assets less minority interest	54,905
Purchase consideration paid in cash	(163,378)
Goodwill	(108,473)

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

At June 30, 2004, the date of acquisition, the estimated fair value of the net liabilities of AIRI LLP comprised:

Cash and cash equivalents	38,218
Accounts receivable	19,686
Property and equipment	45,801
Other assets	17,404
Other creditors	(170,274)
Net liabilities	(49,165)
Purchase consideration paid in cash	(87)
Goodwill	(49,252)

During 2004, the Bank acquired 100% of the share capital of JSC Kairat Bank for KZT 180,448 (re-registered under name OJSC Halyk Bank Kyrgyzstan on December 31, 2004). The consideration was paid and control was obtained on September 30, 2004.

On September 30, 2004, the date of acquisition, the estimated fair value of the net assets of JSC Kairat Bank comprised:

Cash and cash equivalents	453,910
Amounts due from credit institutions	87,509
Investment securities	448,834
Other assets	45,347
Other creditors	(885,883)
Net assets	149,717
Purchase consideration paid in cash	(180,448)
Goodwill	(30,731)

During 2004, the Bank established a new subsidiary JSC Halyk Finance. As of December 31, 2004, the Bank owned 100% of the share capital of JSC Halyk Finance.

The financial result of JSC Accumulating Pension Fund of Halyk Bank for the period from May 1, 2003, the date of acquisition, to December 31, 2003 was net income of KZT 261,930. Had the Bank consolidated in its statement of income results of the Fund starting from January 1, 2003, the revenue and net income would have amounted to KZT 34,903,514 and KZT 7,517,351, respectively.

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

The financial result of JSC Bank Khlebny for the period from April 15, 2004, the date of acquisition, to December 31, 2004 was net loss of KZT 1,992. The financial result of AIRI LLP for the period from June 30, 2004, the date of acquisition, to December 31, 2004 was net loss of KZT 48,246. The financial result of JSC Kairat Bank for the period from September 30, 2004, the date of acquisition, to December 31, 2004 was net income of KZT 6,750. Had the Bank consolidated in its statement of income results of JSC Bank Khlebny, AIRI LLP and JSC Kairat Bank starting from January 1, 2004, the revenue and net income would have amounted to KZT 45,455,092 and KZT 8,049,547, respectively.

Associate Accounted for under the Equity Method

The following associate is accounted for under the equity method:

Associate	***Holding, %***	***Country***	***Activities***	***Share in net income***	***Total assets***	***Total liabilities***	***Shareholders' equity***	***Total revenue***
2005								
JSC Kazakhinstrakh	**41.69**	**Kazakhstan**	**Insurance**	**248,841**	**3,826,349**	**1,760,802**	**2,065,547**	**8,256,838**

Associate	***Holding, %***	***Country***	***Activities***	***Share in net income***	***Total assets***	***Total liabilities***	***Shareholders' equity***	***Total revenue***
2004								
JSC Kazakhinstrakh	41.69	Kazakhstan	Insurance	196,153	3,507,509	2,033,750	1,473,759	7,291,488

Associate	***Holding, %***	***Country***	***Activities***	***Share in net income***	***Total assets***	***Total liabilities***	***Shareholders' equity***	***Total revenue***
2003								
JSC Kazakhinstrakh	41.69	Kazakhstan	Insurance	68,783	2,126,355	1,061,383	1,064,972	10,825,067

Investments in associates are classified within other assets.

Restatement

The Bank has early adopted the revised IAS 1 "Presentation of Financial Statements", IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" starting from January 1, 2004. The effect of the application of the revised standards on the balance sheets as of December 31, 2003 is shown below.

2003	***As previously reported***	***Adjustment***	***As reported herein***	***Comment***
Shareholders' equity	21,238,258	203,256	21,441,514	Revised IAS 1 requires minority interest to be accounted for within shareholders' equity

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 7 "Financial Instruments: Disclosures";

IFRIC 4 "Determining whether an Arrangement Contains a Lease".

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's consolidated financial statements in the period of initial application.

December 31, 2005 and 2004

3. Summary of Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All 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 Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

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

Investments in Associates

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

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Kazakhstan ("NBK") – excluding obligatory reserves, and due from other financial 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 day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Amounts Due from Credit Institutions

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

Financial Assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

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

Offsetting

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

Repurchase and Reverse Repurchase Agreements

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.

Allowances for Impairment of Financial Assets

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

Assets carried at amortised cost

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

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

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

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

When a loan is deemed uncollectible, is it written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of provision for loan impairment in the consolidated statements of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment for diminution in value.

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	50
Vehicles	7
Computers and banking equipment	5-10
Other	4-10

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down. An impairment is recognized in the respective period and is included in administrative and operating expenses, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for property and equipment.

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

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.

December 31, 2005 and 2004

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.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax jurisdictions in which the Group has offices, subsidiaries or branches. Deferred income tax is provided, using the liability method, on all temporary differences 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 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 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 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 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 utilised.

Retirement and Other Benefit Obligations

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

Share Capital

Share capital, share premium reserve and treasury shares are recognized at the fair value of consideration received or paid. Purchases of treasury shares are recorded at cost. Gains and losses on sales of treasury shares are charged or credited to share premium reserve.

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.

Dividends on common and preferred shares are recognized in shareholders' equity as a reduction in the period in which they are declared or accumulate. 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.

Net profit or loss allocated to common and preferred shares, that have a right to participate in distribution of earnings, is determined by adding together the amount allocated for dividends and the amount allocated for participation feature.

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.

December 31, 2005 and 2004

Income and Expense Recognition

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

Foreign Currency Translation

The consolidated financial statements are presented in Kazakh Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as of the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statements of income as gains less losses from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rate at December 31, 2005, was KZT 133.98 to USD 1 (2004 – 130.00 to USD 1, 2003 – 144.22 to USD 1).

4. Significant Accounting Judgements and Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Allowances for impairment of assets and other provisions
- Deferred taxes

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 judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

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

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

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

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Cash on hand	**14,911,746**	10,447,241	4,850,482
Correspondent accounts with the NBK	**9,375,422**	–	–
Correspondent accounts with OECD based banks	**3,669,426**	992,268	1,270,400
Correspondent accounts with non-OECD based banks	**1,147,804**	432,402	436,766
Overnight deposits with OECD based banks	**20,081,011**	11,275,787	2,667,620
Short-term deposits with Kazakh banks	**7,916,282**	9,905,777	607,611
Short-term deposits with OECD based banks	–	–	481,461
Short-term deposits with non-OECD based banks	–	69,894	510,892
Overnight deposits with Kazakh banks	–	–	2,590,115
Cash and cash equivalents	**57,101,691**	33,123,369	13,415,347

Interest rates and currencies in which short-term deposits are denominated follow:

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	KZT	*Foreign currencies*	*KZT*	*Foreign currencies*	*KZT*	*Foreign currencies*
Overnight deposits with OECD based banks	–	**2.3%-4.2%**	–	1.0%–2.5%	–	0.7%-2.2%
Short-term deposits with Kazakh banks	**4.0%-14.0%**	**5.0%**	1.0%–7.7%	3.0%–11.9%	1.0%-14.0%	1.0%-4.0%
Short-term deposits with OECD based banks	–	–	–	–	–	1.0%
Short-term deposits with non-OECD based banks	–	–	4.0%–8.0%	4.0%–6.0%	–	4.0%–8.0%
Overnight deposits with Kazakh banks	–	–	–	–	1.0%	4.0%

6. Obligatory Reserves

Obligatory reserves comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Due from the NBK allocated to obligatory reserves	**8,632,311**	7,578,394	2,018,559
Cash on hand allocated to obligatory reserves	–	–	3,193,491
Obligatory reserves	**8,632,311**	7,578,394	5,212,050

(Thousands of Kazakhstani Tenge)

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
NBK notes	**23,159,597**	27,005,789	23,958,264
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**19,527,405**	27,747,456	9,207,605
Sovereign bonds of the Republic of Kazakhstan	**4,674,276**	4,882,958	4,085,513
Eurobonds of Kazakh banks	**1,664,640**	1,549,334	2,493,542
Bonds of the Development Bank of Kazakhstan	**992,040**	1,191,266	169,404
Equity securities of Kyrgyz corporations	**–**	5,432	–
Financial assets at fair value through profit or loss	**50,017,958**	62,382,235	39,914,328
Subject to repurchase agreements	**–**	200,000	5,656,840

As of December 31, 2005, NBK Notes amounting to KZT 521,820 were restricted as collateral for certain of the Bank's borrowings (2004 and 2003 – nil).

