OFFERING CIRCULAR

HSBK (Europe) B.V.

(incorporated with limited liability in The Netherlands)

U.S. $300,000,000
7.75% Notes due 2013

Guaranteed by
JSC HALYK BANK
Issue Price 99.760%

The U.S. $300,000,000 7.75% Notes due 2013 (the "Notes") are issued by HSBK (Europe) B.V. (the "Issuer") and guaranteed by JSC Halyk Bank, a joint stock company organised in the Republic of Kazakhstan (the "Bank" or the "Guarantor"). Interest on the Notes will accrue from 11 May 2006 and will be payable semi-annually in arrear on 13 November and 13 May of each year, commencing on 13 November 2006. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 11 May 2006 (the "Trust Deed") among the Issuer, the Bank and J.P. Morgan Corporate Trustee Services Limited as trustee for the holders of the Notes (the "Trustee"). See "Terms and Conditions of the Notes".

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

Application has been made to the *Commission de Surveillance du Secteur Financier* ("CSSF") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) to approve this Offering Circular as a prospectus, and this Offering Circular constitutes a Prospectus for the purposes of article 5 of Directive 2003/71/EC. Application has also been made to the Luxembourg Stock Exchange for the Notes to be listed and admitted to trading on the Luxembourg Stock Exchange's regulated market, which is a regulated market for the purposes of Council Directive 93/22/EEC (the "Luxembourg Stock Exchange"). Application has also been made for the Notes to be designated as eligible for trading on The PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). After their issue, the Bank will use its best efforts to cause the Notes to be listed on the Kazakhstan Stock Exchange ("KASE").

See "Risk Factors" beginning on page 11 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes are expected to be assigned on issue a rating of Baa2, BB and BB+ by Moody's Investor Service, Standard and Poor's Rating Service and Fitch IBCA, respectively. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

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

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "Unrestricted Global Note") in registered form, without interest coupons attached, which will be registered in the name of Chase Nominees Limited as nominee for, and shall be deposited on or about 11 May 2006 (the "Closing Date") with JPMorgan Chase Bank, N.A., acting through its London Branch, as common depositary for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "Restricted Global Note" and, together with the Unrestricted Global Note, the "Global Notes") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, N.A., as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), or (ii) to qualified institutional buyers in reliance on Rule 144A under the Securities Act, will be issued in minimum denominations of U.S. $100,000 or any amount in excess thereof which is an integral multiple of U.S. $1,000. See "Terms and Conditions of the Notes". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "Form of Notes and Transfer Restrictions". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

HSBC **JPMorgan**

The date of this Offering Circular is 10 May 2006.

IMPORTANT NOTICE

The Issuer and the Bank (the "Responsible Persons"), having taken all reasonable care to ensure that such is the case, declare that the information contained in this Offering Circular is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affects its import. Save as provided below, the Issuer and the Bank accept responsibility for the information contained in this Offering Circular. The information in the section "The Banking Sector in Kazakhstan" has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in the Republic of Kazakhstan ("Kazakhstan"). There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Issuer and the Bank only accept responsibility for accurately reproducing such extracts as they appear in the section "The Banking Sector in Kazakhstan" to this Offering Circular and neither accepts any further or other responsibility in respect of such information.

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

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

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

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

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

This Offering Circular does not, and is not intended to, constitute or contain an offer to sell or a solicitation of an offer to purchase the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offer or sale of the Notes in certain jurisdictions is restricted by law. This

Offering Circular may not be used for or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Offering Circular may come are required by the Issuer, the Bank and the Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Offering Circular is set out under "Subscription and Sale" and "Form of Notes and Transfer Restrictions".

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

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NOTICE TO RESIDENTS OF NEW HAMPSHIRE

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

AVAILABLE INFORMATION

Neither the Issuer nor the Bank is currently required to file periodic reports under Sections 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the U.S. Securities and Exchange Commission ("SEC"). In order to preserve the exemption for resales and transfers under Rule 144A, the Issuer and the Bank have agreed that, so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Bank will, if they are not exempt from the reporting requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder and do not thereafter become subject to and comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act, provide to any holder of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder, upon the request of such holder or prospective purchaser, any information required to be provided by Rule 144A(d)(4) under the Securities Act. See "Terms and Conditions of the Notes - Condition 5".

ENFORCEMENT OF FOREIGN JUDGMENTS

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

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

The Bank's audited consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2005, 2004 and 2003 have been prepared in accordance with IFRS. The Bank's audited consolidated financial statements as at and for the years ended 31 December 2005, 2004 and 2003 were audited by Ernst & Young LLP, independent auditors ("Ernst & Young"), whose audit reports for the respective periods are included elsewhere in this Offering Circular. See the consolidated financial statements, including the relevant notes thereto, included elsewhere in this Offering Circular and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

Solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate, in each case calculated in accordance with the exchange rates for U.S. Dollars on the KASE as reported by the NBK. On 30 December 2005, the exchange rates for U.S. Dollars on the KASE as reported by the NBK was KZT 133.98 per U.S. $1.00 and the average exchange rate for the year ended 31 December 2005 as reported by the NBK was KZT 132.88 per U.S. $1.00. On 5 May 2006, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 124.01 per U.S. $1.00. For further details of applicable exchange rates, see the consolidated financial statements included herein.

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

MARKET SHARE, INDUSTRY AND ECONOMIC DATA

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

SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements (including, in each case, the notes thereto) appearing elsewhere in this Offering Circular. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be made based on a consideration of the Offering Circular as a whole. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the European Economic Area, no civil liability will attach to the responsible persons in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to the information contained in this Offering Circular is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating the prospectus before the legal proceedings are initiated.

The Issuer

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

The Bank

Established in 1923 as a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe, the Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1993. Following the introduction of the privatisation programme in 1998, the Government gradually decreased its ownership interest in the Bank and subsequently sold its remaining shares in the Bank in November 2001 through a public tender process.

According to statistics published by the FMSA, the Bank is the largest bank in Kazakhstan in terms of total amounts due to retail customers, which amounted to KZT 130,910 million as at 31 December 2005 which represents approximately 21.9% of the total market share as at 31 December 2005. The Bank is also the third largest bank in Kazakhstan according to statistics published by the NBK, based on total assets of KZT 559,665 million as at 31 December 2005. For the year ending 2005, the Bank's net income increased to KZT 15,828 million, compared to KZT 8,093 million for 2004.

The Bank's core business is focused on retail and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through 546 retail outlets, including regional and district branches in all 14 regions throughout Kazakhstan. In accordance with new banking legislation, all retail units are expected to be converted into branches or units of existing branches by the end of 2006. In addition, based on agency agreements with JSC Kazpochta ("Kazpost"), the Bank offers certain basic banking services, including accepting some utility payments and repayments of consumer loans, through outlets operated by Kazpost to the Bank's customers in certain remote areas. Other distribution channels used by the Bank include Automated Teller Machines ("ATMs"), the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan.

The Bank offers a wide range of retail banking products and services including current accounts, time deposits, consumer loans, mortgages, credit and debit cards, traveller's cheques, currency exchange, Internet banking and ATM services. The corporate banking business provides a range of wholesale banking products and services to corporate and small and medium size business customers, financial institutions and Government entities. As at 31 December 2005, the Bank had approximately 6.6 million retail accounts (including deposits and card accounts) and 56.2 thousand corporate customers.

The Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both treasury bills and short-term notes of the NBK and in 2005, the Bank's purchases of notes represented 3.96% and 11.98% of total issued volume, respectively. The Bank in 2005 was the most active trader of government securities on the KASE, generating 14.5% of trading volume in those securities in 2005. Since sovereign Eurobonds were listed on the KASE in 1998, the Bank became an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three Eurobond issues made by the Republic of Kazakhstan in 1997, 1999 and 2000 and as co-manager of the Development Bank of Kazakhstan's Eurobond issue in 2006.

Shares of the Bank have been listed on the KASE since 1998. As at 31 March 2006, Holding Group Almex JSC owned approximately 82.13% of the voting shares of the Bank. See "Principal Shareholders". The Bank's principal offices are located at 97 Rozybakieva Street, Almaty 050046, Kazakhstan.

Business Strategy

The Bank's overall strategic objective is to build a client-focused financial services group capable of operating at Western banking standards in order to generate high returns on equity and on assets and to increase profitability by consolidating the Bank's position as a leading commercial bank in Kazakhstan. To this end, Management of the Bank has developed a strategy comprised of three principal goals, including becoming a financial services group capable of offering a wide range of financial products and services through its extensive branch network and other distribution channels; achieving Western operating standards; and expanding regionally. The Bank's management believes that it can achieve those goals through its own resources; however, the Bank is considering the sale of 25%-48% of its equity to a large OECD based bank and/or an initial public offering listed in the international markets to accelerate the process of achieving the three principal goals.

Credit Ratings

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

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

It is expected that, on issue, Fitch, Moody's and Standard & Poor's will assign BB+, Baa2 and BB ratings, respectively, to the Notes. A security rating is not a recommendation to buy, sell or hold the securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular and related documents referred to herein. Capitalised terms not specifically defined in this summary have the meaning set out in the "Terms and Conditions of the Notes".

General

Issue:	U.S. $300,000,000 7.75% Notes due 2013. The Notes are being offered, by the Issuer through the Managers, to (i) certain qualified institutional buyers ("QIBs") (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in the United States in reliance on Rule 144A under the Securities Act; and (b) to certain non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. See "Subscription and Sale".
Issue Price:	99.760% of the principal amount of the Notes.
Trustee:	J.P. Morgan Corporate Trustee Services Limited.
Principal Paying Agent:	JPMorgan Chase Bank, N.A., acting through its London Branch.

Principal Terms of the Notes

Issuer:	HSBK (Europe) B.V. is a wholly owned subsidiary of the Bank incorporated on 1 May 1998 under the laws of The Netherlands for the purpose of, amongst other things, raising funds in the international capital markets and lending such funds to the Bank.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 7.75% per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 13 November and 13 May of each year, commencing on 13 November 2006.
Maturity Date:	13 May 2013.
Guarantee:	JSC Halyk Bank will, on or prior to the Closing Date, enter into the Guarantee under a deed of guarantee pursuant to which the Bank will unconditionally guarantee the due and punctual payment of all sums payable by the Issuer in respect of the Notes.
Status:	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge - Negative Pledge of the Issuer*) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (save for such exceptions as may be provided by mandatory provisions of applicable law) with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. The obligations of the Bank under the Guarantee constitute direct, general, unconditional and (subject to Condition 4(b) (*Negative Pledge—Negative Pledge of the Guarantor*)) unsecured obligations of the Bank which rank and will at all times rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Bank, save only for such obligations as may be preferred by mandatory provisions of applicable law of general application. See Condition 3 (*Status*—

	Status of the Guarantee).
Negative Pledge:	Each of the Issuer and the Bank agree that, so long as any Notes remains outstanding, it shall not create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than, in the case of the Issuer, a Permitted Issuer Security Interest or, in the case of the Bank, a Permitted Bank Security Interest, each as defined in Condition 5 (*Covenants*)) upon or with respect to any of their respective undertakings, assets or revenues to secure any Financial Indebtedness (as defined in Condition 5 (*Covenants*)) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Financial Indebtedness or are otherwise given the benefit of such other arrangements as shall be approved. See Condition 4 (*Negative Pledge*).
Certain Covenants:	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on payment of dividends, (ii) limitation on transactions at less than the fair market value, (iii) covenants with respect to limitations on merger and consolidation and (iv) limitations on transfers of interests in the Issuer by the Bank. See Condition 5 (*Covenants*).
Taxation:	All payments of principal and interest in respect of the Notes will be made free and clear of any taxes imposed by or within The Netherlands or Kazakhstan or any jurisdiction from or through which payment is made, unless withholding or deduction thereof is required by law. See Condition 9 (*Taxation*). In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by The Netherlands or Kazakhstan upon or as a result of such payment, will not be less than the amount provided for in such Note to be then due and payable. See "Terms and Conditions of the Notes – Condition 9". Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15% to 20% unless reduced or made exempt by an applicable double taxation treaty. See "Taxation — Kazakhstan Taxation".
Tax Redemption:	The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any), at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See Condition 6(b) (*Redemption, Purchase and Cancellation — Redemption for Taxation Reasons*).
Form:	The Notes are issued in registered form, without interest coupons attached, in minimum denominations of U.S. $100,000 or any amount in excess thereof which is an integral multiple of U.S. $1,000. The Notes will initially be represented by the Unrestricted Global Note and the Restricted Global Note, which will be exchangeable in the limited circumstances specified by their respective terms for Unrestricted Note Certificates and Restricted Note Certificates, respectively.
Governing Law:	The Notes, the Trust Deed and the Agency Agreement are governed by, and will be construed in accordance with, the laws of England.

Listing:	Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has also been made for the Notes to be designated as eligible for trading on PORTAL. No assurance can be given that such listing will be obtained. After their issue, the Bank will use its best efforts to cause the Notes to be listed on the KASE.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in the United Kingdom, Kazakhstan, The Netherlands and Italy. See "Form of Notes and Transfer Restrictions".
Payment and Settlement:	The identification numbers for the Notes are as follows: Regulation S Notes: ISIN: XS0253878051 Common Code: 025387805 Rule 144A Notes: ISIN US40430AAA16 CUSIP 40430AAA1 Common Code: 025404122
Use of Proceeds:	The proceeds of the Offering, expected to amount to U.S. $299,280,000, will be deposited by the Issuer with the Bank. The Bank will use such proceeds to fund loans to its customers and for other general corporate purposes. The expenses and combined management, underwriting and selling commission incurred with the issue of the Notes will be paid by the Bank.
Risk Factors:	For a discussion of certain investment considerations relating to Kazakhstan, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "Risk Factors".

RISK FACTORS

The following factors may affect the ability of the Issuer and the Bank to fulfill their obligations in respect of the Notes. All of these factors are contingencies which may or may not occur and neither the Bank nor the Issuer is in a position to express a view on the likelihood of any such contingency occurring.

In addition, prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Offering Circular, the following risks associated with investment in Kazakhstan entities generally and in the Bank specifically, as the case may be, which (although not exhaustive) could be material for the purpose of assessing the market risks associated with the Notes issued. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in Kazakhstan, which in some respects may differ from that prevailing in other countries.

Prospective investors should note that the inability of the Issuer or the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for reasons other than those stated below and the Bank does not represent that such statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. Prospective investors should also consult their own financial and legal advisers about risks associated with an investment in the Notes and the suitability of investing in such Notes in light of their particular circumstances, without relying on the Bank, the Issuer or the Managers. Investors are advised to make, and will be deemed by the Managers and the Bank to have made, their own investigations in relation to such factors before making any investment decisions in relation the Notes.

General Risk Relating to Emerging Markets

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

Risk Factors Relating to the Republic of Kazakhstan

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

Political and Regional Considerations

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

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than most other countries of the CIS. Privatisation has been substantially completed. As with any transition economy, however, there can be no assurance that such reforms as to deregulation and other reforms described elsewhere in this Offering Circular will continue or that such reforms will achieve all or any of their intended aims.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper, ferro-alloys, iron ore, alumina, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In addition to taking various steps to promote regional economic integration among neighbouring countries, Kazakhstan signed an agreement in September

2003 with Ukraine, Russia, and Belarus for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to co-ordinate their fiscal, credit and currency policies. Government policy advocates further economic integration with the CIS countries, one of the aims of which is to assure continued access to export routes. Should access to these routes be materially impaired, however, the economy of Kazakhstan could be adversely affected.

Like other countries in Central Asia, Kazakhstan could be affected by continuing unrest in the region and the effect such military action may have on the world economy and political stability of other countries. Also, in common with other countries in Central Asia, Kazakhstan could be affected by military or other action taken against sponsors of terrorism in the region. In particular, countries in Central Asia, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil, oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects.

Since 2004 there have been developments in Kyrgyzstan, Georgia and Ukraine, with respect to public unrest and changes in their respective governments. While the outcome of such developments is currently seen as positive, the situation remains uncertain and the future of those countries in particular and the region in general could continue to see major developments. Further, the Kyrgyz economic, political and regulatory environment is less developed than that of Kazakhstan, which places additional risks in connection with doing business in Kyrgyzstan. Although the Bank continues to monitor the risks associated with all CIS countries and will maintain its equity investments and debt exposure to Russia, Kyrgyzstan and other CIS countries within defined limits, there can be no assurance that any future unrest in the region will not have an adverse impact on the economy of Kazakhstan in general and the Bank's investments in CIS countries in particular.

Macroeconomic Considerations and Exchange Rate Polices

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

The Government began implementing market-based economic reforms following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 13 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. Whilst GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5% in 2001, 9.8% in 2002, 9.2% in 2003 and 9.4% in both 2004 and 2005, there can be no assurance that the GDP will continue to grow and any fall in GDP in subsequent years could adversely effect Kazakhstan's economy.

The Tenge is convertible for current account transactions, although it is not fully convertible currency outside Kazakhstan. Depressed export markets in 1998 and early 1999 caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 64.6% against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7% in the year ended 31 December

1998. Following the adoption of a floating exchange rate policy in 1999, the Tenge continued to depreciate in value against the U.S. Dollar, although at a much lower rate, depreciating by 3.8% in 2001 and by 3.3% in 2002. The Tenge appreciated in value against the U.S. Dollar during 2003 and 2004 from KZT 155.60:U.S. $1.00 as at 31 December 2002 to KZT 144.22:U.S. $1.00 as at 31 December 2003 and to KZT130.00:U.S. $1.00 as at 31 December 2004 and depreciated to KZT 133.77:U.S. $1.00 as at 31 December 2005. Since year end 2005, the U.S. Dollar has depreciated against the Tenge and as at 5 May 2006, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 124.01 per U.S. $1.00. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

Implementation of Further Market-Based Economic Reforms

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain major enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company. There remains a need for substantial investment in many sectors of the Kazakhstan economy, however, and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the amount of non-cash transactions in the economy and the size of the informal sector adversely affect the implementation of reforms and restrict the efficient collection of taxes. The Government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration and by completing the final stage of the privatisation process. The Government has also indicated that it is considering the possibility of presenting to Parliament a law establishing a one-time property amnesty aimed at reducing the size of the black market and increasing the size of the country's tax base. Implementation of these measures, however, may not happen in the short-term and any positive results of such actions may not materialise until the medium term, if at all.

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including a new tax code in January 2002 (which was substantially amended in January 2005), laws relating to investments, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business and prospects.

Due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. Moreover, it is expected that the tax legislation in Kazakhstan will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these provisions may affect the Bank's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Bank will endeavour to minimise such exposures with tax planning, it cannot offer any assurance that additional tax exposure will not arise while the Notes are outstanding. Additional tax exposure could have a material adverse effect on the Bank's business, financial condition and results of operations and any expansion of the circumstances in which withholding tax is applicable may give the Bank the right to redeem the Notes prior to their stated maturity.

Less Developed Securities Market

An organised securities market was only established in Kazakhstan in the mid-to-late 1990's and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets are still evolving in Kazakhstan. In particular, legal protections against market manipulation and insider trading are less well developed in Kazakhstan, and less strictly enforced, than in the United States and Western European countries, and existing laws and regulations may be applied inconsistently with consequent irregularities in enforcement. In addition, less information relating to Kazakhstan entities, such as the Bank, may be publicly available to investors in securities issued or guaranteed by such entities than are available to investors in entities organised in the United States or Western European countries. See "Market Share, Industry and Economic Data".

Risk Factors Relating to the Bank

Loan Portfolio Growth

The Bank's gross loan portfolio has increased rapidly in recent years, growing 61% to KZT 437,018 million as at 31 December 2005 from KZT 271,128 million as at 31 December 2004, after having increased 55% from KZT 174,418 million as at 31 December 2003. The growth in the loan portfolio is significantly driven by an overall increase in lending activity, especially to SMEs and retail customers. See "Asset, Liability and Risk Management— Loan Classification and Provisioning Policy".

The significant increase in the size of the loan portfolio has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of provisioning levels, as well as continued and anticipated improvement in the Bank's credit risk management programme. In particular, the increased levels of lending to SMEs as well as to retail customers may increase further the credit risk of the Bank. SMEs and retail customers typically have less financial strength, and negative developments in the Kazakhstan economy could affect these borrowers more significantly than large companies. This could result in higher levels of provisioning, as well as implementation and application of credit policies and provisioning procedures that differ from those used for large corporations. In addition, growth rates such as those recently experienced by the Bank also require the Bank to attract and retain a significant number of qualified personnel and to train new personnel appropriately, not only to monitor asset quality, but also to ensure access to appropriately flexible funding sources that do not impose inappropriate constraints on the Bank's future funding strategy. Furthermore, the development of relatively new products, such as new mortgage products and financing products for SMEs, require not only credit assessment skills and personnel, but also risk management, experience and systems, some of which are not currently in place at the Bank. As the average maturity of the Bank's loan portfolio increases, it will need to introduce more sophisticated techniques to manage related risks. There can be no assurance that the Bank will obtain the necessary skills and systems to manage these types of risks in a timely manner, if at all. Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's financial condition and results of operations.

In addition, the growth in the Bank's loan portfolio over the last three years has caused the Bank to maintain a relatively high net-loans-to-customer-deposits ratio of 128%, 110% and 106% as at 31 December 2005, 2004 and 2003, respectively. As a result of the Bank's asset liability structure, which is typical of most other similar banks in Kazakhstan, the Bank has been forced to seek other sources to fund the growth of its loan portfolio, primarily short- to medium-term interbank loans and issuances of capital markets instruments, which comprised 33.5%, 33.9% and 30.9% of total liabilities as at 31 December 2005, 2004 and 2003, respectively. Such other longer term funding sources are more costly to the Bank and its competitors than funding through deposits. As a result, to cover the higher funding costs, market interest rates on loans to customers in Kazakhstan are generally higher than those charged in more developed markets. If the Bank's ability to access these alternative funding sources were limited and the Bank was also not able to raise additional funding through increased deposit-taking, the Bank's ability to manage its liquidity and to fund further growth could be negatively affected.

Capital Adequacy and Need for Additional Capital

The Bank's business depends on the availability of adequate capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business. As at 31 December 2005, the Bank's Tier I and Tier II capital adequacy ratios calculated in accordance with FMSA rules were 8.5% and 15.7% accordingly compared to the minimum levels of 5% for Tier I and 10% for Tier II required under the FMSA rules for commercial banks whose shareholders has status of bank holding company under the FMSA rules. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy".

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

In September 2004, the Bank completed an offering of 13,100,889 common shares for which the Bank received gross proceeds of KZT 5.9 billion. All shares in the offering were subscribed for by Holding Group Almex JSC, the principal and controlling shareholder of the Bank. In May 2005 the Bank completed a public offering through KASE of an additional 2,574,778 common shares for which the Bank received gross proceeds of KZT 937 million. In August 2005, the Bank split its common shares (with a ratio of ten new shares for each existing shares) in order to improve the attractiveness of its shares to a wider investor base. In 2005, the Bank also issued 80,225,222 non-cumulative preferred shares (convertible into common shares at the option of the Bank) of which 74,887,521 had been placed in 2005 for total gross proceeds of KZT 12.3 billion. These non-cumulative preferred shares are treated as Tier I capital both under FMSA rules and Basel I capital adequacy standards. In late 2004 and in 2005, the Bank also issued subordinated bonds (included in Tier II capital) for KZT 16 billion. Management believes that the Bank is sufficiently capitalized to support its growth in 2006, though the Bank will need additional capital thereafter to continue to grow its business and remain compliant with its capital adequacy requirements. On 19 April 2006, the Bank's Annual General Shareholders' meeting approved an additional issuance of 30,000,000 common shares. In March 2006 the Board of Directors approved issue of domestic subordinated bonds for total amount of KZT 4 billion with a maturity of 10 years under the 2nd Bond Program of the Bank.

As at 31 March 2006, Holding Group Almex JSC owned approximately 82.13% of the voting shares of the Bank. See "Overview of the Bank– History - Incorporation, Recapitalisation and Change of Ownership of the Bank" and "Principal Shareholders".

The Bank plans further capitalisation through issuances of common shares, non-cumulative preferred shares, and hybrid Tier I debt instruments for Tier I capital and subordinated debt instruments for Tier II capital. Nevertheless, although the principal shareholder of the Bank has indicated its willingness to participate in an additional common share issue during 2006, the existing shareholders of the Bank, including the Bank's principal shareholder, have no obligation to inject additional capital in the Bank. In addition, through its ownership of a significant majority of the Bank's voting share capital, the principal shareholder of the Bank has the ability to block any increase in the Bank's capital. The failure to raise capital as planned could substantially limit the Bank's ability to increase the size of its loan portfolio in compliance with applicable capital adequacy requirements and may result in breach of the capital adequacy rules and breach of covenants relating to its capital adequacy contained in certain of its outstanding financing documents. Any such events could have a material adverse effect on the Bank's prospects, business, financial condition and results of operations.

Influence of Key Shareholder

Due to the size of the ownership interest of Holding Group Almex JSC, the Bank's principal shareholder, the majority joint shareholders of Holding Group Almex JSC have the ability to influence significantly the Bank's business through actions that require approval of the shareholders, including, without limitation, appointment of members of the Board of Directors and any increase in the share capital of the Bank required for funding purposes or otherwise. No assurance can be given that, if the Bank requires a capital increase, the Bank's principal shareholder will approve such increase and/or participate in the subscription for any new shares or otherwise provide financing to the Bank or that the principal shareholder will approve other actions deemed advisable by Management which require shareholders approval. See - "Capital Adequacy and Need for Additional Capital".

Liquidity Risk

The Bank is subject to liquidity risk due to maturity mismatches between its assets and liabilities. As at 31 December 2005, the Bank had a negative cumulative liquidity gap extending to one year amounting to KZT 26,725 million. Management continuously monitors the Bank's liquidity needs and positions and has plans to reduce the liquidity gap in 2006.

The Bank is implementing a comprehensive plan to improve negative maturity gap and manage liquidity risks, which consists of four main sets of measures:

1) diversification and extending the tenor of funding sources by placing long-term bonds and subordinated debt in the international and domestic markets in 2006;
2) raising additional capital by issuing perpetual preferred and common shares in 2006;
3) increasing the proportion of short-term loans in the asset portfolio; and
4) incorporating clauses in loan documentation which make the loan facilities uncommitted and provide the Bank with an unconditional call option for outstanding loans (subject to an advance notice).

Also Management believes that the Bank's access to domestic and international funding as well as the anticipated share capital increase will continue to allow it to meet its liquidity needs (See "Capitalisation of the Bank") and 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. Liquidity management also requires the Bank to extend the maturity of its customer deposits, which is subject to prevailing market conditions, including market liquidity, pricing and competitive pressure, and to secure additional longer-term funding, which may be made more expensive. Failure to extend the maturity of the Bank's customer deposits and/or to effectively implement any of the Management's plans to reduce the Bank's liquidity gap could have a material adverse effect on the Bank's financial condition and results of operations.

Risk Management

The Bank is exposed to a number of market risks, including interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets and foreign currency exchange risk resulting from fluctuations in the prevailing foreign currency exchange rates. As discussed below in "Industry and Borrower Concentrations of the Bank's Loan Portfolio", the Bank has a significant exposure to mortgage loans and construction sector, which may also expose the Bank to real estate risks.

Management of these risks also requires substantial resources. Currently, the Bank does not have a fully centralised database allowing it to automatically measure and monitor its exposure to liquidity, interest rate, foreign exchange and other market risks. The Bank is currently upgrading its information technology systems to allow it to better monitor and manage the risks discussed. Although the Bank believes that it has policies and procedures in place to measure, monitor and manage liquidity and market risks, maturity mismatches or any significant volatility in interest rate movements, exchange rates or commodity market prices could have a material adverse affect on the Bank's business, financial condition, results of operations, foreign currency positions and prospects of the Bank. In addition, there can also be no assurance that the improved information technology systems will be developed according to schedule or that the new system will address all of the shortcomings of the current system.

Industry and Borrower Concentrations of the Bank's Loan Portfolio and Financial Commitments and Contingencies and of the Bank's Customer Deposits

The Bank's loan portfolio shows industry and borrower concentration. Loans to the Bank's ten largest customers represented approximately 12% of the gross loan portfolio as at 31 December 2005, compared to 16% as at 31 December 2004 and 22% as at December 31, 2003. In addition to the concentration of the Bank's loan portfolio, as at 31 December 2005, the Bank's top ten guarantees represented approximately 56% of the Bank's total financial guarantees and 25% of the total shareholders' equity. Similarly, the top ten letters of credit represented 74% of the Bank's total commercial letters of credit and 18% of the total shareholders' capital. See "Selected Statistical and Other Information—Guarantees and Other Contingent Liabilities".

As at 31 December 2005, the Bank's exposure to its single largest unrelated borrower was KZT 10,284 million, which constituted 2.4% of the Bank's gross loan portfolio and 12.8% of its regulatory capital (compared to the statutory maximum of 25% imposed by the NBK), as at such date. As at December 31, 2003 the Bank exceeded the threshold of 10% of capital established by the NBK for loans to a single related party. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy" and "Transactions with Related Parties".

In terms of industry concentration, as at 31 December 2005, mortgages, consumer loans, wholesale trade, the construction sector and agriculture accounted for 18%, 12%, 14%, 12% and 9%, respectively, of the Bank's gross loan portfolio. A downturn in any of these sectors may negatively impact the financial condition of the companies operating in such sectors. The Bank will require continued emphasis on credit quality and the further development of financial and management controls to monitor this credit exposure, and the failure to achieve this could have a material adverse effect on the Bank's financial condition and results of operations.

In addition, as at 31 December 2005, the Bank's 10 largest customers accounted for approximately 39% of total amounts due to customers compared to 32% and 11% as at 31 December 2004 and 2003, respectively. While the Bank intends to reduce the concentration of its customer base by attracting SME and retail depositors, a failure to do so could expose the Bank to increased liquidity risk and thereby have a material adverse effect on the Bank's financial condition and results of operations.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakh economy generally or specific economic sectors within it or corporate or financial information relating to companies or other economic enterprises is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. NBK has established a central credit bureau in Kazakhstan to facilitate the collection of information and assessment of risk; this agency is at a preliminary stage of development and there can be no assurance that this resource will improve the Bank's ability to assess credit risk.

Reform of the International Capital Adequacy Framework

The Basle Committee has issued a proposal for a new capital adequacy framework to replace the previous Capital Accord issued in 1988. With regard to the risk weightings to be applied to exposures to sovereign states, the Basle Committee proposes replacing the existing approach by a system that would use both external and internal credit assessments for determining risk weightings. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk weighting of exposures to banks, securities firms and corporates. If adopted, the new framework could require financial institutions lending to Kazakhstan banks to be subject to higher capital requirements as a result of the credit risk rating of Kazakhstan, possibly resulting in a higher cost of borrowing for Kazakhstan banks, including the Bank.

Exposure to the State Treasury and the NBK

Government securities, such as treasury bills, Government bonds, short-term NBK notes and Eurobonds issued by the Government, represent the most significant part of the Bank's total investments in securities (81% of total investments as at 31 December 2005, compared to 72% as at 31 December 2004 and 89% as at 31 December 2003) and the significant part of the Bank's total assets (9% of total assets as at 31 December 2005, compared to 15% as at 31 December 2004 and 18% as at 31 December 2003). Although neither the Government nor the NBK has failed to pay its obligations under such securities, there can be no assurance that, if either failed to do so in the future, this would not adversely affect the business, financial condition or results of operations of the Bank.

Competition

Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector due to its extensive branch network and customer deposit base, it faces competition from a number of existing and prospective participants in the Kazakhstan banking sector. The Bank is subject to competition from both domestic and foreign banks. As at 31 December 2005, there were a total of 34 banks operating in Kazakhstan, excluding the NBK and the Development Bank of Kazakhstan ("DBK"), of which 14 were banks with foreign ownership, including subsidiaries of foreign banks. Of these banks, a small number of banks dominate the banking industry in Kazakhstan. According to the NBK, as at 31 December 2005, the Bank, together with its main competitors JSC Kazkommertsbank ("Kazkommertsbank") and JSC Bank TuranAlem ("Bank

TuranAlem"), held approximately 61% of the total loan portfolio and 59% of total bank assets in Kazakhstan. Moreover, although foreign-owned banks do not currently provide significant domestic competition, these institutions have significantly greater resources and cheaper funding bases than the Bank. Foreign banks also have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate banking sector in the longer term. The Bank also expects that DBK, established in 2001, whilst not licensed to accept deposits or provide corporate settlement services, may become an important competitor in the corporate lending sector. See "Business of the Bank–Competition" and "The Banking Sector in Kazakhstan".

Regional Expansion

According to its strategy, the Bank plans to further expand its revenue base through selective regional expansion. In furtherance of this strategy, in April 2004, the Bank acquired 76.9% in JSC Bank Khlebnyi, a small regional Russian bank in the Chelyabinsk industry region bordering Kazakhstan and in September 2004, the Bank acquired 100% of the share capital of OJSC Halyk Bank Kyrgyzstan (formerly known as JSC Kairat Bank Kyrgyzstan) for KZT 180,448 thousand. The Bank monitors closely the risks associated with its foreign operations, including certain regulatory risks, compliance risks, foreign currency exchange risk and failure to market adequately to potential customers in other countries, these investments account for an insignificant part of its assets (0.06% and 0.4% for JSC Bank Khlebnyi and OJSC Halyk Bank Kyrgyszstan, respectively). To the extent the Bank expands its international operations further, it will be exposed to additional risks. In particular, it is likely that the Bank will be affected by political and economic developments in other CIS countries, particularly Russia and Kyrgyzstan, such as the recent public unrest and political developments in Kyrgyzstan. Any failure to manage such risks may cause the Bank to incur increased liabilities in respect of such operations. For more information on the recent acquisitions discussed above, see "Business of the Bank—Subsidiaries".

Dependence on the Ability to Recruit and Retain Key Personnel

To meet business challenges and retain the effectiveness of its operations, the Bank must continue to recruit and retain appropriately skilled personnel. The Bank relies on its senior management for the implementation of its strategy and operation of its day-to-day activities. As competition for skilled personnel, especially on the senior management level, is intense, the Bank seeks to further develop its compensation and to take other measures to attract and motivate skilled personnel. If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business and results of operations could be adversely affected. For a discussion on recent changes in the Bank's management, see "Management—General".

