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The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such underwriters or affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

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JSC Development Bank of Kazakhstan

(A joint stock company organised in the Republic of Kazakhstan)

U.S.$400,000,000

EURO MEDIUM TERM NOTE PROGRAMME

Under this U.S.$400,000,000 Euro Medium Term Note Programme (the "Programme"), JSC Development Bank of Kazakhstan (the "Issuer" or "DBK") may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The maximum aggregate nominal amount of Notes outstanding under the Programme will not exceed U.S.$400,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement referred to herein), subject to increase as described herein.

Application has been made to list Notes issued under the Programme during the period of twelve months after the date hereof on the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on an unlisted basis or to be listed on such other or further listing authorities, stock exchanges or quotation systems as may be agreed between the Issuer and the relevant Dealer. In addition, the Issuer may apply for Notes issued under the Programme to be listed on the Kazakhstan Stock Exchange.

See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Notes issued under the Programme.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "General Description of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each, a "Dealer" and together, the "Dealers"), which appointment may be for a specific issue of Notes or an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in relation to an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all the Dealers agreeing to subscribe for such Notes, or in the case of a syndicated issue of Notes, the lead manager of such issue, as the case may be.

Arranger and Dealer

UBS INVESTMENT BANK

The date of this Offering Circular is 20 May 2005.

The Issuer, having made all reasonable inquiries, confirms that this Offering Circular (including for this purpose, each relevant Pricing Supplement) contains all information with regard to the Issuer, the Notes and the Programme which is material in the context of the issue and offering of the Notes, that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions, expectations and intentions of the Issuer expressed herein are true and honestly held and that there is no other fact or matter omitted from this Offering Circular (i) which was or is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of an investment in the Notes or (ii) the omission of which made or makes any statement herein misleading in any material respect or (iii) in the context of the issue and offering of the Notes was or is material for disclosure herein. The Issuer accepts responsibility for the information contained in this Offering Circular.

The information contained herein under the headings "The Banking Sector in Kazakhstan" and Annex A "The Republic of Kazakhstan" and other macroeconomic data which appears in this Offering Circular has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including the National Statistics Agency of Kazakhstan (the "NSA"), the National Bank of Kazakhstan (the "NBK") and participants in the capital markets and financial sector in Kazakhstan. It is difficult to obtain precise information regarding the Kazakhstan banking industry, and there is not necessarily any uniformity of view among such sources as to such information provided herein. Such information has not been independently verified. The Issuer accepts responsibility for accurately reproducing such extracts but accepts no further or other responsibility in respect of such information.

This Offering Circular should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Pricing Supplement.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Trustee or any Dealer.

No representation or warranty is made or implied by the Dealers, the Trustee or any of their respective affiliates, and none of the Dealers, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Offering Circular or any Pricing Supplement and other offering material relating to the Notes, see "Subscription and Sale". In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

In addition, the Issuer has not authorised any offer of Notes having a maturity of one year or more to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or the Trustee or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "€" or "euro" are to the single currency of the participating member states of the European Economic and Monetary Union which was introduced on 1 January 1999, references to "£" and "Sterling" are to the lawful currency of the United Kingdom, references to "U.S.$" and "U.S. Dollars" are to the lawful currency of the United States of America, references to "¥", "Japanese yen" and "Yen" are to the lawful currency of Japan and references to "Tenge" or "KZT" are to Kazakhstani Tenge, the official currency of the Republic of Kazakhstan. References to "Kazakhstan" or the "Republic" are to the Republic of Kazakhstan, references to the "Government" are to the government of Kazakhstan and 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, in each case being the official exchange rate as quoted on the Kazakhstan Stock Exchange ("KASE") and reported by the NBK. 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), which was KZT 132.59 per U.S. $ 1.00 on 31 March 2005 and KZT 130.00 per U.S.$1.00 on 31 December 2004 and any income statement data in U.S. dollars is translated from Tenge into U.S. Dollars at the applicable average exchange rate for the period to which such income statement data relates, which was KZT 130.25 per U.S.1.00 for the three months ended 31 March 2005 and KZT 136.04 per U.S.$1.00 for the year ended 31 December 2004. No representation is made that the Tenge amounts in this Offering Circular could have been converted into U.S. Dollars at such rates or at all.

In this Offering Circular, any discrepancies in any table between totals and the sums of the amounts listed in such table are due to rounding.

In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer (if any) which is specified in the relevant Pricing Supplement as the stabilising manager or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes of the Series of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the stabilising manager or any of its agents to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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Documents Incorporated by Reference

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(1) the most recently published annual report of the Issuer; and

(2) all amendments and supplements to this Offering Circular prepared by the Issuer from time to time,

save that any statement contained in this Offering Circular or in any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The Issuer will, at the specified offices of the Paying Agents (including the Paying Agent having its specified office in Luxembourg), provide, free of charge, upon oral or written request, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular). Written or telephone requests for such documents should be directed to the specified office of any Paying Agent or the specified office of the Listing Agent in Luxembourg.