Interest rates and maturities of debt securities follow:

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
NBK notes	**2.1%-2.4%**	**2006**	3.0%-6.8%	2005	4.7%-5.4%	2004
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**3.1%-8.4%**	**2006-2014**	4.0% -8.6%	2005-2014	5.7%-16.9%	2004-2013
Sovereign bonds of the Republic of Kazakhstan	**11.1%**	**2007**	11.1%	2007	11.1%	2007
Eurobonds of Kazakh banks	**7.9%-10.1%**	**2007-2013**	6.0%-8.6%	2007-2010	7.4%-8.6%	2007-2013
Bonds of the Development Bank of Kazakhstan	**7.1%-8.5%**	**2007**	7.1%-7.4%	2007-2013	8.5%	2007

8. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Time deposits	**2,085,446**	695,379	7,306,271
Loans to local credit institutions	**691,495**	–	422
	2,776,941	695,379	7,306,693
Less Allowance for impairment (Note 11)	**–**	–	(15,764)
Amounts due from credit institutions	**2,776,941**	695,379	7,290,929

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

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Time deposits	**4.0%-12.0%**	**2006-2008**	4.1%-14.5%	2005	8.0%-13.6%	2004
Loans to local credit institutions	**4.1%**	**2006**	–	–	–	2004

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

9. Investment Securities

Available-for-sale investment securities comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Corporate bonds	**6,548,074**	4,758,103	301,224
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**2,644,113**	–	1,827,400
Bonds of Kazakh banks	**2,624,828**	820,062	848,296
Treasury bills of the Kyrgyz Republic	**281,624**	–	–
US Treasury bills	–	14,211,098	–
NBK notes	–	472,475	106,663
Local municipal bonds	–	356,684	–
Sovereign bonds of Kazakhstan	–	–	148,152
Available-for-sale investments securities	**12,098,639**	20,618,422	3,231,735
Subject to repurchase agreements	–	3,652,001	1,181,762

As of December 31, 2004, US Treasury bills were pledged as security for loans advanced by another financial institution to a third party. The Bank was exposed to credit risk in relation to these loans which amounted to KZT 13,992,772 (December 31, 2005: nil). During the year ended December 31, 2005 the pledge has been removed and the related securities were liquidated.

Interest rates and maturities of these securities are:

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate bonds	**3.5%-9.6%**	**2006-2014**	6.9%-10.7%	2005-2014	7.5%-10.9%	2004-2009
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**2.8%-3.5%**	**2006-2008**	–	–	5.5% - 6.1%	2005-2010
Bonds of Kazakh banks	**7.0%-13.5%**	**2007-2013**	7.0%-20.1%	2005-2010	10.5%-13.3%	2004-2010
Treasury bills of the Kyrgyz Republic	**4.5%-7.3%**	**2007-2013**	–	–	–	–
US Treasury bills	–	–	1.7%-4.7%	2005-2012	–	–
NBK notes	–	–	1.7%-1.9%	2005	4.6%-4.9%	2004
Local municipal bonds	–	–	6.0%-8.5%	2005-2008	–	–

Held-to-maturity investment securities at December 31, comprise:

	2005		*2004*		*2003*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	–	–	–	–	1,333,508	1,307,036
Treasury bills of the Ministry of Finance	–	–	–	–	4,705,629	4,460,487
Local municipal bonds	–	–	–	–	402,675	380,813
World Bank bonds	–	–	–	–	1,485	1,441
Held-to-maturity investment securities	–	–	–	–	6,443,297	6,149,777

(Thousands of Kazakhstani Tenge)

Interest rates and maturity of these securities are:

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate bonds	–	–	–	–	7.4%-11.5%	2004-2014
Treasury bills of the Ministry of Finance	–	–	–	–	3.9%-8.2%	2004-2005
Local municipal bonds	–	–	–	–	6.0%-8.5%	2005-2008
World Bank bonds	–	–	–	–	7.1%	2005

Available-for-sale investment securities were transferred from held-to-maturity investment securities in 2004, following a change in management's intent with regard to the underlying securities.

10. Loans to Customers

Loans to customers comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Loans to customers	**431,150,873**	264,767,912	172,359,264
Promissory notes	**4,288,256**	3,498,427	1,067,525
Overdrafts	**1,499,532**	2,240,582	729,363
Factoring	**79,328**	620,958	261,691
	437,017,989	271,127,879	174,417,843
Less – Allowance for loan impairment (Note 11)	**(25,920,766)**	(16,537,686)	(10,529,346)
Loans to customers	**411,097,223**	254,590,193	163,888,497

As of December 31, 2005, the annual interest rates charged by the Bank ranged from 6% to 25% per annum for KZT-denominated loans (2004 – from 7% to 26%, 2003 – from 11% to 28%) and from 6% to 22% per annum for US Dollar-denominated loans (2004 – from 6% to 24%, 2003 – from 10% to 23%).

As of December 31, 2005, the Group had a concentration of loans of KZT 52,972 thousand from the ten largest borrowers that comprised 12% of the Group's total gross loan portfolio (2004 – KZT 42,037 thousand; 16%, 2003 – KZT 39,088 thousand; 22%) and 84% of the Group's total shareholders' equity (2004 – 119%, 2003 – 182%). An allowance for impairment amounting to KZT 1,675 thousand was made against these loans (2004 - KZT 9,197 thousand, 2003 – KZT 1,341 thousand).

Loans are made to the following sectors:

	December 31, 2005	*%*	*December 31, 2004*	*%*	*December 31, 2003*	*%*
Individual loans:						
- mortgage loans	**78,680,146**	**18%**	36,663,656	14%	4,438,887	3%
- consumer loans	**51,921,731**	**12%**	30,320,051	11%	14,211,472	8%
Wholesale trade	**60,924,208**	**14%**	26,916,946	10%	28,709,276	16%
Construction	**54,461,305**	**12%**	35,851,122	13%	16,523,929	9%
Agriculture	**38,018,719**	**9%**	34,043,299	12%	27,434,880	16%
Retail trade	**33,909,256**	**8%**	8,673,253	3%	5,808,358	3%
Oil and gas	**16,380,276**	**3%**	26,191,423	10%	13,897,785	8%
Real estate	**12,493,907**	**3%**	9,132,720	3%	4,020,749	2%
Transportation	**8,439,726**	**2%**	4,586,565	2%	4,388,802	3%
Research and development	**8,307,104**	**2%**	8,017,513	3%	3,730,121	2%
Energy	**7,278,666**	**2%**	6,892,073	2%	3,114,309	2%
Mining	**6,587,252**	**1%**	4,565,767	2%	12,237,027	7%
Metallurgy	**3,968,204**	**1%**	4,362,369	2%	7,032,601	4%
Other	**55,647,489**	**13%**	34,911,122	13%	28,869,647	17%
	437,017,989	**100%**	271,127,879	100%	174,417,843	100%

(Thousands of Kazakhstani Tenge)

11. Allowances for Impairment and Provisions

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

	Due from credit institutions	*Other assets*	*Loans to customers*	*Total*
December 31, 2002	–	(570,780)	(7,811,004)	(8,381,784)
Impairment charge	(15,764)	472,539	(4,593,313)	(4,136,538)
Write-offs	–	42,907	2,123,080	2,165,987
Recoveries	–	(419)	(248,109)	(248,528)
December 31, 2003	(15,764)	(55,753)	(10,529,346)	(10,600,863)
Impairment charge	(426,476)	(57,074)	(7,470,495)	(7,954,045)
Write-offs	457,009	38,297	1,740,723	2,236,029
Recoveries	(14,769)	(1,492)	(278,568)	(294,829)
December 31, 2004	–	(76,022)	(16,537,686)	(16,613,708)
Impairment charge	**–**	**(130,835)**	**(11,838,690)**	**(11,969,525)**
Write-offs	**–**	**75,094**	**3,572,889**	**3,647,983**
Recoveries	**–**	**(2,049)**	**(1,117,279)**	**(1,119,328)**
December 31, 2005	**–**	**(133,812)**	**(25,920,766)**	**(26,054,578)**

The movements in provisions were as follows:

	Provisions
December 31, 2002	(59,563)
Impairment charge	(1,384,671)
Write-offs	523,658
Recoveries	–
December 31, 2003	(920,576)
Provision	(986,679)
Write-offs	106,216
Recoveries	–
December 31, 2004	(1,801,039)
Provision	**(496,378)**
Write-offs	**17,909**
Recoveries	**–**
December 31, 2005	**(2,279,508)**

Allowances for impairment of assets are deducted from the related assets. Provisions represent provision against letters of credit and guarantees issued.