Regulation of the Banking Industry

In 2005, the FMSA issued new Instructions on Normative Values and Method of Calculation of Prudential Norms (the "Prudential Norms"), which replaced Prudential Norms adopted in 2002. New Prudential Norms establish certain capital adequacy requirements for Tier I, Tier II and Tier III capital of Kazakhstan banks, limitations on a single borrower exposure, short- and long-term liquidity requirements, limitations on currency exposure and limitations on investment by Kazakhstani banks into fixed and other non-financial assets. In addition, an institutional development plan was prepared for leading Kazakhstan banks, including the Bank. According to the plan, banks are required to prepare their accounts in accordance with IFRS and to apply the Basle Committee accords. The Bank has maintained its accounts in accordance with IFRS since January 2003. In order to accept deposits, banks are required to join a self-funded deposit insurance scheme, which was established in November 1999, and are required to be audited annually by a public accountancy firm approved by the NBK, which should be one of the leading international firms. Following legislative changes in July 2003, the FMSA was formed, and on 1 January 2004, assumed responsibility for most of the supervisory and regulatory functions in the financial sector, which had previously been performed by the NBK. The FMSA's main task is to regulate and supervise the financial markets and financial institutions. See "The Banking Sector in Kazakhstan". Regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the regulators, may differ from those applicable to banking operations in more highly developed regulatory regimes. See "—Risk Factors Relating to the Republic of Kazakhstan—Underdevelopment and Evolution of Legislative and Regulatory Framework". There can be no assurance that the Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

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

Risk Factors Relating to the Notes

Taxation in Kazakhstan

The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of the Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Interest

Under Kazakhstan law as currently in effect, interest payable by the Issuer to an individual who is not a resident of Kazakhstan or to a legal entity that is neither established under Kazakhstan law nor has its actual governing body (place of actual management) in or maintains a permanent establishment in or has a taxable presence in Kazakhstan (together, "Non Kazakhstan Holders") will not be subject to taxation in Kazakhstan and no Kazakhstan withholding tax will be deducted from such payments.

Interest payable by the Issuer to residents of Kazakhstan or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than individuals, will be subject to Kazakhstan income tax.

Payments of interest from the Guarantor to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15%. Such withholding tax may be reduced under the Kazakhstan-Netherlands Tax Treaty to a rate of 10%, although there can be no assurance that such relief will be obtained.

Payments under the Guarantee to Non Kazakhstan Holders or Kazakhstan Holders, other than individuals, banks resident in Kazakhstan investment funds or accumulative pension funds, in relation to interest on the Notes, will be subject to Kazakhstan withholding tax at a rate of 15%. unless reduced by an applicable double taxation treaty in the case of Non-Kazakhstan Holders. The Issuer and the Guarantors will agree in the Trust Deed to pay Additional Amounts in respect of any such withholding, subject to certain exceptions. See also "Terms and Conditions of the Notes—Condition 11 (Taxation)". The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts of Kazakhstan and, therefore, there may be some doubt as to whether they would enforce such an agreement.

Gains

Gains realized by Non Kazakhstan Holders from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income tax.

Gains realized by Kazakhstan Holders from the disposal, sale, exchange or transfer of the Notes will be subject to Kazakhstan income tax, unless the Notes are listed on the "A" or "B" list of the Kazakhstan Stock Exchange. As from 1 January 2007, such gains will not be subject to Kazakhstan income tax if the Notes are included as of the date of sale in one of the two highest categories of listings on the KASE and the sale is made through an open auction on the KASE.

Insolvency Laws in Kazakhstan

Kazakhstan bankruptcy law may prohibit the Bank from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions. After the initiation of bankruptcy proceedings, creditors of that debtor may not pursue any legal action to obtain an order for payment of indebtedness, to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor. Contractual provisions, such as those contained in the

Guarantee, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, are not enforceable under Kazakhstan law. In addition, an administrator may apply to a court to set aside executory contracts, including the Guarantee. Specifically, Kazakhstan bankruptcy law provides that transactions or payments entered into or made (a) at any time prior to the commencement of bankruptcy proceedings which infringe Kazakhstan law or (b) within the period beginning three years prior to commencement of the bankruptcy proceedings for no consideration or below market rates, without sound reasons and which prejudice other creditors, may be declared void by a Kazakhstan court.

Credit Rating

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

Absence of Trading Market for the Notes

There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell their Notes or the price at which such Noteholders would be able to sell Notes. Application has been made for the listing of the Notes on the Luxembourg Stock Exchange and to have the Notes declared eligible for trading on PORTAL. After their issue, the Bank will use its best efforts to cause the Notes to be listed on the KASE. There can be no assurance that either such listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Further, Kazakhstan is considered by international investors to be an emerging market. Political, economic, social and other developments in other emerging markets may have an adverse effect on the market value and liquidity of the Notes. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Emerging Market Risks

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

Financial instability in Kazakhstan and other emerging market countries following the 1997 Asian and the 1998 Russian crises adversely affected market prices in the world's securities markets for the debt and equity securities of companies that operate in those countries. Financial stability in emerging market countries other than Kazakhstan could adversely affect the market price of the Notes, even if the economy in Kazakhstan remains relatively stable. Accordingly, the Notes may be subject to fluctuations which may not necessarily be related to the financial performance of the Bank or economic conditions in Kazakhstan.

Risks Relating to the Issuer

Limited Resources of the Issuer

The Issuer is a limited liability company incorporated in The Netherlands on 1 May 1998. The Issuer has no employees and its business consists primarily of raising funds in the international capital markets and lending such funds to the Bank or its subsidiaries. The assets of the Issuer may not be sufficient to meet all claims under the Notes. See "The Issuer".

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a duly authorised issue of U.S. $300,000,000 7.75% Notes due 2013 (the "Notes"; which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 17 (*Further Notes*) and forming a single series with the Notes) issued by HSBK (Europe) B.V. (the "Issuer") and guaranteed by JSC Halyk Bank (the "Guarantor") pursuant to a deed of guarantee dated 11 May 2005 (the "Guarantee"). The giving of the Guarantee was authorised by a resolution of the Board of Directors of the Guarantor on 27 April 2006. The Notes are constituted by a trust deed expected to be dated 11 May 2005 (the "Trust Deed"; which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) between the Issuer, the Guarantor and J.P. Morgan Corporate Trustee Services Limited (the "Trustee", which expression shall include all Persons from time to time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed and of the paying agency agreement (the "Agency Agreement") dated 11 May 2006 relating to the Notes between the Issuer, the Trustee, JPMorgan Chase Bank, N.A., acting through its London Branch (the "Principal Paying and Transfer Agent"; which expression shall include any successor principal paying and transfer agent under the Agency Agreement) and the paying and transfer agents for the time being (such Persons, together with the Principal Paying and Transfer Agent, being referred to below as the Paying and Transfer Agents; which expression shall include their successors as Paying and Transfer Agents under the Agency Agreement) and JPMorgan Chase Bank, N.A. in its capacity as Registrar (the "Registrar"; which expression shall include any successor registrar under the Agency Agreement), are available for inspection during usual business hours at the principal office of the Trustee (presently at Trinity Tower, 9 Thomas More Street, London E1W 1YT) and at the specified offices of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

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

1. Form and Denomination

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

2. Title, Registration and Transfer

(a) *Title*

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

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

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

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

(b) *Registration*

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

(c) *Transfer*

(i) Transfer

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

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

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

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, in the case of a transfer or exchange of the Notes, a holder thereof may effect such transfer or exchange by presenting and surrendering such Notes at, and obtaining new Notes from the office of the Transfer Agent in Luxembourg. In the case of a transfer of only a part of a Note, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, a new Note in respect of the balance of the principal amount of the Notes transferred will be delivered at the office of the Transfer Agent in Luxembourg, and in the case of any lost, stolen, mutilated or destroyed Notes, a holder thereof may obtain new Notes from the Transfer Agent in Luxembourg.

(ii) Formalities Free of Charge

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

(iii) Closed Periods

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

(iv) Business Day

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

(v) Regulations Concerning Transfer and Registration

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

3. Status

(a) *Status of the Notes*

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

(b) *Status of the Guarantee*

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

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

4. Negative Pledge

(a) *Negative Pledge of the Issuer*

For so long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or permit to arise any Security Interest (other than a

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

(b) *Negative Pledge of the Guarantor*

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

5. Covenants

For so long as any Note remains outstanding:

(a) *Limitations on Certain Transactions*

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

(b) *Limitation on Payment of Dividends*

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

(c) *Provision of Financial Information*

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

(d) *Maintenance of Capital Adequacy*

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

(e) Merger and Consolidation

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

(f) Limitations on Transfers of Interest in the Issuer by the Guarantor

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

For the purposes of these Conditions:

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

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

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

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

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

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

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

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

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

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

"Permitted Security Interest" means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary to secure Financial Indebtedness owed by such entity to the Guarantor; (ii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Guarantor held by financial institutions; (iv) arising in the ordinary course of the Guarantor's or a Subsidiary's business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers; (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease; (vi) arising pursuant to any agreement (or other applicable terms and conditions), which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary other than on a short-term basis as part of the Guarantor's or such Subsidiary's liquidity management activities), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's and its Subsidiaries' foreign exchange dealings or other proprietary trading activities including, without limitation, Repos; (vii) granted upon or with regard to any property hereafter acquired by the Guarantor or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property; (viii) created or outstanding upon any property or assets of the Guarantor or any Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Financial Indebtedness secured by such property or assets is limited to such property or assets, provided that the amount of Financial Indebtedness so secured pursuant to this clause (viii) at any one time shall not exceed an amount in any currency or currencies equivalent to 18% of the Guarantor's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with IFRS); (ix) granted by the Guarantor or any Subsidiary in favour of a Development Organisation to secure Financial Indebtedness owed by the Guarantor or such Subsidiary to such a Development Organisation pursuant to any loan agreement or other credit facility entered into between the Guarantor or any Subsidiary and such Development Organisation, provided, however, that the amount of Financial Indebtedness so secured pursuant to this clause (ix) shall not exceed in aggregate an amount in any currency or currencies equivalent to 10% of the Guarantor's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with IFRS); (x) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest; and (xi) not included in any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding U.S. $55 million (or its equivalent in other currencies) at that time.

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

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

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

6. Redemption, Purchase and Cancellation

(a) *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 13 May 2013. The Notes may not be redeemed at the option of the Issuer other than in accordance with Condition 6(b).

(b) *Redemption for Taxation Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 10 May 2006 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 9 (*Taxation*) or the Guarantee, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 9 (*Taxation*) or in the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 10 May 2006, as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 10 May 2006, and (ii) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Amounts or (as the case may be) the Guarantor has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a)(i) and (a)(ii) above or (as the case may be) (b)(i) and (b)(ii) above, in which event they shall be conclusive and binding on the holders of the Notes. Upon expiry of any such notice as referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) *Notice of Redemption*

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

(d) *Purchase*

The Issuer or any of its Subsidiaries or the Guarantor or any of its Subsidiaries may at any time purchase or procure others to purchase for its account Notes at any price in the open market or otherwise. Notes so purchased may be held, rescinded or resold (provided that such resale is outside the United States, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act")) or surrendered by the Issuer or the Guarantor, as the case may be, for cancellation at the option of the Issuer or the Guarantor, respectively.

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

(e) *Cancellation*

All Notes which are redeemed pursuant to Condition 6(b) or purchased and submitted for cancellation pursuant to Condition 6(d) will be cancelled and may not be re-issued or resold. For so long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer shall promptly inform the Luxembourg Stock Exchange of the cancellation of any Notes under this Condition 6(e).

7. Interest

The Notes bear interest from 11 May 2006 (the "Issue Date") at the rate of 7.75% per annum, payable semi-annually in arrear on 13 November and 13 May in each year (each an "Interest Payment Date"), unless such Interest Payment Date is not a business day (as defined in Condition 8(h), in which case the relevant Interest Payment Date shall be the succeeding business day, unless such business day is in the next calendar month, in which case, the relevant Interest Payment Date shall be the immediately preceding business day, in each case, with the same force and effect as if made on such date.) Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period". Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period other than an Interest Period, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

8. Payments

(a) *Principal*

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

(b) *Interest and Other Amounts*

Payments of interest due on an Interest Payment Date will be made to the Persons shown in the Register at close of business on the Record Date. Payments of all amounts other than as provided in Condition 8(a) and (b) will be made as provided in these Conditions.

(c) *Record Date*

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

(d) *Payments*

Each payment in respect of the Notes pursuant to Condition 8(a) and (b) will be made by United States dollar cheque drawn on a branch of a bank in New York City mailed to the holder of the relevant Note at his address appearing in the Register; provided, however, that, upon application by the holder to the specified office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a), if later, on the business day on which the relevant Note is surrendered as specified in Condition 8(a) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

For so long as the Notes are listed on the Luxembourg Stock Exchange, payments of principal and interest on the Notes may be made through the office of the Paying Agent in Luxembourg.

(e) *Agents*

The names of the initial Paying Agents, Transfer Agents and Registrar and their specified offices are set out below. The Issuer reserves the right (with the prior written consent of the Trustee, which consent shall not be unreasonably withheld) under the Agency Agreement at any time to remove any Paying Agent, Transfer Agent or Registrar and to appoint other or further Paying Agents and Transfer Agents or another Registrar, provided that it will at all times maintain (i) a Principal Paying and Transfer Agent; (ii) Paying Agents and Transfer Agents in at least two major European cities approved by the Trustee, including Luxembourg for so long as the Notes are listed on the Luxembourg Stock Exchange; (iii) a Paying Agent and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26 - 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and (iv) a

Registrar. Notice of any such removal or appointment and of any change in the specified office of any Paying and Transfer Agent or Registrar will as soon as practicable be given to Noteholders in accordance with Condition 18 (*Notices*) and no such removal or appointment shall take effect prior to 30 days after such notice has been given.

(f) *Payments Subject to Fiscal Laws*

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

(g) *Delay in Payment*

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

(h) *Business Days*

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

9. Taxation

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

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

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

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

(iii) where such Taxes are imposed on a payment to an individual and are required to be made pursuant to Council Directive 2003/48/EC or any other Directive implementing the conclusions of the

ECOFIN Council meeting of 26-27 November 2000, or any law implementing or complying with, or introduced in order to conform to, any such Directive;

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

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

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

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

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

10. Events of Default

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

(a) *Non-payment*

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

(b) *Breach of other Obligations*

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

(c) *Cross-default*

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

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

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

(d) *Bankruptcy*

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

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

(e) *Substantial Change in Business*

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

(f) *Maintenance of Business*

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

(g) *Material Compliance with Applicable Laws*

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

(h) *Invalidity or Unenforceability*

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

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

(iii) all or any of its obligations set out in the Notes, the Guarantee, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10(h) (other than the Issuer or the Guarantor denying any of its obligations under the Notes, the Guarantee, the Trust Deed or the Agency Agreement), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(i) *Government Intervention*

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

(ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10(i), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders.

11. Meetings of Noteholders, Modification and Waiver

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by one or more Noteholders holding in aggregate not less than 10% in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Persons present holding or representing more than 50% in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more Persons present being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or the rate of interest on, or to vary the method of calculating interest on, the Notes, (iii) to change the currency of payment of the Notes or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case, the necessary quorum for passing an Extraordinary Resolution will be one or more Persons present holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Noteholders shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A resolution in writing signed by or on behalf of the holders of not less than 90% in principal amount of the Notes who for the time being are entitled to receive notice of a meeting shall for all purposes be as valid as an Extraordinary Resolution passed at a meeting of Noteholders convened and held in accordance with the provisions of the Trust Deed. Such resolution in writing may be in one document or several documents in like form each signed by or on behalf of one or more of the Noteholders.

(b) *Modification and Waiver*

The Trustee may, without the consent of the Noteholders, agree to any modification of the Notes, the Guarantee, the Trust Deed or the Agency Agreement, which (except as mentioned in the Trust Deed) in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. In addition, the Trustee may, without the consent of the

Noteholders, also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer or the Guarantor (as the case may be) of the Conditions, the Guarantee, the Trust Deed or the Agency Agreement, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders provided; however, that no such modification shall be permitted unless an opinion of counsel is delivered to the Trustee to the effect that the Noteholders will not recognise income, gain or loss for U.S. federal income tax purposes or Kazakhstan tax purposes as a result of such modification and such Noteholders will be subject to U.S. federal income tax and Kazakhstan tax on the same amount and in the same manner and at the same times as would have been the case if such modification had not occurred. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 18 (*Notices*).

(c) *Entitlement of the Trustee*

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

(d) *Substitution*

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Guarantor and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Guarantor and (ii) all other relevant conditions of the Trust Deed having been complied with. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 18 (*Notices*), failing which, the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

12. Trustee and Agents; Indemnification of the Trustee

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

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

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

13. Warranties

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

14. Enforcement

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

15. Prescription

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

16. Replacement of Note Certificates

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

17. Further Notes

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

18. Notices

(a) *To the Noteholders*

Notices to Noteholders will be valid if published, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in the *d'Wort* may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange: (i) such notice is also delivered to the Luxembourg Stock Exchange; and (ii) so long as the rules of the Luxembourg Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*). So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in the *d'Wort* may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange: (i) such notice is also delivered to the Luxembourg Stock Exchange; and (ii) so long as the rules of the Luxembourg Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*).

(b) *To the Issuer and the Guarantor*

Notices to the Issuer or the Guarantor will be deemed to be validly given if delivered to the Guarantor at 97 Rozybakieva Street, Almaty 050046, Kazakhstan and clearly marked on their exterior "Urgent - Attention: Chairman" (or at such other address and for such other attention as may have been notified to the Noteholders in accordance with Condition 18(a)) with a copy to the Issuer at Schouwburgplein 30-34, 3012 Rotterdam, The Netherlands, and will, be deemed to have been validly given at the opening of business on the next day on which the Guarantor's principal office, as applicable, is open for business.

(c) *To the Trustee and Registrar*

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

19. Contracts (Rights of Third Parties) Act 1999

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

20. Governing Law and Jurisdiction

(a) *Governing Law*

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

(b) *Jurisdiction*

Subject to Condition 20(g), the courts of England shall have, subject as follows in this Condition 20(b), jurisdiction to hear and determine any suit, action or proceedings, which may arise out of or in connection with the Notes, the Trust Deed or the Guarantee (respectively, "Proceedings") and, for such purposes, the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts. Nothing in this Condition 20(b) shall limit the right of the Trustee or the Noteholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee or the Noteholders in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or the Noteholders in any other jurisdiction (whether concurrent or not) if and to the extent permitted by law.

(c) *Appropriate Forum*

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

(d) *Agent for Service of Process*

Each of the Issuer and the Guarantor has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Bracewell & Giuliani LLP, 1 Cornhill, London EC3V 3ND or, if different, its registered office for the time being. If for any reason the Issuer or the Guarantor, as the case may be, does not have such an agent in England, it will promptly appoint a substitute process agent and notify in writing the Trustee of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(e) *Consent to Enforcement, etc.*

Each of the Issuer and the Guarantor has consented generally in respect of any Proceedings (or arbitration in accordance with Condition 20(g)) to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be given in such Proceedings.

(f) *Waiver of Immunity*

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

(g) *Arbitration*

(i) Disputes

Each of the Issuer and the Guarantor has agreed that the Trustee or, if the Trustee, having become bound to take proceedings, fails to do so, a Noteholder may elect, by notice in writing to the Issuer or the Guarantor, to refer to arbitration in accordance with the provisions of this Condition 20(g) any claim, dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a claim, dispute or difference as to the breach, existence or validity of the Notes) or the Trust Deed (each a "Dispute").

(ii) UNCITRAL Arbitration Rules

Each of the Issuer and the Guarantor has agreed, and hereby agrees, that (with respect to any Dispute subject to a notice of election in accordance with Condition 20(g)(i)), such Dispute may be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "Rules") as at present in force (which are deemed incorporated into this Condition 20(g)) by a panel of three arbitrators appointed in accordance with the Rules. The seat of arbitration shall be in London, England. The procedural law of any reference shall be English law. The Issuer and/or the Guarantor, as the case may be, shall appoint one arbitrator and the Trustee shall appoint one arbitrator and the two arbitrators thus appointed shall appoint the third arbitrator who shall be chairman of the arbitral tribunal. The language of any arbitral proceedings shall be English. The appointing authority for the purposes of the Rules shall be the London Court of International Arbitration. Sections 45 and 69 of the Arbitration Act 1996 shall not apply to any arbitration proceedings pursuant to this Condition 20(g).

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

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

1. Meetings

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

2. Cancellation

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

3. Payment

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

4. Notices

So long as the Notes are represented by a Global Note and such Global Note is held on behalf of DTC, Euroclear or Clearstream, Luxembourg, or any successor depositary, notices to Noteholders may be given by delivery of the relevant notice to DTC, Euroclear or Clearstream, Luxembourg, or any successor depositary, for communication by it to entitled accountholders in substitutions for notification as required by the Conditions, provided that, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, a copy of such notice shall also be delivered to the Luxembourg Stock Exchange and published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*).

5. Exchange of Interests

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

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

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

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

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

6. Transfers

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

USE OF PROCEEDS

The proceeds of the Offering, expected to amount to U.S. $299,280,000, will be deposited by the Issuer with the Bank. The Bank will use such proceeds to fund loans to its customers and for other general corporate purposes.

The expenses and combined management, underwriting and selling commission incurred with the issue of the Notes will be paid by the Bank.

THE ISSUER

History

The Issuer is a limited liability company incorporated in the Netherlands whose statutory seat is Amsterdam. The Issuer was incorporated on 1 May 1998 and its number in the commercial register is 33302782. The Issuer is a direct, wholly owned subsidiary of the Bank.

Capitalisation

The following table sets out the capitalisation of the Issuer as at 31 December 2005:

	(U.S.$)[1]	*(EUR)*
Senior long-term liabilities[2]..	-	-
Total shareholders' equity	(37,708)	(31,064)
Total shareholders' equity and long term liabilities...	**(37,708)**	**(31,064)**

Notes:

(1) U.S. Dollars amounts have been translated from the Euro amounts at the rate of Euro 0.8238 = U.S. $1.00, which is the rate published by Bloomberg L.P. on 31 March 2006.

(2) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated and comprise U.S. Dollar medium-term notes.

The authorised share capital of the Issuer is €90,756.04, divided into ordinary shares with a par value of €453.78 each. As at the date of this Offering Circular, the Issuer's total capitalisation is €18,151, consisting of 40 ordinary shares which have been issued and fully paid at par and are directly owned by the Bank. As of 31 December 2005, the total shareholders' equity of the Issuer was negative. As of 31 March 2006, as a result of the execution of a waiver agreement, the Issuer's capital was increased to a positive level. The Bank will continue to use its best endeavours to give the Issuer the management and financial support it may require to pay its creditors. See "Audited Financial Statements of HSBK (Europe) B.V.—Notes to the Accounts as at 31 December 2005". The Bank has agreed to increase the Issuer's total paid-in capital to the lesser of 1% of the total principal amount of the Notes outstanding or €2 million upon the issuance and sale of the Notes by way of a payment of an additional share premium.

Except for the issuance of the Notes and the payment of share premium, there has been no material change in the capitalisation, financial position or prospects of the Issuer since the date of its incorporation (1 May 1998).

Business

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

Apart from the indebtedness mentioned above, the Issuer has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Offering Circular.

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

Financial Statements

The Issuer publishes annual financial statements in accordance with Dutch law. To comply with an NBK requirement (which came into effect in June 2000) that the accounts of overseas subsidiaries of Kazakhstan banks must be independently audited, the Issuer has engaged Mazars Paardekooper Hoffman N.V., Rotterdam, The Netherlands, to conduct annual audits of its statutory financial statements 2003, 2004 and 2005. Copies of the Issuer's audited statutory financial statements as at and for the years ended 31 December 2005 and 2004, including the notes thereto and together with the auditors' report relating thereto, are contained elsewhere in this Offering Circular. The Issuer does not produce interim financial statements. The Issuer's results are consolidated in the Bank's consolidated financial statements contained in this Offering Circular.

Management

The Issuer currently has two managing directors, Mr. Dauren Karabayev, age 27 and Equity Trust Co. N.V., a company incorporated with limited liability in The Netherlands. Except as disclosed in this Offering Circular, there are no conflicts of interest between any duties of either of the managing directors towards the Issuer and their private interests and/or other duties.

General Information

The business address of the Issuer is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The Issuer is registered with the trade register in Rotterdam and its registration number is 33302782. The business address of Mr. Dauren Karabayev is 97 Rozybakieva Street, Almaty 050046, Kazakhstan. Administrative services are provided to the Issuer by Equity Trust Co. N.V., whose business address is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The Issuer has obtained all necessary consents, approvals and authorisations in The Netherlands in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

OVERVIEW OF THE BANK

General

According to statistics published by the FMSA, the Bank has the largest retail deposit base in Kazakhstan, which amounted to KZT 130,910 million as at 31 December 2005 which represented 21.9% of the total market share as at the same date. The Bank was also the third largest bank in Kazakhstan based on total assets of KZT 559,665 million as at 31 December 2005. For the year ended 31 December 2005, the Bank had net income of KZT 15,828 million, compared to KZT 8,093 million for the year ended 31 December 2004 and KZT 7,498 million for the year ended 31 December 2003. The Bank's major funding sources for its operations are amounts due to customers, which accounted for approximately 65% of its total liabilities in 2005.

The Bank's core business is focused on retail and corporate banking. The Bank also acts as a primary paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank, as at the date of this Offering Circular, serves its customers through 546 retail outlets, including regional and district branches in all 14 regions throughout Kazakhstan. In accordance with new banking legislation all retail units are expected to be converted into branches or units of existing branches by the end of 2006. In addition, based on an agency agreement with Kazpost, the Kazakhstan state owned postal service, the Bank offers micro lending products with collections of repayments on consumer loans, through outlets operated by Kazpost in certain remote areas. Other distribution channels used by the Bank include ATMs, the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan.

The Bank offers a wide range of retail banking products and services, including current accounts, time deposits, consumer loans, mortgages, credit and debit cards, traveller's cheques, currency exchange, Internet banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services to corporate and SME business customers, financial institutions and Government entities. As at 31 December 2005, the Bank had close to 6.6 million retail accounts (including deposits and card accounts) and 56.2 thousand corporate customers.

The Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both treasury bills and short-term notes of the NBK and, according to statistics published by the NBK, in 2004, the Bank's purchases of treasury bills and NBK notes represented 15% and 12% of total issued volume, respectively. In 2005, the Bank's purchases of treasury bills and NBK notes represented 3.96% and 11.98% of total issued volume, respectively. The Bank in 2005 was the most active trader of government securities on the KASE, generating 14.5% of trading volume in those securities in 2005. Since sovereign Eurobonds were first listed on the KASE in 1998, the Bank has been an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three Eurobond issues made by the Republic of Kazakhstan in 1997, 1999 and 2000 and as co-manager of the Development Bank of Kazakhstan's Eurobond issue in 2006.

Shares of the Bank have been listed on the KASE since 1998. As at 31 March 2006, Holding Group Almex JSC owned approximately 82.13% of the voting shares of the Bank. See "Principal Shareholders". The Bank is registered with the Registration Services Committee of the Ministry of Justice of the Republic of Kazakhstan and its registration number is 3898-1900-AO. The Bank's principal offices are located at 97 Rozybakieva Street, Almaty 050046, Kazakhstan.

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

The Bank's history dates back to the opening of a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe in 1923, followed by the establishment of a branch in Almaty of the Soviet Sberbank in 1936. The Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1993. In 1995, the Bank was re-incorporated as a closed joint stock company and, in 1998, reorganised into an open joint stock company.

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

In 1998, the Government authorised an issue of new common shares of the Bank comprising approximately 20% of the paid in share capital. These new shares were allocated in an open tender to various shareholders.

In November 1999, the Bank issued new common shares to various existing shareholders (excluding the Government) and, as a result, the Government's shareholding reduced to approximately 66.7% of the paid in share capital. In December 1999, the Government decided to further reduce its shareholding in the Bank and sold common shares of the Bank comprising approximately 16.7% of the then paid in share capital of the Bank in a closed tender process organised by the Ministry of Finance of Kazakhstan (the "Ministry of Finance"). The tender was awarded to a consortium of companies comprising Asia Invest LLP, Komirbank OJSC and ATF Bank (formerly, Almaty Merchant Bank). As a result of such tender, the Government's shareholding was reduced to 50% plus one share.

In November 2000, the Bank issued new common shares to the Bank's existing shareholders (excluding the Government) and the Government's shareholding was diluted to 33.3% of the Bank's share capital plus one share. In November 2001, the Government sold its remaining shares through a public tender organised by the State Privatisation Committee of the Ministry of Finance. The tender was awarded to a consortium of legal entities comprising MangistauMunaiGas OJSC, Mercury LLP, Raimbek Bottlers LLP, Rakhimzhan LLP and trade finance company Altyn Taraz for total consideration of U.S. $41,000,000 (KZT 340 per share). In December 2001, the consortium sold the acquired shares of the Bank to a group of Kazakhstan companies, including Agys Ltd., Dakot LLP, Karat 24 LLP, Tara Invest LLP and ATF Bank.

Holding Group Almex JSC, the Bank's principal shareholder as at the date of this Offering Circular, first acquired shares in the Bank in December 2001, when it purchased common shares representing 9.96% of the Bank's then total voting share capital in the secondary market. During 2002, Holding Group Almex JSC increased its ownership interest in the Bank to 41.7% of the Bank's then total voting share capital, 19.2% of which was acquired through the purchase of newly-issued common shares issued by the Bank during the fourth quarter of 2002 and the remainder of which was acquired through purchases in the secondary market. Holding Group Almex JSC acquired additional common shares in private sales conducted on the secondary market to increase its share ownership during 2003 and 2004 to gain a controlling interest of 77.6% of the Bank's then total voting share capital as at August 2004. Holding Group Almex JSC further increased its equity interest in the Bank to 80.9% of the Bank's then total voting share capital through its acquisition of shares issued in the Bank's equity auction conducted in September 2004. As at 31 March 2006, Holding Group Almex JSC, a banking holding company in accordance with new banking legislation, owned 82.13% of the total voting share capital of the Bank. See "Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital" and "Principal Shareholders".

In 2003, the Bank completed its re-registration as a joint stock company and adopted a new charter, each in accordance with the Law on Joint Stock Companies dated 13 May, 2003. The Bank is incorporated for an unlimited duration.

The Bank's registered office is located at 97 Rozybakieva Street, Almaty 050046, Kazakhstan, and its registration number is 3898-1900-AO.

Corporate Strategy

The Bank's overall strategic objective is to build a client-focused financial services group capable of operating at Western banking standards in order to generate high returns on equity and on assets and to increase profitability by consolidating the Bank's position as a leading commercial bank in Kazakhstan. To this end, Management of the Bank has developed a strategy comprised of three principal goals, including becoming a financial services group capable of offering and cross selling a wide range of financial products and services through its extensive branch network and other distribution channels; achieving Western operating standards; and expanding regionally. The Bank's management believes that it can achieve these goals with its own resources. However, the Bank is considering the sale of 25% - 48% of its equity to a large OECD based bank or/and an initial public offering listed in the international markets to accelerate the process of achieving the three principal goals.

More specifically, Management has developed the following strategy:

- capitalise on the Bank's key strengths, such as the most extensive branch network and the widest customer base in Kazakhstan, (i) by cross-selling more products of the Bank and its subsidiaries/affiliates (including leasing, casualty insurance, life insurance, pension fund, private banking, asset management, brokerage services), (ii) by expanding the product range to meet the demands caused by the growth of the populations' disposable income in Kazakhstan, (iii) by improving business processes, training and personnel motivation policies to achieve the marketing goals;

- further strengthen the Bank's reputation of a prudent financial institution by achieving Western standards on corporate governance, transparency and risk management, and manage costs by improving managerial accounting system and re-engineering of the business processes, which is tied with the upgrade of Information Technologies (IT) systems; and

- expand its operations into neighbouring regions;

Management believes that its strategic plan will permit the Bank to expand its retail and corporate business in Kazakhstan and the surrounding regions and to position itself for future competition from both domestic banks and expected new foreign entrants into the Kazakhstan retail and corporate banking sector.

Becoming a financial services group. The Bank aims to continue to expand its traditional range of retail and corporate banking products by relying on its current leading position in the retail and corporate banking sector in Kazakhstan and capitalising on its extensive branch and ATM network. To this end, the Bank continues to develop new products and services, such as asset management, private banking, property insurance, life insurance, leasing, mortgages and, later on, brokerage services and underwriting services for domestic bonds. Management also intends to focus on cross-selling the Bank's traditional banking services and other products through the Bank's extensive distribution channels.

Achieving Western banking standards. Management intends to implement Western standards across the Bank's operations, including for IT, risk management, management information systems, marketing and cross-selling practices, in order to enable the Bank to continue to compete effectively with its current competitors, as well as with potential new entrants into the Kazakhstan retail and corporate banking sector, and thereby remain the leading retail bank in Kazakhstan. The Bank believes that its management team has the necessary experience to implement Western standards within three years. The Bank is attempting to accelerate the timeline for the achievement of such standards by seeking a strategic partnership with a leading OECD-based bank, which Management believes will enable the Bank to benefit from the more advanced know-how typically in place at such a bank; however, the Bank believes it can achieve this goal without a strategic partner.

Regional expansion. As at the date of this Offering Circular, the Bank does not conduct any significant operations outside Kazakhstan. As part of its growth strategy, the Bank intends to expand its retail and corporate banking operations to parts of Russia that are contiguous to the Kazakhstan border, including Tatarstan, Bashkiria and the Yekaterinburg region. Management believes that the similarities in both the business and the demographics of this region to Kazakhstan afford the Bank a natural market for expansion, with over 35 million potential retail customers. In addition, the Bank aims to expand its operations into other parts of Russia, Ukraine, Azerbaijan and western China, in conjunction with a strategic partner, once selected, in order to capitalise on the market and regional strengths of such a partner.

Improving client-focus; training of personnel. Management believes that building strong client relationships will foster the desired growth in its customer base. To this end, the Bank aims to enhance its customer service training programmes, particularly for mid-level managers and other customer facing personnel. In addition, the Bank intends to utilise its extensive branch network and other distribution channels to promote cross-selling efforts geared to enhance customer service.

Upgrade of IT systems. To achieve the above goals, the Bank is pursuing a major upgrade of its IT support systems to Western standards. In order to obtain the effective IT management and an increased transparancy in 2006 the Bank introduced CobIT (an IT governance support system) and ITIL (an IT service management system) standards. The selection of a new core banking system is at the final stage. Management expects that the new system will enable the Bank to undertake efficient cross-selling of a wide range of financial services through its extensive network of branches, ATMs, subsidiaries and associated companies, while also providing stronger customer support through its service centres. The Bank's plans include:

- develop electronic cash-processing systems;
- expand and develop smart ATMs, multimedia kiosks and POS-terminal systems of the Bank;
- further develop its call center;

- make Customer Relationship Management a core system for customer contacts and cross-selling of the Bank's products;
- further develop Internet and Mobile banking: while only one or two certain types of accounts are currently serviced, the Bank aims to provide its customers with access to all types – current, deposit, card and credit accounts; and
- develop a Management System based on a centralized data warehouse;

The Bank is completing introduction of budget management module, implementing a project for generation of management and regulatory reports from the data warehouse with further plans for introduction of risk, assets and liabilities management modules.