Supplementary Offering Circular

The Issuer has undertaken, in connection with the listing of the Notes on the Luxembourg Stock Exchange, that if there shall occur any adverse change in the business or financial position of the Issuer or any change in the information set out under "Terms and Conditions of the Notes", that is material in the context of issuance under the Programme, the Issuer will prepare or procure the preparation of an amendment or supplement to this Offering Circular or, as the case may be, publish a new Offering Circular, for use in connection with any subsequent issue by the Issuer of Notes to be listed on the Luxembourg Stock Exchange

Enforcement of Foreign Judgments

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

The Notes and the Trust Deed are governed by the laws of England and the Issuer has agreed in the Notes and the Trust Deed 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, to arbitration in London, England. See Condition 23 under "Terms and Conditions of the Notes". Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. However, each of Kazakhstan and England are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention"), although there has recently been some doubt as to whether the courts of Kazakhstan would enforce an arbitral award under the Convention. In February 2002, the Constitutional Council of the Republic passed a decree on the interpretation of the Kazakhstan Constitution which stated that the conclusion by parties to a commercial contract in which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic. The matter was further clarified by Article 3(2) of the Law No. 23-III of 28 December 2004 on International Commercial Arbitration, which became effective on 17 January 2005, and Article 425-1 of the Law No. 24-III of 28 December 2004 (amending the Civil Procedure Code), which became effective on 17 January 2005. These two Articles are supported by Article 4 (3) of the Constitution of the Republic of Kazakhstan. As a result of the new law, an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

General Description of the Programme

The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer:	JSC Development Bank of Kazakhstan.
Arranger:	UBS Limited.
Dealers:	UBS Limited and any other Dealer appointed in accordance with the Programme Agreement.
Trustee:	Deutsche Trustee Company Limited.
Principal Paying Agent:	Deutsche Bank AG London.
Luxembourg Listing Agent:	Dexia Banque Internationale à Luxembourg S.A.
Programme Size:	U.S.$400,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Programme Agreement) outstanding at any one time. The Issuer may increase the amount of the Programme at any time in accordance with the Programme Agreement.
Listing:	Each Series may be listed on the Luxembourg Stock Exchange and/or admitted to Listing, trading and/or quotation by any other stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.
Issuance:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations. Each Tranche will be the subject of Pricing Supplement which, for the purposes of that Tranche only, supplements the Conditions of the Notes and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as supplemented, amended and/or replaced by the relevant Pricing Supplement.
Forms of Notes:	The Notes will be issued in bearer form as described in this Offering Circular. See "Forms of the Notes."
Currencies:	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Status of the Notes:	The Notes will constitute direct, general, unconditional and unsecured obligations of the Issuer which rank and will rank *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See "Terms and Conditions of the Notes—Status".

Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement.
Maturities:	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") will have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Optional Redemption:	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Tax Redemption:	Except as described in "Optional Redemption" above or following an Event of Default, early redemption will only be permitted for tax reasons as described in Condition 10.2.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Denominations:	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Negative Pledge and Covenant:	The Notes will have the benefit of a negative pledge and a covenant relating to compliance with the legislative act constituting DBK, each as more fully described in Condition 5.
Cross Default:	The Notes will have the benefit of a cross default clause as described in Condition 13.3.
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of Kazakhstan unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 12) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Redenomination	The applicable Pricing Supplement may provide that Notes may be redenominated in euro in accordance with Condition 22.
Governing Law:	English law.
Listing:	Application has been made to list Notes issued under the Programme during the period of twelve months after the date of this Offering Circular on the

	Luxembourg Stock Exchange. The Programme also permits Notes to be issued on an unlisted basis or to be listed on such other or further listing authorities, stock exchanges or quotation systems as may be agreed with the Issuer. In addition, the Issuer may apply for Notes issued under the Programme to be listed on the Kazakhstan Stock Exchange, although no assurance can be given that such listing will be obtained.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, Kazakhstan, Japan, the Republic of France and Switzerland, see "Subscription and Sale."

Risk Factors

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

GENERAL

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets such as Kazakhstan's 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 including the total loss of investment and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

RISK FACTORS RELATING TO THE REPUBLIC OF KAZAKHSTAN

Political and Regional Risk Factors

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 democratic model. The transition has been marked by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than most other countries of the CIS; however, privatisation has been substantially completed. As with any transition economy, there can be no assurance that such 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 and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, the Kyrgyz Republic and Belarus, joined by Tajikistan in 1999, signed a customs union which, among other things, provides for the removal of trade tariffs between these nations, and the Republic has taken other steps to promote regional economic integration. In September 2003, Kazakhstan, Ukraine, Russia and Belarus signed an agreement 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 tariffs and trade. 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 coordinate their fiscal, credit and currency policies. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, this could adversely impact the economy of Kazakhstan.

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

There has been recent public unrest and political tension in neighbouring Uzbekistan. The Issuer does not have any immediate plans to expand into Uzbekistan at present and at the date of this Offering Circular there are no existing or prospective projects to do business in Uzbekistan funded by or under consideration by the Issuer. However, there can be no assurance that the Issuer's business in Kazakhstan will not be adversely affected by illegal immigration from Uzbekistan resulting from the military action presently undertaken by the Government of Uzbekistan in connection with the public unrest.

In addition, following the public unrest in Kyrgyzstan, Georgia and Ukraine, there have been changes in the respective governments. Whilst such developments are considered positive, the stability and the future of those countries in particular and the region in general remains uncertain and major developments may continue to occur which ultimately may have an adverse effect.

Macroeconomic Risk Factors and Exchange Rate Policies

Since Kazakhstan is heavily dependent upon export trade and commodity prices, it was particularly affected by the Asian financial crisis in early 1998 and by the Russian crisis later that year, both of which exacerbated the problems associated with falling commodity prices. As 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. Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect Kazakhstan's economy in the future.