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

12. Property and Equipment

The movements in property and equipment were as follows:

	Buildings and constructions	*Vehicles*	*Computers and banking equipment*	*Other*	*Total*
Cost					
Beginning of the year	4,221,196	606,360	5,848,676	3,293,922	13,970,154
Additions	**94,401**	**299,316**	**1,338,271**	**1,447,646**	**3,179,634**
Disposals	**(14,998)**	**(251,456)**	**(199,882)**	**(79,254)**	**(545,590)**
Transfers	**462,224**	–	–	**(462,224)**	–
December 31, 2005	**4,762,823**	**654,220**	**6,987,065**	**4,200,090**	**16,604,198**
Accumulated depreciation					
Beginning of the year	**406,567**	**320,165**	**2,866,781**	**1,245,330**	**4,838,843**
Charge	**97,854**	**60,508**	**696,506**	**320,976**	**1,175,844**
Disposals	**(7,300)**	**(158,781)**	**(164,346)**	**(59,112)**	**(389,539)**
December 31, 2005	**497,121**	**221,892**	**3,398,941**	**1,507,194**	**5,625,148**
Net book value:					
December 31, 2005	**4,265,702**	**432,328**	**3,588,124**	**2,692,896**	**10,979,050**
December 31, 2004	3,814,629	286,195	2,981,895	2,048,592	

	Buildings and constructions	*Vehicles*	*Computers and banking equipment*	*Other*	*Total*
Cost					
Beginning of the year	3,656,288	513,942	4,372,749	2,771,148	11,314,127
Additions	582,693	129,168	1,662,595	578,439	2,952,895
Disposals	(44,138)	(38,842)	(233,172)	(67,567)	(383,719)
Acquisition through business combinations	26,353	2,092	46,504	11,902	86,851
December 31, 2004	4,221,196	606,360	5,848,676	3,293,922	13,970,154
Accumulated depreciation					
Beginning of the year	333,951	260,370	2,244,194	1,153,122	3,991,637
Charge	107,798	62,742	705,048	131,749	1,007,337
Disposals	(35,182)	(2,947)	(82,461)	(39,541)	(160,131)
December 31, 2004	406,567	320,165	2,866,781	1,245,330	4,838,843
Net book value:					
December 31, 2004	3,814,629	286,195	2,981,895	2,048,592	9,131,311
December 31, 2003	3,322,337	253,572	2,128,555	1,618,026	

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

	Buildings and constructions	*Vehicles*	*Computers and banking equipment*	*Other*	*Total*
Cost					
Beginning of the year	3,451,971	434,256	4,085,610	2,309,664	10,281,501
Additions	279,195	89,292	339,026	664,611	1,372,124
Disposals	(74,878)	(9,606)	(61,884)	(193,130)	(339,498)
Transfers	–	–	9,997	(9,997)	–
December 31, 2003	3,656,288	513,942	4,372,749	2,771,148	11,314,127
Accumulated depreciation					
Beginning of the year	285,034	218,065	1,894,404	838,154	3,235,657
Charge	128,997	62,264	384,778	366,855	942,894
Disposals	(80,080)	(19,959)	(34,988)	(51,887)	(186,914)
December 31, 2003	333,951	260,370	2,244,194	1,153,122	3,991,637
Net book value:					
December 31, 2003	3,322,337	253,572	2,128,555	1,618,026	7,322,490
December 31, 2002	3,166,937	216,191	2,191,206	1,471,510	

During 2005 completed constructions of KZT 462,224 (2004 and 2003 – nil) were transferred from "Other" category to "Buildings and constructions" category. As of December 31, 2005, "Other" category included KZT 264,652 of construction in progress (2004 – KZT 260,750, 2003 – KZT 7,143).

13. Taxation

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

The income tax expense comprises:

	2005	*2004*	*2003*
Current tax charge	**(3,564,256)**	(1,721,348)	(709,206)
Current tax of prior periods	–	–	110,133
Deferred tax benefit / (charge)	**25,680**	(276,432)	(174,392)
Income tax expense	**(3,538,576)**	(1,997,780)	(773,465)

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

The reconciliation between the income tax expense in the consolidated financial statements and income before tax multiplied by the statutory tax rate of 30% for the years ended December 31 is as follows:

	2005	***2004***	***2003***
Income before income tax expense	**19,366,476**	10,090,815	8,271,649
Statutory tax rate	**30%**	30%	30%
Theoretical income tax expense at the statutory rate	**(5,809,943)**	(3,027,245)	(2,481,495)
Tax exempt interest income on long-term loans issued by the Bank to modernize equipment	**1,812,360**	915,576	624,612
Tax exempt interest income on state and other qualifying securities	**1,222,634**	881,592	1,679,825
Income of subsidiaries taxed at different rates	**11,391**	113,760	71,044
Other tax exempt income	**–**	24,175	33,326
Non deductible expenditures:			
- interest on deposits to non-residents	**(317,990)**	(177,160)	(703,425)
- withholding tax on interest	**(311,506)**	(543,585)	(89,952)
- charity	**(33,065)**	(25,088)	(75,638)
- other provisions	**–**	(127,940)	(71,448)
- other	**(112,457)**	(31,865)	(234,708)
Income tax of prior years	–	–	110,133
Change in unrecognised deferred tax assets	–	–	364,261
Income tax expense	**(3,538,576)**	(1,997,780)	(773,465)

Deferred tax assets and liabilities as of December 31 comprise:

	2005	***2004***	***2003***
Tax effect of deductible temporary differences:			
Loans to customers	**341,564**	–	91,262
Deferred tax asset	**341,564**	–	91,262
Tax effect of taxable temporary differences:			
Property and equipment	**(766,708)**	(450,824)	(265,654)
Deferred tax liability	**(766,708)**	(450,824)	(265,654)
Net deferred tax liability	**(425,144)**	(450,824)	(174,392)

Temporary differences on loans to customers as of December 31, 2005 relate to up-front fees received on loans taxed for statutory tax purposes at the time of receipt of such fees. Temporary differences on loans to customers as of December 31, 2003 relate to provisions for other losses.

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

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

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

14. Amounts Due to Customers

Amounts due to customers include customers' term deposits, current accounts and other customers' bank accounts as follows:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Term deposits:			
Commercial entities	**92,026,122**	69,948,527	29,815,332
Individuals	**97,443,587**	81,412,794	65,104,894
Governmental entities	**17,426,543**	–	–
	206,896,252	151,361,321	94,920,226
Current accounts:			
Commercial entities	**64,587,543**	37,009,691	33,307,551
Individuals	**37,913,417**	30,892,155	23,674,644
Governmental entities	**10,466,124**	11,475,743	1,505,820
	112,967,084	79,377,589	58,488,015
Guarantee and other restricted accounts	**766,314**	762,451	1,437,457
Amounts due to customers	**320,629,650**	231,501,361	154,845,698

As of December 31, 2005, the Bank's ten largest customers accounted for approximately 39% of the total amounts due to customers (2004 – 32%, 2003 – 11%).