Management believes that the Bank's capacities freed as a result of the implementation of smart ATMs and electronic banking will enable the Bank to concentrate on providing focused client attention in its branches and to offer more advanced financial services.

The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in information technology to support the efficient growth of its operations. Management believes that this upgrade will significantly improve its risk management capabilities, asset and liability management, liquidity management and monitoring of lending activities.

Extension of the existing client base. In order to extend its existing client base, the Bank intends to target financially strong small and medium size enterprises ("SMEs"), by offering them a wide range of financial services, including corporate finance advisory services, currency and interest rate hedging and pension fund services in addition to the Bank's more traditional banking products such as deposits, payment transfers and loans. Management believes that the SME sector will represent one of the most important areas of growth in the Kazakhstan banking sector.

Capitalising on the strength and experience of the management team. The Board of Directors of the Bank has recruited a new senior management team, which it believes will be able to develop the Bank's operations in line with Western standards. The Bank's management team is headed by Mr. Grigori Marchenko, who served as Chairman of Deutsche Bank Securities (Kazakhstan) from 1997 until 1999 and as Chairman of the NBK from 1999 until November 2004. Mr. Marchenko, who was named Central Banker of the Year by Euromoney Magazine in 2003, has been credited by a number of market publications with developing Kazakhstan's banking system into one of the leading banking systems in the CIS. In his positions as Chairman of Deutsche Bank Securities (Kazakhstan) and Chairman of the NBK, Mr. Marchenko has had the opportunity to become familiar with international banking practices and standards. Mr. Marchenko has recruited other senior managers with international experience, including several bankers who have both trained at major international banks and served in senior positions at subsidiaries of such banks in Kazakhstan. The Bank intends to capitalise on the strength and experience of Mr. Marchenko and his new management team in its efforts to achieve Western banking standards across the Bank's operations in line with its overall strategic objective.

Competition

As at 31 December 2005, there were 34 banks operating in Kazakhstan, excluding the NBK and Development Bank of Kazakhstan ("DBK"). Of these, 14 were banks under foreign ownership, including subsidiaries of foreign banks. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank, Kazkommertsbank and Bank TuranAlem; banks under foreign ownership, such as ABN AMRO Bank Kazakhstan, HSBC Kazakhstan and Citibank Kazakhstan; and smaller local banks. Management believes that the Bank is in a strong position to compete in the Kazakhstan banking sector due to its large branch network and customer base.

In terms of competition from large domestic banks, Kazkommertsbank and Bank TuranAlem are considered as the major competitors of the Bank. Kazkommertsbank was established in 1990 and, as at 31 December 2005, was the largest bank in Kazakhstan in terms of assets. Bank TuranAlem resulted from a merger initiated by the Government in 1997 between two state-owned banks, Turan Bank and Alem Bank, and was privatised in 1998 to a group of Kazakhstan investors. As at 31 December 2005, Bank TuranAlem was the second largest bank by assets and deposits and the largest bank in terms of equity among commercial banks in Kazakhstan.

In 2001, the Government established DBK to facilitate industrial projects in Kazakhstan and to provide longer term financing for projects within Kazakhstan. DBK was established with a charter fund of KZT 30 billion and, as at 31 December 2005, was the second largest bank in Kazakhstan in terms of share capital. Inside the commercial banking sector, DBK is not considered to be a competitor of the major commercial banks as it is not licensed to accept corporate or retail deposits or to provide corporate settlement services. DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Offering Circular.

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

The following table sets out certain financial information as at 31 December 2005 relating to the Bank and the largest local and foreign banks which the Bank considers will be its major competitors in the Kazakhstan banking sector:

	Assets	**Shareholders' Equity**
	(KZT millions)	
Kazkommertsbank	1,131,763	74,047
Bank TuranAlem	963,653	91,900
Halyk Bank	558,535	60,275
Citibank Kazakhstan	55,277	5,969
ABN AMRO Bank Kazakhstan	55,183	8,095

Source: Regular monthly non consolidated reports to FMSA.

CAPITALISATION OF THE BANK

The following table sets out the consolidated capitalisation of the Bank as at 31 December 2005 (i) on an actual basis and (ii) as adjusted to reflect the issuance of the Notes. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Consolidated Financial Data" and the Bank's consolidated financial statements, and related notes thereto, included elsewhere in this Offering Circular.

	Actual		As adjusted	
	(U.S. $ millions)(1)	*(KZT millions)*	*(U.S. $ millions)*(1)	*(KZT millions)*
Liabilities				
Senior long-term liabilities(2)	980.24	131,332	1,280.24	171,526
Subordinated long-term debt	209.40	28,056	209.40	28,056
Total long-term liabilities	**1,189.64**	**159,388**	**1,489.64**	**199,582**
Shareholders' equity				
Share capital	216.57	29,016	216.57	29,016
Share premium reserve	16.36	2,192	16.36	2,192
Treasury stock	(0.12)	(16)	(0.12)	(16)
Retained earnings and other reserves	244.86	32,806	244.86	32,806
Minority interest	3.33	446	3.33	446
Total shareholders' equity	**481.00**	**64,444**	**481.00**	**64,444**
Total capitalization	1,670.64	223,832	**1,970.64**	**264,026**

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

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

As at 31 December 2005, the Bank's issued and paid share capital consisted of 897,383,050 common shares and 24,742,000 non-convertible preferred shares and 74,887,521 convertible (at the option of the Bank) preferred shares. Each common share is entitled to one vote and dividends are distributed equally among common shares. All shares are KZT denominated.

Preferred 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 a certain amount of preferred dividends. The remainder of the dividends on preferred shares is linked to the Bank's profitability and is paid out only if the Bank is profitable. Preferred shares do not have any voting rights.

As at 31 December 2005, the Bank held 1,633,610 of the Bank's shares as treasury shares at KZT 16,336 (December 31, 2004 –166,651 at KZT 16,665).

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

In January and February 2006, the Bank placed additional 5,337,701 preferred convertible shares for total gross proceeds of KZT 907.4 million and subordinated bonds for KZT 1.3 billion.

On 19 April 2006, the Bank's Annual General Shareholders' Meeting approved an additional issuance of 30,000,000 common shares. In accordance with Kazakhstan law, existing shareholders have pre-emptive rights to subscribe for new issues pro rata to their shareholdings.

In March 2006 the Board of Directors approved issue of domestic subordinated bonds of KZT 4 billion with a maturity of 10 years under the 2nd Bond Program of the Bank.

On 23 February 2005, the Bank signed a U.S. $100 million Syndicated Trade-related Term Loan Facility (the "SBL Facility") with Standard Bank London ("SBL"), as lead arranger, and a syndicate of other lenders. The

SBL Facility was fully drawn on 9 March 2005 and provides for a bullet repayment after 18 months, subject to an option by the Bank to extend the loan for a further 18 month period.

Save as disclosed herein, there has been no material change in the Bank's total capitalisation and long-term liabilities since 31 December 2005.

SELECTED CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as at and for the three years ended 31 December 2005, 2004 and 2003 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Bank's audited consolidated financial statements, including the notes thereto, contained elsewhere in this Offering Circular.

The Bank's consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2005, 2004 and 2003, including the notes thereto, have been prepared in accordance with IFRS and audited by Ernst & Young, whose audit reports for the respective periods are included elsewhere in this Offering Circular.

Prospective investors should read the summary consolidated financial information in conjunction with the information contained in "Risk Factors", "Capitalisation of the Bank", "Selected Consolidated Historical Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business", "Selected Financial and Other Information", the Bank's audited consolidated financial statements including the related notes thereto, and the other financial data appearing elsewhere in this Offering Circular.

	Years ended 31 December			
	2005	**2005**	**2004**	**2003**
	(U.S. $ millions) [2]	*(KZT millions)*[1]		
INCOME STATEMENT DATA				
Interest income	394.23	52,385	32,950	24,197
Interest expense	(159.21)	(21,156)	(12,759)	(9,423)
Net interest income before impairment charge	235.02	31,229	20,191	14,773
Impairment charge	(90.08)	(11,970)	(7,954)	(4,137)
Net interest income	144.94	19,259	12,237	10,637
Fees and commission, net	114.75	15,248	9,318	6,803
Non-interest income	33.26	4,419	3,065	2,819
Non-interest expense	(147.20)	(19,560)	(14,530)	(11,987)
Income before income tax expense	145.74	19,366	10,091	8,272
Income tax expense	(26.63)	(3,539)	(1,998)	(773)
Net Income	**119.11**	**15,828**	**8,093**	**7,498**
Basic earnings per share, Tenge	0.13	16.80	10.10	9.80

(1) Except for per share data.

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

	As at 31 December			
	2005	**2005**	**2004**	**2003**
	(U.S. $ millions) [(1)]		*(KZT millions)*	
BALANCE SHEET DATA				
Assets				
Cash and cash equivalents	426	57,102	33,123	13,415
Obligatory reserves	64	8,632	7,578	5,212
Financial assets at fair value through profit or loss	373	50,018	62,382	39,914
Amounts due from credit institutions	21	2,777	695	7,291
Investment securities:				
- Available-for-sale	90	12,099	20,618	3,232
- Held-to-maturity	-	-	-	6,443
Loans to customers	3,068	411,097	254,590	163,888
Property and equipment	82	10,979	9,131	7,322
Other assets	52	6,961	5,135	2,805
Total assets	**4,177**	**559,665**	**393,254**	**249,523**
Liabilities and shareholders' equity				
Amount due to customers	2,393	320,630	231,501	154,846
Amounts due to credit institutions	801	107,284	76,493	61,877
Debt securities issued	439	58,814	44,940	8,583
Provisions	17	2,280	1,801	921
Current tax liability	-	-	-	8
Deferred tax liability	3	425	451	174
Other liabilities	43	5,789	2,500	1,319
Total liabilities	**3,696**	**495,221**	**357,686**	**227,727**
Total shareholders' equity	**481**	**64,444**	**35,568**	**21,796**
Total liabilities and shareholders' equity	**4,177**	**559,665**	**393,254**	**249,523**

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

	Years ended 31 December		
	2005	2004	2003
SELECTED FINANCIAL RATIOS AND ECONOMIC DATA			
Profitability Ratios			
Return on shareholders' equity(1)	24.6%	22.8%	34.4%
Return on average shareholders' equity	35.9%	28.2%	41.7%
Return on average assets(2)	3.2%	2.5%	3.4%
Net interest margin(3)	6.9%	6.8%	7.3%
Net interest spread(4)	6.7%	6.8%	7.3%
Non-interest expense/net interest income before impairment charge plus non-interest income(10)	54.9%	62.5%	68.1%
Non-interest expense as a percentage of net interest income before impairment charge(10)	62.6%	72.0%	81.1%
Non-interest expense as a percentage of average total assets(10)	4.0%	4.5%	5.5%
Loan Portfolio Quality(5)			
Classified loans/gross loans(6)	9.1%	8.6%	10.5%
Non-performing loans/gross loans(7)	1.6%	2.3%	2.5%
Allowance for loan losses/gross loans	6.0%	6.2%	6.3%
Allowance for loan losses/classified loans(6)	66.1%	72.2%	60.4%
Allowance for loan losses/non-performing loans(7)	375.9%	265.7%	257.3%
Balance Sheet Ratios and Capital Adequacy			
Amounts due to customers as a percentage of total net loans	78.0%	90.9%	94.5%
Amounts due to customers as a percentage of total assets	57.3%	58.9%	62.1%
Total net loans as a percentage of total assets	73.5%	64.7%	65.7%
Total shareholders' equity as a percentage of total assets	11.5%	9.0%	8.7%
Liquid assets as a percentage of total assets(8)	23.3%	31.6%	30.3%
Risk weighted capital adequacy ratio(9)	16.8%	13.7%	15.0%
Economic Data			
Period end exchange rate (KZT/U.S. $)	133.98	130.00	144.22
Average exchange rate for period (KZT/U.S. $)	132.88	136.04	149.58
Inflation rate (CPI)	7.6%	6.9%	6.4%
GDP growth (real)	9.4%	9.4%	9.2%

Ratios are based on monthly average balances for 2005 and average balances for 2004 and 2003 calculated by adding the opening and closing balances and dividing by two.

(1) Return on shareholders' equity comprises net income divided by shareholders' equity as at year end.

(2) Return on average assets comprises net income divided by average assets.

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

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

(5) Calculated using gross loan balances excluding recognised interest.

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

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

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

(9) Calculated in accordance with BIS standards.

(10) Non interest expense does not include interest expense, income taxes and impairment charge.

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

Overview

According to statistics published by the FMSA, the Bank has the largest retail deposit base of Kazakhstan customers, which amounted to KZT 130,910 million as at 31 December 2005 which represented 21.9% of the total market share as at the same date. The Bank was also the third largest bank in Kazakhstan based on total assets of KZT 559,665 million as at 31 December 2005. For the year ended 31 December 2005, the Bank had net income of KZT 15,828 million, compared to KZT 8,093 million for the year ended 31 December 2004 and KZT 7,498 million for the year ended 31 December 2003. The Bank's major sources for its operations are amounts due to customers, which accounted for approximately 65% of its total liabilities base in 2005.

In December 2003, the International Accounting Standards Board (the "IASB") issued revised IAS 32, "Financial Instruments: Disclosure and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement". Both standards are effective for financial years beginning on or after 1 January 2005, with earlier application of both standards together being permitted. Together, the two standards provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Bank decided to adopt these revised standards as at 1 January 2005 and, accordingly, beginning with the Bank's financial statements as at and for the year ending 31 December 2005, financial information for any comparative prior years presented in such financial statements will be restated as if the revised standards had always been in effect. The impact of the newly issued accounting guidance, however, is currently not expected to have a material impact on the financial statements of the Bank.

External Factors Affecting the Bank's Results of Operations

Operations and Customers in Kazakhstan

Substantially all of the Bank's operations and customers are located in Kazakhstan. Accordingly, the Bank's financial condition and results of operations are dependent upon economic conditions prevailing in Kazakhstan. The Kazakhstan economy has experienced growth during the past years, but any significant decline in its growth could adversely affect consumer and corporate confidence, which in turn could have a negative impact on the Bank's financial condition and results of operations. In addition, due to the relatively high industry concentration of its corporate customer base, the Bank is exposed to adverse changes in companies operating in the agriculture sector, the construction sector, the real estate sector and the wholesale trade sector. As at 31 December 2005, mortgages, consumer loans, the wholesale trade, the construction sector and agriculture accounted for 18%, 12%, 14%, 12% and 9%, respectively, of the Bank's gross loan portfolio. See "Risk Factors—Risk Factors Relating to the Bank—Industry and Borrower Concentrations of the Bank's Loan Portfolio".

The recent growth of the Kazakhstan economy has generated a demand for financial services from an increasing number of individuals in all income segments of the population and from an increasing number of companies. The Bank's business strategy is to target the growing demand for banking products and services to SMEs. The Bank's strategy also aims to increase lending and cross selling to all customer segments. While management believes that this strategy has the potential to provide higher net interest margins, it also has the potential to expose the Bank to a higher degree of credit risk. The Bank continuously seeks to improve the quality of its loan portfolio and risk management procedures through the adherence to its loan approval procedures and credit management policies. See "Risk Factors—Risk Factors Relating to the Bank—Loan Portfolio Growth" and "Risk Factors—Risk Factors Relating to the Bank—Risk Management".

Interest Rates

Interest rates earned and paid on the Bank's assets and liabilities reflect, to a certain degree short-term and long-term rates in Kazakhstan and the U.S., inflation and inflation expectations in Kazakhstan. To protect the Bank from adverse changes in the interest rates, the Bank matches duration of both assets and liabilities. Nonetheless, there are some unhedged interest rate risks. Most of them are concentrated in the foreign currency book due to the fact that Bank's liabilities are repriced more frequently than its assets. As a result, there is a time lag before changes in short-term U.S. rates are reflected in the rates of interest earned by the Bank on its assets. In other words, when short-term U.S. interest rates fall, the Bank's interest margin is positively impacted, but when short-term rates increase, the Bank's interest margin is negatively affected. Finally, although some of the Bank's liabilities are linked to inflation in Kazakhstan embedded caps and liabilities with inverted link to inflation help the Bank to manage inflation risks properly.

Critical Accounting Policies

The Bank's accounting policies are integral to understanding the financial condition and results of operations presented in the audited consolidated financial statements and the related notes thereto. The Bank's significant accounting policies are described in Note 3 to the consolidated financial statements appearing elsewhere in this Offering Circular. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, management evaluates its estimates and judgments, including those related to allowance for losses, investments, income taxes, contingencies, fair value of financial instruments and properties, and litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

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

Principles of Consolidation

The consolidated financial statements of the Bank include Halyk Bank and the companies that it controls (subsidiaries). This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interest is the interest in subsidiaries not held by the Bank. 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 Bank.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of the acquisition is less than the Bank's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is either recorded on the balance sheet as negative goodwill (for business combinations prior to 31 March 2004) or recognised directly in the statement of income (for business combinations on or after 31 March 2004). All intercompany transactions, balances, and unrealized gains and losses on transactions between the Bank and its consolidated subsidiaries have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Allowances for Impairment of Financial Assets

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

These allowances, in particular allowances for loan losses, involve significant estimates and are regularly evaluated by the Bank's management for adequacy. The allowances are based on management's own loss experience and judgement of the level of losses that will most likely be recognised 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 audited consolidated financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods. See "Selected Statistical and Other Information—Loan Classification and Provisioning Policy".

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

Income Taxes

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, which makes the estimation, accrual and accounting for taxes a part of the Bank's critical accounting policies.

Deferred income tax liabilities are recognized for taxable temporary differences (i) 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 (ii) 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 income tax assets are recognised for all 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: (i) 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 (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Future taxable profit could be materially different than amounts estimated, in which case the carrying amount would need to be adjusted.

Valuation of Trading and Investment Securities

Trading and investment securities are initially recognised at the fair value of the consideration paid, net of any transaction costs incurred. Investment securities held-to-maturity are subsequently measured at amortised cost using effective interest method, with allowance for impairment estimated on a case-by-case method. Trading securities and investment securities available-for-sale are subsequently measured at fair value, based on market values as at the date of the balance sheet.

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices for trading securities are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized. When no information on market prices for investment securities available-for-sale or similar instruments is available, the fair value of debt securities with fixed maturities is estimated as the discounted future cash flows using current interest rates and securities that do not have fixed maturities are stated at cost, less allowance for diminution in value.

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

Net Income

The Bank's net income for 2005 was KZT 15,828 million, compared to KZT 8,093 million for 2004 and KZT 7,498 million for 2003.

The increase of KZT 7,735 million in reported net income for 2005, compared to 2004, was primarily attributable to a KZT 19,435 million increase in interest income, reflecting principally a higher average balance of interest-earning assets in addition to growth in average interest rates on interest-earning assets from 11.2% in 2004 to 11.7% in 2005 and, to a lesser extent, a KZT 5,930 million increase in net fee and commission income and a KZT 1,354 million increase in non-interest income. The increase in the average balance of interest-earning assets was mainly due to higher volumes of lending.

The increase of KZT 595 million in reported net income for 2004, compared to 2003, was primarily attributable to a KZT 8,753 million increase in interest income, reflecting principally a higher average balance of interest-earning assets and, to a lesser extent, a KZT 2,515 million increase in net fee and commission income and a KZT 246 million increase in non-interest income. The increase in the average balance of interest-earning assets was mainly due to higher volumes of lending and was only slightly offset by the decline in average interest rates on interest-earning assets from 12.0% in 2003 to 11.2% in 2004.

Interest Income

The following tables set out the principal components of the Bank's interest income and the effective average annual interest rates payable to the Bank on its interest-earning assets, in each case, for the periods indicated:

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Loans to customers	47,549	28,447	21,594
Debt securities	3,450	3,520	2,354
Term and overnight deposits with other banks	1,386	983	248
Total	**52,385**	**32,950**	**24,197**

	December 31, 2005		**December 31, 2004**		**December 31, 2003**	
	(KZT)	*(Foreign currency)*	*(KZT)*	*(Foreign currency)*	*(KZT)*	*(Foreign currency)*
Financial assets at fair value through profit or loss	3.74%	7.20%	3.94%	7.26%	5.94%	8.45%
Available-for-sale investment securities	7.10%	10.17%	6.15%	4.50%	7.40%	8.45%
Loans to customers	15.50%	11.31%	14.69%	11.62%	16.26%	12.00%
Amounts due from credit institutions	10.36%	4.26%	9.34%	6.01%	8.54%	6.53%

Interest income increased by 59% in 2005 to KZT 52,385 million compared to KZT 32,950 million in 2004, mainly due to KZT 19,102 million, or a 67%, increase in interest income on loans to customers and, to a lesser extent, a KZT 403 million, or a 41% increase in interest from deposits with other banks in 2005, compared to 2004. In 2004, interest income increased by KZT 8,753 million, or 36%, compared to interest income of KZT

24,197 million for 2003, mainly reflecting a KZT 6,853 million increase in interest income on loans to customers.

Interest income on loans to customers increased by 67% in 2005 to KZT 47,549 million from KZT 28,447 million in 2004, after having increased by 32% in 2004 from KZT 21,594 million in 2003. The increase in interest income on loans to customers in 2005, compared to 2004, and in 2004, compared to 2003, was primarily attributable to an increase in the Bank's average balances of its net loan portfolio by 60% to KZT 334,071 million, in 2005 from KZT 209,239 million in 2004, and by 44% in 2004 from KZT 144,852 million in 2003. The growth in the average balances of the Bank's loan portfolio was attributable to an overall increase in the growth rate of lending activity, especially retail customers and to a lesser degree SMEs.

Loans to SMEs increased by 29% as at 31 December 2005 to KZT 63,920 million from KZT 49,360 million as at 31 December 2004, after having increased by 25% as at 31 December 2004 from KZT 39,534 million as at 31 December 2003. Loans to retail customers increased by 95% as at 31 December 2005 to KZT 130,602 million from KZT 66,984 million as at 31 December 2004, after having increased by 259%, as at 31 December 2004 from KZT 18,650 million as at 31 December 2003.

Average interest rates on the loan portfolio increased from 13.6% in 2004 to 14.2% in 2005 as a result of higher interest rates on consumer and mortgage loans, which are the fastest growing segments of the Bank's overall loan portfolio. Average interest rate declined to 13.6% in 2004 from 14.9% in 2003, reflecting the general decrease in market interest rates in that year. Average loans in foreign currencies represented 59% of the Bank's total average loan portfolio as at 31 December 2005, compared to 56% as at 31 December 2004 and 64% as at 31 December 2003. In 2005, the amount of foreign currency denominated loans in the Bank's loan portfolio increased as a result of customer demand, which resulted from the lower rates available on foreign currency loans, compared to Tenge denominated loans.

Interest on securities, principally treasury bills, Government bonds, short-term notes issued by the NBK and Eurobonds issued by the Government, decreased by 2% in 2005 to KZT 3,450 million from KZT 3,520 million in 2004 after having increased by 50% in 2004 from KZT 2,354 million in 2003. The decrease in 2005 compared to 2004, resulted from decreases in average interest rates earned on the securities portfolio, especially on Government securities and increase in 2004, compared to 2003, resulted from the increase in the average balance of the Bank's securities portfolio.

The average balance of the Bank's securities portfolio increased by 14.9% to KZT 76,150 million in 2005 from KZT 66,295 million in 2004, after having increased by 62% in 2004 from KZT 40,931 million in 2003. Average interest rates earned on the securities portfolio for 2005, 2004 and 2003 were 4.5%, 5.3% and 5.8%, respectively.

Interest on deposits with other banks increased by 41% in 2005 to KZT 1,386 million from KZT 983 million in 2004, after having increased 296% in 2004 from KZT 248 million in 2003. The increase in 2005 compared to 2004 and in 2004 as compared to 2003, was mainly attributable to the higher levels of deposits with other banks. Average annual rates on deposits with other banks increased from 1.6% in 2003 to 5.0% in 2004 and decreased to 3.5% in 2005.

Interest Expense

The following table sets out certain information relating to the Bank's interest expense for the periods indicated:

	Year ended 31 December		
	2005	**2004**	**2003**
Interest on deposits from customers	11,873	8,026	6,629
Interest on deposits and loans from credit institutions	4,375	3,094	2,135
Interest on debt securities	4,909	1,639	659
Total	**21,156**	**12,759**	**9,423**

Total interest expense increased by 66% in 2005 to KZT 21,156 million from KZT 12,759 million in 2004, after having increased by 35% in 2004 from KZT 9,423 million in 2003. Total interest expense has increased during 2004 and 2005 due to the growth in the Bank's deposit base and increases in both borrowings from credit institutions and significant issuances of debt securities on domestic market, partially offset by a slight reduction in average interest rates paid on customer accounts.

Interest expense on deposits from customers increased by 48% in 2005 to KZT 11,873 million from KZT 8,026 million in 2004, after having increased by 21% in 2004 from KZT 6,629 million in 2003. The year on year increases for 2005 and 2004 resulted mainly from an overall increase in customer deposits. Average annual interest-bearing customer account balances (corporate and retail) increased by 53% in 2005 to KZT 296,248 million from KZT 193,174 million in 2004, after having increased by 32% in 2004 compared to KZT 145,882 million in 2003. The increase in customer deposits, including interest bearing deposits, in both 2005 and 2004, the prior year on year period, respectively, was attributable to the improved economy and increased consumer confidence in banks generally. The average interest rates paid on interest bearing customer balances for 2005, 2004 and 2003 were 4.0%, 4.2%, and 4.5%, respectively. The Bank's customer deposits in foreign currencies are substantially denominated in U.S. Dollars and, to a lesser extent, in Euros. Average foreign currency customer deposit balances for 2005, 2004 and 2003 accounted for 46%, 42% and 51%, respectively, of the total average balances of customer accounts for each year.

Interest expense on deposits and loans from credit institutions increased by KZT 1,281 million or 41% in 2005 to KZT 4,375 million from KZT 3,094 million in 2004, after having increased 45% in 2004 from KZT 2,135 million in 2003. These increases were primarily attributable to higher levels of borrowings from OECD based banks, which amounted to KZT 97,540 million in 2005, compared to KZT 64,365 million in 2004 and KZT 52,111 million in 2003, and an increase in interest paid on foreign currency borrowings, as the average interest rate paid decreased from 4.5% in 2003 to 4.4% in 2004 and increased to 5.3% in 2005 due to longer-term borrowings and growth of base rates. Average foreign currency balances on deposits and loans from credit institutions accounted for 18% in 2005 and 22% in each of 2004 and 2003, of the total average interest bearing liabilities for each year.

Interest paid on debt securities increased by 200% to KZT 4,909 million in 2005, compared to KZT 1,639 million in 2004, primarily as a result of the Bank's issue of KZT 11 billion in debt securities in 2005, which contributed to an overall increase in the amount of interest to be paid. In 2004 as a result of subordinated debt issues, interest paid on debt securities increased by 149% in 2004 to KZT 1,639 million compared to KZT 659 million in 2003.

The following table sets out the average cost (measured by interest rates paid) of the Bank's deposits for the periods indicated:

	Year ended 31 December		
	2005	**2004**	**2003**
		(%)	
KZT deposits			
Time deposits	7.40	8.51	9.07
Demand deposits	0.26	0.19	0.44
Foreign currency deposits			
Time deposits	5.32	6.10	6.34
Demand deposits	0.79	0.63	0.46

The weighted average interest rate on demand deposits in all currencies increased to 0.31% in 2005 from 0.22% in 2004 after declining from 0.43% in 2003, whilst the weighted average interest rate on time deposits declined to 6.17 % in 2005 from 7.21% in 2004 after slight increase from 7.17% respectively. Generally the market trend was for declining interest rates, both for demand and term deposits, but in 2004 there was a slight increase of interest rates for corporate time deposits in foreign currency , while demand deposit interest rates increased in 2005 due to higher rates paid by the Bank to corporates in order to attract additional demand deposits.

The average interest rate on Tenge time deposits decreased to 7.40% in 2005 from 8.51% in 2004 and 9.07% in 2003 respectively. Whereas the average interest rate of foreign currency deposits decreased to 5.32% in 2005 from 6.10% in 2004 and 6.34% in 2003. The decrease in time deposit interest rates was in line with overall market conditions.

As at 31 December 2005, the Bank's time deposits were predominantly U.S. Dollar and KZT denominated accounts. As at 31 December 2005 and 2004, corporate time deposits (commercial entities) accounted for 59%

and 65% of total corporate deposits, respectively, increases from 47% in 2003. As at 31 December 2005 and 2004, retail time deposits accounted for 72% of total retail deposits, which slightly decreased from 73% in 2003.

Net Interest Income Before Impairment

Net interest income before impairment charge increased by KZT 11,038 million in 2005 to KZT 31,229 million from KZT 20,191 million in 2004, after having increased 37% in 2004 from KZT 14,773 million in 2003. The Bank's net interest margin, defined as net interest income before the impairment charge as a percentage of average interest-earning assets, was 6.9% in 2005, compared to 6.8% in 2004 and 7.3% in 2003. The decrease in the net interest margin in 2004 was mainly attributable to competitive market pressures, while the increase in 2005 was due to an increase of average interest rate earned on the loan portfolio. In 2005, the average interest rate on loans to customers increased to 14.2% from 13.60% in 2004 and the average interest rate on interest-bearing liabilities slightly increased to 4.9% in 2005 from 4.4% in 2004. In 2004, the average interest rate on loans to customers decreased to 13.6% from 14.9% in 2003 and the average interest on interest-bearing liabilities decreased to 4.4% in 2004 from 4.7% in 2003.

Impairment Charge

In 2005, the Bank's impairment charge was KZT 11,970 million, compared to KZT 7,954 million in 2004 and KZT 4,137 million in 2003. The impairment charge as a percentage of the gross loan portfolio was 2.7% in 2005, 2.9% in 2004 and 2.4% in 2003. In 2005, the Bank's net write-offs were KZT 2,529 million (representing gross write-offs of KZT 3,648 million less KZT 1,119 million in recoveries), compared to KZT 1,941 million in 2004 (representing gross write-offs of KZT 2,236 million less KZT 295 million in recoveries) and KZT 1,917 million in 2003 (representing gross write-offs of KZT 2,166 million less KZT 249 million in recoveries). The allowance for loan losses as a percentage of total loans was 6% as at 31 December 2005, 2004 and 2003. See "Asset, Liability and Risk Management—Lending Policies and Procedures".

Fees and Commissions

Net fee and commission income increased 64% in 2005 to KZT 15,248 million from KZT 9,318 million in 2004, after having increased 37% in 2004 from KZT 6,803 million in 2003.

Fee and Commission Income

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

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Bank transfers	4,312	2,381	1,530
Pension fund and asset management	3,115	790	972
Cash operations	2,225	1,860	1,200
Letters of credit and guarantees issued	1,796	1,195	741
Maintenance of customer accounts	894	753	653
Customers' pension payments	894	635	449
Utilities payments	861	724	576
Foreign currency operations	781	647	535
Plastic card maintenance	529	540	540
Other	752	592	363
Total	**16,161**	**10,117**	**7,559**

Fee and commission income increased 60% in 2005 to KZT 16,161 million from KZT 10,117 million in 2004, after having increased by 34% in 2004 from KZT 7,559 million in 2003. The increase in 2005, compared to 2004, was primarily attributable to an increased volume of operations, in particular transfer operations, which include transfers relating to debit card accounts and between corporate accounts, cash operations and trade finance operations. Fees from banking services for pension payments increased by 41% to KZT 894 million in 2005 from KZT 635 million in 2004, after having increased by 41% in 2004 from KZT 449 million in 2003. These increases in 2005 and 2004 as compared to prior years was a result of an increase in fees from pension payments made through the Bank's ATM system, a service introduced in 2004. In 2005, the Bank earned KZT 3,115 million in pension fund and asset management fees and commissions, compared to KZT 790 million in December 2004. This 294% increase in 2005 was mainly attributable to an increase in asset management fees to KZT 2,323 million in 2005 from KZT 553 million in 2004 and an increase of fees from pension asset collection to KZT 792 million in 2005 from KZT 237 million in 2004. Fees from pension asset collection increased due to (i) significant increase in fair value of pension assets in 2005, (ii) a tariff increase introduced by the Government of Republic of Kazakhstan effective 1 January 2005 from 0.02% to 0.05%.

Fee and Commission Expense

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

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Plastic cards	382	344	260
Foreign currency operations	218	217	268
Bank transfers	126	83	60
Other	187	155	167
Total	**913**	**798**	**755**

Fee and commission expense increased by 14% in 2005 to KZT 913 million from KZT 798 million in 2004, after having increased by 6% in 2004 from KZT 755 million in 2003. The increases in 2005 and 2004 were primarily attributable to increase of number of payment cards issued and growth of transfer operations. See "Business—Distribution Channels".

Non-Interest Income

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

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Gains less losses from foreign currencies	1,894	1,991	1,111
Gains less losses from financial assets at fair value through profit or loss	1,363	165	827
Gains less losses from available-for-sale securities	342	104	442
Other income	820	804	439
Total	**4,419**	**3,065**	**2,819**

Gains less Losses from Financial Assets at Fair Value through Profit or Loss and Available-for-Sale Securities

Gains less losses from financial assets at fair value through profit or loss increased by 726% in 2005 to KZT 1,363 million compared to KZT 165 million and decreased by 80% in 2004 compared to KZT 827 million in 2003. The increase in gains less losses from financial assets at fair value through profit or loss in 2005 was mainly attributable to unrealized revaluation of local Ministry of Finance securities with maturities of over 1 year. Gains less losses from available-for-sale securities increased by 229% in 2005 to KZT 342 million compared to KZT 104 million in 2004 as a result of selling a large portfolio of U.S. Treasury securities. Selling the portfolio of Ministry of Finance securities in 2003 and low trading volumes in 2004 were the main factors of decreases of gains less losses from available-for-sale securities and financial assets at fair value through profit or loss in 2004, respectively.

Gains less Losses from Foreign Currencies

Gains less losses from foreign currencies slightly decreased in 2005 to KZT 1,894 million from KZT 1,991 million in 2004 and increased in 2004 from KZT 1,111 million in 2003 mainly due to translation gains which amounted to a gain of KZT 772 million in 2004, compared to a loss of KZT 113 million in 2003. These gains in

2005 and 2004 reflect the translation of the Bank's open foreign currency positions during the year, which was generally short following the appreciation of the Tenge against the U.S. Dollar.