The Government began implementing market-based economic reforms in 1992 (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 ten 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. According to figures compiled by the NSA, gross domestic product ("GDP") has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.5 per cent. in 2002, 9.2 per cent. in 2003 and 9.4 per cent. in 2004. However, there can be no assurance that GDP will continue to grow and any fall in GDP in subsequent years could adversely affect Kazakhstan's development.

The Tenge is convertible for current account transactions, although it is not a convertible currency outside of Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations.

Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses 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, floated the Tenge. The Tenge fell by 64.6 per cent., against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7 per cent. in the year ended 31 December 1998. 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 slower rate, depreciating by 3.8 per cent. in 2001 and 3.3 per cent. in 2002. However, the Tenge appreciated in value by 7.3 per cent. against the U.S. Dollar during 2003 to KZT 144.22 per U.S.$1.00 as at 31 December 2003 compared to KZT 155.60 per U.S.$1.00 as at 31 December 2002. As at 31 December 2004, the exchange rate was KZT 130.00 per U.S.$1.00, an appreciation of 9.9 per cent. compared to 31 December 2003. As at 31 March 2005 the exchange rate was KZT 132.59 per U.S.$1.00, a depreciation of 2.0 per cent. since 31 December 2004.

While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

Implementation of Further Market-Based Economic Reforms

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of large oil and gas producers, mining companies and the national telecommunications company. However, there remains a need for substantial investment in many sectors of the Kazakhstan economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the amount of non-cash transactions in the economy and the size of the informal sector adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration and by continuing the privatisation process. Currently the Government is considering the possibility of presenting to the 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 2002 which was subsequently amended in 2003 and in 2004, laws relating to investment and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, corporate organisation and governance, state enterprise reform and privatisation, the legal framework in Kazakhstan is still less developed as compared to countries with established market economies. In addition, 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, judicial and Government officials may not be fully independent of outside social, economic and political forces and there may have been instances of improper payments being made. Court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent.

As a result of these ambiguities, as well as a lack of an established system of precedent or consistency in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed system for settlement of tax disputes. Further, 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 less established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system.

The Government of Kazakhstan 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, the Government of Kazakhstan may not continue with such a policy in the future or such a policy, if continued, may not ultimately prove to be successful. It is expected that the tax legislation in Kazakhstan will become more sophisticated and that there will be additional revenue raising measures which may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Issuer's business and financial condition and on the results of operations of companies operating in Kazakhstan.

Less Developed Securities Market

An organised securities market was established in Kazakhstan in 1997 and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are less well developed in Kazakhstan, and less strictly enforced, than in Western European countries, and existing laws and regulations may be applied inconsistently with consequent irregularities in enforcement. In addition, less information relating to Kazakhstan entities, such as the Issuer, may be publicly available to investors in securities issued or guaranteed by such entities than are available to investors in entities organised in Western European countries.

RISK FACTORS RELATING TO THE ISSUER

Loan Portfolio Growth

The Bank's gross loan portfolio has increased in recent years, growing 50.9 per cent. to KZT 29,728 million as at 31 December 2004 from KZT 19,697 million as at 31 December 2003. The growth in the gross loan portfolio is attributable to an overall increase in the growth rate of lending activity. The significant increase in loan portfolio size has increased the Issuer's credit exposure and will require continued and improved monitoring of credit quality and the adequacy of its provisioning levels by the Issuer's management, as well as continued and anticipated improvement in the Issuer's credit risk management programme.

Continued growth of the Issuer's loan portfolio is contingent upon (i) the Issuer finding suitable projects to finance; (ii) the ability of the Issuer to identify suitable corporate guarantors for such development projects; and (iii) the ability of the Issuer to attract and retain qualified personnel and to train new personnel to monitor asset quality. Failure by the Issuer to find additional development projects that meet its credit policies and criteria, and limited ability to obtain guarantees for such development projects and attracting qualified personnel, could affect the Issuer's ability to increase and maintain the quality of its loan portfolio and result in a material adverse effect on the Issuer's results of operations and financial condition.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally or specific economic sectors within it or corporate or financial information relating to companies and 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, available to the Issuer relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Issuer ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Issuer's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Issuer would be able to enforce any collateral in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. The Issuer finances long term development projects about which there may be little prior information or history to rely upon. Accordingly, the Issuer is subject to greater risks than a commercial bank funding development projects.

Credit Risks

The Issuer has implemented specific credit risk policies. See "Lending Policies and Procedures." However, since the Issuer's credit portfolio consists of medium- to long-term loans and there has been little historical experience and information for such loans, there can be no assurance that the Issuer's credit policies will be sufficient to mitigate risks involved in making loans with such tenors in an emerging market such as Kazakhstan. As the Kazakh economy is driven by commodity prices, customers operating in industries which are susceptible to commodity price fluctuations find their financial conditions affected by this and, consequently, the ability of such customers to repay the loans extended by the Issuer timely and fully may be adversely affected. Additionally, in line with the Issuer's policy of limiting its exposure to currency fluctuations, the Issuer's loan portfolio consists of non-Tenge loans, being primarily loans denominated in U.S. Dollars. Accordingly, any rise in the value of the Tenge relative to the U.S. Dollar might result in increased costs to the Issuer and could adversely affect the Issuer's financial condition and results.