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

An analysis of customer accounts by sector follows:

	December 31, 2005	*%*	*December 31, 2004*	*%*	*December 31, 2003*	*%*
Individuals and entrepreneurs	**135,357,004**	**42%**	112,304,949	49%	88,779,538	57%
Oil and gas	**99,769,084**	**31%**	42,856,652	19%	15,361,346	10%
Construction	**22,890,735**	**7%**	5,362,613	2%	3,965,924	3%
Energy	**10,390,969**	**3%**	11,857,510	5%	4,308,097	3%
Transportation of oil and gas	**6,267,139**	**2%**	20,694,005	9%	11,336,288	7%
Wholesale trade	**5,907,904**	**2%**	2,090,423	1%	2,646,702	2%
Financial sector	**5,422,340**	**2%**	677,553	1%	1,437,457	1%
Other transportation	**4,760,271**	**2%**	3,658,668	2%	1,628,714	1%
Other	**29,864,204**	**9%**	31,998,988	12%	25,381,632	16%
	320,629,650	**100%**	231,501,361	100%	154,845,698	100%

15. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Loans and deposits from OECD based banks	**97,539,596**	64,364,550	52,111,282
Loans and deposits from non-OECD based banks	**2,144,841**	3,453,432	225,589
Loans and deposits from Kazakh banks	**1,099,582**	5,310,820	2,441,167
Loans from other financial institutions	**1,413,908**	58,121	81,231
Loans from the European Bank for Reconstruction and Development ("EBRD")	**679,153**	657,617	1,379,120
Loans from the Small Business Development Fund	–	800,426	1,960,708
Overnight deposits	**3,850,541**	900,053	3,480,829
Correspondent accounts	**556,526**	947,741	196,624
Amounts due to credit institutions	**107,284,147**	76,492,760	61,876,550

(Thousands of Kazakhstani Tenge)

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

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Loans and deposits from OECD based banks	**3.8%-7.8%**	**2006-2012**	2.4%-6.9%	2005-2009	2.9%-6.1%	2004-2009
Loans and deposits from non-OECD based banks	**4.7%-6.0%**	**2006-2012**	3.9%-6.0%	2005-2012	1.6%-6.0%	2004-2012
Loans and deposits from Kazakh banks	**4.0%-8.0%**	**2006**	2.0%-5.3%	2005-2006	1.0%-6.0%	2004
Loans from other financial institutions	**2.4%-7.3%**	**2006-2012**	2.4%	2008	2.4%	2008
Loans from EBRD	**6-month LIBOR + 4.25%**	**2006**	6-month LIBOR + 4.25%	2006	3.9%-6.4%, 6-month LIBOR + 4.25%	2004-2006
Loans from the Small Business Development Fund	**–**	**–**	7.8%	2005	4.3%-7.8%	2004-2005
Overnight deposits	**4.0%-5.0%**	**2006**	2.0%-2.5%	2005	1.0%	2004

Financial covenants

In accordance with the contractual terms of the loans from certain OECD based banks and EBRD, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In addition, and in accordance with the terms of certain of those loans, the Bank is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares. Furthermore, certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. In addition, should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. As of December 31, 2004, the Bank was in technical breach of these restrictions. Subsequently, during 2005 the Bank has cured the reason of the breach and informed the relevant lenders and obtained subsequent ratification of the transaction that caused the breach and, as a result, there was no impact on these consolidated financial statements.

As of December 31, 2005, management believes that the Bank was in compliance with the covenants of the various debt agreements the Bank has with other banks and financial institutions.

16. Debt Securities Issued

Debt securities issued consisted of the following:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
KZT denominated bonds	**24,283,131**	12,079,918	4,414,634
USD denominated bonds	**3,772,522**	2,068,461	4,167,970
Subordinated debt securities issued	**28,055,653**	14,148,379	8,582,604
USD denominated bonds	**26,909,114**	26,018,775	–
KZT denominated bonds	**3,801,234**	4,751,601	–
RUR denominated promissory notes	**47,593**	21,219	–
Unsubordinated debt securities issued	**30,757,941**	30,791,595	–
Total debt securities issued	**58,813,594**	44,939,974	8,582,604

During 2005 the Bank repurchased its KZT denominated unsubordinated bonds of KZT 1,305,000 (face value) at KZT 1,268,935 (2004 and 2003 – nil).

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

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

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Subordinated debt securities issued						
KZT denominated bonds	**7.5%-9.6%, 15% less inflation rate**	**2007-2015**	7.5%-9.0%	2007-2014	8.0%-9.0%	2007-2009
USD denominated bonds	**8.0%-11.8%**	**2007**	11.8%	2007	11.8%	2007
Unsubordinated debt securities issued						
USD denominated bonds	**8.1%**	**2009**	8.1%	2009	–	–
KZT denominated bonds	**5.0%**	**2007**	5.0%	2007	–	–
RUR denominated promissory notes	**–**	**On demand**	–	On demand	–	–

Subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

In accordance with the terms of the USD denominated bonds, the Bank is required to maintain certain financial covenants particularly with regard to its capital adequacy, lending exposures, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Bank's ability to create security interests over its assets. In addition, should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. At December 31, 2004, the Bank was in technical breach of these restrictions. Subsequently, during 2005, the Bank has cured the reason of the breach and informed the notes' trustee and obtained subsequent ratification of the transaction that caused the breach and, as a result there was no impact on these consolidated financial statements. Management believes that the Bank is in compliance with the other covenants of the agreements the Bank has with the notes' trustee and holders.

17. Shareholders' Equity

Authorized and issued share capital as of December 31, 2005, consisted of 897,383,050 common shares, 24,742,000 non-convertible preferred shares and 74,887,521 convertible preferred shares (2004 – 87,160,237, 24,742,000 and nil, respectively, 2003 – 74,068,613, 24,742,000 and nil, respectively). All shares are KZT denominated. Each common share is entitled to one vote and is equal for dividends.

In accordance with IAS 32 "Financial Instruments: Disclosure and Presentation", preferred shares are classified as part of equity as these shares are not redeemable and guarantee a nominal dividend amount of 0.01 KZT per share to comply with the Kazakh legislation with regard to preferred shares which requires joint stock companies to guarantee certain amount of preferred dividends. The remainder of the dividends on preferred shares is linked to the Bank's profitability and is paid out only if the Bank is profitable. Preferred shares do not have any voting rights.

On May 18, 2005, in accordance with the resolution of the shareholders, the Bank announced a one-to-ten split of common shares outstanding as of that date. Subsequently shareholders authorized and issued 74,887,521 preferred shares that, by the decision of the Board of Directors of the Bank authorized by the shareholders, can subsequently be converted into common shares.

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

Movements of shares authorized, fully paid and outstanding follow:

	Number of shares			Nominal (placement) amount		
	Common	*Non-convertible preferred*	*Convertible preferred*	*Common*	*Non-convertible preferred*	*Convertible preferred*
December 31, 2002	74,085,571	22,611,500	–	7,408,557	2,261,150	–
Capital contributions	–	2,130,500	–	–	213,050	–
Purchase of treasury shares	(16,958)	–	–	(1,696)	–	–
December 31, 2003	74,068,613	24,742,000	–	7,406,861	2,474,200	–
Capital contributions	13,100,888	–	–	5,862,551	–	–
Purchase of treasury shares	(9,264)	–	–	(926)	–	–
December 31, 2004	87,160,237	24,742,000	–	13,268,486	2,474,200	–
Capital contributions	2,574,778	–	74,887,521	936,618	–	12,320,219
Sale of treasury shares	3,290	–	–	329	–	–
December 31, 2005 (before share split)	**89,738,305**	**24,742,000**	**74,887,521**	**14,205,433**	**2,474,200**	**12,320,219**
One-to-ten share split	**807,644,745**	**–**	**–**	**–**	**–**	**–**
December 31, 2005	**897,383,050**	**24,742,000**	**74,887,521**	**14,205,433**	**2,474,200**	**12,320,219**

At December 31, 2005, the Group held 1,633,610 of the Bank's shares as treasury shares at KZT 16,336 (2004 –166,651 at KZT 16,665, 2003 – 157,387 at KZT 15,739).

Dividends payments comprise:

	2005	*2004*	*2003*
Dividends on preferred shares	**316,629**	354,936	394,459
Number of preferred shares as of December 31,	**99,629,521**	24,742,000	24,742,000
Dividend per preferred share (Tenge)	**3.18**	14.3	15.9

All dividends are declared and paid in KZT. No dividends were declared on common shares.

18. Commitments and Contingencies

Financial Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	December 31, 2005	*December 31, 2004*	*December 31, 2003*
Guarantees issued	**29,329,513**	44,595,481	20,343,907
Commitments to extend credit	**17,000,292**	104,963,613	39,207,253
Commercial letters of credit	**16,107,316**	15,526,268	7,794,261
	62,437,121	165,085,362	67,345,421
Less: cash collateral against letters of credit	**(766,314)**	(762,451)	(1,437,457)
Less: provisions	**(2,279,508)**	(1,801,039)	(920,576)
Financial commitments and contingencies	**59,391,299**	162,521,872	64,987,388

As of December 31, 2005, the ten largest guarantees accounted for 56% of the Bank's total financial guarantees (2004 – 33%, 2003 – 47%) and represented 25% of the Bank's total shareholders' equity (2004 – 42%, 2003 – 45%).