Non-Interest Expense

Non-interest expense increased by 35% in 2005 to KZT 19,560 million from KZT 14,530 million in 2004, after having increased by 21% in 2004 from KZT 11,987 million in 2003. The following table sets out the composition of the Bank's non-interest expense for the periods indicated:

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Salaries and other employee benefits	11,236	6,877	5,285
Administrative and operating expenses	5,242	4,513	3,575
Depreciation and amortization expenses	1,330	1,112	1,007
Taxes other than income tax	1,255	1,042	735
Other provisions	496	987	1,385
Total	**19,560**	**14,530**	**11,987**

The increase in non-interest expense for each year on year period, was mainly attributable to increases in salaries and benefits and in administrative and operating expenses.

Salaries and Other Employee Benefits

Salaries and other employee benefits increased by 63% in 2005 to KZT 11,236 million from KZT 6,877 million in 2004, after having increased by 30% in 2004 from KZT 5,285 million in 2003. While the number of employees of the Bank did not significantly change in 2005 and 2004, the increase in salaries and other employee benefits in both years was primarily attributable to an average 30% increase in salaries of all employees of the Bank in each of 2005 and 2004 with a view to bringing salary levels in the Bank closer to market rates.

The following table sets out the composition of the Bank's salaries and other employee benefits for the periods indicated:

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Salaries and bonuses	9,027	5,140	3,772
Social security costs	1,109	751	778
Other payments	1,100	986	735
Salaries and benefits, total	**11,236**	**6,877**	**5,285**

Depreciation and Amortisation

Depreciation and amortisation increased by 20% in 2005 to KZT 1,330 million compared to KZT 1,112 million in 2004 and increased by 10% in 2004 from KZT 1,007 million in 2003. The increases in 2005 and 2004 were attributable to a corresponding increase in cost of capital assets in each respective year.

Taxes other than Income Taxes

Taxes other than income taxes increased by 20% in 2005 to KZT 1,255 million from KZT 1,042 million in 2004, and increased by 42% in 2004 from KZT 735 million in 2003. The increase in 2004 mainly reflected an increase in VAT of KZT 180 million.

Administrative and Operating Expenses

Administrative and operating expenses increased by 16% to KZT 5,242 million in 2005 compared to KZT 4,513 million after having increased by 26% in 2004 from KZT 3,575 million in 2003.

The following table sets out the composition of the Bank's administrative and operating expenses for the periods indicated:

	Years ended 31 December		
	2005	2004	2003
		(KZT millions)	
Repair and maintenance	826	694	446
Insurance of deposits	692	594	358
Advertisement	526	392	441
Communication	438	401	375
Business trip expenses	412	303	279
Stationery and office supplies	348	257	406
Rent	293	140	108
Information services	207	66	55
Security	183	144	154
Transportation	159	159	122
Charity	106	91	127
Social events	91	44	125
Professional services	90	514	280
Other	871	716	298
Administrative and operating expenses	**5,242**	**4,513**	**3,575**

The increase in administrative and operating expenses in 2005, compared to 2004 and 2003, was driven primarily by increases generally in all expenses but mitigated by a decrease in professional services. Repair and maintenance expenses increased to KZT 826 million in 2005, compared to KZT 694 million in 2004 and KZT 446 million in 2003, mainly due to an increased level of repair activity over the period. The increase in expense for the insurance of deposits to KZT 692 million in 2005, compared to KZT 594 million in 2004 and KZT 358 million in 2003, primarily reflected the growth of deposit base. Expenses relating to professional services decreased to KZT 90 million in 2005 compared to KZT 514 million in 2004, primarily due to limited activity in external borrowings in 2005 while growth in 2004 was driven by payment of higher audit and consultancy fees including fees on Eurobond issue in 2004.

Taxation

Kazakhstan tax regulations do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. From 2001 to 2005, Kazakhstan was the only jurisdiction in which the Bank's income was taxable. 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 other taxes. Implementing regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within Government ministries and organisations, thus creating uncertainties and areas of conflict. The Bank reported income tax expense of KZT 3,539 million in 2005, KZT 1,998 million in 2004 and KZT 773 million in 2003.

The current statutory corporate income tax rate in Kazakhstan is 30%. The Bank's effective tax rate was approximately 18%, 20% and 9% in 2005, 2004 and 2003, respectively. The Bank's effective tax rate for 2005 decreased due to tax exempt income from long term loans to modernize equipment and increased income on state and other non-taxable income while in 2004 it had increased, compared to 2003, mainly because the Bank's non taxable income from investments in Government securities and other qualifying securities decreased from KZT 1,680 million in 2003 to KZT 882 million in 2004.

Financial Condition

Total Assets

As of 31 December 2005, the Bank had total assets of KZT 559,665 million, reflecting an increase of 42% over KZT 393,254 million as at 31 December 2004 and an increase of 58% in 2004 as compared to KZT 249,523 million in 2003. The increase in 2005 was primarily attributable to a 61% increase in the net loan portfolio and a

72% increase in cash balances as compared to 2004. The increase in 2004 was mainly attributable to an increase in the net loan portfolio and, to a lesser extent, increases in cash balances and the trading securities portfolio as compared to 2003. The growth in the loan portfolio was attributable to an overall increase in lending activity, especially to large corporates and retail customers. Lending to large corporations increased in 2005 and 2004 by 57% and 33%, respectively, while loans to retail customers grew 95% and 259% in 2005 and 2004, respectively.

Total Liabilities

As at 31 December 2005, the Bank had total liabilities of KZT 495,221 million, reflecting an increase of 38% compared to KZT 357,686 million as at 31 December 2004. The Bank's total liabilities increased by 57% in 2004 compared to KZT 227,727 million in 2003. The increase in total liabilities in 2005 was primarily attributable to an increase in customer deposit balances of KZT 89,129 million, an increase in bank borrowings of KZT 30,791 million and an increase in debt securities issued of KZT 13,874 million. The increase in 2004 compared to 2003 was mainly attributable to an increase in customer deposit balances and the issue of debt securities. The Bank issued KZT 5,565 million of subordinated debt securities and KZT 30,792 million of senior debt securities in 2004.

Shareholders' Equity

As at 31 December 2005, the Bank's total shareholders' equity amounted to KZT 64,444 million (11.5% of total assets), reflecting an increase of 81% over the total shareholders' equity as at 31 December 2004. Shareholders' equity in 2005 increased due to issue of common shares, preferred shares convertible at the Bank's option, and due to an increase in retained earnings and other reserves from KZT 17,417 million in 2004 to KZT 32,806 million in 2005. The Bank's total shareholders' equity amounted to KZT 35,568 million as at 31 December 2004, or 9% of total assets compared to KZT 21,796 million as at 31 December 2003, or 8.7% of total assets. Shareholders' equity increased in 2004 as a result of common share issue and retained earnings. In August 2005 the Bank announced a ten-to-one split of the common shares outstanding as of that date following the resolution of the shareholders made in May 2005. Subsequently shareholders authorized and issued 74,887,521 convertible preferred shares that may be converted into common shares. As at 31 December 2005, the Bank had 897,383,050 common shares, 24,742,000 non convertible preferred shares and 74,887,521 convertible preferred shares outstanding. There has been no change in the Bank's issued share capital as of the date of this prospectus. For more information, see "Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital", "Asset, Liability and Risk Management" and "Selected Statistical and Other Information".

The Bank paid no dividends on its common shares in 2005, 2004 and 2003. On 19 April 2006, the Bank's Annual General Shareholders' Meeting approved payment of a dividend of KZT 1.35 per common share in 2006.

Capital Expenditures

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

	Year ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Buildings	94	609	279
Transportation	299	131	89
Computer and banking equipment	1,338	1,710	339
Other fixed assets	1,448	590	665
Intangible assets	405	175	111
Total	**3,584**	**3,215**	**1,483**

The 2005 increase in transportation by 128% to KZT 299 million from KZT 131 million was due to purchase of new armoured and passenger vehicles to the Bank's fleet. Expenditures in intangible assets have grown by 131% in 2005 to KZT 405 million from KZT 175 million in 2004 mainly due to purchase of banking software such as SAP, Landocs and various Colvir software modules.

Off-Balance Sheet Arrangements

The Bank enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include guarantees, letters of credit, forward contracts and option contracts, expose the Bank to credit risk and are not reflected in the Bank's consolidated balance sheet. As at 31 December 2005, the Bank had issued commercial letters of credit totalling KZT 16,107 million, guarantees totalling KZT 29,330 million, and commitments to extend credits of KZT 17,000 million. The Bank's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

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

	As at 31 December		
	2005	2004	2003
		(KZT millions)	
Guarantees	29,330	44,595	20,344
Commitments to extend credit	17,000	104,964	39,207
Commercial letters of credit	16,107	15,526	7,794
	62,437	165,085	67,345
Less cash collateral against letters of credit	(766)	(762)	(1,437)
Less provisions	(2,280)	(1,801)	(921)
Total	**59,391**	**162,522**	**64,987**

As at 31 December 2005, the top ten guarantees (by amount) totalling KZT 16,350 million accounted for 56% of the Bank's total financial guarantees and represented 25% of the Bank's total shareholders' equity, while the top ten letters of credit (by amount) totalling KZT 11,856 million accounted for 74% of the Bank's total commercial letters of credit and represented 18% of the Bank's total shareholders' equity. Significant decrease in credit commitments in 2005 is attributable to the Bank's decision to introduce uncommitted facilities.

Provisions for contingent liabilities

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for its on-balance sheet operations. As at 31 December 2005, the provision for contingent liabilities was KZT 2,280 million, compared to KZT 1,801 million as at 31 December 2004 and KZT 921 million as at 31 December 2003. The increase was mainly attributable to a slight deterioration in the credit rating of few customers with significant guarantees and letter of credit.

Capital Adequacy

The capital adequacy requirements currently in effect in Kazakhstan exceed guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements (the "BIS Guidelines"). See "Currency and Banking Regulation". The FMSA requires banks to maintain a Tier I capital adequacy ratio of 6% (compared to 4% recommended by the BIS Guidelines) of risk-weighted assets based on the Bank's unconsolidated financial statements and the risk weights that depart from the Basel Committee recommendations.

Although the Bank has generally maintained its capital at adequate levels. The Bank exceeded the threshold of 10% of capital established for loans to a single related party in early 2003. The Bank has remedied this breach in 2004 by decreasing such exposure and Management believes that, as at the date of this Offering Circular, the Bank is in compliance with the applicable regulatory requirements of the NBK.

For more information, see "Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital".

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

	NBK's minimum requirements	As at 31 December 2005	2004 (unaudited)	2003
Capital Adequacy Ratios				
K1 – tier I capital to total assets	6%(1)	8.5%	6.3%	6.1%
K2 – own capital to total assets weighted for risk	12%(1)	15.7%	12.7%	13.9%
K4 – Current Liquidity ratio	Greater than 30%	91%	111%	97%
K5 – Short-term Liquidity Ratio	Greater than 50%	72%	109%	91%
K6 – investments into fixed assets and non financial assets to equity	Not more than 50% of bank's regulatory capital	15%	23%	27%
Maximum aggregate net open foreign currency position(3)	30% of bank's regulatory capital(2)	6.55%	23.72%	1.82%
Maximum net open position in U.S. Dollars(4)	15% of bank's regulatory capital	4.95%	24.54%	1.39%
Maximum net open position in Russian roubles(5)	5% of bank's regulatory capital	0.57%	0.32%	0.72%
Maximum net open position in Kyrgyz Soms(5)	5% of bank's regulatory capital	0.17%	0.0%	0.0%
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	Must not exceed regulatory capital	6.90%	8.98%	12.21%
Maximum exposure to any single:				
– not-related party	Not more than 25% of bank's regulatory capital	12.81%	18.98%	16.49%
– related party	Not more than 10% of bank's regulatory capital	4.21%	5.94%	25.37%
– on unsecured loans	Not more than 10% of bank's regulatory capital	2.47%	0.85%	0.19%

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

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

(3) Effective February 2005 the FMSA tightened currency position regulations: (i) aggregate foreign currency position from 50% of regulatory capital down to 30%, (ii) hard currency (rated "A" or higher) position from 30% down to 15% and (iii) short soft (rated "B" to "A") currency position 15% and long soft currency position 5% down to 5%.

(4) Open currency position (short or long) in currencies of countries rated A by Standard & Poor's or higher and in Euro.

(5) Short currency position in currencies of countries rated below A by Standard & Poor's.

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

	Year ended 31 December		
	2005	**2004**	**2003**
	(KZT millions, except ratios)		
Tier I capital	62,622	32,253	18,396
Tier II capital	22,523	13,972	12,326
Gross tier I and tier II available capital	85,145	46,225	30,722
Less investments	(1,443)	(686)	(632)
Tier I and tier II capital	83,702	45,539	30,090
Total risk weighted assets	488,432	331,564	205,498
Tier I capital adequacy ratio	13%	10%	9%
Total risk weighted capital adequacy ratio(1)	17%	14%	15%

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

ASSET, LIABILITY AND RISK MANAGEMENT

General

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

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

The Risk Management Department was created in 2001 and represents an independent department reporting directly to the Chairman of the Management Board. The Risk Management Department consists of six units supervising various activity spheres: Financial Risks Unit is involved in management of market, interest rate, liquidity and partly credit risks (e.g. country and financial institutions); established in early 2005, the Operational Risks Unit develops the framework for operational risk management in the Bank; Methodology and Portfolio Analysis Unit is responsible for detailed credit portfolio analysis, reporting, certain portfolio limits and control over provisioning procedures; the Project Risks Unit, SME Credit Risks Unit and Standard Products Risks Units are engaged in credit risk management process for large corporates, SME sector and retail loan portfolio respectively. Apart from reviewing the credit applications made to the head office and those applications that exceed the approval limit of the credit committees located in branches Project Risks Unit, SME Credit Risks Unit and Standard Products Risks Units are closely involved in portfolio monitoring, policy making activities and product development (advisory function).

Various credit committees are responsible for managing the credit risk. The Bank has three credit committees located in each branch: two committees for corporate (SME) lending with responsibilities shared depending on complexity of products/applications, and the Retail Lending Credit Committee. Branch credit committees have authorities limited by certain amount and conditions as approved by the Management Board. The following three main credit committees exist within its head office: the Retail Lending Credit Committee, the Branch Network Credit Committee and the Commercial Direction Credit Committee. Responsibilities of credit committees in the Bank's head office include: the Commercial Direction Credit Committee - decision making on credit applications of large corporates, and the Branch Network Credit Committee and the Retail Credit Committee of the Head Office - processing the corporate and individual loan applications, respectively, that exceed the approval limit of the credit committees located in branches.

Asset and Liability Management Committee

The ALCO has ten members and is chaired by the Chairman of the Management Board. The ALCO reports directly to the Management Board. The ALCO meets bi-weekly and is responsible for formulating and overseeing the implementation of the asset and liability management strategy of the Bank. The functions of the ALCO include regular monitoring of the Bank's balance sheet structure, capital adequacy, interest sensitive assets and liabilities, maturity gap, liquidity position, certain characteristics of the loan portfolio, interest income and expense on various assets and liabilities and conditions on foreign currency and financial markets. Based on the above-mentioned information, the ALCO sets interbank borrowing/lending limits, open currency positions, liquidity limits and the overall funding structure of the Bank. The ALCO is also responsible for determining base interest rates on consumer and corporate loans and, together with the Commercial Direction

Credit Committee, sets overall interest rate levels and terms for both interest-earning assets and interest-bearing liabilities and makes decisions regarding maturities and pricing of assets and liabilities.

The Bank is committed to further developing its risk management capability by introducing more sophisticated analysis techniques in addition to the gap analysis currently used by the Bank. The Bank began using value-at-risk (VaR) analysis in January 2004 to measure its foreign exchange risk and, in October 2004, to measure interest rate risk. Since September 2004, VaR of foreign exchange is calculated on a daily basis by the Risk Management and Treasury Departments. In 2004, the Bank also began using quarterly stress-testing to measure the influence of interest rate fluctuations on the Bank's profitability. The Bank is planning to implement VaR methodology to measure market risk of securities portfolio during the second quarter of 2006.

Funding and Liquidity

The Bank's funding and liquidity management policy is designed to deal with both business-as-usual and contingency scenarios. Under the business-as-usual scenario the Bank seeks to ensure that funding sources are well diversified and within internal funding targets. Under contingency scenarios, the Bank's policy seeks to ensure that the Bank has sufficient resources of liquidity (liquid assets and access to sources of liquidity) to withstand a range of potential liquidity crises without impairing its solvency, maintains normal levels of customer business, access to customer and professional market funding, cost of funding (beyond acceptable limits) and compliance with NBK regulations. Customer accounts and deposits are the key sources of the Bank's funding. Given that the Bank started out as a savings bank, the bank has the largest market share in the retail deposit market. Deposits accounted for 65% of total liabilities in 2004 and 2005 and are split roughly equally between retail and corporate. International debt capital market financing aims to gradually reduce most expensive liabilities and further diversify and lengthen maturity of the Bank's funding base. For a more detailed breakdown of the Bank's source of funds, see "Selected Statistical and Other Information—The Bank's Funding Sources".

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

	As at 31 December		
	2005	**2004**	**2003**
		(%)	
Loans/assets (excluding accrued income on loans)	76.6	67.4	66.8
Loans/deposits (excluding accrued income on loans)	133.7	114.5	107.6
Loans/shareholders' equity (excluding accrued income on loans)	665.0	745.2	764.5
Liquid assets[1]/total assets	23.3	31.6	27.7
Liquid assets/total amounts owed to customers	40.7	53.7	44.6

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

Maturity Analysis

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

	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
	(KZT millions)						
Monetary assets:							
Cash and cash equivalents	29,104	26,231	1,766	–	–	–	57,102
Obligatory reserves	–	–	–	–	–	8,632	8,632
Financial assets at fair value through profit or loss	50,018	–	–	–	–	–	50,018
Amounts due from credit institutions	–	–	1,446	1,120	210	–	2,777
Available-for-sale investment securities	12,099	–	–	–	–	–	12,099
Loans to customers	1,500	14,045	29,165	137,930	190,720	63,658	437,018
Other assets	998	1,225	113	626	–	1,453	4,414
	93,718	41,501	32,491	139,677	190,930	73,743	572,060
Monetary liabilities:							
Amounts due to customers	112,967	38,991	18,631	88,642	58,250	3,148	320,630
Amounts due to credit institutions	557	14,938	14,575	38,295	30,356	8,563	107,284
Debt securities issued	48	–	–	–	7,719	51,047	58,814
Provisions	2,280	–	–	–	–	–	2,280
Tax liability	–	–	–	425	–	–	425
Other liabilities	858	1,039	1,079	790	304	–	4,069
	116,708	54,968	34,285	128,152	96,629	62,759	493,501
Net position	(22,990)	(13,467)	(1,794)	11,525	94,301	10,984	78,559
Accumulated gap	(22,990)	(36,456)	(38,250)	(26,725)	67,575	78,559	

	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
	(KZT millions)						
Monetary assets:							
Cash and cash equivalents	11,872	11,276	9,976	–	–	–	33,123
Obligatory reserves	–	–	–	–	–	7,578	7,578
Financial assets at fair value through profit or loss	62,382	–	–	–	–	–	62,382
Amounts due from credit institutions	–	23	413	259	–	–	695
Available-for-sale investment securities	6,626	–	–	13,993	–	–	20,618
Loans to customers	2,241	14,754	34,678	83,155	104,635	31,665	271,128
Other assets	3,653	808	–	–	–	–	4,460
	86,773	26,861	45,068	97,406	104,635	39,244	399,986
Monetary liabilities:							
Amounts due to customers	76,565	25,099	26,865	72,424	26,645	3,903	231,501
Amounts due to credit institutions	948	6,933	11,457	39,415	17,662	77	76,493
Debt securities issued	21	–	513	–	38,533	5,872	44,940
Provisions	1,801	–	–	–	–	–	1,801
Tax liability	–	–	–	–	451	–	451
Other liabilities	2,041	15	70	183	191	–	2,500
	81,376	32,047	38,905	112,023	83,482	9,853	357,686
Net position	5,397	(5,186)	6,162	(14,616)	21,153	29,390	42,300
Accumulated gap	5,397	210	6,373	(8,243)	12,910	42,300	

	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
				(KZT millions)			
Monetary assets:							
Cash and cash equivalents	12,357	–	1,058	–	–	–	13,415
Obligatory reserves	–	–	–	–	–	5,212	5,212
Financial assets at fair value through profit or loss	39,914	–	–	–	–	–	39,914
Amounts due from credit institutions	24	–	–	7,267	–	–	7,291
Investment securities							
- available-for-sale	3,232	–	–	–	–	–	3,232
- held-to-maturity	–	–	450	3,106	1,768	1,120	6,443
Loans to customers	–	13,743	12,459	45,669	68,468	34,080	174,418
Other assets	2,661	199	–	–	–	–	2,860
	58,188	13,942	13,967	56,041	70,236	40,411	252,786
Liabilities:							
Due to customers	51,982	25,991	16,679	30,336	16,986	12,872	154,846
Due to credit institutions	197	13,338	2,211	28,916	16,196	1,019	61,877
Debt securities issued	–	–	–	37	4,130	4,416	8,583
Provisions	921	–	–	–	–	–	921
Current tax liability	–	–	–	–	8	–	8
Deferred tax liability	–	–	–	–	174	–	174
Other liabilities	779	15	373	91	61	–	1,319
	53,878	39,344	19,263	59,379	37,556	18,307	227,727
Net position	4,310	(25,402)	(5,296)	(3,338)	32,680	22,104	25,059
Accumulated gap	4,310	(21,091)	(26,387)	(29,725)	2,955	25,059	

Assets and liabilities are shown based on their contractual maturities, except for certain long-term loans to customers amounting to KZT 29,881 million which are shown at the terms of their "early repayment" call option exercisable at the Bank's discretion.

The tables above do not include the effect of allowances for impairment of loans to customers and other assets amounting to KZT 26,055 million, KZT 16,614 million and KZT 10,585 million as at 31 December 2005, 2004 and 2003, respectively. Accumulated negative liquidity gap up to one year as of December 31, 2005 comprised KZT 26,725 million against KZT 8,243 million as at December 31, 2004 mainly due to increasing maturity profile on asset side.

The Bank is implementing a comprehensive plan to improve negative maturity gap and manage liquidity risks, which consists of four main sets of measures:

1. Diversification and extending the tenor of funding sources, including *inter alia* the following:

- issuing KZT denominated bonds documented under Kazakh law placed with domestic investors (tenors up to 10 years) and with international investors (tenors up to three years);
- issuing long-term bonds in the international market;
- raising long-term (five to 10 years) funding under structured trade finance lines from international banks and long-term facilities (up to five years) from international development institutions;
- increasing the proportion of long-term deposits, both from domestic and international depositors; and
- utilizing other funding options like international diversified payment rights securitization.

2. Raising additional capital by issuing perpetual preferred and common shares in 2006.

3. Increasing the proportion of short-term loans in the asset portfolio by:

- increasing differentiation between short-term and long-term lending rates; and

- exploring the possibility of selling (securitizing) long-term mortgage loans, either in the local or international capital markets.

4. Incorporating clauses in loan documentation which make the loan facilities uncommitted and provide the Bank with an unconditional call option for outstanding loans (subject to an advance notice and revision of interest rate downward).

The above maturity gap analysis does not reflect the historical stability of the Bank's current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. However, there can be no assurance as to the Bank's ability to continue to expand the maturity of customer accounts beyond their contractual maturity. See "Risk Factors—Risk Factors Relating to the Bank—Risk Management". In accordance with management accounts the average per annum share of stable accounts is 60%, while the tables above are based upon these accounts' entitlement to withdraw on demand.

Interest Rate Risk

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

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

	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%

Management believes that the structure of its balance sheet, including the short-term structure of its major assets and liabilities, reduces the Bank's exposure to interest rate risk. Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the ability of the Bank to reprice its assets and liabilities. While the majority of its loans are at fixed interest rates, the Bank believes that its sensitivity to interest rate changes is largely reduced by the relatively short-term maturity of approximately 25% of its loan portfolio and its ability under the majority of its loan agreements to adjust the applicable rate of interest. Furthermore, in the event of material changes in circumstances, the Bank is also entitled to call for early repayment of loans and starting from early 2006 the standard loan agreement contains a condition allowing the bank to call for early loan repayment at an advance notice. Accordingly, a substantial portion of the Bank's assets are susceptible to repricing prior to maturity that mitigates interest rate risk. In addition, since October 2005 the Bank introduced an interest rate GAP limit with ALCO ensuring compliance on a monthly basis. Nevertheless, as the average maturity of the Bank's loan portfolio increases, it will, without a matching increase in the average maturity of its liabilities, face increasing interest rate risk. Currently, the Bank does not use derivative instruments to reduce its interest rate exposure.

Foreign Currency Management

The Tenge/U.S. Dollar exchange rate has been subject to fluctuation in recent years. The Tenge appreciated against the U.S. Dollar by 8.0% in 2003 and further by 9.2% in 2004. In 2005, the Tenge depreciated against the U.S. Dollar by 2.9%. For two months of 2006, the Tenge has appreciated against the U.S. Dollar by 2.6%.

The Bank is subject to exchange rate risk due to adverse movements in currency exchange rates in the currencies in which the Bank maintains assets or liabilities. As discussed below, the Bank is also exposed to the effects of fluctuations in the foreign currency exchange rates on its cash flows. The Bank's foreign currency position arises primarily through its purchases and sales of foreign exchange (primarily U.S. Dollars) on the spot market and the mismatch of foreign currency assets and liabilities. Currently, the Bank does not use any derivative instruments to limit its foreign exchange risk. Since September 2004 the Bank applies VaR methodology to calculate its exposure to foreign exchange. In February 2006 the Bank changed the method to historical simulations (95% confidence interval) as the most efficient approach to measure the risk. The Risk Management Department is currently testing new value at risk calculations ("VaR") for a trial period and in the second quarter of 2006 plans to finalize internal VaR limits for the Treasury Department. VaR calculations cover open FCY positions exceeding 5% of regulatory capital (currently U.S.$ and EUR) and the whole portfolio. Currently the Bank does not hold any significant open positions in other currencies, and as soon as the position in some currency exceeds the established threshold it will automatically be included in VaR calculations. Regulation and monitoring of the open foreign currency position of banks is carried out by the FMSA. According to the current FMSA regulations, bank's net open foreign currency position relative to its capital must not exceed 30%. Also, there are regulations on the open currency position on each currency. Net open currency position on the currencies of the countries having rating above "A" on Standard & Poor's scale or similar rating of other major rating agencies and EURO are limited to 15% of bank's capital. For the currencies of the countries having rating below "A" on Standard & Poor's scale or the similar rating of other major rating agencies is limited to 5% of the capital. The FMSA defines open currency position as an excess of bank's liabilities over its assets in the same currency. When liabilities in one currency are larger than assets, the bank runs short position and vice versa. While position in each currency is calculated and monitored separately, the bank's net position is taken as a difference between sum of all long positions and sum of all short ones. Transactions with future value date are taken on position as at contract date. On a weekly basis, the Bank furnishes to the FMSA a report on maintenance of positions in each currency and net currency position

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

	As at 31 December		
	2005	**2004**	**2003**
Net (short)/long position (KZT millions)	19,802	(3,818)	633
Net (short)/long position (U.S. $millions)	147.8	(29.37)	4.39
Net position as a percentage of Tier I and Tier II Capital............	23.66%	(8.38%)	2.10%
Net position as a percentage of foreign currency Liabilities.........	7.02%	(1.94%)	0.49%

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

	December 31, 2005			**December 31, 2004**		
	KZT	**Foreign currencies**	**Total**	**KZT**	**Foreign currencies**	**Total**
			(KZT millions)			
Monetary assets:						
Cash and cash equivalents	24,556	32,545	57,102	10,142	22,981	33,123
Obligatory reserves	8,632	–	8,632	7,578	–	7,578
Financial assets at fair value through profit or loss	42,687	7,331	50,018	54,753	7,629	62,382
Amounts due from credit institutions	1,330	1,446	2,777	–	695	695
Available-for-sale investment securities	9,623	2,475	12,099	5,022	15,596	20,618
Loans to customers	179,298	257,720	437,018	126,037	145,090	271,128
Other assets	3,970	444	4,414	3,757	703	4,460
	270,097	301,962	572,060	207,291	192,695	399,986
Monetary liabilities:						
Amounts due to customers	159,728	160,902	320,630	135,919	95,583	231,501
Amounts due to credit institutions	18,122	89,162	107,284	6,570	69,923	76,493
Debt securities issued	28,084	30,729	58,814	15,206	29,734	44,940
Provisions	2,279	438	2,280	1,801	–	1,801
Tax liability	425	–	425	451	–	451
Other liabilities	2,702	1,367	4,069	1,227	1,273	2,500
	211,340	282,160	493,501	161,173	196,513	357,686
Net balance sheet position	58,757	19,802	78,559	46,118	(3,818)	42,300

	December 31, 2003		
	KZT	Other foreign currencies	Total
		(KZT millions)	
Monetary assets:			
Cash and cash equivalents	4,821	8,594	13,415
Obligatory reserves	5,212	–	5,212
Financial assets at fair value through profit or loss	33,166	6,748	39,914
Amounts due from credit institutions	237	7,054	7,291
Investment securities:			
- available-for-sale	443	2,789	3,232
- held-to-maturity	3,462	2,981	6,443
Loans to customers	72,795	101,623	174,418
Other assets	2,546	315	2,860
	122,682	130,104	252,786
Liabilities:			
Due to customers	88,063	66,782	154,846
Due to credit institutions	4,197	57,680	61,877
Debt securities issued	4,415	4,168	8,583
Provisions	921	–	921
Current tax liability	8	–	8
Deferred tax liability	174	–	174
Other liabilities	477	841	1,319
	98,255	129,471	227,727
Net balance sheet position	**24,426**	**633**	**25,059**

The above table does not include the effect of allowances for impairment of loans to customers and other assets totalling KZT 26,055 million, KZT 16,614 million, KZT 10,585 million as of December 31, 2005, 2004 and 2003, respectively. Freely convertible currencies represent mainly U.S. Dollar amounts, but also include currencies from other OECD countries. The Bank's principal cash flows (revenues, operating expenses) are largely generated in Tenge. As a result, future movements in the exchange rate between the Tenge and the U.S. Dollar or Euro will affect the carrying value of the Bank's U.S. Dollar denominated monetary assets and liabilities.

Treasury Operations

The Asset and Liability Management Committee of the Bank has delegated to the Treasury Department daily management of the Bank's liquidity, interest rate and foreign currency risks. There are three units within the Treasury Department. The Money Market and FX desk is responsible for daily management of liquidity in all currencies, open currency position and banknotes sales. The Fixed Income desk is responsible for both Investment and Trading portfolios of the Bank. Sales desk advises Bank's corporate clients on cash management, FX and interest rate hedging issues.

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

Credit Risk Management

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

Systems Risk Management

Information technologies ("IT") and the impact of potential systems failures have become increasingly significant with the growth in the volume of transactions involving computers, servers and telecommunications networks; particularly the importance of on-line management information systems has increased. Accordingly, the Bank has devoted substantial resources to ensure the development and reliability of its computer and related systems. For example, the Bank maintains a "hot" reserve (as described below) of all of its crucially important servers. As part of its system risk management, the Bank prepares and stores back-up files for all banking activities and conducts testing to monitor the functioning of its computer systems and back-up procedures on a weekly basis. As discussed in "Business—Information Systems", the Bank is currently in the process of upgrading IT systems which it expects to complete by the end of 2006 allowing it to centrally manage its customer database and to provide better quality data to assist in processing and analysing specific risks inherent to its operations.

The Bank intends to make large investments in information technologies to improve client service, increase effectiveness and competitiveness. The Bank's budget for the development of IT was KZT 1.6 billion in 2004 and KZT 1.8 billion in 2005. In 2006, the Bank's budget includes planned IT investments of KZT 3 billion.

The Bank's activity connected with information technologies is regulated by internal rules and procedures approved by the Management Board of the Bank. Subdivisions of the Security Department control the administration of the systems that are in the Information Technologies ("IT"). In order to obtain the effective IT management and an increased transparency in 2006 the Bank introduced CobIT (an IT governance support system) and ITIL (an IT service management system) standards. The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in information technology to support the efficient growth of its operations.

The Bank's system is not yet fully integrated and some reports by branches are still processed manually and then sent to the head office. The Bank continues to upgrade process which will allow fully integrating the banking and payment systems as well as centralizing the customer data base. In 2005 the Bank launched the Mobile Banking system for customers to manage their card accounts via their mobile phones, completed the introduction of collateral monitoring and management system, successfully finished the pilot project for the implementation of SAP BW data warehouse and developed an HP Open View based management system for corporate network, servers and data bases. In 2005 the Bank updated its Customer Contacts, Know Your Customer, The Unified Database on Material Damage caused to the Bank and The Unified Database on Agreements systems and software. During 2006, the Bank plans to complete the second stage of the implementation of SAP BW data warehouse, which will allow to compile various management reports. The Bank plans to complete the introduction of fixed assets accounting, procurement and technical support, controlling, planning and budgeting system (SAP R/3, BPS). In 2005 the largest retail branch changed its decentralized system to the centralized retail system, and in 2006 the Bank plans to complete the centralized customer database (Oracle CDH).

The Bank uses a flexible, scalable and reliable information platform based on the industry data base and UNIX servers with RISC processors. As the standard for the critically important applications, the Bank uses DBMS Oracle, servers of SUN and HP firms, operation systems Sun Solaris and HP Unix. For other applications the Bank uses Intel servers with the Windows operating system. The Bank's main servers are supported by a "hot" reserve, which is a continuously operating back-up server used to ensure minimum data loss in the event of a major failure of the main servers. Reserve servers are housed at a distance of approximately 10 kilometres from the main servers. There is an information reservation of the database on a magnetic carrier every day. Magnetic copies are stored in a separate building located approximately six to seven kilometres apart from the main and reserve servers. All main servers are supplied electricity by two uninterruptible power supplies (UPS). The Bank has technical support for its Sun equipment and Oracle software. At present time, the Bank has two disaster recovery centers, both of which are located in Almaty. The Management Board of the Bank will consider constructing of an additional recovery system located in Astana in May 2006.

The Bank has the largest and most developed multi service corporate network among the banks of the second Tier of Kazakhstan. The network uses the IP protocol, which is built on the basics of products of Cisco

Systems. All oblast branch offices are connected to the Head Office by the "star" scheme using the channels 256 Kbit/s – 1 Mbit/s. The Corporate network is also used to transfer the traffic X.25 and IP telephony. In Almaty, the Bank has its own fibre-optic network. Communication channels with the branch offices are duplicated through an independent provider.

Most of the communication channels used as connection links between the branch offices and the Head office of the Bank are for online work and in one branch office the applications of the corporate system Colvir work off-line. The coordination between data of the Head office and branch offices is updated every two minutes. Most of the retail system (Amanat) works off-line, the coordination is made once a day. Currently, there is an exchange between retail system Amanat to the centralised retail system Colvir.