Interest Rate Risk

The Issuer is exposed to risk resulting from mismatches between the interest rates on its interest bearing liabilities and interest-earning assets. Although the Issuer believes that it has policies and procedures in place to measure and monitor liquidity, market risk and maturity mismatches, volatility in interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of the Issuer.

Foreign Currency Risk

The Issuer is also exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Issuer sets limits on the level of exposure to currencies (primarily the U.S. Dollar) and enters into forward and swap transactions to hedge its foreign currency risk. As the Issuer's principal cash flows are largely generated in U.S. Dollars, any future movements in the exchange rate between Tenge and U.S. Dollar may adversely affect the carrying value of the Issuer's Tenge denominated monetary assets and liabilities and the Issuer's ability to realise investments in non-monetary assets measured in Tenge.

In addition, many of the Issuer's borrowers have revenues principally generated in Tenge and any decrease in the Tenge exchange rate to the U.S. Dollar may adversely affect their financial condition and, consequently, the ability of such borrowers timely and fully to repay the U.S. Dollar denominated loans extended by the Issuer.

Regulation

The Issuer's operations are regulated by the Law on the Development Bank of Kazakhstan dated 25 April 2001, the Memorandum and its Charter, as amended, its license from the NBK and other relevant laws and regulations. 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 Issuer's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

State Ownership

The Issuer was established as the Government's primary vehicle for promoting economic development and exports in certain sectors of the Kazakhstan economy but now is part of an overall industrial development programme. Although the Government has stated that it maintains an arm's length relationship with the Issuer and does not influence its funding or lending policies, through its majority ownership of the issued and outstanding share capital of the Issuer, the Government has the right to decide on all matters requiring a vote of shareholders, including but not limited to election of the Issuer's Board of Directors, which is the main management body of the Issuer responsible for approval of credit decisions and the financial strategy of the Issuer.

There can be no assurance that the Government will not change its policy towards the Issuer, which could result in material adverse changes to the Issuer's current strategies and management or could materially affect the Issuer's ability to operate with a commercial rate of return.

Ministry of Industry and Trade Comfort Letter

Recognising the importance of DBK to Kazakhstan's development strategy, the Ministry of Industry and Trade has provided a letter of comfort dated 13 May 2005 to the Dealers and the Trustee, a copy of which is included elsewhere in this Offering Circular. See "Annex B — Comfort Letter of the Ministry of Industry and Trade". The comfort letter is not a guarantee in relation to the Notes and does not constitute a legally binding obligation of the Ministry of Industry and Trade or of the Government. Accordingly, neither the Trustee nor the holders of the Notes will be able to bring any action to enforce this letter.

RISK FACTORS RELATING TO 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 in price which may not necessarily be related to the financial performance of the Bank.

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 holders of the Notes to sell their Notes, or the price at which such holders would be able to sell Notes. Application has been made for the listing of the Notes on the Luxembourg Stock Exchange and will be made for listing of the Notes on the Kazakhstan Stock Exchange. There can be no assurance that any such listing of the Notes in a Tranche, as specified in the applicable Pricing Supplement, will be obtained or, if any such listing 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. Furthermore, 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.

Forms of the Notes

Each Tranche of Notes will initially be in the form of either a temporary global note (the "Temporary Global Note"), without interest coupons, or a permanent global note (the "Permanent Global Note"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "Global Note") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") and/or any other relevant clearing system.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

If the relevant Pricing Supplement specifies the form of Notes as being a "Temporary Global Note exchangeable for a Permanent Global Note," then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchanged for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against (a) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent; and (b) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership, within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form ("Definitive Notes"):

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note," then if (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 13 occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C

Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes: (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or (b) at any time, if so specified in the relevant Pricing Supplement; or (c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (ii) any of the circumstances described in Condition 13 occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "Terms and Conditions of the Notes" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described below.

Each Global Note will contain provisions which modify the terms and conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 10.5 the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10.3 in relation to some of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Redenomination: If the Notes are redenominated pursuant to Condition 22, then following redenomination:

(a) if Definitive Notes are required to be issued, they shall be issued at the expense of the Issuer in denominations in excess of euro 50,000 as determined by the Principal Paying Agent and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders; and

(b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest euro 0.01.

The following legend will appear on all Notes which have an original maturity of more than 365 days and any Coupons and Talons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, disposition, or redemption will be treated as ordinary income.

Notices: Notwithstanding Condition 19, while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depository or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Form of Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

Pricing Supplement dated [ ] 200[ ]

JSC DEVELOPMENT BANK OF KAZAKHSTAN

Issue of [Aggregate Nominal Amount of Tranche][Title of Notes] (the "Notes")
Under the U.S.$400,000,000
Euro Medium Term Note Programme

This document constitutes the Pricing Supplement, under which the Notes are issued, and is supplemental to, and should be read in conjunction with, the Offering Circular (the "Offering Circular") dated 20 May 2005, issued in relation to the U.S.$400,000,000 Euro Medium Term Note Programme of the Issuer. Terms defined in the Offering Circular have the same meaning in this Pricing Supplement. The Notes will be issued on the terms of this Pricing Supplement, which contain the final terms of the Notes, read together with the Offering Circular. The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular, contains all information that is material in the context of the issue of the Notes.