As of December 31, 2005, the ten largest letters of credit accounted for 74% of the Bank's total commercial letters of credit (2004 – 83%, 2003 – 49%) and represented 18% of the Bank's total shareholders' equity (2004 – 36%, 2003 – 18%).

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

(Thousands of Kazakhstani Tenge)

Trust Activities

The Group provides fiduciary services to third parties which involve the Bank making allocation, purchase and sales decisions in relation to trusted securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As of December 31, 2005, such securities not reported in the consolidated balance sheet amounted to KZT 168,343 thousand (2004 – KZT 121,174 thousand, 2003 – KZT 89,002 thousand).

19. Fees and Commissions

Fee and commission income was made from the following sources:

	2005	***2004***	***2003***
Bank transfers	**4,312,469**	2,381,350	1,530,106
Pension fund and asset management	**3,114,774**	790,216	972,192
Cash operations	**2,224,997**	1,860,360	1,200,172
Letters of credit and guarantees issued	**1,796,337**	1,195,213	740,997
Maintenance of customer accounts	**894,204**	752,638	652,873
Customers' pension payments	**894,006**	634,653	448,931
Utilities payments	**861,427**	723,648	575,736
Foreign currency operations	**780,755**	647,011	535,355
Plastic cards maintenance	**529,438**	539,694	539,858
Other	**752,301**	592,114	362,660
	16,160,708	10,116,897	7,558,880

Fees and commission expense comprised the following:

	2005	***2004***	***2003***
Plastic cards	**(382,442)**	(344,222)	(260,457)
Foreign currency operations	**(217,919)**	(216,517)	(268,229)
Bank transfers	**(125,577)**	(83,076)	(59,627)
Other	**(186,579)**	(154,661)	(167,083)
	(912,517)	(798,476)	(755,396)

20. Administrative and Operating Expenses

Administrative and operating expenses comprised:

	2005	***2004***	***2003***
Repair and maintenance	**(826,175)**	(693,855)	(445,676)
Insurance of deposits	**(691,765)**	(593,749)	(358,000)
Advertisement	**(525,879)**	(391,806)	(441,074)
Communication	**(437,553)**	(400,507)	(374,697)
Business trip expenses	**(412,462)**	(302,916)	(278,677)
Stationery and office supplies	**(347,548)**	(257,139)	(406,401)
Rent	**(293,328)**	(140,104)	(108,243)
Information services	**(207,088)**	(65,733)	(55,136)
Security	**(183,342)**	(143,542)	(153,850)
Transportation	**(159,230)**	(158,692)	(122,250)
Charity	**(105,718)**	(90,594)	(126,763)
Social events	**(91,121)**	(43,953)	(125,364)
Professional services	**(90,108)**	(514,474)	(280,076)
Other	**(870,838)**	(715,913)	(298,491)
Administrative and operating expenses	**(5,242,155)**	(4,512,977)	(3,574,698)

(Thousands of Kazakhstani Tenge)

21. Earnings per Share

Basic earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year. Participating shares comprise common and preferred shares as, in accordance with Kazakhstan legislation, preferred shareholders are entitled to at least the same amount of per share dividends as common shareholders.

The following reflects the income and share data used in the basic earnings per share computations for the years ended December 31:

	2005	***2004***	***2003***
Net income attributable to equity holders of the parent	**15,628,180**	8,088,143	7,460,278
Weighted average number of participating shares	**931,732,504**	797,846,554	763,258,028
Basic earnings per share (Tenge)	**16.8**	10.1	9.8

22. Risk Management Policies

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

Geographical Concentration

All assets and liabilities, except for those located in OECD and non-OECD countries, as presented in Notes 5, 8 and 15, are located in Kazakhstan.

Currency Risk

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

	December 31, 2005			***December 31, 2004***		
	KZT	***Foreign currencies***	***Total***	***KZT***	***Foreign currencies***	***Total***
Monetary assets:						
Cash and cash equivalents	**24,556,199**	**32,545,492**	**57,101,691**	10,142,361	22,981,008	33,123,369
Obligatory reserves	**8,632,311**	–	**8,632,311**	7,578,394	–	7,578,394
Financial assets at fair value through profit or loss	**42,687,002**	**7,330,956**	**50,017,958**	54,753,245	7,628,990	62,382,235
Amounts due from credit institutions	**1,330,465**	**1,446,476**	**2,776,941**	–	695,379	695,379
Available-for-sale investment securities	**9,623,288**	**2,475,351**	**12,098,639**	5,022,324	15,596,098	20,618,422
Loans to customers	**179,297,785**	**257,720,204**	**437,017,989**	126,037,389	145,090,490	271,127,879
Other assets	**3,970,304**	**443,857**	**4,414,161**	3,757,122	703,076	4,460,198
	270,097,354	**301,962,336**	**572,059,690**	207,290,835	192,695,041	399,985,876
Monetary liabilities:						
Amounts due to customers	**159,727,655**	**160,901,995**	**320,629,650**	135,918,600	95,582,761	231,501,361
Amounts due to credit institutions	**18,122,429**	**89,161,718**	**107,284,147**	6,569,529	69,923,231	76,492,760
Debt securities issued	**28,084,365**	**30,729,229**	**58,813,594**	15,206,003	29,733,971	44,939,974
Provisions	**2,279,070**	**438**	**2,279,508**	1,801,039	–	1,801,039
Tax liability	**425,144**	–	**425,144**	450,824	–	450,824
Other liabilities	**2,701,648**	**1,366,868**	**4,068,516**	1,226,625	1,273,120	2,499,745
	211,340,311	**282,160,248**	**493,500,559**	161,172,620	196,513,083	357,685,703
Net balance sheet position	**58,757,043**	**19,802,088**	**78,559,131**	46,118,215	(3,818,042)	42,300,173

(Thousands of Kazakhstani Tenge)

	December 31, 2003		
	KZT	*Other foreign currencies*	*Total*
Monetary assets:			
Cash and cash equivalents	4,821,118	8,594,229	13,415,347
Obligatory reserves	5,212,050	–	5,212,050
Financial assets at fair value through profit or loss	33,165,870	6,748,458	39,914,328
Amounts due from credit institutions	236,900	7,054,029	7,290,929
Investment securities:			
- available-for-sale	442,922	2,788,813	3,231,735
- held-to-maturity	3,461,866	2,981,431	6,443,297
Loans to customers	72,795,161	101,622,682	174,417,843
Other assets	2,545,642	314,680	2,860,322
	122,681,529	130,104,322	252,785,851
Liabilities:			
Due to customers	88,063,483	66,782,215	154,845,698
Due to credit institutions	4,196,673	57,679,877	61,876,550
Debt securities issued	4,414,634	4,167,970	8,582,604
Provisions	920,576	–	920,576
Current tax liability	8,294	–	8,294
Deferred tax liability	174,392	–	174,392
Other liabilities	477,427	841,251	1,318,678
	98,255,479	129,471,313	227,726,792
Net balance sheet position	24,426,050	633,009	25,059,059

The above table does not include the effect of allowances for impairment of loans and other assets totalling KZT 26,054,578 as of December 31, 2005 (2004 – KZT 16,613,708, 2003 – KZT 10,585,099).

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

Interest Rate Risk

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

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

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

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

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

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	KZT	*Foreign currencies*	*KZT*	*Foreign currencies*	*KZT*	*Foreign currencies*
Financial assets at fair value through profit or loss	**3.74%**	**7.20%**	3.94%	7.26%	5.94%	8.45%
Amounts due from credit institutions	**10.36%**	**4.26%**	9.34%	6.01%	8.54%	6.53%
Available-for-sale investment securities	**7.10%**	**10.17%**	6.15%	4.50%	7.40%	8.45%
Held-to-maturity investment securities	**–**	**–**	–	–	7.34%	9.53%
Loans to customers	**15.50%**	**11.31%**	14.69%	11.62%	16.26%	12.00%
Amounts due to customers, including current accounts						
– legal entities	**2.01%**	**4.94%**	1.65%	4.61%	2.01%	4.30%
– individuals	**5.23%**	**3.29%**	5.63%	5.09%	5.67%	6.29%
Amounts due to credit institutions	**4.70%**	**5.12%**	–	3.36%	1.25%	4.08%
Debt securities issued	**8.93%**	**9.95%**	8.25%	9.80%	8.70%	11.80%

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual repricing date.