Lending Policies and Procedures

General

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

Corporate Clients

All applications for credit by corporate customers must be submitted to the Bank in standard forms. Depending on the amount and the borrower, the application is reviewed and approved by a credit committee located in either a branch, the Branch Network Credit Committee or the Commercial Direction Credit Committee. The Credit Analysis Department based in head office prepares credit proposals based on applications made to the head office, applications above U.S. $3,000,000 (or equivalent) made to the branches and performs the preliminary review of any application above U.S. $ 1 million (or its equivalent) before being submitted to the relevant credit decision making body. The Risk Management Department with its staff located in both head office and branches undertakes a thorough analysis of each credit applicant, including carrying out feasibility studies, financial analysis, financial standing and reputation and experience of the potential borrower. Once such analysis is completed, the Risk Management Department prepares its recommendation on each application in terms of overall risks related to the project, the borrower and the related industry sector. The credit analysis takes a number of items into consideration, including (i) the ability to repay, (ii) financial condition of the borrower, (iii) value of the collateral, (iv) management of the borrower, (v) purpose of the loan and (vi) the industry of borrower. Information is obtained from various external sources including the state taxation authorities where appropriate. If the loan is collateralised and as required by the Bank's policy, the Legal Department makes a legal assessment of the collateral being offered, including valuation, legality and enforceability. The Bank also employs independent legal advisers and appraisers, from time to time, to review the loan agreements and other legal documentation involved in the lending process and to make independent assessment of the collateral value.

At the moment the Bank is developing and testing a new rating model which is expected to be launched in the third quarter of 2006. This new credit rating model will rank the Bank's corporate clients in accordance with their financial creditworthiness to better manage credit decisions.

Depending on the amount of the credit application, a credit dossier is reviewed by the appropriate credit committee based upon the following criteria:

- the credit committee of each branch is authorised to make decisions within the lending limits established for such branch by the Management Board, which generally cover loans up to U.S. $200,000 to U.S. $300,000 (or the equivalent), larger branches may have limit up to U.S. $700,000 (or the equivalent in KZT);

- the Branch Network Credit Committee is authorised to make decisions on loans and guarantees in excess of a branch's limit. For most branches the authority of the Branch Network Credit Committee is less than U.S. $3,000,000 (or the equivalent) with the exception of few larger branches whose applications can be considered by the Committee for the amounts up to U.S. $7,000,000 (or the equivalent in KZT);

- the Commercial Direction Credit Committee is authorised to make decisions on loans and guarantees in excess of the Branch Network Credit Committee limits but less than 5% of capital; and

- the Board of Directors is authorised to make decisions on loans and guarantees in excess of 10% of the Bank's capital and on all loans and guarantees to related parties.

All credit limits are established by the Management Board of the Bank based on the recommendation of the Risk Management Department.

Retail Clients

Loan applications from individuals (which require information on income, collateral provided, purpose and terms of lending as well as the information as to co-borrower if needed) primarily are initiated by retail managers, who introduce credit requests to Branch Retail Credit Committees, normally consisting of five members representing the Risk Management Department, the Sales Department, the Legal Department and the Collateral Management Department, chaired by a branch deputy head for retail business. There is a special procedure for micro-credit applications (named "Narodnaya" and "Narodnaya +"), where the relevant head of Branch Retail Departments are authorised to approve individual loans for amounts not exceeding Branch limits (in the range of U.S. $3,500-U.S. $7,500 depending on the programme) without approval of the relevant credit committee. Otherwise, such credit applications are submitted to Branch Retail Credit Committees and further on to the Retail Credit Committee of the Head Office in case branch limit is exceeded or conditions deviate from the standard ones.

Depending on the amount of the credit application, the terms of credit and the collateral, the Branch Retail Credit Committee is permitted to make decisions of up to U.S. $26,000 on individual loans and up to U.S. $180,000 on mortgage loans. In other cases (e.g. when either terms of requested facility are not in compliance with the requirements of the Retail Lending Policy, or requested amounts exceed a limit set for a branch) the branch must submit an application to the Retail Credit Committee of the Head Office requesting credit approval.

Whether an application is forwarded to the Retail Credit Committee of the Head Office, or a bank's employee makes an application for lending (depending on the program), or client of certain (e.g. VIP) category applies for a loan, or particular alteration of procedures and/or limits for branches concerning the retail business of the Bank is considered necessary, the Retail Credit Committee of the Head Office reviews such applications. The authority of the Retail Credit Committee of the Head Office is limited to U.S. $350,000, above which the application must be submitted to the Branch Network Credit Committee.

Maturity Limit

There is a maximum maturity of a loan depending on the type of loan as follows:

Nature of the Loan	**Maximum Maturity**
Financing of working capital	Up to 36 months
Consumer loans	Up to 5 years
Mortgage loans	Up to 20 years
Investments	Up to 10 years
Interbank deposit	Up to 2 years
Leasing	Up to 7 years

Collateralisation

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

Collateral Categories	Loan/Collateral Value
Cash	100%
Guarantees from financial institutions	100%
Government debt securities	100%
Real estate	70-80%
Commodities	50-70%
Fixed assets	50-70% less amortisation
Equity securities	100%, at market value
Receivables	10-50%
Third party and corporate guaranties	individually

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

Loan Classification and Provisioning Policy

General

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

NBK/FMSA Classification and Provisioning Guidelines

Until 2003, banks classified their portfolio and established allowances for loan losses under an NBK policy based on event-oriented criteria relying primarily on the timeliness of a borrower's payment of interest and principal. Effective as of 2003, the NBK revised its policies regarding loan classifications and requirements for provisions and allowances to conform these to the guidelines provided under IFRS. While the guidelines of the NBK, FMSA and IFRS are similar, there are differences in terminology, which in substance do not alter the framework for the classification and establishment of adequate allowances for loan impairment, other assets and off-balance sheet risks.

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

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

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

Doubtful 1st category – There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of a market share. However, there is evidence to suggest that the borrower has satisfactory financial condition and will be able to cope with such temporary difficulties (low probability that the borrower will be unable to repay the loan and interest in full). The borrower is repaying the loan principal and the interest without delay and in full. The value of collateral at least covers 50% of the Bank's exposure.

Doubtful 2nd category – There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of a market share. However, there is evidence to suggest that the borrower has satisfactory financial condition and will be able to cope with such temporary difficulties (low probability that the borrower will be unable to repay the loan and interest in full). However, due to temporary difficulties the borrower is repaying the loan with delays and/or not in full. The value of collateral at least covers 50% of the Bank's exposure.

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

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

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

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

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

Classification Categories	**Provisioning Rate(s)**
Standard loans	0%-5%
Doubtful 1st category	5%
Doubtful 2nd category	10%
Doubtful 3rd category	20%
Doubtful 4th category	25%
Doubtful 5th category	50%
Loss loans	100%

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(% of gross loans)*	*(KZT millions)*	*(% of gross loans)*	*(KZT millions)*	*(% of gross loans)*
Standard loans	267,019	61.2	201,438	74.3	123,008	70.5
Doubtful 1st category ..	125,959	28.8	39,242	14.5	20,844	12.0
Doubtful 2nd category .	3,530	0.8	5,905	2.2	11,168	6.4
Doubtful 3rd category..	20,615	4.7	3,765	1.4	3,277	1.9
Doubtful 4th category ..	1,031	0.2	6,781	2.5	5,716	3.3
Doubtful 5th category ..	6,003	1.4	3,064	1.1	5,972	3.4
Loss loans	12,861	2.9	10,933	4.0	4,433	2.5
Gross loans	**437,018**	**100.0**	**271,128**	**100.0**	**174,418**	**100.0**

Increase of Doubtful first category loans from KZT 39,242 million, or 14.5% of the total gross loans, as at 31 December 2004 to KZT 125,959 million, or 28.8% of the total gross loans, as at 31 December 2005 is attributable to strict NBK/FMSA regulations prescribing obligatory creation of specific (5%) allowances for loans covered by collateral for less than 50% irrespective of the borrowers' standing as well as an application of worse classification category of one loan to all loans extended to a client irrespective of the collateral provided under these facilities. In the circumstances of competition for quality credit the Bank extends partly collateralised credit facilities to its large and proven customers.

Portfolio Supervision and Non-Performing Loans

The Risk Management Department provides monthly reports to the Management Board detailing all aspects of the Bank's credit activity. Senior management pays strict attention to the timeliness of debt repayments and the classified loans and contingent liabilities. Immediate action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. The Bank's determination of whether a repayment problem has arisen is based on a number of objective and subjective criteria, including changes to the borrower's turnover in accounts held by the Bank, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfil the terms and conditions of its loan agreement and refusal of a borrower to co-operate in supplying current information.

Any overall deterioration in the quality of the Bank's loan portfolio or increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Management Board.

Non-performing loans comprise loans where the payment of principal is past due or interest is past due for more than 30 days. When a loan is placed on non-performing status, contractual interest income is not recognised in the Bank's accounting records. A non-performing loan is restored to accrual status when all arrears have been paid and it is considered likely that the customer will continue timely performance. A non-performing loan may also be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured of collection, such as in the case when all amounts due under a loan are fully collateralised by cash or marketable securities and actions have commenced to foreclose on the collateral.

As at 31 December 2005, the aggregate amount of non-performing loans on which interest accrual was suspended amounted to KZT 6,896 million. As at 31 December 2004 and 2003, such loans amounted to KZT 6,224 million and KZT 4,093 million, respectively. As at 31 December 2005, the percentage of non-performing loans to gross loans was 1.6%, compared to 2.3% and 2.5% as at 31 December 2004 and 2003, respectively.

Write-off Policy

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

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

	Years ended 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Beginning balance of allowance for interest earning and other assets	16,614	10,601	8,382
Charge	11,970	7,954	4,137
Write-offs	(3,648)	(2,236)	(2,166)
Recoveries	1,119	295	249
Net write-offs	(2,529)	(1,941)	(1,917)
Ending balance of allowance for interest earning and other assets	**26,055**	**16,614**	**10,601**

Write-offs increased by 63.1% in 2005, compared to 2004, and increased by 3.2% in 2004, compared to 2003. This increase in write-offs was primarily attributable to comparable 61% growth of the loan portfolio in 2005 and more conservative approach to such write-offs. Since 31 December 2003, the percentage of net write-offs to gross loans has decreased and has remained relatively stable throughout 2004 and 2005 while write-offs as a percentage on the opening allowance balance have noticeably decreased over the same period.

The following table provides information on the movements in other provisions for the years indicated:

	Guarantees and commitments
	(KZT millions)
31 December 2002	60
Charge	1,385
Write offs	(524)
31 December 2003	921
Charge	987
Write offs	(106)
31 December 2004	1,801
Charge	496
Write offs	(18)
31 December 2005	**2,280**

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

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

	Years ended 31 December		
	2005	**2004**	**2003**
		(%)	
Percentage of net write-offs to gross loans	0.6	0.7	1.1
Percentage of net write-offs to the opening allowance balance	(15.2)	(18.3)	(22.9)
Percentage of recoveries to write-offs	(30.7)	(13.2)	(11.5)

SELECTED STATISTICAL AND OTHER INFORMATION

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

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

Average Balances

The following table sets out the average balances of assets and liabilities of the Bank for the periods indicated. For purposes of the following tables, the average balances represent the average of monthly balances for 2005 and the average of the opening and closing balances for 2004 and 2003. Were these balances to be calculated on "weighted average" or "daily" basis, differences may result and such differences could be material.

	As at December 31								
	2005			2004			2003		
	Average Balance	Interest	Average rate(1)	Average Balance	Interest	Average rate(1)	Average Balance	Interest	Average rate(1)
	(KZT millions)								
ASSETS									
Interest-Earning Assets									
Loans to customers									
KZT	137,843	24,102	17.5%	91,606	15,899	17.4%	52,700	10,159	19.3%
Foreign Currency	196,228	23,447	11.9%	117,633	12,548	10.7%	92,152	11,435	12.4%
Total	**334,071**	**47,549**	14.2%	**209,239**	**28,447**	13.6%	**144,852**	**21,594**	14.9%
Amounts due from credit institutions, including overnight deposits and correspondent accounts									
KZT	13,882	528	3.8%	2,634	64	2.4%	1,827	79	4.3%
Foreign Currency	25,550	858	3.4%	16,980	919	5.4%	13,624	169	1.2%
Total	**39,432**	**1,386**	3.5%	**19,614**	**983**	5.0%	**15,451**	**248**	1.6%
Securities									
KZT	60,259	2,750	4.6%	48,423	2,749	5.7%	28,932	1,619	5.6%
Foreign Currency	15,892	700	4.4%	17,872	771	4.3%	11,999	735	6.1%
Total	**76,150**	**3,450**	4.5%	**66,295**	**3,520**	5.3%	**40,931**	**2,354**	5.8%
Total Interest-Earning Assets									
KZT	211,984	27,380	12.9%	142,663	18,712	13.1%	83,459	11,857	14.2%
Foreign Currency	237,670	25,005	10.5%	152,485	14,238	9.3%	117,775	12,339	10.5%
Total Interest-Earning Assets	**449,653**	**52,385**	11.7%	**295,148**	**32,950**	11.2%	**201,234**	**24,197**	12.0%
Non-Interest Earning Assets									
Cash and non-interest deposits	17,435			7,649	—	—	3,746	—	—
Obligatory Reserves	1,247			6,395	—	—	4,869	—	—
Property and Equipment	9,832			8,227	—	—	7,184	—	—
Other non-interest earning assets	9,014			3,970	—	—	2,370	—	—
Total Non-Interest Earning Assets	**37,528**			**26,241**	—	—	**18,168**	—	—
Total Assets	**487,180**			**321,389**	—	—	**219,403**	—	—

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

	As at December 31								
	2005			2004			2003		
	Average Balance	**Interest**	**Average rate**(1)	**Average Balance**	**Interest**	**Average rate**(1)	**Average Balance**	**Interest**	**Average rate**(1)
				(KZT millions)					
LIABILITIES									
Interest-Bearing Liabilities									
Amounts due to credit institutions(2)									
KZT	5,594	154	2.8%	5,805	62	1.1%	2,940	132	4.5%
Foreign Currency	76,471	4,221	5.5%	63,879	3,032	4.7%	44,765	2,003	4.5%
Total	**82,065**	**4,375**	5.3%	**69,684**	**3,094**	4.4%	**47,705**	**2,135**	4.5%
Amounts due to Customers									
KZT	158,908	6,827	4.3%	111,991	4,369	3.9%	71,717	2,983	4.2%
Foreign Currency	137,340	5,046	3.7%	81,183	3,657	4.5%	74,165	3,646	4.9%
Total	**296,248**	**11,873**	4.0%	**193,174**	**8,026**	4.2%	**145, 882**	**6,629**	4.5%
Debt Securities issued									
KZT	24,287	2,308	9.5%	9,810	721	7.3%	2,207	374	16.9%
Foreign Currency	28,515	2,601	9.1%	16,951	918	5.4%	4,319	285	6.6%
Total	**52,802**	**4,909**	9.3%	**26,761**	**1,639**	6.1%	**6,526**	**659**	10.1%
Total Interest-Bearing Liabilities	**431,115**	**21,156**	4.9%	**289,619**	**12,759**	4.4%	**200,113**	**9,423**	4.7%
Tax liabilities	67			317			91		
Provisions	1,882			1,361			490		
Other non-interest bearing liabilities	10,019			1,410			717		
Total Non-Interest Bearing Liabilities	**11,968**			**3,088**			**1,299**		
Total Liabilities	**443,084**			**292,707**			**201,411**		

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

(2) Including amounts due to the Government.

Interest Earning Assets, Yields, Margins and Spreads

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

	As at December 31		
	2005	**2004**	**2003**
		(KZT millions)	
Net Interest Income before Impairment			
KZT	18,091	13,560	8,368
Foreign currency	13,138	6,631	6,405
Total	**31,229**	**20,191**	**14,773**
Yield (1)			
KZT	12.9%	13.1%	14.2%
Foreign currency	10.5%	9.3%	10.5%
Average	**11.7%**	**11.2%**	**12.0%**
Margin (2)			
KZT	8.5%	9.5%	10.0%
Foreign currency	5.5%	4.3%	5.4%
Average	**6.9%**	**6.8%**	**7.3%**
Spread(3)			
KZT	8.0%	9.1%	9.7%
Foreign currency	5.6%	4.6%	5.7%
Average	**6.7%**	**6.8%**	**7.3%**

(1) Yield represents interest income as a percentage of average interest-earning assets taken as monthly averages for 2005 and annual averages for 2004 and 2003.

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

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

Analysis of Changes in Net Interest Income

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

	As at December 31					
	2005/2004			2004/2003		
	Increase/(Decrease) due to changes in			Increase/(Decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(KZT millions)					
Interest Income						
Loans to customers						
KZT	8,025	178	8,203	7,500	(1,760)	5,740
Foreign currency	8,384	2,515	10,899	3,162	(2,049)	1,113
Amounts due from credit institutions						
KZT	273	190	463	35	(50)	(15)
Foreign currency	464	(524)	(60)	42	708	750
Securities						
KZT	672	(671)	1	1,091	39	1,130
Foreign Currency	(85)	14	(71)	360	(324)	36
Total Interest Income	**17,733**	**1,702**	**19,435**	**12,190**	**(3,436)**	**8,753**
Interest Expenses						
Amounts due to credit institutions						
KZT	(2)	94	92	129	(199)	(70)
Foreign currency	598	591	1,189	855	174	1,029
Amounts due to customers						
KZT	1,830	628	2,458	1,675	(289)	1,386
Foreign currency	2,530	(1,141)	1,389	345	(334)	11
Debt Securities Issued	1,595	1,675	3,270	2,042	(1,062)	980
Total Interest Expenses	**6,551**	**1,847**	**8,397**	**5,046**	**(1,710)**	**3,336**
Net Changes in net interest income	**11,182**	**(145)**	**11,038**	**7,144**	**(1,726)**	**5,417**

Return on Assets and Equity

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

	Years ended 31 December		
	2005	2004	2003
	(KZT millions, except percentages)		
Net income	15,828	8,093	7,498
Average total assets	487,180	321,389	219,405
Average shareholders' equity	44,097	28,682	17,993
Net income as a percentage of:			
Average total assets	3.2%	2.5%	3.4%
Average shareholders' equity	35.9%	28.2%	41.7%
Declared cash dividends[(1)]	317	355	394
Average shareholders' equity as a percentage of average total assets[(2)]	9.1%	8.9%	8.2%

(1) Consist of dividends declared on the Bank's preferred shares.

(2) Average amounts and ratios for 2005 are based on monthly averages for 2004 and 2003 on annual averages.

The Bank's Loan Portfolio

Loans to Customers

Loans to customers represent the largest part of the Bank's assets. As at 31 December 2005 the Bank had total loans to customers, net of allowance for loan impairment, of KZT 411,097 million, or 73% of total assets, compared to KZT 254,590 million, or 65% of total assets as at 31 December 2004. As at 31 December 2003, the Bank's net loans were KZT 163,888 million, or 66% of total assets. The Bank's net loan portfolio increased by 61%, 55% and 30% as at 31 December 2005, 2004 and 2003, respectively. The growth was attributable to an overall increase in lending to SMEs and retail customers following the overall growth in these sectors in Kazakhstan. Loans to the Bank's ten largest customers represented approximately 12% of the gross loan portfolio as at 31 December 2005, compared to 16% as at 31 December 2004 and 22% as at 31 December 2003. As at 31 December 2005, the Bank's exposure to the single largest borrower was KZT 10,284 million, constituting 2.4% of total gross loans to customers, compared to 3% in 2004 and 2.7% in 2003.

Average interest rates on the loan portfolio had increased to 14.9% in 2003, then decreased to 13.6% in 2004 due to increased price competition, particularly in the corporate and SME sector. Despite these factors remained unchanged in the corporate segment the Bank's strategy to focus on retail and SME lending through development of innovative products had pushed the average interest rates of the portfolio up to 14.2% in 2005.

The average balance of the Bank's net loans to customers in 2005 was KZT 334,071 million, KZT 209,239 million in 2004 and KZT 144,852 million in 2003. As at 31 December 2005 and 2004, 94% of gross loan portfolio was at fixed rate and 6% of portfolio was at variable rate.

The following table provides a breakdown of loans granted by the head office and by the branches as at the dates indicated:

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Head office	244,186	55,9	154,895	57.1	118,105	67.7
Branches	192,142	44,0	116,059	42.8	56,313	32.3
Subsidiaries	690	0,1	174	0.1	-	-
Total loans, gross	**437,018**	**100**	**271,128**	**100.0**	**174,418**	**100.0**

Distribution of Loans by Sector

During the past few years, the Bank has been focusing on building an established corporate customer base in strategically important sectors of the economy such as oil and gas, construction and agriculture. The Bank's primary focus is to diversify into different sectors of the economy, which Management believes offer good opportunities for further growth.

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	%	*(KZT millions)*	%	*(KZT millions)*	%
Individual loans:						
- mortgage loans	78,680	18	36,664	14	4,439	3
- consumer loans	51,922	12	30,320	11	14,211	8
Wholesale trade	60,924	14	26,917	10	28,709	16
Construction	54,461	12	35,851	13	16,524	9
Agriculture	38,019	9	34,043	12	27,435	16
Retail trade	33,909	8	8,673	3	5,808	3
Oil and gas	16,380	3	26,191	10	13,898	8
Real estate	12,494	3	9,133	3	4,021	2
Transportation	8,440	2	4,587	2	4,389	3
Research and development	8,307	2	8,018	3	3,730	2
Energy	7,279	2	6,892	2	3,114	2
Mining	6,587	1	4,566	2	12,237	7
Metallurgy	3,968	1	4,362	2	7,033	4
Other	55,647	13	34,911	13	28,870	17
	437,018	**100**	**271,128**	**100**	**174,418**	**100**

As at 31 December 2005, mortgage loans, wholesale trade, consumer loans, construction, agriculture and retail trade accounted for 18%, 14%, 12%, 12%, 9%, and 8%, respectively. Concentration on oil and gas sector constitutes only 3%, however, real total exposure to the oil and gas sector is somewhat higher than 3% as companies engaged in the oil and gas trading business can be classified as trading companies and not oil and gas companies.

Distribution of Loans by Type of Borrower

The Bank serves a large number of small, medium and large-size Kazakhstan businesses. In addition, the Bank has during recent years increased its large corporates customer base and lending to individuals (mainly mortgages and consumer financing). Lending to large corporations increased by 57% to KZT 242,496 million as at 31 December 2005 from KZT 154,784 million as at 31 December 2004, which in turn represented an increase of 33% from KZT 116,234 million as at 31 December 2003. Lending to SMEs increased 29% to KZT 63,920 million as at 31 December 2005 from KZT 49,360 million as at 31 December 2004, which in turn represented an increase of 25% from KZT 39,534 million as at 31 December 2003. Loans to individuals increased by 95% to KZT 130,602 million as at 31 December 2005 from KZT 66,984 million as at 31 December 2004, followed by an increase of 259% in 2004 from KZT 18,650 million as at 31 December 2003, when active expansion to retail market had started.

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

	As at 31 December		
	2005	2004	2003
		(KZT millions)	
Corporations			
Small and medium size businesses	63,920	49,360	39,534
Large corporations	242,496	154,784	116,234
Individuals	130,602	66,984	18,650
Total loans, gross	**437,018**	**271,128**	**174,418**

Collateralisation of Loan Portfolio

The following table sets out certain information relating to the collateralisation of the Bank's gross loan portfolio as at the dates indicated. For a description of the Bank's collateralisation policy, see "Asset, Liability and Risk Management—Lending Policies and Procedures—Collateralisation."

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Collateralised	434,096	99.3	269,065	99.2	174,153	99.8
Uncollateralized	2,922	0.7	2,063	0.8	265	0.2
Total loans, gross	**437,018**	**100.0**	**271,128**	**100.0**	**174,418**	**100.0**

Collateral on loans extended by the Bank includes but is not limited to real estate, machinery and motor vehicles, industrial equipment, industrial goods, food-stock, commodities and other commercial goods, as well as cash deposits, securities and personal third party and corporate guarantees.

Composition by Maturity

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
On demand	1,500	0.3	2,241	0.8	-	-
Less than 1 month	14,045	3.2	14,754	5.4	13,743	7.9
Between 1 and 3 months	29,165	6.7	34,678	12.8	12,459	7.1
Between 3 months and 1 year	137,930	31.6	83,155	30.7	45,669	26.2
Between 1 and 3 years	190,720	43.6	104,635	38.6	68,468	39.3
Over 3 years	63,658	14.6	31,665	11.7	34,080	19.5
Total loans, gross	**437,018**	**100.0**	**271,128**	**100.0**	**174,418**	**100.0**

Certain long-term loans to customers amounting to KZT 29,881 million are shown at the terms of their early repayment call option exercisable at the Bank's discretion. These are tabulated within the three months to one year band as the Bank is obliged to provide the Borrowers with a repayment period of 10 months from the date of exercising the call option.

The increase in loans with maturities of between one and three years and maturing over three years from KZT 104,635 million, or 38.6% of the total gross loan portfolio, as at 31 December 2004 to KZT 190,720 million, or 43.6% of the total gross loan portfolio, as at 31 December 2005 and from KZT 31,665 million, or 11.7% of the total gross loan portfolio, as at 31 December 2004 to KZT 63,658 million, or 14.6% of the total gross loan portfolio, as at 31 December 2005, respectively, was primarily attributable to the significant growth of retail portfolio in 2005 where maturities are generally longer as well as the increasing demand for longer-term financing from existing customers and other high quality corporate credits. Bank expects the maturity profile to increase further also as the result of higher competition in the sector.

Composition of Loan Portfolio by Currency

Non-Tenge loans comprise the major part of the Bank's loan portfolio, of which U.S. Dollar obligations are the most significant. As at 31 December 2005, non-Tenge loans comprised 59% of the Bank's loan portfolio, compared to 54% as at 31 December 2004 and 58% as at 31 December 2003. Tenge denominated loans represented 41%, 46% and 42% of the total loan portfolio as at 31 December 2005, 2004 and 2003, respectively. The growth of FCY part of the loan portfolio throughout 2005 can be explained by market expectations that KZT will appreciate against U.S.$ in short-medium time horizons, lengthening maturity profile of the loan portfolio as well as sizeable increase of (long-term, mostly U.S.$ denominated) retail portfolio.

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Tenge	179,298	41	126,037	46	72,795	42
Other foreign currencies	257,720	59	145,090	54	101,623	58
Total loans, gross	**437,018**	**100**	**271,128**	**100**	**174,418**	**100**

Amounts due from Credit Institutions

Loans to and deposits with other financial institutions represent a relatively small percentage of the Bank's total assets (0.5% as at 31 December 2005, 0.2% as at 31 December 2004 and 2.9% as at 31 December 2003). Time deposits with other credit institutions reflect the Bank's use of interbank market as placements of excess liquidity for a relatively short period of time. In general, deposits with other financial institutions are made for liquidity management purposes.

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

	As at 31 December		
	2005	2004	2003
		(KZT millions)	
Loans to local financial institutions	691	-	-
Time deposits	2,085	695	7,307
	2,777	695	7,307
Less allowance for impairment	-	-	(16)
Total	**2,777**	**695**	**7,291**

Investments

Overview

As at 31 December 2005, the Bank's aggregate securities portfolio amounted to KZT 62,117 million. The Bank's aggregate securities portfolio decreased by 25% in 2005 after increasing by 67% in 2004 compared to 2003. The decrease in 2005 was attributable to introduction of a new investment policy that seeks to reach an optimum size of the securities portfolio without sacrificing capacity of the Bank (a) to fund itself under contingency liquidity scenarios, (b) to have adequate amount of highly liquid securities for collateral management purposes, and (c) to stabilize net interest income. The increase in 2004 was driven by an increase in the Bank's portfolio of investment securities available-for-sale mainly as a result of the increase in the size of the portfolio of U.S. treasury bills, but was partly offset by a decrease in the Bank's trading securities portfolio, which decreased mainly from reclassification of treasury bills of Ministry of Finance to available-for-sale securities.

Commencing December 2002, the Bank classified its securities portfolio as (i) trading securities, (ii) investments securities available-for-sale, and (iii) investment securities held-to-maturity. From January 1, 2005 due to revision of IAS 39, a new category of financial instruments has been introduced "Financial assets at fair value through profit or loss", which includes trading financial assets as well as any financial assets designated into this category at initial recognition.

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

	As at 31 December		
	2005	**2004**	**2003**
		(KZT millions)	
Financial assets at fair value through profit or loss	50,018	62,382	39,914
Investment securities:			
Available-for-sale	12,099	20,618	3,232
Held-to-maturity	-	-	6,443
Total securities	62,117	83,000	49,589

Financial assets at Fair Value through Profit or Loss

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

The following table shows a breakdown of the Bank's trading portfolio as at the dates indicated:

	As at 31 December		
	2005	**2004**	**2003**
		(KZT million)	
NBK notes	23,160	27,006	23,958
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	19,527	27,747	9,208
Sovereign bonds of the Republic of Kazakhstan	4,674	4,883	4,086
Eurobonds of Kazakh banks	1,665	1,549	2,494
Bonds of Development Bank of Kazakhstan	992	1,191	169
Equity securities of Kyrgyz corporations	–	5	–
Financial assets at fair value through profit or loss	**50,018**	**62,382**	**39,914**
Subject to repurchase agreements	–	200	5,657

As at 31 December 2005, the Bank's financial assets at fair value through profit or loss portfolio were KZT 50,018 million, a decrease of 20% compared to 2004. This decrease resulted mainly from selling a large portfolio of treasury bills of Ministry of Finance. The size of the Bank's financial assets increased by 56% as at 31 December 2004 to KZT 62,382 million from KZT 39,914 million as at 31 December 2003. The increase in 2004 was mainly attributable to an increase in the size of the portfolio of treasury bills of the Ministry of Finance, which grew by KZT 18,539 million from KZT 9,208 million as at 31 December 2003, reflecting the Bank's policy of increasing its holding of liquid securities. The portfolio of Eurobonds comprises Eurobonds issued by two Kazakhstan banks and increased slightly as at 31 December 2005 to KZT 1,665 million from KZT

1,549 million as at 31 December 2004. The average return on the financial assets at fair value through profit or loss was 3.74% for tenge denominated securities and 7.20% for foreign currency securities in 2005, showing slight decrease from 3.94% and 7.26% in 2004 respectively, reflecting the general trend in reduction of yields on NBK notes and treasury bills of the Ministry of Finance and improvement of Kazakhstan and Kazakhstani issuers ratings.

The following table sets out information on maturities and interest rates of the Bank's trading securities portfolio as at the dates indicated:

	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 Development Bank of Kazakhstan	7.1%-8.5%	2007	7.1%-7.4%	2007-2013	8.5%	2007

Investment Portfolio

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

Securities Available-for-Sale

The Bank's portfolio of securities available-for-sale consists primarily of corporate securities and bonds of Kazakhstan banks. As at 31 December 2005, bonds of two Kazakhstani banks represented 60% of the Bank's Kazakh banks bond portfolio.

The following table sets out certain information relating to the Bank's portfolio of available-for-sale securities as at the dates indicated:

	31 December		
	2005	2004	2003
		(KZT millions)	
Corporate bonds	6,548	4,758	301
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,644	–	1,827
Bonds of Kazakh banks	2,625	820	848
Treasury bills of the Kyrgyz Republic	282	–	–
U.S. Treasury bills	–	14,211	–
NBK notes	–	472	107
Local municipal bonds	–	357	–
Sovereign bonds of Kazakhstan	–	–	148
Available-for-sale investments securities	**12,099**	**20,618**	**3,232**
Subject to repurchase agreements	–	3,652	1,182

The following table sets out information on maturities and interest rates of the Bank's portfolio of available-for-sale securities as at the dates indicated:

	December 31,					
	2005		2004		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	–	–	–	–
U.S. 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	–	–

Securities Held-to-Maturity

The Bank's portfolio of securities held-to-maturity in 2003 consisted of Government securities, corporate bonds and bonds issued by municipalities, but in 2004 all securities in portfolio of securities held-to-maturity were moved to available-for-sale, reflecting the management's change of intention not to hold these securities to maturity. The following table sets out certain information relating to the Bank's portfolio of held-to-maturity securities as at the dates indicated:

	December 31					
	2005		2004		2003	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
			(KZT million)			
Corporate bonds	–	–	–	–	1,334	1,307
Treasury bills of the Ministry of Finance	–	–	–	–	4,706	4,460
Local municipal bonds	–	–	–	–	403	381
World Bank bonds	–	–	–	–	1	1
Held-to-maturity investment securities	**–**	**–**	**–**	**–**	**6,443**	**6,150**

The Bank's Funding Sources

Amounts due to customers represent the largest part of the Bank's funding sources. The availability of amounts due to customers is influenced by factors such as prevailing interest rates, market conditions and levels of competition, although the Bank believes that its customer account is relatively insensitive to short-term fluctuations in interest rates and more dependent on the Bank's ability to provide a good level of customer service and a range of banking products and services. As at 31 December 2005, the Bank's total amounts due to customers were KZT 320,630 million representing 18.7% of the total amounts due to customers in the Kazakhstan banking system. The Bank has a large number of corporate customers, including many of the country's leading industrial companies and trading corporations as well as a number of SMEs and individuals. Other sources of funding include foreign and local interbank borrowings, including borrowings secured by the sale of certain of the Bank's future payments, placement of debt securities domestically and, to a lesser extent, on the international market.

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

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Amounts due to customers						
Current accounts	112,967	22.9	79,378	22.3	58,488	25.8
Term deposits	206,896	42.0	151,361	42.6	94,920	41.9
Guarantee and other restricted accounts	766	0.1	762	0.2	1,437	0.6
Total	**320,630**	**65.0**	**231,501**	**65.1**	**154,846**	**68.3**
Amounts due to credit institutions	107,284	21.8	76,493	21.5	61,877	27.3
Debt securities	58,814	12.0	44,940	12.6	8,583	3.8
Other liabilities	5,789	1.2	2,500	0.8	1,319	0.6
Total	**492,517**	**100.0**	**355,434**	**100.0**	**226,625**	**100.0**

Customer Accounts

The Bank's amounts due to customers consist of customer current accounts and term deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For term deposits, different interest rates are paid on the various types of deposits offered by the Bank. As at 31 December 2005, rates on Tenge based term accounts offered by the Bank to corporate customers ranged between 4.55% and 5.58%, while interest rates paid on foreign currency denominated accounts ranged between 6.15% and 7.51%.