This Pricing Supplement does not constitute, and may not be used for the purposes of, an offer of, or an invitation by or on behalf of anyone to subscribe or purchase any of the Notes.

[Except as disclosed in this document, there/There] has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or other) or general affairs of the Issuer since [*date of last audited accounts or interim accounts (if later)*] and no material adverse change in the prospects, results of operations or general affairs of the Issuer since [*date of last published annual accounts*] that is material in the context of the Programme or the issue of the Notes.[1]

The Offering Circular, together with this Pricing Supplement, contains all information relating to the assets and liabilities, financial position, profits and losses of the Issuer which is material in the context of the issue and offering of the Notes and nothing has happened which would require the Offering Circular to be [further] supplemented or to be updated in the context of the issue and offering of the Notes.

[In connection with this issue, [*name of Stabilising Agent*] (the "Stabilising Agent") or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation will be carried out in accordance with applicable laws and regulations.][2]

1 *N.B., if any such change is disclosed in the Pricing Supplement, it will require approval by the Luxembourg Stock Exchange (or such other relevant stock exchange). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.*

2 *Delete if there is no Stabilising Agent.*

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1.	Issuer:		JSC Development Bank of Kazakhstan
2.	[(i)]	Series Number:	[ ]
	[(ii)	Tranche Number:	[ ]
			(*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*).]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	[(i)]	Series:	[ ]
	[(ii)	Tranche:	[ ]
5.	[(i)]	Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date]
			(*in the case of fungible issues only, if applicable*)
	(ii)	Net proceeds:	[ ] (*Required only for listed issues*)
6.	Specified Denomination(s):		[ ][3]
7.	[(i)]	Issue Date:	[ ]
	[(ii)	Interest Commencement Date:	[ ]
8.	Maturity Date:		[*Specify date, or (for Floating Rate Notes) Interest Payment Date falling on or nearest to the relevant month and year*]
9.	Interest Basis:		[[ ] per cent. Fixed Rate]
			[*Specify reference rate*] +/- [ ]
			per cent. Floating Rate]
			[Zero Coupon]
			[Dual Currency Interest]
			[Index-Linked Interest]
			[Other (*specify*)]
			(further particulars specified below)
10.	Redemption/Payment Basis:		[Redemption at par]
			[Index-Linked Redemption]
			[Dual Currency Redemption]
			[Partly Paid]
			[Instalment]
			[Other (*specify*)]
11.	Change of Interest or Redemption /Payment Basis:		[*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*]
12.	Put/Call Options:		[Investor Put]
			[Issuer Call]

3 *Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). Notes will not be issued in denominations of less than euro 50,000 (or its equivalent in other currencies).*

		[(further particulars specified below)]
13.	Status of the Notes:	[Senior/[Dated/Perpetual]/Subordinated]
14.	Listing:	[Application has been made for the notes to be listed on the Luxembourg Stock Exchange /[Kazakhstan [A list/B list]]/[Other (*specify*)/None]
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Rate[(s)] of Interest:	[ ] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly] in arrear]
(ii)	Interest Payment Date(s):	[ ] in each year [adjusted in accordance with [*specify Business Day convention and any applicable Business Centre(s) for the definition of "Business Day"*]/ not adjusted]
(iii)	Fixed Coupon Amount[(s)]:	[ ] per [ ] in Nominal Amount
(iv)	Broken Amount(s):	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*]
(v)	Day Count Fraction:	[30/360]/[Actual/Actual (ISMA/ISDA/other)] / [specify other]
(vi)	Determination Date(s):	[ ] in each year (*insert regular Interest Payment Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.* [*Note: only relevant where Day Count Fraction is Actual/ Actual (ISMA)*].
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
17.	Floating Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	[ ]
(ii)	Specified Interest Payment Dates:	[ ]
(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other (*give details*)]
(iv)	Additional Business Centre(s):	[ ]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
(vi)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the[Principal Paying Agent]):	[ ]
(vii)	Screen Rate Determination:	
	– Reference Rate:	[ ] (*Either LIBOR, EURIBOR or other, although additional information is required if other including any amendment to fallback provisions in the Agency Agreement*)

	–	Interest Determination Date(s):	[ ] (*A day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	–	Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	–	Relevant Time:	[ ] [*For example, 11.00am London time/Brussels time*]
	–	Relevant Financial Centre:	[ ] [*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)*]
	(viii)	ISDA Determination:	[ ]
	–	Floating Rate Option:	[ ]
	–	Designated Maturity:	[ ]
	–	Reset Date:	[ ]
	(ix)	Margin(s):	[+/-][ ] per cent. per annum
	(x)	Minimum Rate of Interest:	[ ] per cent. per annum
	(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
	(xii)	Day Count Fraction:	[ ]
	(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
18.		Zero Coupon Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub- paragraphs of this paragraph*)
	(i)	Accrual Yield:	[ ] per cent. per annum
	(ii)	Reference Price:	[ ]
	(iii)	Any other formula/basis of determining amount payable:	[ ]
19.		Index-Linked Interest Note Provisions:	[Applicable/Not Applicable] (*if not applicable delete the remaining sub- paragraphs of this paragraph*)
	(i)	Index/Formula:	[*Give or annex details*]
	(ii)	Calculation Agent responsible for calculating the interest due:	[ ]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[ ]
	(iv)	Interest Period(s):	[ ]