	December 31, 2005						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Total*
Monetary assets:							
Cash and cash equivalents	**29,104,398**	**26,231,346**	**1,756,947**	**–**	**–**	**–**	**57,101,691**
Financial assets at fair value through profit or loss	**–**	**23,159,597**	**413,192**	**1,492,144**	**9,458,065**	**15,494,960**	**50,017,958**
Amounts due from credit institutions	**–**	**–**	**1,446,476**	**1,130,465**	**200,000**	**–**	**2,776,941**
Available-for-sale investment securities	**–**	**104,673**	**875,437**	**1,485,038**	**1,803,974**	**7,829,517**	**12,098,639**
Loans to customers	**1,499,532**	**14,045,112**	**29,165,344**	**137,930,473**	**190,719,523**	**63,658,005**	**437,017,989**
	30,603,930	**63,540,728**	**33,666,396**	**142,038,120**	**202,181,562**	**86,982,482**	**559,013,218**
Monetary liabilities:							
Amounts due to customers	**112,967,084**	**38,991,242**	**18,630,799**	**88,641,854**	**58,250,210**	**3,148,461**	**320,629,650**
Amounts due to credit institutions	**556,526**	**14,937,940**	**14,575,018**	**38,974,122**	**29,677,157**	**8,563,384**	**107,284,147**
Debt securities issued	**47,593**	**–**	**–**	**3,674,782**	**7,718,616**	**47,372,603**	**58,813,594**
	113,571,203	**53,929,182**	**33,205,817**	**131,290,758**	**95,645,983**	**59,084,448**	**486,727,391**
Net interest sensitivity gap	**(82,967,273)**	**9,611,546**	**460,579**	**10,747,362**	**106,535,579**	**27,898,034**	**72,285,827**
Cumulative interest sensitivity gap	**(82,967,273)**	**(73,355,727)**	**(72,895,148)**	**(62,147,786)**	**44,387,793**	**72,285,827**	

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

	December 31, 2004						
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 3 years***	***Over 3 years***	***Total***
Monetary assets:							
Cash and cash equivalents	11,871,911	11,275,787	9,975,671	–	–	–	33,123,369
Financial assets at fair value through profit or loss	–	28,884,574	515,332	1,860,997	11,796,068	19,325,264	62,382,235
Amounts due from credit institutions	–	23,149	413,467	258,763	–	–	695,379
Available-for-sale investment securities	–	178,383	1,491,915	2,530,792	3,074,320	13,343,012	20,618,422
Loans to customers	2,240,582	14,754,164	34,678,404	83,154,911	104,634,619	31,665,199	271,127,879
	14,112,493	55,116,057	47,074,789	87,805,463	119,505,007	64,333,475	387,947,284
Monetary liabilities:							
Amounts due to customers	76,565,293	25,098,797	26,864,776	72,424,208	26,644,969	3,903,318	231,501,361
Amounts due to credit institutions	947,741	6,933,062	11,457,470	40,072,910	17,004,078	77,499	76,492,760
Debt securities issued	21,219	–	513,232	–	38,533,163	5,872,360	44,939,974
	77,534,253	32,031,859	38,835,478	112,497,118	82,182,210	9,853,177	352,934,095
Net interest sensitivity gap	(63,421,760)	23,084,198	8,239,311	(24,691,655)	37,322,797	54,480,298	35,013,189
Cumulative interest sensitivity gap	(63,421,760)	(40,337,562)	(32,098,251)	(56,789,906)	(19,467,109)	35,013,189	

	December 31, 2003						
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 3 years***	***Over 3 years***	***Total***
Monetary assets:							
Cash and cash equivalents	12,357,156	–	1,058,191	–	–	–	13,415,347
Financial assets at fair value through profit or loss	–	18,481,357	329,727	1,190,731	7,547,535	12,364,978	39,914,328
Amounts due from credit institutions	24,149	–	–	7,266,780	–	–	7,290,929
Investment securities:							
-available-for-sale	–	27,960	233,843	396,677	481,870	2,091,385	3,231,735
-held-to-maturity	–	–	450,000	3,105,731	1,767,917	1,119,649	6,443,297
Loans to customers	–	13,743,085	12,458,877	45,668,600	68,467,648	34,079,633	174,417,843
	12,381,305	32,252,402	14,530,638	57,628,519	78,264,970	49,655,645	244,713,479
Monetary liabilities:							
Amounts due to customers	51,981,955	25,990,978	16,679,052	30,335,698	16,985,976	12,872,039	154,845,698
Amounts due to credit institutions	196,604	13,338,187	2,210,940	29,636,868	15,475,336	1,018,615	61,876,550
Debt securities issued	–	–	–	36,525	4,129,686	4,416,393	8,582,604
	52,178,559	39,329,165	18,889,992	60,009,091	36,590,998	18,307,047	225,304,852
Net interest sensitivity gap	(39,797,254)	(7,076,763)	(4,359,354)	(2,380,572)	41,673,972	31,348,598	19,408,627
Cumulative interest sensitivity gap	(39,797,254)	(46,874,017)	(51,233,371)	(53,613,943)	(11,939,971)	19,408,627	

The above tables do not include the effect of allowances for impairment of loans and other assets totalling KZT 26,054,578 as of December 31, 2005 (2004 – KZT 16,613,708, 2003 – KZT 10,585,099).

(Thousands of Kazakhstani Tenge)

Liquidity Risk

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

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

	December 31, 2005						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Total*
Monetary assets:							
Cash and cash equivalents	29,104,398	26,231,346	1,765,947	–	–	–	57,101,691
Obligatory reserves	–	–	–	–	–	8,632,311	8,632,311
Financial assets at fair value through profit or loss	50,017,958	–	–	–	–	–	50,017,958
Amounts due from credit institutions	–	–	1,446,476	1,120,332	210,133	–	2,776,941
Available-for-sale investment securities	12,098,639	–	–	–	–	–	12,098,639
Loans to customers	1,499,532	14,045,112	29,165,344	137,930,473	190,719,523	63,658,005	437,017,989
Other assets	997,788	1,224,752	112,966	625,998	–	1,452,657	4,414,161
	93,718,315	41,501,210	32,490,733	139,676,803	190,929,656	73,742,973	572,059,690
Monetary liabilities:							
Amounts due to customers	112,967,084	38,991,242	18,630,799	88,641,854	58,250,210	3,148,461	320,629,650
Amounts due to credit institutions	556,526	14,937,940	14,575,018	38,294,969	30,356,310	8,563,384	107,284,147
Debt securities issued	47,593	–	–	–	7,718,616	51,047,385	58,813,594
Provisions	2,279,508	–	–	–	–	–	2,279,508
Tax liability	–	–	–	425,144	–	–	425,144
Other liabilities	857,578	1,038,532	1,078,928	789,596	303,882	–	4,068,516
	116,708,289	54,967,714	34,284,745	128,151,563	96,629,018	62,759,230	493,500,559
Net position	(22,989,974)	(13,466,504)	(1,794,012)	11,525,240	94,300,638	10,983,743	78,559,131
Accumulated gap	(22,989,974)	(36,456,478)	(38,250,490)	(26,725,250)	67,575,388	78,559,131	

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

Assets and liabilities are shown based on their contractual maturities, except for certain long-term loans to customers amounting to KZT 29,880,890 which are shown at the terms of their "early repayment" call option exercisable at the Bank's discretion. These are tabulated within the "3 months to 1 year" band as the Bank is obliged to provide the borrowers with a repayment period of ten months from the date of exercising the call option. The liquidity gap analysis does not reflect the historical stability of current accounts, which are included in the "on demand" band. Their liquidation has historically taken place over a much longer time period. The Bank's Assets and Liabilities Management Committee analyses average daily balances on customer current accounts and based on this analysis sets minimum amount of liquid assets to meet potential withdrawals. While financial assets at fair value through profit or loss and available-for-sale investment securities are shown as "on demand", realizing such assets upon demand is dependent upon financial market conditions.

As of December 31, 2005, the Bank had an accumulated negative liquidity gap extending from 3 months to 1 year which amounted to KZT 26,723,761. In addition, as discussed in Note 14, as of December 31, 2005, the Bank's 10 largest depositors accounted for approximately 39% of total amounts owed to customers (2004 – 32%, 2003 – 11%).