Deposits by Account and Customer Type

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

	As at 31 December			
	2005		2004	2003
	(KZT millions)	*(%)*	*(KZT millions)*	
Current accounts				
Commercial entities	64,588	20.1	37,010	33,308
Individuals	37,913	11.8	30,892	23,675
Government entities	10,466	3.3	11,476	1,506
Total current accounts	**112,967**	**35.2**	**79,378**	**58,488**
Term deposits				
Individuals	97,444	30.4	81,413	65,105
Commercial entities	92,026	28.7	69,949	29,815
Government entities	17,427	5.4	—	—
Total term deposits	**206,896**	**64.5**	**151,361**	**94,920**
Guarantee and other restricted accounts	766	0.3	762	1,437
Total	**320,630**	**100.0**	**231,501**	**154,846**

Customer Accounts by Currency

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Amounts due to customers in KZT	159,728	49.8	135,919	58.7	88,063	56.9
Amounts due to customers in foreign currencies	160,902	50.2	95,583	41.3	66,782	43.1
Total	**320,630**	**100**	**231,501**	**100**	**154,846**	**100.0**

Customer Accounts by Maturity

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
On demand	112,967	35.2	76,565	33.1	51,982	33.6
Less than 1 month	38,991	12.2	25,099	10.8	25,991	16.8
Between 1 and 3 months	18,631	5.8	26,865	11.6	16,679	10.8
Between 3 months and 1 year	88,642	27.6	72,424	31.3	30,336	19.6
Between 1 and 5 years	58,250	18.2	26,645	11.5	16,986	10.9
Over 5 years	3,148	1.0	3,903	1.7	12,872	8.3
Total	**320,630**	**100.0**	**231,501**	**100.0**	**154,846**	**100.0**

Deposits by Sector

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

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Individuals and entrepreneurs	135,357	42	112,305	49	88,780	57
Oil and gas	99,769	31	42,857	19	15,361	10
Construction	22,891	7	5,363	2	3,966	3
Energy	10,391	3	11,858	5	4,308	3
Transportation of oil and gas	6,267	2	20,694	9	11,336	7
Wholesale trade	5,908	2	2,090	1	2,647	2
Financial sector	5,422	2	678	1	1,437	1
Other transportation	4,760	2	3,659	2	1,629	1
Other	29,864	9	31,999	12	25,382	16
	320,630	**100**	**231,501**	**100**	**154,846**	**100**

As at 31 December 2005, total deposits of individuals and entrepreneurs represented approximately 42% of total amounts due to customers. In addition, customers in the oil and gas sector and construction sector customers represented approximately 31% and 7% of total deposits, respectively. As at the same date, the Bank's ten largest customers accounted for approximately 39% of the total amounts due to customers.

Other Sources of Funding

Amounts Due to Credit Institutions

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

	As at 31 December		
	2005	2004	2003
	(KZT millions)		
Tenge	18,122	6,570	4,197
Foreign currencies	89,162	69,923	57,680
Total	**107,284**	**76,493**	**61,877**

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

	As at 31 December		
	2005	2004	2003
	(KZT millions)		
Loans and deposits from OECD based banks	97,540	64,365	52,111
Loans and deposits from non-OECD based banks	2,145	3,453	226
Loans and deposits from Kazakh banks	1,100	5,311	2,441
Loans from other financial institutions	1,414	58	81
Loans from European Bank for Reconstruction and Development ("EBRD")	679	658	1,379
Loans from Small Business Development Fund	–	800	1,961
Overnight deposits	3,851	900	3,481
Correspondent accounts	557	948	197
Amounts due to credit institutions	**107,284**	**76,493**	**61,877**

Trade Finance Facilities

The Bank regularly enters into various inter-bank facilities with foreign banks and Kazakhstan subsidiaries of foreign banks, pursuant to each of which the Bank is permitted to draw various amounts in foreign currency for the purpose of on-lending funds to corporate clients to finance trade-related transactions. These facilities include (i) short-term trade financing (up to 12 months) and (ii) long-term facilities (up to 8.5 years), principally covered by Export Credit Agencies (Euler Hermes Kreditversicherungs-AG, COFACE, Export-Import Bank of the United States and SACE S.p.a.), for financing the import of capital goods, which are mainly with a view to financing up to 85% of the value of the goods under related import contracts (collectively, the "On-Lending Trade Finance Facilities"). As at 31 December 2005, the aggregate amount drawn by the Bank and outstanding (including principal and interest) under the On-Lending Trade Finance Facilities was KZT 80,505 million, compared to KZT 67,872 million as at 31 December 2004.

Loans drawn down under the On-Lending Trade Finance Facilities bear interest on their outstanding principal balance at a fixed or floating rate as determined by the relevant lender on a case by case basis for each drawn down, linked to either LIBOR or EURIBOR, depending on the currency of the draw down. Typically the On-Lending Trade Finance Facilities to which a floating rate of interest applies are pre-payable by the Bank at any time in full or in part while pre-payment of the On-Lending Trade Finance Facilities to which a fixed rate of interest applies is permitted only with the consent of the relevant lender.

As at 3 May 2006 the Bank maintained one On-Lending Trade Finance Facility with an outstanding principal balance in excess of U.S.$ 50 million (or the equivalent thereof in the relevant currency), which is described below:

2005 SBL Trade Finance Facility. On 23 February 2005, the Bank entered into an unsecured loan agreement with a syndicate of foreign banks led by Standard Bank London Limited, pursuant to which the Bank was permitted to borrow up to U.S. $100 million for the purpose of on-lending funds to the Banks' specific corporate clients with a view to financing specific import contracts (the "2005 SBL Trade Finance Facility"). The 2005 SBL Trade Finance Facility was fully drawn on 9 March 2005. The 2005 SBL Trade Finance Facility is repayable 18 months after the drawdown date, subject to extension for a further 18 months term at the option of the Bank. The 2005 SBL Trade Finance Facility is pre-payable by the Bank at any time in full or in part. The loan drawn down under the 2005 SBL Trade Finance Facility bears interest on its outstanding principal balance at a floating rate per annum equal to six-month LIBOR plus 1.5% ; the rate currently applicable (through 8 September 2006) under the 2005 SBL Trade Finance Facility is 6.5%.

As at 3 May 2006, the aggregate outstanding principal balance under all On-Lending Trade Finance Facilities (including those listed above and others under which the principal balance was less than U.S. $50 million (or the equivalent in other currencies)) was equivalent to KZT 50,607 million. The Bank intends to continue to fully repay amounts due under the On-Lending Trade Finance Facilities upon their respective maturities.

EBRD Loans

As at 3 May 2006, the Bank also had an outstanding principal balance under the Kazakhstan Small Business Program II ("KSBP II") from the European Bank for Reconstruction and Development ("EBRD"), in the aggregate principal amount of U.S. $5 million (or KZT 622 million) (the "EBRD Loan"), which bears interest at a floating rate per annum equal to six-month Libor plus 2% and matures in two instalments during 2006.

Outstanding Senior Notes

In May 2004, the Bank registered with the FMSA a KZT 35 billion senior note facility, and as of the date of this Offering Circular, the Bank has issued senior notes under this program in the aggregate principal amount of KZT 14 billion. In March 2006 the Bank registered a further KZT 70 billion with the FSMA, and as of the date of this Offering Circular the Bank has issued senior notes under this program in the aggregate amount of KZT 27 billion. In October 2004, the Bank issued its first Eurobonds for a principal amount of U.S.$ 200 million. These Eurobonds are listed on the Luxembourg Stock Exchange and the KASE, are repayable in October 2009 and have a coupon rate of 8.125% per annum.

The following table provides information on the Bank's unsubordinated debt securities, including the outstanding amount of each issue as at the dates indicated:

	Issue Date	Coupon rate	Maturity date	December 31 2005	2004	2003
				(KZT millions)		
KZT denominated bonds…….	May 2004	5%	19 May 2007	3,594	4,752	—
KZT denominated bonds	January 2005	Linked to S&P500 index	21 January 2007	207	—	—
RUR denominated bonds and cash secured promissory notes………………………	December 2004-December 2005	—	January 2006	48	21	—
USD denominated bonds……	October 2004	8.125%	7 October 2009	26,909	26,019	—
Unsubordinated debt securities issued, total				**30,758**	**30,792**	—

In May 2004, the Bank registered its first issue of unsubordinated bonds in an aggregate principal amount of KZT 5 billion at a fixed rate of 5% per annum maturing in 2007. As of 31 December 2005, the Bank repurchased some of these bonds for aggregate principal amount of KZT 1,305 million at KZT 1,269 million.

In January 2005, the Bank issued additional bonds in an aggregate principal amount of KZT 2 billion, of which KZT 200 million are issued and outstanding as of the date of this Offering Circular. These bonds mature in 2007 and have a coupon linked to S&P 500 Index and are payable at maturity.

In February 2006, the Bank issued unsubordinated bonds under its KZT 70 billion program in an aggregate principal amount of KZT 7 billion. These bonds bear interest at a fixed rate of 7.25% per annum and mature in 2008.

In March 2006, the Bank issued additional bonds under its 70 billion facility for an aggregate principal amount of KZT 13.5 billion. These bonds bear fixed coupon rate of 7.1% per annum and mature in 2008.

In March 2006, the Bank issued additional bonds under its KZT 70 billion facility for an aggregate principal amount of KZT 13.5 billion. These bonds bear fixed coupon rate of 7.25% per annum and mature in 2009.

Covenants in financing documents

Under various financing documents, the Bank is obliged 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 those loans, the Bank is required to obtain an approval from the respective lender before distributing any dividends to the holders of the common shares of the Bank, excluding preferred share dividends. As at the date of this Offering Circular, the Bank is in compliance with these ratios. Certain of the Bank's outstanding financing agreements also include covenants restricting the Bank's ability to create security interests over its assets and covenants relating to debt incurrence tests. During 2004 the Bank entered into a financing transaction that involved the Bank pledging certain of its assets (investment securities amounting to approximately U.S.$103 million). The Bank did not obtain prior consent for such pledges from its lenders. Subsequently, during 2005 the Bank removed all pledges and obtained the necessary consents where necessary as a result, there was no impact on the Bank's consolidated financial statements. The Bank has subsequently made certain changes to its internal control policies procedures to reduce the likelihood of such events. However, there is no assurance that such events will not occur in the future.

Borrowings Secured by Certain Future Payment Rights

In September 2003, the Bank entered into a future-flow transaction by executing a Purchase Agreement with Halyk Remittances Finance Company Limited ("HRFC"), an unaffiliated company located in Jersey. Pursuant to the Purchase Agreement, HRFC acquired all of the Bank's right, title and interest in certain payment rights for a purchase price of U.S. $100 million. As a result of this purchase, HRFC owned the right to receive payments from four of the Bank's correspondent banks located in the United States and three of the Bank's correspondent banks located in Germany in respect of various types of cash remittances otherwise owed by such correspondent banks to the Bank. The Bank has prepaid the facility on March 20, 2006 before its scheduled maturity on 20 September 2008.

Subordinated Debt Securities

In May 2004, the Bank registered with the FMSA its first bond programme for aggregate principal amount of KZT 35 billion under which the Bank has issued subordinated bonds denominated in Tenge in the aggregate principal amount of KZT 21 billion. In March 2006 the Bank registered its second bond programme in the aggregate principal amount of KZT 70 billion under which the Bank has issued subordinated bonds in the aggregate principal amount of KZT 4 billion. The subordinated bonds are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

The following table provides information on the Bank's subordinated debt securities, including the outstanding amount of each issue as at the dates indicated:

	Issue Date	Coupon rate	Maturity date	December 31 2005	2004	2003
				(KZT millions)		
U.S. $ denominated bonds....	June 2000	11.8%	20 June 2007	2,057	2,068	2,287
KZT denominated bonds ...... indexed to U.S. $	May 2002	8.0%	21 May 2007	1,715	1,711	1,881
KZT denominated bonds	June 2003	9.0%	19 June 2009	4,478	4,427	4,415
KZT denominated bonds	June 2004	Floating(1)	28 June 2010	5,084	5,102	—
KZT denominated bonds	December 2004	7.5%	31 Dec 2014	4,033	840	—
KZT denominated bonds	April 2005	7.5%	11 April 2015	4,008	—	—
KZT denominated bonds	July 2005	7.5%	6 July 2015	3,006	—	—
KZT denominated bonds	November 2005	Floating (2)	2 November 2015	3,675	—	—
Subordinated debt securities issued, total.....				**28,056**	**14,148**	**8,583**

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(1) As at the date of this Offering Circular, the rate in effect is 9.6% per annum.
(2) As at the date of this Offering Circular, the rate in effect is 7.75% per annum

In June 2000, the Bank made its first issue of subordinated bonds in an aggregate principal amount of U.S. $16 million. These bonds are denominated and repayable in U.S. Dollars, bear interest at a fixed rate of 11.8% per annum and mature in 2007.

In May 2002, the Bank issued additional subordinated bonds indexed to the U.S. Dollar in an aggregate principal amount of KZT 2,042 million. These bonds are denominated and repayable in Tenge, but the amount of interest payable is indexed to the Tenge/U.S. Dollar exchange rate in effect on the date of payment. These bonds bear interest on their outstanding principal amount at a fixed rate of 8.00% per annum and mature in 2007.

In June 2003, the Bank effected a further issue of subordinated bonds in an aggregate principal amount of a KZT 4,500 million. These bonds are denominated and repayable in Tenge, bear interest at a fixed rate of 9.00% per annum and mature in 2009.

Following the establishment of the Bank's subordinated bond programme, in June 2004, the Bank issued subordinated bonds under the programme in an aggregate principal amount of KZT 5,000 million. These bonds are denominated and repayable in Tenge. These bonds bear interest at a floating rate equal to inflation rate plus

2% margin, which is currently set at 9.6% per annum for the six-month period ending 28 June 2006. These bonds mature in 2010.

On 31 December 2004, the Bank effected the first placement of a further issue of subordinated bonds under the programme, with the balance being placed in January 2005, for a total issue of KZT 4,000 million in aggregate principal amount. These bonds are denominated and repayable in Tenge, bear interest at a fixed rate of 7.5% per annum and mature in 2014.

In April 2005, the Bank issued subordinated bonds for total principal amount of KZT 4,000 million. These bonds are denominated and repayable in Tenge, bear coupon rate of 7.5% for the first year (ending 11 April 2005) and Inflation rate + 1% per annum (minimum 4% and maximum 10%) thereafter. The current coupon rate was fixed at 9.4% per annum until 10 October 2006.

In July 2005, the Bank issued subordinated bonds for total principal amount of KZT 3,000 million. These bonds are denominated and repayable in Tenge, bear fixed coupon rate of 7.5% and mature in 2015.

In November 2005, the Bank issued subordinated bonds for total principal amount of KZT 5,000 million. These bonds are denominated and repayable in Tenge and bear coupon rate of 7.75% for the first year ending 2 November 2006 and 15% per annum - Inflation rate (minimum 6% and maximum 12%) thereafter. The bonds mature in 2015.

In March 2006, the Bank registered its second bond programme for KZT 70 billion and the first tranche thereunder in the aggregate principal amount of KZT 4 billion. The Bank intends to offer these bonds in the local market during the first half of 2006.

BUSINESS OF THE BANK

Overview

The Bank's core business is focused on retail and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank, as at the date of this Offering Circular, serves its customers through 546 retail outlets, including regional and district branches in all 14 regions throughout Kazakhstan. In accordance with new banking legislation all retail units are expected to be converted into branches or units of existing branches by year end 2006. In addition, based on agency agreement with Kazpost, the Kazakhstan state owned postal service, the Bank offers micro lending products with collections of repayments on consumer loans, through outlets operated by Kazpost in certain remote areas. Other distribution channels used by the Bank include ATMs, the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan.

The Bank offers a wide range of retail banking products and services, including current accounts, time deposits, consumer loans, mortgages, credit and debit cards, traveller's cheques, currency exchange, Internet banking and ATM services. The Bank's corporate banking business provides a range of wholesale banking products and services to corporate and SME customers, financial institutions and Government entities. As at 31 December 2005, the Bank had close to 6.6 million retail accounts (including deposits and card accounts) and 56.2 thousand corporate customers.

The Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both treasury bills and short-term notes of the NBK and, according to statistics published by the NBK, in 2004, the Bank's purchases of treasury bills and NBK notes represented 15% and 12% of total issued volume, respectively. In 2005, the Bank's purchases of treasury bills and NBK notes represented 3.96% and 11.98% of total issued volume, respectively. Since sovereign Eurobonds were first listed on the KASE in 1998, the Bank has been an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three Eurobond issues made by the Republic of Kazakhstan in 1997, 1999 and 2000 and as co-manager of the Development Bank of Kazakhstan's Eurobond issue in 2006.

Principal business activities

Retail Banking

Overview

The Bank's retail banking operations include deposit taking activities (demand, time and currency deposits), credit and debit card services, car financing, consumer lending, mortgages and personal banking services.

Products and Services

<u>Retail deposits</u>. As at 31 December 2005, the Bank had close to 6.6 million retail customer accounts, including card accounts. Approximately 3.9 million of these accounts are current accounts, approximately 2 million are credit and debit card accounts and approximately 0.7 million are term deposits. Term deposit accounts are largely represented by tenge deposits - 633 thousand accounts and 97 thousand accounts in foreign currency. However, in terms of volume, KZT denominated and foreign currency denominated deposits are split almost evenly 50%/50% due to the average size of deposits – 79,000 in Tenge and 458,000 in foreign currency. During 2005 the retail term deposit base was affected by the fact that certain wealthy retail clients of the Bank started using the services of JSC Halyk Finance (the Bank's brokerage and asset management subsidiary) for investment products rather than depositing funds with the Bank. According to statistics published by the FMSA, the Bank's retail deposits of KZT 130,910 million represented approximately 21.9% of the total market share as at 31 December 2005. Retail deposits represented 42% of the Bank's total deposits as at 31 December 2005 compared to 49% as at 31 December 2004.

<u>Loans to individuals</u>. The Bank is active in both the mortgage and consumer lending markets. Loans to individuals represented 30% of the Bank's gross loan portfolio as at 31 December 2005 compared to 25% as at 31 December 2004.

Consumer loans are to a large extent (87% of aggregate consumer loans) represented by "Halyk Program" and "Halyk Plus Program" loans, both targeting the Bank's mass-market retail customer base and introduced in 2002. Under these programmes, customers may apply for a loan of up to the lower of their monthly salary or KZT 1,000,000 for the Halyk Program or up to KZT 500,000 for the Halyk Plus Program. As at 31 December 2005, 320,000 customers participated in these programs. The Bank is currently the only bank offering this product in Kazakhstan. Car and other consumer loans represent smaller shares.

The Bank offers three mortgage products: regular mortgages, the new promotional mortgage called "Ipoteka Light" and mortgages under the KMC program (Kazakhstan Mortgage Company). The "Ipoteka Light" was launched by the Bank in April 2004. Under the terms of this product, a borrower must make a deposit of at least 15% of the principal amount of the loan with the Bank, which is pledged to the Bank. The Bank pays no interest on the deposit and it is recorded as collateral in the Bank's accounts. Maximum tenor of the Bank's mortgage products has been extended from 15 to 20 years. As at December 31, 2005, 89% of mortgage portfolio was issued under the Ipoteka Light program, close to 11% was issued as regular mortgages and very small share of mortgage loans within the KMC program.

Card Services. As at 31 December 2005, the Bank had issued a total of 2.4 million (of which 1.8 million are active) debit and credit cards, including VISA, MasterCard, American Express, VISA Electron, Cirrus and Maestro cards, and held a 56% market share in Kazakhstan's payment cards market. The Bank expects that it will retain a market share of 55% to 60% in the Kazakhstan payment cards market in the short- to medium-term. At present, the Bank issues mostly debit and charge cards to its customers. As a general rule, credit cards are issued by the Bank exclusively to wealthy individuals having annual income levels of above U.S. $100,000. However, the Bank is currently developing a credit card product for the mass market which it expects to launch in 2006. The Management believes that it will be able to substantially expand the issuance of credit cards when it implements an automated credit scoring system, which depends on the launch of services by Kazakhstan's recently created national consumer credit bureau of which the Bank is a founding member.

During 2005 the Bank introduced a number of new products for card holders. Mobile banking services allows Bank customers to access account information and transfer money using mobile phones and other wireless communication units. Registration of these services is done via ATM.

ATM Services. The Bank has also established the largest ATM network in the country, consisting of 585 operating ATMs as at 1 January 2006. The Bank is planning to increase the ATM network by 282 ATMs by the end of 2006. In addition, customers of the Bank may use ATMs of other Kazakhstan banks for a small fee per withdrawal. The volume of cash withdrawals through the Bank's ATM network was KZT 287 billion for the year ended 31 December 2005, compared to KZT 202 billion as at 31 December 2004. In November 2004 the Bank introduced a new product called "Card to Card", which has been well accepted by the market and enables transfer of funds using an ATM. Card holders may also now self-establish (via an application made at an ATM) a credit line for up to 70% of historic monthly current account deposits. The Bank has more than KZT 3.7 billion worth of credit lines to card holders, roughly KZT 1.7 billion of which was set up via ATM.

By introducing new products and expanding customer base the Bank increased its total earnings generated from payment card services in 2005 by 63% to KZT 4,007 million from KZT 2,465 million in 2004 which in turn increased by 47% from KZT 1,679 million in 2003.

Customer Segmentation

In order to better serve individual needs of its customers, the Bank has, since January 2002, divided its retail customers into the following three segments based on annual income levels: (i) the first segment, "VIP", comprises wealthy individuals having annual income levels of above U.S. $100,000 and consists largely of owners and management of large and mid-size companies; (ii) the second segment, "mid-market", comprises individuals having annual income levels of above U.S. $10,000 but less than U.S. $100,000 and consists primarily of owners of small-size businesses, mid-level management and specialists, as well as mid-level Government officials; and (iii) the third segment, "mass-market", comprises individuals having annual income levels of less than U.S. $10,000 and consists of workers, Government employees, students and pensioners. The Bank uses the customer segmentation to offer its customers services and products tailored for their individual needs. VIP customers benefit from service centres where a personal fund manager has been appointed to assist them. Mid-market customers also benefit from personal service centres, while mass-market customers are served through the Bank's extensive branch network.

Retail Banking Distribution Channels

The Bank conducts its retail banking operations through the Bank's branch network, which is the largest in Kazakhstan, and other distribution channels such as ATMs, the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan. In addition, based on an agency agreement with Kazpost, the Bank offers certain basic banking services to its customers in certain remote areas, including accepting some utility payments and repayments of consumer loans, through outlets operated by Kazpost . See "—Distribution Channels".

Corporate Banking

Products and Services

Products and services offered to corporate customers include Tenge and foreign currency denominated loans, guarantees, export financing, documentary credits (principally letters of credit), promissory notes, safe-keeping, foreign exchange services, capital markets and investment banking products, deposit taking and advisory services.

Corporate accounts. As at 31 December 2005, the Bank had 56.2 thousand corporate customers. The Bank aims to expand its customer base in the corporate banking sector by offering relationship management service through which customers are able to obtain a variety of corporate banking services from a dedicated relationship management officer or team.

Corporate lending. Loans to large corporate customers consist principally of secured loans with maturities ranging from one month to seven years. Loans to SMEs are also principally secured and have maturities ranging from one month to five years. In line with the Bank's strategy for focused expansion of its corporate banking business, lending to large corporate customers increased by 57% to KZT 242,496 million as at 31 December 2005 from KZT 154,784 million as at 31 December 2004, after having increased by 33% from KZT 116,234 million as at 31 December 2003. Lending to SMEs increased by 29% to KZT 63,920 million as at 31 December 2005 from KZT 49,360 million as at 31 December 2004, after having increased by 25% from KZT 39,534 million as at 31 December 2003. The Bank offers a number of standartized loan products to its SME clients depending on collateral, purpose and tenor. These are "Business Medium" for medium size companies and "Business Light", "Business Super Light", "Business Small", "Universal", EBRD's Kazakhstan Small Business Program II ("EBRD KSBP II") and others for small size companies. Approximately 44% of the Bank's SME loan portfolio is represented by "Business Medium" loans to 612 clients, 34% is extended under "Business Light" to 5,272 clients and approximately 18% are EBRD KSBP II and "Business Small" loans to 7,674 clients. According to statistics published by the FMSA, as at 31 December 2005, the Bank's share of the corporate lending market in Kazakhstan was 16.7%.

Trade finance. The Bank intends to greatly expand its trade finance business. With a view to such expansion, the Bank has hired an experienced team of trade finance specialists from Bank TuranAlem, a recognised leader in the trade finance sector of Kazakhstan. In 2006 the Bank is also launching a branch development program which will target potential customer base located in branches.

Growth areas and new products. In the future, the Bank intends to expand its corporate banking services in the areas in which the volume of its operations is currently insignificant or non-existent. These areas include financial advisory services in relation to, *inter alia*, the listing of the Bank's corporate clients on KASE, acting as a lead manager in relation to the issuance of Tenge-denominated bonds by Kazakhstan corporates, provision of interest rate and foreign exchange hedging to corporate clients, and provision of pension fund services. Additionally for corporate clients JSC Halyk Finance will be assisting with various investment bank services such as underwriting, corporate finance advisory work and other capital market advice.

Customer Segmentation

The Bank provides commercial banking products and services to small, medium and large sized businesses in Kazakhstan. Since May 2004, the Bank has classified large corporate customers as those businesses that have a total annual turnover of more than KZT 10 billion on their accounts with the Bank and loan exposure above U.S.$ five to seven million depending on regions. Large corporate customers are serviced at the Head Office by Corporate Lending Departments. Smaller companies which do not meet above criteria but are part of larger business groups are also treated as corporate customers and serviced at the Head Office. The Bank classifies medium and small size corporate customers as those businesses that have a total annual turnover up to KZT 10 billion on their accounts with the Bank, whereas companies with loan exposure from U.S.$300 thousand up to U.S.$ five to seven million are considered as medium size companies and with loan exposure up to U.S.$300 thousand as small size corporate customers. Both medium and small business customers are serviced at branch level. The Bank intends to particularly focus on the expansion of its client base among financially strong SMEs, by offering them a wide range of financial services, in addition to the traditional banking products such as deposits, payment transfers and loans. For this purpose, in 2004, the Bank created a specialised department the main function of which is to further develop the Bank's SME business. Management believes that the SME sector will represent one of the most important areas at growth in the Kazakhstan banking sector.

International Banking

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

In April 2004, the Bank acquired a 76.9% interest in Bank Khlebnyi. Bank Khlebnyi is a small regional Russian bank in the Chelyabinsk industry region, which has strong links to the Kazakhstan industrial sector due to its location along the Russia-Kazakhstan border. Management believes that this acquisition will allow the Bank to take advantage of the growing levels of trade between the Chelyabinsk region and Kazakhstan, especially in the construction, mining and oil and gas sectors. See "—Subsidiaries and Associated Companies".

In September 2004, the Bank acquired a 100% interest in OJSC Kairat Bank. OJSC Kairat Bank is a leading commercial bank in Kyrgystan. In December 2004, OJSC Kairat Bank was renamed OJSC Halyk Bank Kyrgystan. See "—Subsidiaries and Associated Companies".

Government securities and participation in government programmes

The Bank acts as a paying agent on behalf of the Government in respect of certain Government payment programmes, such as pension and social payments. As at 31 December 2005, the Bank's share of total pension payments in Kazakhstan was 50% or more than 1.5 million recipients and, in 2005, the total volume of pension payments paid through the Bank was KZT 146 billion, compared to KZT 121 billion in 2004. The Bank earns 0.6% in fees which in 2005 increased by 41% up to KZT 894 million compared to KZT 635 million in 2004.

Other Banking and Financial Services

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

Sales and Marketing

Sales and development of new products and services are implemented by Corporate Lending, Medium Business Sales and Small Business Sales Departments, each responsible for its market segment. These departments are also responsible for creating new customer contacts and processing market information received from the Marketing Department. The Marketing Department is responsible for the Bank's marketing strategy based on information gathered from the market. All departments cooperate in gathering information on client behaviour and the reception of the Bank's products and services in the market. Departments also interact with the Bank's operational departments in creating new customer contacts and coordinating sales and marketing initiatives through the Bank's distribution channels.

The Bank utilises a variety of marketing initiatives to market its services and products, including face-to-face contacts, advertising in print-media, television, radio and targeted mailings and the organisation of fairs, seminars and other events focused on promoting the Bank's services and products.

Distribution Channels

As at 1 March 2006, the Bank's branch network consisted of 19 regional branches, which report to the head office, and 126 district branches and 401 savings outlets distributed across all regions of Kazakhstan each of which report to their respective regional branches. In 2006 the Bank plans to open additional 18 savings outlets and 5 Small Business Sales Centers throughout Kazakhstan. In accordance with new banking legislation all retail units are expected to be converted into branches or units of existing branches by year end 2006. In addition, the Bank has in-store service points located at certain shopping centres and supermarkets in Kazakhstan. Each regional and district branch provides a broad range of banking services. In comparison to branches, savings outlets and in-store service points provide a limited number banking services, such as utility payments, cash withdrawals and money transfers. Large corporate customers are generally customers of the head office. The Bank's head office is responsible for the co-ordination of the branch network operations, marketing strategy and asset and liability management, management of the Bank's balance sheet, the Bank's development and restructuring and the Bank's international operations.

In 1997, the Bank entered into an agency agreement with the Ministry of Labour and Social Support to render exclusive paying agency services for pension payments and other social security payments. In 1998, the agency agreement was replaced with a general agreement for acting as the paying agent for pension and other social compensation payments with the State Centre for Pension Payments under the Ministry of Labour and Social Support and the Bank continued to act as the exclusive paying agent for these purposes until 2000. In 2000, the State Centre for Pension Payments announced a tender for the selection of additional paying agents; however, the tender did not take place as only the Bank and Kazpost submitted bids and the Bank retained its status as the exclusive paying agent for the pension and other social compensation payments. Thereafter, as part of its programme for optimisation of its branch network in 2000 and 2001, the Bank entered into a cooperation agreement with Kazpost pursuant to which the Bank transferred to Kazpost its functions as paying agent in locations where the Bank did not have its own branches or outlets. Under the cooperation agreement, the Bank paid a commission fee of 0.45% (which was later increased to 0.53%) to Kazpost based on the volume of payments paid through Kazpost's outlets. In 2001, the State Centre for Pension Payments abandoned the exclusive payment agency structure and entered into agency agreements with various commercial banks in Kazakhstan, including the Bank and Kazpost. The Bank, however, did not terminate the cooperation agreement with Kazpost until January 2004 and continued to use the Kazpost outlets for making certain pension and social payments on behalf of the Bank through 2003. In 2003, the Bank paid total fees of KZT 496 million to Kazpost under the cooperation agreement; in 2004, the Bank paid total fees of KZT 8 million to Kazpost, prior to the termination of the cooperation agreement.

In addition, the Bank is party to two agency agreements with Kazpost dated 11 August 2003 and 28 April 2003. Pursuant to these agreements, the Bank outsourced certain basic retail banking services to Kazpost, including acceptance of some utility gas payments in the Aktobe region and repayments of consumer loans in areas where the Bank does not have branches or outlets. This reduces the Bank's operating expenses and, at the same time, allows the Bank to be present in these remote areas. The Bank pays commissions of 0.45% and 0.7% to Kazpost based on the volume of utility and consumer loan payments paid through Kazpost's outlets, respectively. In 2004, the Bank paid total commissions of KZT 314 thousand to Kazpost under these agency agreements compared to KZT 115 thousand in such commissions in 2003.

The Bank's other distribution channels include ATMs and the Internet. The Bank's ATM network is the largest in Kazakhstan, consisting of 585 ATMs. The Bank is planning to increase its ATM network by a further 282 ATMs by the end of 2006. Customers can withdraw cash, pay bills and print pension statements using the Bank's ATMs. In addition, customers of the Bank may use ATMs of other Kazakhstan banks for a small fee. The Bank launched its Internet banking services in 2000. As at 31 December 2005, the Bank had 8,428 registered Internet banking customers. The Bank has also developed mobile banking services to allow its customers to access account information and transfer money using mobile phones and other wireless communication units. The Bank has a cooperation agreements with practically all GSM mobile operators – Kar-tel (Beeline, K-mobile, Excess), Dalacom, Pathword, K-cell, Activ. Some of the services have been successfully launched in 2005 and more is expected in 2006.

Subsidiaries and Associated Companies

Subsidiaries

As at March 31, 2006, the Bank had the following subsidiaries.

JSC Halyk-Leasing, a wholly owned subsidiary of the Bank, was established on 1 September 2000 to provide leasing services in Kazakhstan. As at 31 December 2005, JSC Halyk-Leasing had shareholders' equity of KZT 373.9 million, total assets of KZT 2,717.4 million, and net income of KZT 27 million for the year ended 31 December 2005.

JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan, an 85%-owned subsidiary of the Bank, was established on 8 January 1998, among other things, to collect pension contributions, provide pension payments, manage pension assets and develop pension programmes for its customers in Kazakhstan. As at 31 December 2005, JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan had pension assets under management of KZT 168,831 million representing 25.97% of the aggregate pension assets of the Kazakhstan pension system. Assets of JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan as of 31 December 2005 were KZT 2,947 million, shareholders' equity – KZT 2,864 million, and net income of KZT 1,330 million for year ended 31 December 2005.

JSC Kazteleport, a wholly owned subsidiary of the Bank, was established on 9 November 1999 to build and develop a telecommunications network and to sell and lease telecommunication equipment to the Bank and third-party customers. Currently, JSC Kazteleport provides services for 59 clients, including the NBK, Kazkommertzbank and the KASE. The Bank does not act as a general telecommunication operator. As at 31 December 2005, JSC Kazteleport had total assets of KZT 153.8 million and shareholders' equity of KZT 148.5 million.

HSBK (Europe) B.V., a wholly owned subsidiary of the Bank, was established on 1 May 1998 for the purpose of raising funds for the Bank outside Kazakhstan. HSBK (Europe) B.V. has not issued any securities or otherwise raised financing since its establishment date. The Bank will increase the equity capital of HSBK (Europe) B.V. by additional Eur 2 million at the time of closing of the issues of the Notes.

ARIR LLP, a wholly owned subsidiary of the Bank, was established on 3 July 2003 for the purpose of providing consulting and research services with respect to the Republic of Kazakhstan to the Bank and other third-party clients. In February 2004, the Bank acquired the entire share capital of ARIR LLP for a total consideration of KZT 87,200, which was paid in June 2004. As at 31 December 2005, ARIR LLP had total assets of KZT 106 million and shareholders' equity of KZT 98.4 million.