	(v)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other (*give details*)]
	(vii)	Additional Business Centre(s):	[ ]
	(viii)	Minimum Rate of Interest:	[ ] per cent. per annum
	(ix)	Maximum Rate of Interest:	[ ] per cent. per annum
	(x)	Day Count Fraction:	[ ]
20.	Dual Currency Note Provisions:		[Applicable/Not Applicable] (*if not applicable delete the remaining sub- paragraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[ ]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

21.	Call Option:		[Applicable/Not Applicable] (*if not applicable, delete the remaining sub- paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s)(Call):	[ ]
	(ii)	Optional Redemption Amount(s) (Call) of each Note and method, if any, of calculation of such amount(s):	[ ] per Note of [ ] specified denomination
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[ ]
		(b) Maximum Redemption Amount:	[ ]
	(iv)	Notice period:[4]	[ ]
22.	Put Option:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub- paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s) (Put):	[ ]
	(ii)	Optional Redemption Amount(s) (Put) and method, if any, of calculation of such amount(s):	[ ] per Note of [ ] specified denomination
	(iii)	Notice period (if other than as set out in the Conditions):	[ ]
23.	Final Redemption Amount:		[ ] per Note of [ ] specified denomination/other

4 *If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.*

24.	Early Redemption Amount:	
	Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[ ]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	Bearer Notes [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.] [Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice.] [Permanent Global Note exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].
26.	Financial Centre(s) or other special provisions relating to Payment Dates:	[*Not Applicable/give details. Note that this item relates to the date and place of payment and not Interest Period end dates, to which items 16(ii),17(iii) and 19(vi) relate*] (*Note that this item relates to the place of payment, and not Interest Period end dates, to which item 17(iii) relates*)
27.	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on such late payment:	[Not Applicable/*give details*] (*Note: a new form of Global Note may be required for Partly Paid issues*).
29.	Details relating to Instalment Notes:	
	– Instalment Amount(s):	[Not Applicable/*give details*]
	– Instalment Date(s):	[Not Applicable/*give details*]
30.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition 22] [annexed to this Pricing Supplement] apply]
31.	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager (if any):	[Not Applicable/*give name*]
34.	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
35.	TEFRA:	[Not Applicable] (*Note: If TEFRA D rules apply, Notes may only be distributed in accordance with TEFRA D rules*)
36.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

37.	ISIN:	[ ]

38.	Common Code:	[ ]
39.	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification and number(s):	[Not Applicable/*give name(s) and numbers(s)*]
40.	Delivery:	Delivery [against/free of] payment
41.	Additional Paying Agent(s) (if any):	[ ]

LISTING APPLICATION

This Pricing Supplement comprises the Pricing Supplement required for the Notes described herein to be admitted to the Luxembourg Stock Exchange under the U.S.$400,000,000 Euro Medium Term Note Programme of JSC Development Bank of Kazakhstan.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: .... Duly authorised

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Definitive Note and attached to or incorporated by reference into each Global Note. The relevant Pricing Supplement (or relevant provisions thereof) will be endorsed upon or attached to each Global Note and Definitive Note. The Terms and Conditions of the Notes applicable to Global Notes will differ from those which would apply to a Definitive Note to the extent described under "Forms of Notes".

1. INTRODUCTION

JSC Development Bank of Kazakhstan (the "Issuer") has established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to U.S.$400,000,000 in aggregate principal amount of notes (the "Notes") outstanding. The Notes are constituted by a trust deed (as amended or supplemented or restated from time to time, the "Trust Deed") dated 27 September 2002 between the Issuer, and Deutsche Trustee Company Limited (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). The Notes are the subject of an agency agreement dated 27 September 2002 (as amended or supplemented from time to time, the "Agency Agreement") between the Issuer, the Trustee, Deutsche Bank AG London as Principal Paying Agent (the "Principal Paying Agent", which expression includes any successor Principal Paying Agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).

Notes issued under the Programme are issued in series (each, a "Series") and each Series may comprise one or more tranches (each, a "Tranche") of Notes. Each Tranche is the subject of Pricing Supplement (the "Pricing Supplement") which supplements these terms and conditions (the "Conditions"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons, if any, (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Trustee and the Paying Agents, the initial Specified Offices of which are set out below.

2. INTERPRETATION

2.1 In these Conditions the following expressions have the following meanings:

"Accrual Yield" has the meaning given in the relevant Pricing Supplement;

"Additional Business Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Additional Financial Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Business Day" means:

(a) in the case of euro, a TARGET Settlement Day; and/or

(b) in the case of a specified currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or

(c) in the case of a specified currency and/or one or more Additional Business Centre(s) specified in the relevant Pricing Supplement, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres so specified;

"Business Day Convention", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "Following Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "Modified Following Business Day Convention" or "Modified Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) "Preceding Business Day Convention" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "FRN Convention", "Floating Rate Convention" or "Eurodollar Convention" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of Months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "No Adjustment" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"Calculation Agent" means the Principal Paying Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"Coupon Sheet" means, in respect of a Note, a coupon sheet relating to the Note;

"Day Count Fraction" means (subject as provided in Condition 6), in respect of the calculation of an amount of interest for any Interest Period:

(a) if "Actual/365 or "Actual/Actual (ISDA)" is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(b) if "Actual/365" (Fixed)" is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(c) if "Actual/360" is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(d) if "30/360", "360/360" or "Bond Basis" is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other London than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(e) if "30E/360" or "Eurobond Basis" is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