Management monitors the Bank's liquidity needs and positions and has plans to reduce the liquidity gap extending from 3 months to 1 year in 2006. These plans include increasing the Bank's capital, placing long-term Eurobonds and placing long-term domestic subordinated bonds in 2006. The Bank also intends to reduce the concentration in its deposit base by further attracting small and medium corporate and retail depositors.

Management believes that the Bank's access to domestic and international funding as well as the anticipated share capital increase will continue to allow the Bank to meet its liquidity needs in 2006 and beyond. In addition, the management also believes that the majority of its customer accounts will be extended over their initial contractual maturity as their withdrawal has historically taken place over a period longer than their contractual maturity.

	December 31, 2004						
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 3 years***	***Over 3 years***	***Total***
Monetary assets:							
Cash and cash equivalents	11,871,911	11,275,787	9,975,671	–	–	–	33,123,369
Obligatory reserves	–	–	–	–	–	7,578,394	7,578,394
Financial assets at fair value through profit or loss	62,382,235	–	–	–	–	–	62,382,235
Amounts due from credit institutions	–	23,149	413,467	258,763	–	–	695,379
Available-for-sale investment securities	6,625,650	–	–	13,992,772	–	–	20,618,422
Loans to customers	2,240,582	14,754,164	34,678,404	83,154,911	104,634,619	31,665,199	271,127,879
Other assets	3,652,572	807,626	–	–	–	–	4,460,198
	86,772,950	26,860,726	45,067,542	97,406,446	104,634,619	39,243,593	399,985,876
Monetary liabilities:							
Amounts due to customers	76,565,293	25,098,797	26,864,776	72,424,208	26,644,969	3,903,318	231,501,361
Amounts due to credit institutions	947,741	6,933,062	11,457,470	39,415,293	17,661,695	77,499	76,492,760
Debt securities issued	21,219	–	513,232	–	38,533,163	5,872,360	44,939,974
Provisions	1,801,039	–	–	–	–	–	1,801,039
Tax liability	–	–	–	–	450,824	–	450,824
Other liabilities	2,041,000	15,052	69,569	183,021	191,103	–	2,499,745
	81,376,292	32,046,911	38,905,047	112,022,522	83,481,754	9,853,177	357,685,703
Net position	5,396,658	(5,186,185)	6,162,495	(14,616,076)	21,152,865	29,390,416	42,300,173
Accumulated gap	5,396,658	210,473	6,372,968	(8,243,108)	12,909,757	42,300,173	

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

	December 31, 2003						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Total*
Monetary assets:							
Cash and cash equivalents	12,357,156	–	1,058,191	–	–	–	13,415,347
Obligatory reserves	–	–	–	–	–	5,212,050	5,212,050
Financial assets at fair value through profit or loss	39,914,328	–	–	–	–	–	39,914,328
Amounts due from credit institutions	24,149	–	–	7,266,780	–	–	7,290,929
Investment securities							
- available-for-sale	3,231,735	–	–	–	–	–	3,231,735
- held-to-maturity	–	–	450,000	3,105,731	1,767,917	1,119,649	6,443,297
Loans to customers	–	13,743,085	12,458,877	45,668,600	68,467,648	34,079,633	174,417,843
Other assets	2,660,949	199,373	–	–	–	–	2,860,322
	58,188,317	13,942,458	13,967,068	56,041,111	70,235,565	40,411,332	252,785,851
Liabilities:							
Due to customers	51,981,955	25,990,978	16,679,052	30,335,698	16,985,976	12,872,039	154,845,698
Due to credit institutions	196,604	13,338,187	2,210,940	28,915,768	16,196,436	1,018,615	61,876,550
Debt securities issued	–	–	–	36,525	4,129,686	4,416,393	8,582,604
Provisions	920,576	–	–	–	–	–	920,576
Current tax liability	–	–	–	–	8,294	–	8,294
Deferred tax liability	–	–	–	–	174,392	–	174,392
Other liabilities	778,847	15,046	372,684	91,118	60,983	–	1,318,678
	53,877,982	39,344,211	19,262,676	59,379,109	37,555,767	18,307,047	227,726,792
Net position	4,310,335	(25,401,753)	(5,295,608)	(3,337,998)	32,679,798	22,104,285	25,059,059
Accumulated gap	4,310,335	(21,091,418)	(26,387,026)	(29,725,024)	2,954,774	25,059,059	

The above tables do not include the effect of allowances for impairment of loans and other assets totalling KZT 26,054,578 as of December 31, 2005 (2004 – KZT 16,613,708, 2003 – KZT 10,585,099).

23. Segment Analysis

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

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

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

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

There were no transactions between business segments during 2005, 2004 and 2003.

Segment information for the main reportable business segments of the Group for the years ended December 31, 2005, 2004 and 2003 is set out below:

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

	Retail banking	*Corporate banking*	*Other*	*Total*
2005				
External revenues	24,582,671	46,105,621	2,275,889	72,964,181
Total revenues	**24,582,671**	**46,105,621**	**2,275,889**	**72,964,181**
Total revenues comprise:				
- Interest income	18,687,639	33,696,984	–	52,384,623
- Gains less losses from financial assets at fair value through profit or loss	–	–	1,362,905	1,362,905
- Gains less losses from available-for-sale investment securities	–	–	342,380	342,380
- Share of income of associate	–	248,841	–	248,841
- Gains less losses from foreign currencies	927,974	966,146	–	1,894,120
- Fee and commission income	4,967,058	11,193,650	–	16,160,708
- Other operating income	–	–	570,604	570,604
Total revenues	**24,582,671**	**46,105,621**	**2,275,889**	**72,964,181**
Segment result	**11,036,753**	**21,946,542**	**2,275,889**	**35,259,184**
Unallocated costs	–	–	–	(15,892,708)
Income before income tax expense				**19,366,476**
Income tax expense				(3,538,576)
Net income				**15,827,900**
Other segment assets	136,753,241	335,665,379	62,116,597	534,535,217
Total segment assets	**136,753,241**	**335,665,379**	**62,116,597**	**534,535,217**
Premises and equipment				10,979,050
Other unallocated assets				14,150,441
Total assets	**136,753,241**	**335,665,379**	**62,116,597**	**559,664,708**
Other segment liabilities	(132,716,916)	(190,192,242)	–	(322,909,158)
Total segment liabilities	**(132,716,916)**	**(190,192,242)**	**–**	**(322,909,158)**
Other unallocated liabilities	–	–	–	(172,311,505)
Total liabilities	**(132,716,916)**	**(190,192,242)**	**–**	**(495,220,663)**
Other segment items				
Capital expenditure				(3,179,634)
Depreciation and amortization expense				(1,329,848)
Impairment charge to statement of income				(12,465,903)
Other non-cash income				1,512,589

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

	Retail banking	*Corporate banking*	*Other*	*Total*
2004				
External revenues	11,964,526	33,289,709	877,470	46,131,705
Total revenues	**11,964,526**	**33,289,709**	**877,470**	**46,131,705**
Total revenues comprise:				
- Interest income	7,927,442	25,022,615	–	32,950,057
- Gains less losses from financial assets at fair value through profit or loss	–	–	165,389	165,389
- Gains less losses from available-for-sale investment securities	–	–	104,204	104,204
- Share of income of associate	–	196,153	–	196,153
- Gains less losses from foreign currencies	647,932	1,343,196	–	1,991,128
- Fee and commission income	3,389,152	6,727,745	–	10,116,897
- Other operating income	–	–	607,877	607,877
Total revenues	**11,964,526**	**33,289,709**	**877,470**	**46,131,705**
Segment result	**3,532,342**	**16,094,854**	**877,470**	**20,504,666**
Unallocated costs	–	–	–	(10,413,851)
Income before income tax expense				**10,090,815**
Income tax expense				(1,997,780)
Net income				**8,093,035**
Other segment assets	85,254,508	203,840,473	83,000,657	372,095,638
Total segment assets	**85,254,508**	**203,840,473**	**83,000,657**	**372,095,638**
Premises and equipment				9,131,311
Other unallocated assets				12,026,951
Total assets	**85,254,508**	**203,828,436**	**83,000,657**	**393,253,900**
Other segment liabilities	(112,311,569)	(120,990,831)	–	(233,302,400)
Total segment liabilities	**(112,311,569)**	**(120,990,831)**	**–**	**(233,302,400)**