OJSC Halyk Bank Kyrgyzstan, a commercial bank based in the Republic of Kyrgyzstan and specializing in the SME banking services is a wholly owned subsidiary of the Bank which was established on 12 April 1999 as OJSC Kairat Bank in Kyrgyzstan as a result of reorganisation of Bank Maksat. In September 2004, the Bank acquired 100% interest in OJSC Kairat Bank for a total consideration of U.S. $1.3 million. OJSC Kairat Bank was a leading commercial bank in Kyrgyzstan. As at December 2004, OJSC Kairat Bank was renamed into OJSC Halyk Bank Kyrgyzstan. In August 2005 the Bank contributed an additional U.S.$ 1 million to the share capital of OJSC Halyk Bank Kyrgyzstan. In December 2005, the Bank further approved contribution of an additional U.S.$ 1 million to the share capital of OJSC Halyk Bank Kyrgyzstan (expected to be paid during the first half of 2006). The Bank plans to invest additional U.S.$ 4 million during the next 4 years in accordance with the business plan agreed between the Bank and the Government of the Republic of Kyrgyzstan. As at 31 December 2005, OJSC Halyk Bank Kyrgyzstan had total assets of KZT 1,979.4 million and shareholders' equity of KZT 324 million, net income for year ended 31 December 2005 amounted to KZT 32.6 million.

Joint-stock commercial bank "Khlebny", a 76.88%-owned subsidiary of the Bank in the Russian Federation was established on 5 February 1996. The Bank acquired the 76.88% interest in Joint-stock commercial bank "Khlebny" in April 2004 for a total consideration of approximately U.S. $1.2 million. Joint-stock commercial bank "Khlebny" is a small regional Russian bank in the Chelyabinsk region, main business being providing banking services to the Bank's clients in Russian Federation. In September 2005 the Bank approved additional contribution of Russian Roubles 56 million to the share capital of Joint-stock commercial bank "Khlebny". As at 31 December 2005, Joint-stock commercial bank "Khlebny" had total assets of KZT 355 million and shareholders' equity of KZT 79.6 million. The Bank is currently in the process of buying out other minority shares of Bank Khlebnyi in order to increase its holding up to 99.99%.

JSC Halyk Finance, a wholly owned subsidiary of the Bank was established on 10 November 2004 to provide brokerage service to the Bank's clients. On 22 November 2004 the Bank paid up the charter capital of JSC Halyk Finance in total amount of KZT 50 million. In 2005 the Bank made further contribution to share capital of JSC Halyk Finance in amount of KZT 300 million. The Bank intends to further capitalise JSC Halyk Finance via additional contribution to its share capital for total amount of up to KZT 250 million during the first half of 2006. As at 31 December 2005, JSC Halyk Finance had total assets of KZT 3,102 million, shareholder's equity of KZT 504.7 million, and net income for year ended 31 December 2005 of KZT 154.8 million.

Halyk Inkassatsia LLP was established by the Bank on 14 April 2005 in order to outsource its cash collection activities and business throughout Kazakhstan to a separate legal entity. Halyk Inkassatsia LLP provides cash collection to the Bank and to a number of third-party clients. Charter capital of Halyk Inkassatsia is KZT 264.8 million and is wholly owned by the Bank. As at 31 December 2005, total assets of Halyk Inkassatsia LLP were KZT 386.9 million, shareholder equity – KZT 367.7 million, and net income for year ended 31 December 2005 – KZT 103 million.

JSC Halyk Private Equity was established in November 2005. The Bank owns 49.9% in charter capital of JSC Halyk Private Equity, 49% is owned by the National Innovation Fund of the Republic of Kazakhstan and 1.1% is owned by Kaspiy Stroi Service Aktau Ltd. However, the Bank manages the operations of JSC Halyk Private Equity and therefore consolidates it as a subsidiary. JSC Halyk Private Equity has no active business thus far. The primary business of JSC Halyk Private Equity is providing equity financing to projects in high-tech industry in Kazakhstan. National Innovation Fund is a development institution established by the government of Kazakhstan with primary purpose to provide financing to support development of high-tech industry. As at 31 December 2005, total assets of JSC Halyk Private Equity accounted for KZT 49.3 million and shareholders' equity - KZT 49.3 million. The Bank intends to provide further contribution to share capital of Halyk Private Equity as long as decisions on financing of new projects by JSC Halyk Private Equity are made by the Bank and National Innovation Fund.

The Bank is also considering acquiring an investment company in Moscow to support projected expansion of its corporate business in Russia. Management believes that establishing an investment company will, among other things, help optimize contractual relationships such as employment agreements and security interests. The Bank intends, subject to approval by the Board of Directors, to invest up to U.S.$ 1.5 million in the share capital of this investment company.

Associated Companies

JSC Kazakhinstrakh is a successor of the former Soviet Union's insurance system, which was created as a separate legal entity in 1995 and privatised in 2001. As at 31 December 2005, JSC Kazakhinstrakh had shareholders' equity of KZT 2,065.5 million and total assets of KZT 3,826.3 million, net income for year ended 31 December 2005 was KZT 596.9 million. JSC Kazakhinstrakh provides a full range of property and casualty insurance services and holds approximately 20% of the insurance services industry in Kazakhstan. The Bank currently holds approximately 41.69% of JSC Kazakhinstrakh's share capital, including a 33.09% ownership interest directly held by the Bank and a further 10% ownership interest held through *JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan*. The remaining 56.81% are owned by Holding Group Almex JSC, Bank's controlling shareholder. In November 2005 JSC Kazakhinstrakh created a wholly owned life insurance company - JSC Halyk Life. Paid in charter capital of JSC Halyk Life is KZT 550 million. The Bank intends to acquire 50% of the shares of JSC Halyk Life from JSC Kazakhinstrakh and further capitalise JSC Halyk Life in 2006, subject to approval by Board of Directors and obtaining permission from FMSA.

JSC National Processing Centre was established in December 2000. The primary business of JSC National Processing Centre is to provide payment clearing and card processing services to clients in Kazakhstan. The Bank holds 25% plus one share in JSC National Processing Centre. As at 31 December 2005 total assets of JSC National Processing Centre were KZT 870.6 million and shareholders' equity was KZT 860 million.

Properties

As at 31 December 2005, the total net book value of the fixed assets (comprising land, land improvements, buildings, computer hardware and others) of the Bank was KZT 10,979 million. The Bank leases 26.1% of its branch offices and retail outlets from third parties pursuant to long-term renewable leases and owns the remaining 73.9% of its offices. In 2004, the Bank paid a total amount of approximately KZT 140 million under its leases. In 2005, the Bank paid a total amount of approximately KZT 293 million under its leases.

Information Systems

The Bank has made substantial investments in technology with the aim of improving customer service, increasing its operating efficiencies and enhancing its overall competitive position. In 2005, the Bank's information technology related capital expenditures were KZT 1.8 billion, compared to KZT 1.6 billion in 2004; the Bank has budgeted KZT 3 billion in capital expenditures for information technology in 2006. This budget includes expenses for software and software licenses, mainly SAP and Microsoft, which are expected to be KZT 1.3 million, representing 43.3% of total budgeted amount, for both personal computers and servers – KZT 1.2

million (40%) and for telecommunication equipment – KZT 0.5 million (16.7%). See "Overview of the Bank—Corporate Strategy"

Currently, the Bank's banking system is not fully integrated and some information from branches is still processed manually and sent to the head office for processing. In 2005 the Bank launched the Mobile Banking system for customers to manage their card accounts via their mobile phones, completed the introduction of collateral monitoring and management system, successfully finished the pilot project for the implementation of SAP BW data warehouse, and developed an HP Open View based management system for corporate network, servers and data bases. In 2005 the Bank updated the following systems and software: Customer Contacts, Know Your Customer, The Unified Database on Material Damage caused to the Bank, and the Unified Database on Agreements. During 2006, the Bank plans to complete the second stage of the implementation of SAP BW data warehouse, which will allow compiling various management reports. The Bank plans to complete the introduction of fixed assets accounting, procurement and technical support, controlling, planning and budgeting system (SAP R/3, BPS). In 2005 the largest retail branch changed its decentralized system to the centralized retail system, and in 2006 the Bank plans to complete the centralized customer database (Oracle CDH).

In order to obtain the effective IT management and an increased transparency in 2006 the Bank introduced CobIT (an IT governance support system) and ITIL (an IT service management system) standards. The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in information technology to support the efficient growth of its operations. Management believes that this upgrade will significantly improve its risk management capabilities, asset and liability management, liquidity management and monitoring of lending activities.

Legal Proceedings

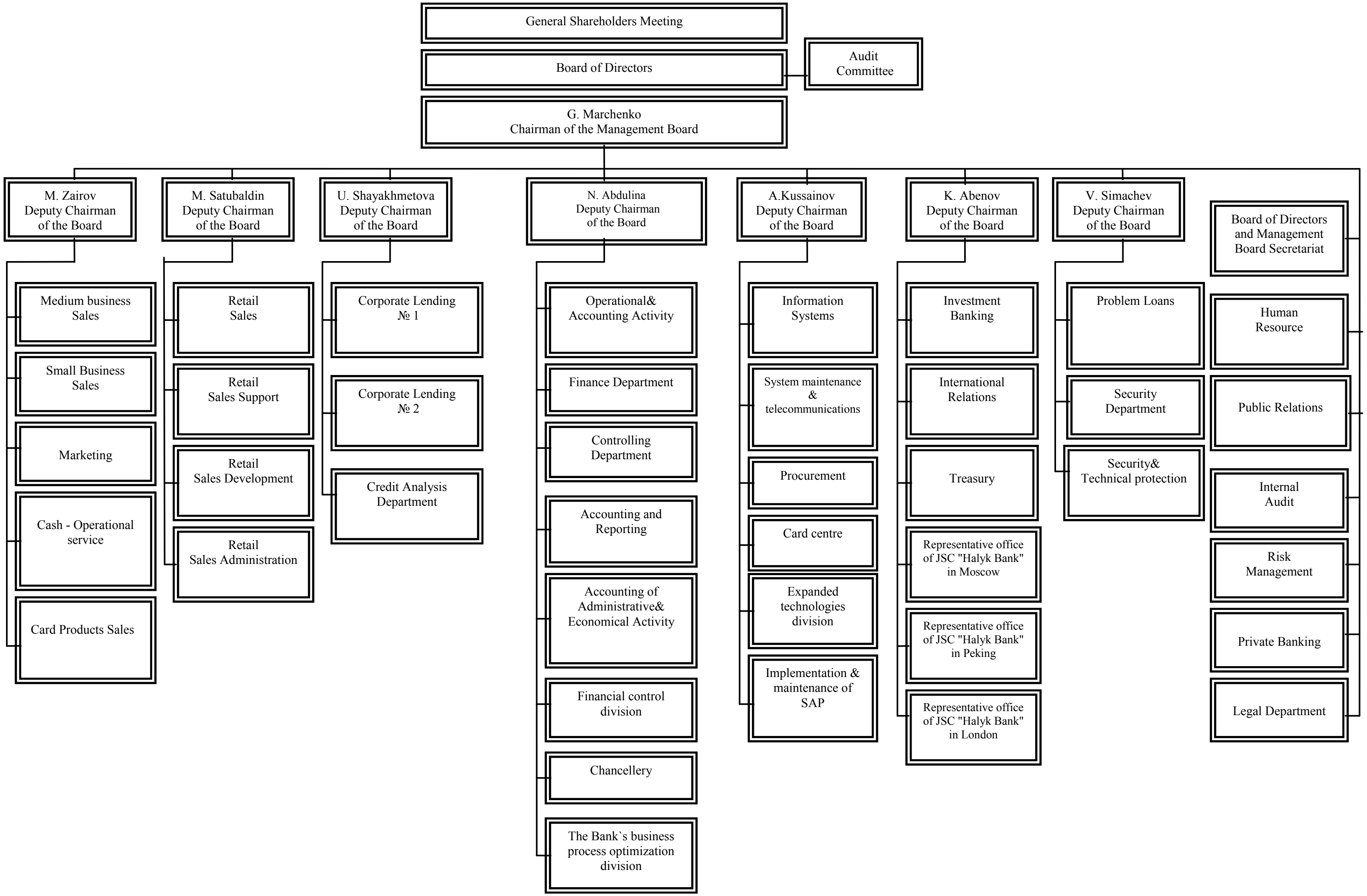
From time to time and in the normal course of business, the Bank is subject to legal actions and complaints.

Other than disclosed above, the Bank is not party to any material legal proceedings and there are no legal proceedings pending or, the best knowledge of management, threatened, with respect to the properties, assets and or business of the Bank.

MANAGEMENT AND EMPLOYEES

Organisation Chart

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



General

Pursuant to the laws of Kazakhstan and the Bank's Charter, the control and management of the Bank is divided among the shareholders, the Board of Directors and the Management Board. The shareholders have the exclusive authority to approve certain material issues of the Bank, including the election of the Board of Directors. The shareholders participate in the control and management of the Bank through actions taken at General Meetings of Shareholders. The Board of Directors supervises the Management Board. The Management Board is headed by the Chairman who is responsible for the day-to-day management of the Bank. The Revision Committee is an internal monitoring body, which reports its findings at General Shareholders Meetings. In addition, the Bank has various committees and departments, including various credit committees, the ALCO, the Internal Audit Committee, the Risk Management Department and the Department of Information Technology.

In January 2005, the General Meeting of Shareholders of the Bank appointed Mr. Grigori Marchenko, formerly Chairman of the National Bank and Chairman of the National Securities Commission of Kazakhstan, as Chairman of the Bank. Mr. Marchenko was appointed on the understanding that he would serve as the Chairman of the Bank for a term of three years. Since joining the Bank, Mr. Marchenko has appointed a new senior management team for the Bank.

The business address of the members of the Board of Directors and the Management Board is c/o 97 Rozybakieva Street, Almaty 050046, Kazakhstan.

Conflicts of Interest

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

Board of Directors

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

The Board of Directors of the Bank is responsible for setting strategic policy for the Bank, nominating members of the Management Board, determining and overseeing the remuneration of the Management Board members and convening annual and extraordinary General Shareholders' Meetings. As at the date of this Offering Circular, the Board of Directors consists of five members.

Subject to special arrangements, the directors are elected at each annual General Shareholders Meeting and generally serve a one-year term. As at the date of this Offering Circular, the Bank's Board of Directors consists of the following members:

Name	Position(s)	Year Born
Alexander Pavlov	Chairman of the Board of Directors	1953
Kamilya Arstanbekova	Chairman of JSC Accumulative pension fund of Halyk Bank of Kazakhstan	1963
Kairat Satylganov	General Director, Holding Group Almex JSC	1965
Grigori Marchenko	Chairman of the Management Board of the Bank	1959
Kadyrzhan Damitov	Independent member	1959

Audit Committee was established in 2005 by the resolution of the Board of Directors. Audit Committee consists of 3 members elected from members of the Board of Directors. The Bank is in process of finalizing appointment of the members to the Audit Committee.

Management Board

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

Management Board consists of eight members, which are elected by the Board of Directors for a period of three years. As at the date of this Offering Circular, the Management Board consists of the following members:

Name	**Position(s)**	**Year Born**
Grigori Marchenko	Chairman of the Management Board	1959
Nailiya Abdulina	Deputy Chairman, CFO	1946
Kozhakhan Abenov	Deputy Chairman, Treasury, Investment banking, International Activity	1971
Marat Zairov	Deputy Chairman, Client Relationships	1968
Marat Satubaldin	Deputy Chairman, Retail Sales	1964
Umut Shayakhmetova	Deputy Chairman, Lending	1969
Askar Kussainov	Deputy Chairman, Information Technologies	1962
Vasiliy Simachev	Deputy Chairman, Security	1950

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

*Nailiya Abdulin*a, *Deputy Chairman of the Management Board*. Ms. Abdulina graduated from Almaty Institute of People's Economy in 1981 with a degree in accounting. Between 1989 and 2005, she served as the Deputy Chairman of the Management Board of the National Bank of the Republic of Kazakhstan. She joined the Bank in 2005 as Adviser to Chairman of the Management Board of the Bank. In March 2006, she was appointed as Deputy Chairman of the Management Board of the Bank.

Marat Zairov, Deputy Chairman, Client Relationships. Mr. Zairov graduated from Moscow State University in 1992 with a bachelor's degree in economics and from Kazakhstan State Law Academy in 2000 with a degree in law. Between 1993 and 1994, he held various positions in Kazpisheprom Kazakhstan State Cooperation Association, the Ministry of Finance of the Republic of Kazakhstan and Alemsystem Financial and Investment Corporation. From 1994 to 1997, Mr. Zairov worked in Alem Bank Kazakhstan, Exim Bank and Kazkommerzbank. Prior to joining the Bank in August 2000, Mr. Zairov worked as a Deputy Chairman of Bank TuranAlem and held management positions in OJSC Temirbank. Mr. Zairov has been in his current position since August 2000.

Kozhakhan Abenov, Deputy Chairman, Treasury, Investment Banking and International Activity. Mr. Abenov graduated from Moscow Physics and Technical Institute in 1994 with a degree in applied mathematics and physics. In 1996, he received a master's degree from the University of Maryland, USA. In the 1990's, Mr. Abenov held various positions in ABN Amro Bank Kazakhstan, including Member of the Management Board. Since April 2002, he has served as Counselor of the General Director of KazTransGaz JSC. In April 2004, Mr. Abenov was appointed as Managing Director of National Company KazMunaiGaz. He has been a Deputy Chairman of the Bank since October 2004.

Marat Satubaldin, *Deputy Chairman, Retail.* Mr. Satubaldin graduated from the Almaty Institute of People's Economy in 1985. He has worked in the Kazakhstan banking system since 1994. He worked as Head of the Plastic Cards Department in Bank TuranAlem JSC from February 1997 to February 1999. From March 1999 until January 2001, he served as President of Kurmet Pension Fund. In February 2001, Mr. Satubaldin was appointed as a Director of the Retail Sales Support Department at Kazkommertsbank JSC. He joined the Bank in January 2002 as Managing Director and has been a Deputy Chairman of the Bank since February 2005.

Umut Shayakhmetova, Deputy Chairman, Lending. Ms. Shayakhmetova graduated in 1993 from the University of Peoples' Friendship in Moscow. In 1996, she received an M.B.A. from Rutgers University, New Jersey. In 1997, she joined ABN Amro Bank Kazakhstan and held various positions in project finance teams and later became Chairman of the Management Board of ABN Amro Asset Management. From March 2001 to November 2004, Ms. Shayakhmetova worked as Deputy Chairman of the Management Board of ABN Amro Bank. She has been a Deputy Chairman of the Bank since November 2004.

Askar Kussainov, Deputy Chairman, Information Technologies. Mr. Kussainov graduated in 1984 from Moscow State University. In 1990, he received a degree in physics and math. From December 1997 to July 1998, Mr. Kussainov was a professor at Washington State University, U.S.A. From 1998 to 2003, he worked as Executive Director of Kazakhtelecom and, from 2003 to 2005, he was a representative of Kazakhtelecom in Russia. He has been a Deputy Chairman of the Bank since February 2005.

Vasiliy Simachev, Deputy Chairman, Security. Mr. Simachev graduated from Kazakh State University with a bachelors degree in law in 1973. From 1995 to 2001, he served as the First Deputy Minister of Internal Affairs of the Republic of Kazakhstan. From 2001 to 2002, he worked as executive director of Kazkommerzbank. In 2002, Mr. Simachev was reappointed as the First Deputy Minister of Internal Affairs of the Republic of Kazakhstan, which position he held until January 2004, when he joined the Bank as a Managing Director responsible for supervision of security issues. Mr. Simachev has held his current position since May 2004 .

Committees

Assets and Liabilities Management Committee

As at the date of this Offering Circular, the Assets and Liabilities Management Committee (ALCO) members were as follows:

Name	Position(s)
Grigori Marchenko	Chairman of the Management Board
Nailiya Abdulina	Deputy Chairman
Kozhakhan Abenov	Deputy Chairman
Umut Shayakhmetova	Deputy Chairman
Aliya Karpykova	Managing Director, Risks
Evgeniy Usatov	Deputy Director, Risks
Galina Raiko	Managing Director of Finance
Askar Smagulov	Director of the Treasury
Alma Mustafayeva	Director of the Control Department
Alexandra Fedchenko	Chief Accountant-Director

For a description of the duties of the ALCO, see "Asset, Liability and Risk Management—Assets and Liabilities Management Committee".

Credit Committees

The following committees located at the head office of the Bank are responsible for administering the Bank's internal credit policy:

- Commercial Direction Credit Committee—responsible for administering loans to head office corporate customers.
- Branch Network Credit Committee—responsible for administering loans made by the branches in excess of the established limits of each branch.
- Retail Lending Credit Committee—responsible for administering retail loans.

In addition, each district and regional branch has their own retail lending credit committees. Such committees are permanent committees of the Bank that are responsible for the implementation of the internal credit policy of the Bank on retail lending through branches. These regional credit committees report to the Branch Network Credit Committee. See also "Selected Statistical and Other Information—Lending Policies and Procedures".

Commercial Direction Credit Committee

As at the date of this Offering Circular, the members of the Commercial Direction Credit Committee were as follows:

Name	Position(s)
Kozhakhan Abenov	Deputy Chairman, International and Investment Banking
Umut Shayakhmetova	Deputy Chairman, Lending
Aliya Karpykova	Managing Director-Director, Risks
Farkhad Karagussov	Managing Director-Director, Legal
Maulet Sabanshiev	Managing Director - Director, Operation Services

Branch Network Credit Committee

As at the date of this Offering Circular, the current members of the Branch Network Credit Committee were as follows:

Name	Position(s)
Dauren Karabayev	Managing Director - Director, International Division
Zhansulu Saburova	Deputy Director of the Risks
Anuar Kyndybayev	Managing Director - Director, Medium business sales
Rustam Yakupbaev	Managing Director - Director, Small business sales
Zhanna Kisamieva	Managing Director - Director, Credit analysis
Marat Tashpakov	Head of Single mortgage base book division
Kuralai Toregeldina	Acting Head of Mortgage property division

Retail Lending Credit Committee

As at the date of this Offering Circular, the current members of the Retail Lending Credit Committee were as follows:

Name	Position(s)
Elina Akhmedova	Managing Director - Director, Operational Department
Marat Almenov	Managing Director, Retail Sales Support
Rustam Babayev	Head of Risk Management of Standard Products
Zhomart Akhmetov	Head of Settlements and Disputes solutions
Galina Ilinykh	Senior Manager of Mortgaged Property Department

Disciplinary Committee

The Disciplinary Committee is responsible for monitoring the Bank and its employee's compliance with applicable laws of Kazakhstan and with the Bank's internal policies and regulations. If any violations are found, the Disciplinary Committee takes appropriate disciplinary actions. The Disciplinary Committee reports to the Management Board.

As at the date of this Offering Circular, the current members of the Disciplinary Committee were as follows:

Name	Position(s)
Raushan Raiskhanova	Director of Human Resources
Alexander Goldobin	Head of Internal Security Department
Nurzhan Almaganbetov	Senior Manager of Human Resources

Service Contracts

All members of the Management Board have entered into service agreements with the Bank, which, among other things, provide standard employment terms. Under the service agreements, employment can typically be terminated upon a 30-day notice period. Such service agreements do not provide for any severance benefits upon termination of employment.

Management Compensation

In accordance with the Bank's Charter, the amount of remuneration to be paid to members of the Board of Directors is subject to approval by the General Meeting of Shareholders of the Bank and the amount of remuneration to be paid to members of the Management Board and its Chairman is subject to determination and approval by the Board of Directors. In 2005, the Bank paid a total amount in remuneration to the members of its Board of Directors and Management Board of KZT 819 million.

Management Loans

The following table sets out the principal amounts of outstanding loans and guarantees extended to members of the Management Board and Board of Directors as at 31 December 2005.

	As at 31 December 2005
	(KZT thousands)
Payable on first demand	—
1 to 3 years	—
Over 3 years	71,998
Total	**71,998**

As at 31 December 2005, the total amount of outstanding loans extended to members of the Management Board and Board of Directors comprised 0.25% of the Bank's share capital. There are no outstanding loans, guarantees (or other contingent liabilities) extended by the Bank to any member of the Management Board or Board of Directors thereof other than those discussed above.

Share Ownership by Management

As at 31 December 2005, none of the members of the Board of Directors and the Management Board owned shares of the Bank.

Employees

As at 31 December 2005, the Bank had 8,381 employees, of which approximately 89% were employed in the branches and retail outlets in Kazakhstan. As at 1 March 2006, the Bank employed 7,417 full-time employees and 792 part-time employees. As at the same date, the average age of the Bank's employees was approximately 34 years. The following table sets out the number of employees of the Bank as at the dates indicated:

	As at 31 December		
	2005	**2004**	**2003**
Head office	959	1,010	877
Branches and retail outlets	7,422	7,446	7,176
Total	**8,381**	**8,456**	**8,053**

Although there are currently no labour unions in the Bank or its subsidiaries, some employees of the Bank are members of some local labour unions. The Bank has never experienced any industrial action or other work stoppages resulting from labour disputes.

Training Programmes

The Bank traditionally uses internal and external training programmes to improve the skills of its personnel and to incorporate modern management approaches and technologies into its day-to-day operations. In 2005, more than 1200 employees participated in external seminars and conferences, including programmes for regional specialists in Kazakhstan, CIS, Europe and in-house corporate training sessions.

While the Bank's specific training programmes planned for 2006 have been adjusted to reflect the Bank's strategy recently adopted by the new management team, the Bank intends to continue to offer employees training on client relations and customer service issues, risk management, information technologies and banking products. Employees of regional branches remain an important target group for training activity.

Corporate "Halyk Training Center" was opened in Almaty in March 2006 to expand training opportunities for employers of the Bank's companies represented of more than 10,000 employees.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to the ownership of the Bank's outstanding common shares as at 31 March 2006:

Shareholder	Number of Common Shares	Percentage of Common Shares
"Holding Group Almex" JSC	736,122,100	82.13
Others, including Central Depository	162,894,560	17.87
Total	**899,016,660**	**100.00**

In addition, the Bank has issued 104,967,222 preferred shares for total amount of KZT 15,711 million, which account for 52.5% of the Bank's total share capital as at March 31, 2006.

Based on information available to the Bank, as at the date of this Offering Circular, Mr. Timur A. Kulibayev, together with his family, beneficially owns 100% of Holding Group Almex JSC and, accordingly, Mr. Kulibayev indirectly holds the controlling stake in the Bank. Mr. Kulibayev is a son-in-law of the President of Kazakhstan. The controlling shareholder has the ability to influence significantly the Bank's business through his ability to control all actions that require shareholder approval, including any increase of share capital and appointment of members of the Board of Directors; however, the controlling shareholder is not entitled to interfere in the day-to-day management of the Bank.

Holding Group Almex JSC is a holding company, which in addition to its controlling interest in the Bank, has interests in other Kazakhstan companies engaged in insurance activities, such as AON Kazakhstan CJSC and KazakhInstrakh CJSC (in which the Bank owns 33.09%), and in another holding company, Caspian Financial Industrial Group LLP.

The common shares under "Others" section in the table above are owned by various minority shareholders in Kazakhstan and offshore and represent shares in free float.

For a discussion on the history of the ownership of the Bank see "Business—General—History".

TRANSACTIONS WITH RELATED PARTIES

For a description of the definition of related parties under IAS 24 "Related Party Disclosures", see Note 25 to the audited consolidated financial statements and Note 17 of the condensed consolidated financial statements included elsewhere in this Offering Circular.

The following table provides information on the Bank's related party transactions as at the dates indicated:

	As at 31 December					
	2005		2004		2003	
	(KZT millions)	*(% of total)*	*(KZT millions)*	*(% of total)*	*(KZT millions)*	*(% of total)*
Loans to customers, gross.............	753	0.2	5,970	2.2	4,265	2.4
Amounts due to customers............	495	0.2	72,981	31.5	30,455	19.7
Guarantees issued	2,562	8.7	1,200	2.7	524	2.6
Interest income from loans to customers..................................	106	0.2	359	1.3	441	2.0
Interest expense from amounts due to customers..............................	(27)	0.2	(1,040)	13.0	(1,318)	19.9
Fee and commissions income	6	0.0	169	1.7	15	0.2

The interest income and expense figures above represent actual amounts for the period ended 31 December 2005 and for the years ended 31 December 2004 and 31 December 2003.

In March 2003, the Bank exceeded the threshold of 10% of capital established for loans to a single related party. The Bank has remedied this breach in 2004 and Management believes the Bank is currently in compliance with the requirements of the NBK. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy".

See "—Management and Employees" for a discussion of loans to members of the Bank's Board of Directors and Management Board.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates, thereby fostering an efficient, stable banking sector that, for the most part, has avoided the series of financial crises that have adversely affected Russia and other emerging market countries. The financial sector, which is dominated by private commercial banks, has been one of the fastest growing sectors in Kazakhstan. This growth has been facilitated by a favourable macroeconomic environment, which has resulted from early and continuing structural reforms, a cautious fiscal stance and consistently strong revenues. In particular, the Government and the NBK have undertaken structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system.

The National Bank of Kazakhstan and the FMSA

The NBK is the central bank of Kazakhstan and, although it is an independent institution, it is subordinate to the President. The President has the power, among other things, to appoint (with the approval of Parliament) and remove the NBK's Governor and deputy Governors, to confirm the annual report of the NBK on the recommendation of the Governor, to confirm the concept and design of the national currency and to request information from the NBK. Anvar Saydenov was appointed Governor of the NBK in 2004 for a six-year term, unless he is earlier dismissed. The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Governor, five other representatives of the NBK, a representative of the President and two representatives of the Government.

Currently the principal task of the NBK is to ensure price stability in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, to organise banking settlement systems, to conduct currency regulation and control, to assist in ensuring stability of the financial system and to protect the interests of depositors with commercial banks. Following legislative changes in July 2003, the FMSA was formed and on 1 January 2004 it took responsibility for most of the supervisory and regulatory functions in the financial sector previously performed by the NBK.

The FMSA is an independent institution reporting directly to the President. The President has appointed Arman Dunayev, former Minister of Finance of Kazakhstan, as the Chairman of the FMSA. The principal task of the FMSA is to regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds, pension asset management companies, as well as professional participants in the securities market. The FMSA is empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions and to monitor the activities of, to apply sanctions where necessary to, and to participate in the liquidation of, financial institutions.

Banking

Structure of the Banking System of Kazakhstan

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier. All credit institutions in Kazakhstan are required to be licensed and regulated by the FMSA (or, prior to 2004, the NBK).

Banking Reform and Supervision

Reform of the banking sector started in 1996 with the introduction of international prudential standards, including capital adequacy requirements and liquidity ratios, to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, harmonisation of local accounting practices to IFRS and personnel training programmes. In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices, the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were drawn up for bank inspections and periodic reporting by commercial banks to the NBK, now the FMSA. In 2003, all banks were requested to develop and install internal risk management systems.

The objectives of these reforms were to bring supervisory practices closer to international standards to allow for a more transparent view of the banks' levels of capitalisation and exposure to financial risks. The FMSA, which currently includes what was the NBK's Banking Supervision Department, will continue to focus on ensuring financial solvency and protection of depositors while encouraging banks to diversify their activities in the financial services sector (for example, by managing pension and investment funds and establishing leasing and insurance companies).

The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system. In November 1999, a self-funded domestic deposit insurance scheme was established and, as at 31 December 2005, 33 commercial banks operating with individuals deposits were covered by the scheme. As at the date of this Prospectus the insurance coverage is presently limited to personal term deposits in amount up to KZT 7 million and current accounts up to KZT 400,000 in total at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals. Current legislation requires the FMSA to approve any acquisition of a shareholding of 10.0 % or more (whether held independently or jointly with another legal entity) in a Kazakhstan bank. Furthermore, a foreign entity holding 10% or more of a Kazakhstan bank must have a minimum required credit rating from one the rating agencies, a list of which is set by the authorised body.

In November 2005, new regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represent a substantial step towards the implementation of the Basel II accord. In particular, the new regulations introduce the concepts of hybrid capital eligible to be included in Tier I, Tier II, Tier III capital (qualified subordinated debt) and operational and market risks, and include rules for calculating risk with respect to derivatives. Further, the new regulations establish reduced capital adequacy ratios for banks where one shareholder is a bank holding company. Such reduced rates are 5 % for the K1 ratio (compared to a generally applicable ratio of 6 %) and 10 % for the K2 ratio (compared to a generally applicable ratio of 12 %). A bank holding company is an entity, whether domestic or foreign, that owns more than 25 % of the voting shares of a Kazakhstan bank and has received FMSA's permission to be a bank holding company. Separately, the FMSA introduced more stringent requirements for internal risk management and supervision on a consolidated basis (for banks and bank holding companies).

The FMSA monitors compliance with capital adequacy standards (in compliance with international standards set by the Basel Accord), current liquidity ratios, maximum credit exposures to single borrowers and related parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions. Additionally, the FMSA applies regulations on problem asset classification and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and overdue loan reserves.

Commercial Banks

According to the NBK, as at 31 December 2005, there were 34 banks in Kazakhstan, excluding the DBK and NBK, compared to 44 as at the end of 2001 and 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small- and medium-sized banks. In November 2001, the Government divested its remaining 33 % stake in the Bank, by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2.1 billion.

As at 30 June 2005, all of the commercial banks licensed in Kazakhstan were in compliance with prudential regulatory requirements as to capital adequacy, single borrower limits, liquidity ratios, foreign currency limits and reserve requirements. In June 2005, the banking licence granted to JSC Nauryz Bank was terminated by the FMSA, and currently JSC Nauryz Bank is in the process of liquidation as required by a court ruling in November 2005. On 24 December 2005, the FMSA adopted a resolution to suspend the banking licence granted to JSC Industrial Bank of Kazakhstan for six months due to violations of prudential standards.

The financial standing of Kazakhstan's banks varies. As at 31 December 2005, 21 of the 34 commercial banks (excluding DBK) had registered capital of over KZT 2 billion, 12 banks had registered capital of KZT 1 billion to KZT 2 billion and one bank had registered capital of KZT 500 million to KZT 1 billion. There are no banks with registered capital of less than KZT 500 million; any bank whose capital falls below that level is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

Kazkommertsbank was established in July 1990 and is the largest bank in Kazakhstan in terms of assets, with a focus on the corporate and retail banking sectors. As at 30 September 2004, Kazkommertsbank had 96 branches and retail outlets, a subsidiary in Kyrgyzstan, a representative office in London and exercised control over a Moscow bank. Kazkommertsbank is part of a group which includes a number of banks, joint ventures and investment companies and has a number of substantial investments in industrial companies.

Bank TuranAlem resulted from a merger initiated by the Government of Kazakhstan between two state-owned banks, Turan Bank and Alem Bank, in April 1997. The Government's interest in Bank TuranAlem was sold by auction in March 1998 for U.S.$ 72 million to a group of investors from Kazakhstan. As at 31 December 2005, Bank TuranAlem was the second largest bank by assets and the largest bank in terms of equity among commercial banks in Kazakhstan.

In 2001, the Government established the DBK to provide medium- and long-term financing and otherwise facilitate industrial projects in Kazakhstan. DBK was established with a charter fund of KZT 30 billion. Within the commercial banking sector, DBK is not considered a competitor of the Bank as it is not licensed to accept commercial or retail deposits or to provide corporate settlement services. The Bank expects that DBK may become an important competitor in the corporate lending sector. The DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Prospectus.