"Determination Period" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

"Early Redemption Amount (Tax)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Early Termination Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"Extraordinary Resolution" has the meaning given in the Trust Deed;

"Final Redemption Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Fixed Coupon Amount" has the meaning given in the relevant Pricing Supplement;

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

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

"Indebtedness Guarantee" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such 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 Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

"Interest Amount" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"Interest Commencement Date" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"Interest Determination Date" has the meaning given in the relevant Pricing Supplement;

"Interest Payment Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"Interest Period" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Definitions" means the 2000 ISDA Definitions (as supplemented by the Annex to the 2000 ISDA Definitions and as further amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.);

"Issue Date" has the meaning given in the relevant Pricing Supplement;

"Maximum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Margin" has the meaning given in the relevant Pricing Supplement;

"Material Subsidiary" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5.0 per cent. of the consolidated gross assets, or, as the case may be, consolidated gross revenues of the Issuer and its consolidated Subsidiaries or any other Subsidiary to which is transferred either (a) all or substantially all of the assets of another Subsidiary which immediately prior to the transfer was a Material Subsidiary or (b) sufficient assets of the Issuer that such Subsidiary would have been a Material Subsidiary had the transfer occurred on or before either (i) the date of the most recent audited consolidated accounts of the Issuer or (ii) if management accounts or other unaudited financial statements of the Issuer are available for any period subsequent to the most recent audited consolidated accounts, such accounts or financial statements and, for these purposes:

(a) the gross assets and gross revenues of a Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts or other financial statements); and

(b) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements (or, if none, its then most recent consolidated management accounts or other unaudited consolidated financial statements);

"Maturity Date" has the meaning given in the relevant Pricing Supplement;

"Minimum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Optional Redemption Amount (Call)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Amount (Put)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Date (Call)" has the meaning given in the relevant Pricing Supplement;

"Optional Redemption Date (Put)" has the meaning given in the relevant Pricing Supplement;

"Participating Member State" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"Payment Business Day" means:

(a) if the currency of payment is euro, any day which is:

(i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

(i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre and which, if the currency of payment is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively;

"Permitted Security Interest" means any Security Interest (A) granted in favour of the Issuer by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entity to the Issuer, (B) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court 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, (C) being liens or rights of set-off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer held by financial institutions, (D) arising in the ordinary course of the Issuer's or a Subsidiary's business and (a) which are necessary in order to enable the Issuer or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Issuer's or such Subsidiary's business or (b) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer's or such Subsidiary's customers, (E) 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, (F) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Subsidiary), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of 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 precious metals or (c) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (G) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest and (H) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"Principal Financial Centre" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(b) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"Put Option Notice" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Rate of Interest" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"Reference Banks" has the meaning given in the relevant Pricing Supplement or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"Reference Price" has the meaning given in the relevant Pricing Supplement;

"Reference Rate" has the meaning given in the relevant Pricing Supplement;

"Relevant Date" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"Relevant Financial Centre" has the meaning given in the relevant Pricing Supplement;

"Relevant Screen Page" means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 Money Rates Service and Bridge/Telerate) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"Relevant Time" has the meaning given in the relevant Pricing Supplement;

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

"Reserved Matter" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the

Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"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;

"Specified Currency" has the meaning given in the relevant Pricing Supplement;

"Specified Denomination(s)" has the meaning given in the relevant Pricing Supplement;

"Specified Interest Payment Date" has the meaning given in the relevant Pricing Supplement;

"Specified Office" has the meaning given in the Trust Deed;

"Specified Period" has the meaning given in the relevant Pricing Supplement;

"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 50.0 per cent. of the capital, voting stock or other right of ownership and "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;

"Talon" means a talon for further Coupons;

"Tangible Net Worth" means, at any time, the aggregate amount of the paid up share capital of the Issuer plus or minus the aggregate amount standing to the credit of the consolidated capital accounts or reserves (including reserve capital, other reserve capital and profit (or loss) for the relevant period) as shown in the then latest financial statements of the Issuer (prepared in accordance with international accounting standards published from time to time by the International Accounting Standards Committee), but:

(a) adjusted as may be appropriate to take account of any variation in such share capital and amounts standing to the credit of the share premium account since the date to which the said financial statements shall have been made up;

(b) excluding any capital accounts or reserves derived from any writing up of the book value of any assets of the Issuer above historic cost less accumulated depreciation, the amount of any reserves for deferred taxation and any other amounts specifically provided for, amounts of goodwill and of all other intangible assets and any amount which is attributable to minority interests; and

(c) deducting any distribution by the Issuer out of profits earned prior to the date of such financial statements recommended, declared or paid since such date insofar as such distribution was not provided for in such financial statements;

"TARGET Settlement Day" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

"Treaty" means the Treaty establishing the European Communities, as amended; and "Zero Coupon Note" means a Note specified as such in the relevant Pricing Supplement.

2.2 In these Conditions:

(a) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(b) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(c) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(d) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 8, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(e) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 8 and any other amount in the nature of interest payable pursuant to these Conditions;

(f) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement; and

(g) if an expression is stated in Condition 2.1 to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes.

3. FORM, DENOMINATION AND TITLE

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) 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 other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder.