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

Other unallocated liabilities				(124,383,303)
Total liabilities	**(112,311,569)**	**(120,990,831)**	**–**	**(357,685,703)**
Other segment items				
Capital expenditure				(2,952,895)
Depreciation and amortization expense				(1,111,526)
Impairment charge to statement of income				(8,940,724)
Other non-cash income				249,011

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

	Retail banking	*Corporate banking*	*Other*	*Total*
2003				
External revenues	6,186,108	26,749,426	1,638,418	34,573,952
Total revenues	**6,186,108**	**26,749,426**	**1,638,418**	**34,573,952**
Total revenues comprise:				
- Interest income	3,594,520	20,601,990	–	24,196,510
- Gains less losses from financial assets at fair value through profit or loss	–	–	826,602	826,602
- Gains less losses from available-for-sale investment securities	–	–	441,674	441,674
- Share of income of associate	–	68,783	–	68,783
- Gains less losses from foreign currencies	596,531	514,830	–	1,111,361
- Fee and commission income	1,995,057	5,563,823	–	7,558,880
- Other operating income	–	–	370,142	370,142
Total revenues	**6,186,108**	**26,749,426**	**1,638,418**	**34,573,952**
Segment result	**1,186,046**	**12,759,298**	**1,638,418**	**15,583,762**
Unallocated costs				(7,312,113)
Income before income tax expense				**8,271,649**
Income tax expense				(773,465)
Net income				**7,498,184**
Other segment assets	26,523,484	158,561,176	49,589,360	234,674,020
Total segment assets	**26,523,484**	**158,561,176**	**49,589,360**	**234,674,020**
Premises and equipment				**7,322,490**
Other unallocated assets				**7,526,732**
Total assets	**26,523,484**	**158,561,176**	**49,589,360**	**249,523,242**
Other segment liabilities	**(88,779,538)**	**(66,986,736)**	–	**(155,766,274)**
Total segment liabilities	**(88,779,538)**	**(66,986,736)**	–	**(155,766,274)**
Other unallocated liabilities				(71,960,518)
Total liabilities	**(88,779,538)**	**(66,986,736)**	–	**(227,726,792)**
Other segment items				
Capital expenditure				(1,372,124)
Depreciation and amortization expense				249,523,242
Impairment charge to statement of income				5,521,209
Other non-cash expenses				(149,278)

(Thousands of Kazakhstani Tenge)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the years ended December 31, 2005, 2004 and 2003.

	Kazakhstan	*OECD*	*Non OECD*	*Total*
2005				
Segment assets	**526,699,451**	**31,535,829**	**1,429,428**	**559,664,708**
External revenues	**71,456,677**	**1,442,136**	**65,368**	**72,964,181**
Capital expenditure	**(3,179,634)**	**–**	**–**	**(3,179,634)**
Credit related commitments	**17,000,292**	**–**	**–**	**17,000,292**
2004				
Segment assets	359,834,727	32,911,445	507,728	393,253,900
External revenues	44,707,576	1,402,493	21,636	46,131,705
Capital expenditure	(2,952,895)	–	–	(2,952,895)
Credit related commitments	104,963,613	–	–	104,963,613
2003				
Segment assets	230,330,040	18,245,544	947,658	249,523,242
External revenues	33,810,632	725,631	37,689	34,573,952
Capital expenditure	(1,372,124)	–	–	(1,372,124)
Credit related commitments	39,207,253	–	–	39,207,253

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

24. Fair Values of Financial Instruments

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

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

Amounts Due from and to Credit Institutions

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

Loans to Customers

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

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

Held-to-Maturity Investment Securities

The estimate was based on the quoted market prices of the securities at the balance sheet date.

Amounts Due to Customers

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

Debt Securities Issued

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

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

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets						
Amounts due from credit institutions	**2,776,941**	**2,776,941**	695,379	695,379	7,290,929	7,290,929
Loans to customers, gross	**437,017,989**	**438,905,326**	254,590,193	257,640,717	163,888,497	165,852,558
Held-to-maturity investments securities	–	–	–	–	6,443,297	6,479,591
Financial liabilities						
Amounts due to customers	**320,629,650**	**322,699,421**	231,501,361	230,775,739	154,845,698	154,312,893
Amounts due to credit institutions	**107,284,147**	**109,982,877**	76,492,760	74,697,414	61,876,550	60,402,847
Debt securities issued	**58,813,594**	**58,550,320**	44,939,974	45,531,403	8,582,604	8,695,597

25. Related Party Transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Bank's related parties include shareholders, entities which exercise significant influence over the Bank and entities over which the Bank exercises significant influence.

(Thousands of Kazakhstani Tenge)

December 31, 2005 and 2004

As of December 31, the Bank had the following transactions with related parties:

	December 31, 2005		*December 31, 2004*		*December 31, 2003*	
	Related party transactions	*Total category*	*Related party transactions*	*Total category*	*Related party transactions*	*Total category*
Loans to customers, gross at interest rates ranging from 8% to 28%	**753,392**	**437,017,989**	5,969,824	271,127,879	4,264,972	174,417,843
Shareholders	**681,394**		5,839,808		4,262,500	
Management	**71,998**		130,016		2,472	
Amounts due to customers at interest rates ranging from 4% to 8%	**494,564**	**320,629,650**	72,980,663	231,501,361	30,455,188	154,845,698
Shareholders	**98,793**		72,879,663		30,188,556	
Management	**212,985**		–		–	
Associates	**182,786**		101,000		266,632	
Guarantees at interest rates ranging from 3% to 4%	**2,561,568**	**29,329,513**	1,199,631	44,595,481	524,468	20,343,907
Shareholders	**2,561,568**		1,199,631		523,291	
Management	**–**		–		1,177	

For the year ended December 31, the Bank had the following transactions with related parties:

	2005		*2004*		*2003*	
	Related party transactions	*Total category*	*Related party transactions*	*Total category*	*Related party transactions*	*Total category*
Interest income	**105,708**	**47,548,528**	359,098	28,446,733	440,856	21,593,736
Shareholders	**98,648**		356,304		440,594	
Management	**7,060**		2,794		262	
Interest expense	**(26,842)**	**(11,872,599)**	(1,039,594)	(8,025,633)	(1,317,976)	(6,629,319)
Shareholders	**(11,730)**		(1,039,212)		(1,316,332)	
Management	**(7,007)**					
Associates	**(8,105)**		(382)		(1,644)	
Fee and commission income	**6,499**	**16,160,708**	169,423	10,116,897	15,293	7,558,880
Shareholders	**4,829**		165,344		10,698	
Associates	**1,670**		4,079		4,595	

Included in the table above are the following transactions with related parties outstanding as of December 31, 2005, 2004 and 2003:

- Associate, including: loans and deposits placed with the Bank.
- Shareholders, including: loans, deposits placed with the Bank and guarantees and letters of credit.
- Members of Board of Directors, including: loans and deposits placed with the Bank.

As of December 31, 2004 and 2003 and for the years then ended balances and transactions with related parties included transactions with JSC Kazmunaigas ("KMG") as its senior officer (the "Officer") was also the controlling shareholder of JSC Holding Group Almex (formerly Almex LLP) (Note 1) which is the controlling shareholder of the Bank. During 2005 the Officer has resigned from his position in KMG.

Remuneration and other benefits paid to 11 members of the Management Board and Board of Directors of the Bank for the year ended December 31, 2005 was KZT 819,128 (2004 – 13 members and KZT 640,763; 2003 – 8 members and KZT 337,732).

(Thousands of Kazakhstani Tenge)

26. Capital Adequacy

The FMSA requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2005 and 2004, the Bank's capital adequacy ratios complied with the FMSA requirements in that regard.

The Bank's international risk based capital adequacy 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 and 2004, exceeded the minimum ratio of 8% recommended by the Basle Accord.

	2005	***2004***	***2003***
Tier I capital	**62,622,193**	32,253,118	18,396,107
Tier II capital	**22,523,686**	13,972,087	12,326,293
Gross tier I and tier II available capital	**85,145,879**	46,225,205	30,722,400
Less investments in associate	**(1,442,765)**	(686,040)	(631,579)
Tier I and Tier II capital	**83,703,114**	45,539,165	30,090,821
Total risk weighted assets	**488,432,155**	331,564,439	205,498,060
Tier I capital adequacy ratio	**13%**	10%	9%
Total risk weighted capital adequacy ratio	**17%**	14%	15%