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

Citibank Kazakhstan was established in 1998 and has been aggressively increasing its market share in corporate banking. Citibank Kazakhstan is expected to be a major long-term competitor of the Bank, particularly with respect to lending.

ABN Amro Bank Kazakhstan is the second largest bank under foreign ownership in terms of equity. The Bank believes that ABN Amro Kazakhstan will be a major competitor of the Bank's in the future, particularly with respect to corporate banking and capital markets activities.

Foreign Capital in the Banking Sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to operate as a bank in Kazakhstan.

As at 31 December 2005, there were 14 banks with foreign participation operating in Kazakhstan, including ABN Amro Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan. Under relevant legislation, "a bank with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks.

According to Kazakhstan regulations that existed prior to December 2005, the aggregate registered capital of banks with foreign participation could not exceed 50% of the aggregate registered capital of all Kazakhstan banks. However, this restriction was eliminated entirely as part of recent banking legislation reform and part of Kazakhstan's efforts to bring its legislation in line with WTO standards.

As at 31 December 2005, 18 foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank AG, Deutsche Bank AG, American Express Bank Ltd., Commerzbank AG, Citibank N.A., ING Bank N.V., Bankgesellschaft Berlin and Société Generale.

KAZAKHSTAN CURRENCY AND BANKING LEGISLATION

Prudential Norms

In 2005, the FMSA issued new Instructions on Normative Values and Method of Calculation of Prudential Norms (the "Prudential Norms"), which replaced Prudential Norms adopted in 2002. New Prudential Norms establish certain capital adequacy requirements for Tier I, Tier II and Tier III capital of Kazakhstan banks, limitations on a single borrower exposure, short- and long-term liquidity requirements, limitations on currency exposure and limitations on investment by Kazakhstan banks into fixed and other non-financial assets. The Prudential Norms are fully applicable to the Bank.

Claims in Bankruptcy

Article 74-2 of the Law on Banks effective as of the date of this Offering Circular provides that proceeds of the bankruptcy estate of an insolvent bank should be distributed among its creditors in the following order: (i) claims by individuals for compensation for wrongful death or damage to health; (ii) claims for payment under employment contracts; (iii) claims by organization which conducted mandatory deposit insurance in amount it compensated for the insured deposits according to calculations provided by the insolvent bank; (iv) claims by individual depositors with respect to their accounts held and money transfers made with the insolvent bank as well as claims under deposits made on account of pension assets of pension funds; deposits of insurance companies that were made of assets acquired under "life insurance" policy (v) claims by charitable organisations with respect to their accounts held with the insolvent bank; (vi) claims of secured creditors; (vii) tax claims and payments under loans provided by the Government; (xiii) all other creditors' claims. Accordingly, unless Kazakhstan bankruptcy laws are amended, in the event of the bankruptcy of the Bank, claims with respect to the repayment by the Bank of the Deposit made with the Bank using proceeds of placement of the Notes (as defined in the Offering Circular) and claims with respect to the repayment by the Bank of the Subordinated Loan shall be treated *pari passu* with claims of creditors identified in item (xiii) above.

Exchange Controls

Kazakhstan has accepted the conditions of paragraphs 2, 3, and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a law on currency regulation was adopted by the Kazakhstan Parliament in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be conducted without restriction. Only certain out-flowing capital account operations are required to be licensed by or registered with the NBK. Capital in-flows are registered and monitored for statistical purposes only, but are not restricted.

In 2005, a new law on currency regulation was adopted by Kazakhstan Parliament replacing the previous law which was adopted in 1996. The new law has significantly simplified rules applicable to currency operations. Under this new law, only particular types of currency operations require licensing, registration or notification. Particularly, with respect to most of banks' cross-border operations, banks are only obliged to provide respective notification to the NBK, without the need to register such operations.

Capital in-flows are registered and monitored for statistical purposes only, but are not restricted. New licensing rules adopted in implementation of the currency regulation law in 2005 liberalised the treatment of the outflow of capital. One of the purposes of liberalisation is to avoid the pressure caused by the influx of U.S. Dollars into Kazakhstan due to high market prices for Kazakhstan export goods by directing export revenues abroad. No NBK licence is currently required to open accounts in foreign banks for a Kazakhstan financial organisation in connection with transactions with financial instruments on international securities markets or a Kazakhstan legal entity for the purposes of securing its obligations towards nonresident lenders, for certain Kazakhstan financial organisations or other residents acting through a licensed professional securities market participant, to acquire foreign securities or to enter into derivative transactions with non-residents

The following table sets out certain average and period-end Tenge/U.S. Dollar exchange rates on the KASE as reported by the NBK:

Year	**Average**	**Period-end**
	KZT per U.S. Dollar	
1999	119.52	138.20
2000	142.13	145.40
2001	146.74	150.20
2002	153.28	155.60
2003	149.58	144.22
2004	136.04	130.00
2005	132.88	133.98

Source: NBK

FORM OF NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes.

1. Form of Notes

All Notes will be in fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, N.A., as common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of Chase Nominees Limited, as nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note, in fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with JPMorgan Chase Bank, N.A., as custodian (the "Custodian") for, DTC. The Restricted Global Note (and any Note Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set out under item 2 below.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "Note Certificates" or "Note Certificates" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Note or, as the case may be, the Unrestricted Global Note and interests therein.

2. Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction it being understood, however, that the Issuer has been advised that neither Euroclear nor Clearstream, Luxembourg will monitor compliance with these Transfer Restrictions nor provide certification of non-U.S. beneficial ownership. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) The purchaser (A) is a qualified institutional buyer within the meaning of Rule 144A, (B) is acquiring Notes for its own account or for the account of such a qualified institutional buyer and (C) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A.

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

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

"NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER AND THE GUARANTOR THAT (A) THIS NOTE (AND ANY INTERESTS HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, THE GUARANTOR OR A SUBSIDIARY OF THE GUARANTOR, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

(iv) If the purchaser is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgment, representations and agreements on behalf of each such account.

(v) The Issuer, the Bank, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the 40th day after the closing date (the "distribution compliance period"), by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented and agreed as follows:

(i) It is, or will be at the time Notes are purchased, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or the Bank or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes and the Guarantee have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or the account of a qualified institutional buyer or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any State of the United States.

(iii) The Issuer, the Bank, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

3. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable for Note certificates in definitive form ("Restricted Note Certificates") if DTC or any successor depositary on behalf of which the Notes evidenced by the Restricted Global Note may be held (a) notifies the Issuer and the Guarantor that it is no longer willing or able to discharge its responsibilities as depositary with respect to the Notes, or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depositary, (b) an Event of Default (as defined and set out in Condition 10 of the Terms and Conditions of the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form on an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for definitive Notes. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of any event specified in (a), (b), or (c).

The Unrestricted Global Note will become exchangeable for Note certificates in definitive form ("Unrestricted Note Certificates") if (a) either Euroclear or Clearstream, Luxembourg or any successor depositary on behalf of which the Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so, (b) an Event of Default (as defined and set out in Condition 10 of the Terms and Conditions of the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form on an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for definitive Notes. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a), (b) or (c).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together "Note Certificates") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) a fully completed, signed certification substantially in the form contained in the Agency Agreement to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, a certification that the transfer is being made in compliance with the provisions of Rule 144A or, as the case may be, Regulation S. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions".

Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under "Transfer Restrictions", the holder of a Note may transfer such Note only in accordance with the provisions of Condition 2 of the Terms and Conditions of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantor and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of the Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

4. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantor, the Trustee, any Agent or the Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg or their common depository or its nominee from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC or its nominee from the Principal Paying Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Principal Paying Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the fifteenth day before the due date for such payment (the "Record Date"). Trading between the Restricted Global Note and the Unrestricted Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) Chase Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other.

Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 5 p.m. Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (i) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Trustee, any Agent or any of the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

SUBSCRIPTION AND SALE

HSBC Bank plc and J.P. Morgan Securities Ltd. (together, the "Joint-Lead Managers" or the "Managers") have, pursuant to a subscription agreement dated 10 May 2006 (the "Subscription Agreement"), agreed with the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Bank has agreed to pay certain costs and expenses in connection with the issue of the Notes.

The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Bank. The Bank has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from, or in a transaction not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Subscription Agreement provides that each Manager may through its agents or affiliates arrange for the resale of Notes in the United States solely to qualified institutional buyers pursuant to Rule 144A.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes or the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer, whether or not it is participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has represented and agreed that: (i) it has not offered or sold and prior to the expiry of the period of six months from the issue date will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Regulations, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank, and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Kazakhstan

Each Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

General

No action has been, or will be, taken by the Bank or the Managers that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither the Offering Circular nor any circular, Offering Circular, form of application, advertisement or other material, may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws or regulations.

TAXATION

Kazakhstan Taxation

The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Under Kazakhstan law as presently in effect, payments of principal and interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan and otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. In addition, gains realized by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax.

Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan-Netherlands Tax Treaty at a rate of 10%. The Bank will agree to ensure in the deposit agreement dated 11 May 2005 between the Issuer and the Bank to pay such additional amounts in respect of such withholding as shall be necessary to ensure that the Issuer receives the full amount of the payment required as if no such deduction were required.

Payments of interest under the Guarantee will be subject to withholding of Kazakhstan tax at a rate of 15%, and payment of fees and commissions will be subject to withholding of Kazakhstan tax at a rate of 20%, unless reduced or made exempt by an applicable double taxation treaty. The Bank will agree in the Trust Deed and the Guarantee to pay Additional Amounts in respect of any such withholding, subject to certain exceptions set out in full in "Terms and Conditions of the Notes – Condition 9". Payments, if any, under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax. For example, Noteholders entitled to the benefits of the Kazakhstan Tax Treaty with Germany, Italy, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax of 10%.

The Netherlands Taxation

General

The following is a summary of certain Dutch tax consequences of the acquisition, holding and disposal of the Senior Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Senior Notes. In view of its general nature, it should be treated with corresponding caution. Holders should consult with their tax advisers with regard to the tax consequences of investing in the Senior Notes. The discussion below is included for general information purposes only.

Except as otherwise indicated, this summary only addresses Dutch tax legislation, as in effect and in force at the date hereof, as interpreted in published case law, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Withholding tax

All payments made by the Issuers under the Senior Notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that none of the Senior Notes will, *de iure or de facto*, carry interest or any other payment dependent on the profits or on the distribution of profits of the Issuer or an affiliated entity (statutorily defined term) or, in the event the Senior Notes will carry such interest or payment, such Senior Notes will, *de iure or de facto*, have a fixed maturity that does not exceed ten years and that will not be extended to a date more than ten years after the date of the issue of the Senior Notes.

Taxes on income and capital gains

This paragraph does not describe the Dutch tax consequences of the acquisition, holding and disposal of the Senior Notes if a holder of Senior Notes or, in the event the holder is an individual, individuals related to such holder (statutorily defined term) and certain of their relatives by blood or marriage in the direct line (including foster children) have a substantial interest or deemed substantial interest (statutorily defined terms) in the Issuer.

Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder, alone or, in case of individuals, together with his /her partner (a statutorily defined term), directly or indirectly, holds an interest of 5 percent or more of the total issued and outstanding capital of that company or of 5 percent or more of the issued and outstanding capital of a certain class of shares of that company; or holds rights to acquire, directly or indirectly, such interest; or holds certain profit sharing rights in that company that relate to 5 percent or more of the company's annual profits and/or to 5 percent or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Residents of the Netherlands

Generally speaking, if the holder of a note is an entity that is a resident or deemed to be resident of the Netherlands for Dutch corporate income tax purposes, any payment under the Senior Notes or any gain realized on the disposal or deemed disposal of the Senior Notes is subject to a 29.6 percent corporate income tax rate (a corporate income tax rate of 25.5 percent applies with respect to taxable profits up to
€ 22,689, the first bracket for 2006). Please note that these rates will be decreased to 29.1 percent and 24.5 percent as from 1 January 2007.

A Dutch qualifying pension fund is in principle not subject to Dutch
corporate income tax. A qualifying Dutch investment fund ("*fiscale beleggingsinstelling*") is subject to corporate income tax at a special rate of zero percent.

If a holder of a note is an individual, resident or deemed to be resident of the Netherlands for Dutch income tax purposes (including the non-resident individual holder who has made an election for the application of the rules of the Dutch income tax act 2001 as they apply to residents of the Netherlands), any payment under the Senior Notes or any gain realized on the disposal or deemed disposal of the Senior Notes is taxable at the progressive income tax rates (with a maximum of 52 percent), if:

a. the Senior Notes are attributable to an enterprise from which the holder of the Senior Notes derives a share of the profit, whether as an entrepreneur or as a person who has a co-entitlement to the net worth of such enterprise, without being a shareholder, as defined in the Dutch income tax act 2001; or
b. the holder of a note is considered to perform activities with respect to the Senior Notes that go beyond ordinary asset management ("*normaal vermogensbeheer*") or derives benefits from the Senior Notes that are (otherwise) taxable as benefits from other activities ("*resultaat uit overige werkzaamheden*").

If the above-mentioned conditions (a) and (b) do not apply to the individual holder of a Note, such holder will be taxed annually on a deemed income of 4 percent of his or her net investment assets for the year at an income tax rate of 30 percent. The net investment assets for the year is the average of the fair market value of the investment assets less the allowable liabilities at the beginning of that year and the fair market value of the investment assets less the allowable liabilities at the end of that year. The Senior Notes are included as investment assets. A tax free allowance may be available. Actual benefits derived from the Senior Notes are as such not subject to Dutch income tax.

Non-residents of the Netherlands

A holder of Senior Notes will not be subject to Dutch taxes on income or capital gains in respect of any payment under the Senior Notes or in respect of any gain realized on the disposal or deemed disposal of the Senior Notes, provided that:

a. such holder is neither resident nor deemed to be resident of the Netherlands nor has made an election for the application of the rules of the Dutch income tax act 2001 as they apply to residents of the Netherlands; and
b. such holder does not have an interest in an enterprise or deemed enterprise (statutorily defined term) which, in whole or in part, is either effectively managed in the Netherlands or carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Senior Notes are attributable; and
c. in the event the holder is an individual, such holder does not carry out any activities in the Netherlands with respect to the Senior Notes that go beyond ordinary active asset management ("*normaal vermogensbeheer*") and does not derive benefits from the Senior Notes that are (otherwise) taxable as benefits from other activities in the Netherlands ("*resultaat uit overige werkzaamheden*").

A holder of a Note will not become subject to taxation on income and capital gains in the Netherlands by reason only of the execution, delivery and/or enforcement of the Senior Notes or the performance by the Issuer of its obligations under the Senior Notes.

Gift and estate taxes

Residents of the Netherlands

Gift, estate or inheritance taxes will arise in the Netherlands with respect to a transfer of the Senior Notes by way of a gift by, or on the death of, a holder of such Senior Notes who is resident or deemed resident of the Netherlands at the time of the gift or his or her death.

Non-residents of the Netherlands

No Dutch gift, estate or inheritance taxes will arise on the transfer of Senior Notes by way of gift by, or on the death of, a holder of Senior Notes who is neither resident nor deemed to be resident in the Netherlands, unless:

a. such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that, in whole or in part, is or was either effectively managed in the Netherlands or carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Senior Notes are or were attributable; or
b. in the case of a gift of a note by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

For purposes of Dutch gift, estate and inheritance taxes, amongst others, a person that holds the Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. Additionally, for purposes of Dutch gift tax, amongst others, a person not holding the Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the twelve months preceding the date of the gift. Applicable tax treaties may override deemed residency.

Other taxes and duties

No Dutch VAT and no Dutch registration tax, customs duty, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by the holders of Senior Notes in respect or in connection with the issue of the Senior Notes or with respect to the payment of interest or principal by the Issuers under the Senior Notes.

European Union Directive on Taxation on Savings Income

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 EU member states are required to provide to the tax authorities of other EU member states details of payments of interest and other similar income paid by a person to an individual in another EU member state, except that Austria, Belgium and Luxembourg impose a withholding system for a transitional period (unless during such period they elect otherwise). A number of third countries and territories have adopted similar measures.

United States Federal Income Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and retirement of Notes by a holder thereof. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, holders that mark their securities to market, controlled foreign corporations, passive foreign investment companies, partnerships or other pass-through entities, certain former citizens or residents of the United States, tax-exempt organisations or dealers or traders in securities or currencies, or to holders that will hold a Note as part of a position in a "straddle" or as part of a "hedging", "conversion" or "integrated" transaction for U.S. federal income tax purposes or that have a "functional currency" other than the U.S. Dollar. Moreover, this summary does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or differing interpretations which could affect the tax consequences described herein.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation or partnership organised in or under the laws of the United States or any State thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control. A "Non-U.S. Holder" is a beneficial owner of Notes other than a U.S. Holder. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such U.S. Holder, Non-U.S. Holder, partner or partnership should consult its own tax advisor as to its consequences.

Interest

Interest paid on a Note or under the Guarantee (including any Additional Amounts) will be includible in a U.S. Holder's gross income as ordinary interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes or under the Guarantee will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute "passive income," or, in the case of certain U.S. Holders, "financial services income" and will constitute "high withholding tax interest" if the interest on the Notes or possibly under the Guarantee is subject to a withholding at a rate of 5% or more. Under the recently enacted American Jobs Creation Act of 2004, these rules are subject to change during the term of the Notes or the Guarantee. A U.S. Holder may be eligible, subject to a number of limitations, for a foreign tax credit or deduction against such U.S. Holder's U.S. federal income tax liability for taxes withheld on interest payments on the Notes.

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

Sale, Exchange or Retirement

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or retirement (other than accrued but unpaid interest which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of such Note to the Holder. Any such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if such U.S. Holder's holding period for such Notes exceeds one year. Any gain or loss realized on the sale, exchange or retirement of a Note generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

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

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are United States persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the United States to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax from any such payment made within the United States on a Note or under the Guarantee to a holder of a Note that is a United States person (other than an "exempt recipient," such as a corporation) if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is currently 28%.

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

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATION.

GENERAL INFORMATION

1. The Bank's registered office is located at 97 Rozybakieva Street, Almaty 050046, Kazakhstan, and its telephone number is +7 3272 590 235. The Bank is registered with the Registration Services Committee of the Ministry of Justice of the Republic of Kazakhstan and its registration number is 3898-1900-AO. The Issuer's registered office is located at Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands, and its telephone number is +31 10224 5333. The Issuer is registered with the trade register in Rotterdam and its registration number is 33302782.

2. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code 025387805 and ISIN XS0253878051. The Restricted Global Note has been accepted for clearance through DTC, Euroclear and Clearstream Luxembourg. The CUSIP number for the Restricted Global Note is 40430AAA1, the ISIN is US40430AAA16 and the Common Code is 025404122. The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, 1855 Luxembourg; and the address of DTC is 55 Water Street, 49th Floor, New York, New York 10041, United States of America.

3. The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in The Netherlands and Kazakhstan in connection with the issue, offer and sale of, and the performance of the Notes and the Guarantee. The issue of the Notes was authorised by a decision of a duly convened meeting of the Managing Board of the Issuer dated 18 April 2006 and by a decision of the Bank as sole shareholder of the Issuer adopted in a duly convened shareholders' meeting dated 18 April 2006. The Guarantee was authorised by a duly adopted resolution of the Board of Directors of the Bank dated 27 April 2006.

4. Neither the Bank, nor the Issuer, nor any of their subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position or profitability of the Bank and its subsidiaries.

5. There has been no significant change in the financial or trading position of the Bank and its subsidiaries taken as a whole since 31 December 2005 and no material adverse change in the prospects of the Bank and its subsidiaries taken as a whole since 31 December 2005. There has been no significant change in the financial or trading position of the Issuer since its date of incorporation and no material adverse change in the prospects of the Issuer since December 31, 2005.

6. Neither the Issuer nor the Bank have entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.

7. Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and issued and sold in reliance on Rule 144A to be designated as eligible for trading on PORTAL. In addition, after their issue, the Bank will use its best efforts to cause the Notes to be listed on the KASE.

8. Copies of the following documents (and English translations thereof where the documents in question are not in English) may be inspected at, are available from and may be obtained free of charge upon request from the specified offices of the Paying and Transfer Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes are outstanding:

(a) a copy of this Offering Circular, together with any supplement to this Offering Circular;

(b) the Guarantee;

(c) the Trust Deed, which includes the forms of the Global Notes and the definitive Notes;

(d) the Agency Agreement;

(e) the Bank's Charter and the Issuer's Articles of Association;

(f) the Auditor's Report of the Bank, together with the consolidated financial statements of the Bank as at and for the years ended 31 December 2005, 2004 and 2003; and

(g) the financial statements of the Issuer as at and for the years ended 31 December 2005 and 2004.

In addition, the Offering Circular will be published on the website of the Luxembourg Stock Exchange at (www.bourse.lu).

9. So long as the Notes are listed on the Luxembourg Stock Exchange, the Bank will maintain a Paying and Transfer Agent in the City of Luxembourg. The name of the Paying and Transfer Agent initially appointed in the City of Luxembourg and of the listing agent in the City of Luxembourg are set out at the end of this Offering Circular.

10. The Bank's independent auditors are Ernst & Young LLP, acting as auditors under the license No. 0000003 dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan. Ernst & Young LLP is not a member of a professional body. The Bank's consolidated financial statements for the years ended 31 December 2005, 2004 and 2003 were audited by Ernst & Young. The Bank does not publish non-consolidated financial statements or interim financial statements. Ernst & Young's audit reports are included in this Offering Circular. Ernst & Young has given and not withdrawn its written consent to the distribution of this Offering Circular with the inclusion herein of its reports and references to its name in the form and context in which these appear.

11. The Issuer's independent auditors are Mazars Paardekooper Hoffman, Rotterdam, The Netherlands, members of Koninklijk Nederlands Instituut van Registeraccountants. The Issuer's financial statements as at and for the years ended 31 December 2004 and 2005 were audited by Mazars Paardekooper Hoffman. The Issuer does not prepare interim financial statements. The Issuer's results are consolidated in the Bank's consolidated financial statements. Mazars Paardekooper Hoffman's reports are included in this Offering Circular. Mazars Paardekooper Hoffman has given and not withdrawn its written consent to the distribution of this Offering Circular with the inclusion herein of its reports and references to its name in the form and context in which these appear.

12. Subject as provided herein under "Terms and Conditions of the Notes" and "Form of Notes and Transfer Restrictions," there are no restrictions on the transfer of the Notes and, accordingly, pursuant to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the Notes shall be freely transferable and no transaction made on the Luxembourg Stock Exchange shall be cancelled.

13. The total fees and expenses in connection with the admission of the Notes to trading on the Luxembourg Stock Exchange and PORTAL are expected to be approximately U.S. $10,000.

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HSBK (Europe) B.V.

Rotterdam, The Netherlands

ANNUAL ACCOUNTS

31 December 2005

Chamber of Commerce:
File number 33302782

HSBK (Europe) BV

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HSBK (Europe) BV

Management Report

The Management has pleasure in submitting the Company's annual accounts for the year ended 31 December 2005.

Summary of activities

The principal object of the Company is to act as a holding and finance company.

Future Outlook

It is expected that the Company during 2006 will issue a Eurobond, of which the proceeds will be lend to its shareholder.

Post-balance events

The current account shareholder in the amount of EUR 49,366 will be reduced to zero during 2006, through a write-off to be made by the shareholder. As a result the Company will have an extraordinary gain in the same amount.

Rotterdam, 18 April 2006

Equity Trust Co. N.V.	D.S. Karabayev

HSBK (Europe) BV

Balance Sheet

(After appropriation of results and expressed in Euros)

	Notes	31 December 2005	31 December 2004
CURRENT ASSETS			
Cash at banks	3	26,632	343
		26,632	343
CURRENT LIABILITIES			
Current account shareholder		49,366	49,366
Accrued expenses	4	8,330	3,622
		57,696	52,988
NET CURRENT ASSETS/(LIABILITIES)		(31,064)	(52,645)
TOTAL ASSETS LESS LIABILITIES		(31,064)	(52,645)
CAPITAL AND RESERVES	5		
Share capital		18,151	18,151
Share premium		55,000	0
Accumulated deficit		(104,215)	(70,796)
		(31,064)	(52,645)

Equity Trust Co. N.V.

D.S. Karabayev

HSBK (Europe) BV

Profit and loss account

(Expressed in Euros)

	Year ended 31 December 2005	Year ended 31 December 2004
FINANCIAL INCOME/(CHARGES)		
Interest income/(expenses)	55	(2)
Bank charges	(170)	(103)
Exchange result	(17)	25
	(132)	(80)
EXPENSES		
Capital tax	303	0
General and administrative expenses	32,984	4,073
	33,287	4,073
OPERATING (LOSS) BEFORE TAXATION	(33,419)	(4,153)
CORPORATE INCOME TAX	0	0
NET (LOSS) FOR THE YEAR	(33,419)	(4,153)

Equity ~~Trust~~ Co. N.V.

D.S. Karabayev

HSBK (Europe) BV

Notes to the accounts as at 31 December 2005

1. General

The Company is a private limited liability company established in Amsterdam on 1 May 1998. The principal object of the Company is to act as a holding and finance company. The sole shareholder of the Company is JSC Halyk Savings Bank of Kazakhstan, Almaty, Republic of Kazakhstan.

2. Summary of principal accounting policies

(a) General

The accompanying accounts have been prepared in accordance with the provisions of the EU Directives as implemented in Part 9, Book 2 of the Dutch Civil Code.

The shareholder will use it's best endeavours in giving the Company the management and financial support it may require to enable it to pay creditors as they fall due, except for any subordinated notes issued in the future by the Company, in so far as such payments cannot be funded from the Company's own resources, within the foreseeable future. In view of this, the directors consider it appropriate to present these annual accounts on a going concern basis.

(b) Foreign currencies

All assets and liabilities expressed in currencies other than Euros have been translated at the rates of exchange prevailing at the balance sheet date. All transactions in foreign currencies have been translated into Euros at rates of exchange approximating to those ruling at the date of transactions. Resulting exchange differences are recognised in the profit and loss account.

(c) Other assets and liabilities

Unless otherwise indicated all assets and liabilities are stated at nominal value.

(d) Corporate income tax

Corporate income tax is calculated on the basis of the net result show in the Profit and Loss account, taking into account tax allowances and tax adjustments.

(e) Revenue recognition

Income and expenses are accounted for under the accrual basis.

Notes to the accounts as at 31 December 2005

3. Cash at bank

Cash at banks consists of current account balances, which are available on demand.

4. Accrued expenses

The accrued expenses refer to audit, legal and administration fees regarding 2005, but partly made and paid in 2006.

5. Capital and reserves

With reference to Section 178c paragraph 1 of book 2 of the Dutch Civil Code, the authorised share capital consists of 200 shares of EUR 453.78 each amounting to EURO 90,756.04. According to the Company's articles of association the shares are denominated in Dutch Guilders at NLG 1,000. As per balance sheet date 40 shares were issued and fully paid-up.

The movements in capital and reserves can be summarised as follows:

	31 December 2005	31 December 2004
Share capital	18,151	18,151
Share premium	55,000	0
Accumulated deficit		
At beginning of period	(70,796)	(66,643)
Result for the period	(33,419)	(4,153)
End of period	(104,215)	(70,796)
Total capital and reserves	(31,064)	(52,645)

6. Staff number and employment costs

The Company has no employees, other than its directors, and hence incurred no wages, salaries and related social security premiums during the year under review or the previous year.

7. Directors

The Company has two directors and no supervisory directors. Neither remuneration nor any other benefit was paid to the present director during the year under review or the previous year.

Rotterdam, 18 April 2006

Equity Trust Co. N.V.	D.S. Karabayev

Supplementary information

Accumulated deficit

Subject to the provisions under the Dutch Law that no dividends can be declared until all losses have been recovered, retained earnings are at the disposal of the shareholder in accordance with Article 20 of the Articles of association of the Company.

Proposed appropriation of result

The management proposes that the result for the past financial year will be carried forward. In the annual accounts this proposal has already been accounted for.

MAZARS

KH/AH4691

AUDITORS' REPORT

INTRODUCTION

We have audited the annual accounts of HSBK (Europe) B.V., with its statutory seat in Amsterdam The Netherlands for the year 2005, with capital and reserves as at 31 December 2005 of € -31,064 and net loss for the period 2005 of € 33,419. These annual accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of the company as at 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, 18 April 2006

MAZARS PAARDEKOOPER HOFFMAN N.V.

G.A.P.M. Kannekens RA

MAZARS PAARDEKOOPER HOFFMAN N.V.
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HSBK (Europe) B.V.

Rotterdam, The Netherlands

ANNUAL ACCOUNTS

31 December 2004

Chamber of Commerce:
File number 33302782

Management Report

The Management has pleasure in submitting the Company's annual accounts for the year ended 31 December 2004.

Summary of activities

The principal object of the Company is to act as a holding and finance company.

Future Outlook

It is expected that the activities of the Company will remain unchanged.

Post-balance events

During 2005 there will be share premium contribution, according to a resolution of the shareholder dated 4 April 2005, in the amount of EUR 55,000. No other major post-balance events affecting the accounts, herewith presented, have occurred to date.

Rotterdam, 4 April 2005

Equity Trust Co. N.V.

K. Abenov

HSBK (Europe) BV

Balance Sheet

(After appropriation of results and expressed in Euros)

	31 December 2004	31 December 2003
CURRENT ASSETS		
Cash at banks	343	424
	343	424
CURRENT LIABILITIES		
Current account shareholder	49,366	44,366
Accrued expenses	3,622	4,489
Other liabilities	0	61
	52,988	48,916
NET CURRENT ASSETS/(LIABILITIES)	(52,645)	(48,492)
TOTAL ASSETS LESS LIABILITIES	(52,645)	(48,492)
CAPITAL AND RESERVES		
Share capital	18,151	18,151
Accumulated deficit	(70,796)	(66,643)
	(52,645)	(48,492)

Equity ~~Trust~~ Co. N.V.

K. Abenov

HSBK (Europe) BV

Profit and loss account
(Expressed in Euros)

	Period ended 31 December 2004	Period ended 31 December 2003
FINANCIAL INCOME/(CHARGES)		
Interest income/(expenses)	(2)	(75)
Bank charges	(103)	0
Exchange result	25	0
	(80)	(75)
EXPENSES		
General and administrative expenses	4,073	5,915
	4,073	5,915
OPERATING (LOSS) BEFORE TAXATION	(4,153)	(5,990)
CORPORATE INCOME TAX	0	0
NET (LOSS) FOR THE YEAR	(4,153)	(5,990)

Equity ~~Trust~~ Co. N.V.

K. Abenov

Notes to the accounts as at 31 December 2004

1. General

The Company is a private limited liability company established in Amsterdam on 1 May 1998. The principal object of the Company is to act as a holding and finance company. The sole shareholder of the Company is Halyk Savings Bank of Kazakhstan, Almaty, Republic of Kazakhstan.

2. Summary of principal accounting policies

(a) General

The accompanying accounts have been prepared in accordance with the provisions of the EU Directives as implemented in Part 9, Book 2 of the Dutch Civil Code.

The shareholder will use it's best endeavours in giving the Company the management and financial support it may require to enable it to pay creditors as they fall due, except for any subordinated notes issued in the future by the Company, in so far as such payments cannot be funded from the Company's own resources, within the foreseeable future. Furthermore the shareholder will, according to a resolution dated 4 April 2005, contribute a share premium in the amount of EUR 55,000. In view of this, the directors consider it appropriate to present these annual accounts on a going concern basis.

(b) Foreign currencies

All assets and liabilities expressed in currencies other than euro have been translated at the rates of exchange prevailing at the balance sheet date. All transactions in foreign currencies have been translated into euro at rates of exchange approximating to those ruling at the date of transactions. Resulting exchange differences are recognised in the profit and loss account.

(c) Other assets and liabilities

Unless otherwise indicated all assets and liabilities are stated at nominal value.

(d) Corporate income tax

Corporate income tax is calculated on the basis of the net result show in the Profit and Loss account, taking into account tax allowances and tax adjustments.

(e) Revenue recognition

Income and expenses are accounted for under the accrual basis.

HSBK (Europe) BV

Notes to the accounts as at 31 December 2004

3. Capital and reserves

With reference to Section 178c paragraph 1 of book 2 of the Dutch Civil Code, the authorised share capital consists of 200 shares of EUR 453.78 each amounting to EURO 90,756.04. According to the Company's articles of association the shares are denominated in Dutch Guilders at NLG 1,000. As per balance sheet date 40 shares were issued and fully paid-up.

The movements in capital and reserves can be summarised as follows:

	31 December 2004	31 December 2003
Share capital	18,151	18,151
Accumulated deficit		
At beginning of period	(66,643)	(60,653)
Result for the period	(4,153)	(5,990)
End of period	(70,796)	(66,643)
Total capital and reserves	(52,645)	(48,492)

4. Staff number and employment costs

The Company has no employees, other than its directors, and hence incurred no wages, salaries and related social security premiums during the year under review or the previous year.

5. Directors

The Company has two directors and no supervisory directors. Neither remuneration nor any other benefit was paid to the present director during the year under review or the previous year.

Rotterdam, 4 April 2005

Equity ~~Trust Co.~~ N.V.

K. Abenov

Supplementary information

Accumulated deficit

Subject to the provisions under the Dutch Law that no dividends can be declared until all losses have been recovered, retained earnings are at the disposal of the shareholder in accordance with Article 20 of the Articles of association of the Company.

Appropriation of result

The management proposes that the result for the past financial year will be carried forward. In the annual accounts this proposal has already been accounted for.

M MAZARS

HH/TO0613

AUDITOR'S REPORT

INTRODUCTION

We have audited the annual accounts of HSBK (Europe) B.V., Rotterdam, The Netherlands for the year 2003, with capital and reserves as at 31 December 2004 of € -52,645 and net loss for the period 2004 of € 4,153. These annual accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of the company as at December 31, 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, 4 April 2005

MAZARS PAARDEKOOPER HOFFMAN

G.A.P.M. Kannekens RA

MAZARS PAARDEKOOPER HOFFMAN
RIVIUM PROMENADE 200 - POSTBUS 23123 - 3001 KC ROTTERDAM - rotterdam@mazars.nl
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Joint Stock Company Halyk Bank
Consolidated Financial Statements

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

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ERNST & YOUNG

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.

Ernst & Young LLP

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.

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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.

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.

December 31, 2005 and 2004

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.

December 31, 2005 and 2004

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.

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)

December 31, 2005 and 2004

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)

December 31, 2005 and 2004

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)

December 31, 2005 and 2004

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, 2005 and 2004

	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**	**1,765,947**	**–**	**–**	**–**	**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)**
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)

December 31, 2005 and 2004

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)

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%

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