4. STATUS

The Notes and Coupons constitute direct, general and unconditional obligations of the Issuer, which will at all times rank *pari passu* among themselves and *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. NEGATIVE PLEDGE AND COVENANT

5.1 So long as any Note remains outstanding the Issuer 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 Indebtedness for Borrowed Money or any Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

5.2 So long as any Note remains outstanding, the Issuer shall ensure that it is fully in compliance with the Law on Development Bank of Kazakhstan of 25 April 2001, as amended (the "DBK Law") and the Memorandum on Credit Policy of the Issuer referred to in the DBK Law, as amended (the "Memorandum").

5.3 Notwithstanding the provisions of Condition 5.2, so long as any Note remains outstanding, the Issuer shall:

(a) ensure that its Tangible Net Worth shall not at any time be less than KZT28,000,000,000; and

(b) not pay or cause to be paid 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 at any time.

6. FIXED RATE NOTE PROVISIONS

6.1 This Condition 6 is applicable to the Notes only if the relevant Pricing Supplement specifies the Fixed Rate Note Provisions as being applicable.

6.2 The Notes bear interest on the outstanding principal amount from the Interest Commencement Date at the rate(s) per annum equal to Rate(s) of Interest payable in arrear on each Interest Payment Date in each year and on the Maturity Date if that does not fall on Interest Payment Date, subject as provided in Condition 11. Unless otherwise specified in the relevant Pricing Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Pricing Supplement, amount to the Broken Amount(s) so specified.

6.3 If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. In these Conditions "sub-unit" means, with respect of any currency other than the euro, the lowest amount of such currency that is available as legal tender in the country of such currency, and with respect to euro means one cent.

6.4 For the purposes of these Conditions, "Day Count Fraction" means:

(a) if "Actual/Actual (ISMA)" is specified in the relevant Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the relevant Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Dates (as specified in the relevant Pricing Supplement) that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the relevant Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

7. FLOATING RATE NOTE AND INDEX-LINKED INTEREST NOTE PROVISIONS

7.1 This Condition 7 is applicable to the Notes only if the relevant Pricing Supplement specifies the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions as being applicable.

7.2 The Notes bear interest on the outstanding principal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(a) the Specified Interest Payment Date(s) (each, an "Interest Payment Date") in each year specified in the relevant Pricing Supplement; or

(b) if no Specified Interest Payment Date(s) is/are specified in the relevant Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an "Interest Payment

Date") which falls in the number of months or other period specified as the Specified Period in the relevant Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Conditions, mean the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

7.3 The Rate of Interest payable from time to time in respect of the Notes will be determined in the manner specified in the relevant Pricing Supplement.

(a) Where Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be either:

(i) the offered quotation; or

(ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(b) Where ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

7.4 If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

7.5 If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

7.6 The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, determine the Rate of Interest for the relevant Interest Period and calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

7.7 If the relevant Pricing Supplement specify that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

7.8 The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have than been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders in accordance with Condition 19. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

7.9 All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. ZERO COUPON NOTE PROVISIONS

8.1 This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

8.2 If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(a) the Reference Price; and

(b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. DUAL CURRENCY NOTE PROVISIONS

9.1 This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

9.2 If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. REDEMPTION AND PURCHASE

10.1 Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11.

10.2 The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(a) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(b) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 19 (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(i) the Issuer satisfies the Trustee immediately before the giving of notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 12 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 the date of issue of the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(A) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(B) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (A) 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 (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 10.2.

10.3 If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

10.4 If the Notes are to be redeemed in part only on any date in accordance with Condition 10.3, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange, and/or quotation system (if any) on which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10.3 on which the Notes are then listed, and the notice to Noteholders referred to in Condition 10.3 shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

10.5 If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10.5, the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10.5, may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10.5, the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

10.6 The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 10.1 to 10.5 above.

10.7 Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(a) the Reference Price; and

(b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10.7 or, if none is so specified, a Day Count Fraction of 30E/360.

10.8 The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

10.9 All Notes which are redeemed pursuant to Conditions 10.1 to 10.6 by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold. All Notes so cancelled and all Notes purchased and cancelled pursuant to Condition 10.8 (together with all unmatured Coupons) shall be forwarded to the Principal Paying Agent.

11. PAYMENTS

11.1 Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

11.2 Payments of interest shall, subject to Condition 11.7 below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 11.1.

11.3 Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

11.4 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 12. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

11.5 If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

(a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "Relevant Coupons") being equal to the amount of principal due for payment; provided, however, that where this sub- paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

11.6 If the relevant Pricing Supplement specifies that this Condition 11.6 is applicable or that the Floating Rate Note Provisions or the Index- Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Conditions 10.2, 10.3, 10.4 or 10.5, all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

11.7 If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

11.8 Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 11.3 above).

11.9 If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

11.10 On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14. Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. TAXATION

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

(a) by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Kazakhstan other than the mere holding of such Note or Coupon; or

(b) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC) or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

12.2 If the Issuer becomes subject at any time to any taxing jurisdiction other than Kazakhstan, references in these Conditions to Kazakhstan shall be construed as references to Kazakhstan and/or such other jurisdiction.

13. 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:

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

13.2 the Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 13) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee; or

13.3 (a) any Indebtedness for Borrowed Money of the Issuer or any Material Subsidiary (i) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (b) any Indebtedness Guarantee given by the Issuer or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.$10,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

13.4 (a) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Material Subsidiary or all or (in the opinion of the Trustee) substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or (b) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its property or (in the opinion of the Trustee) substantially all thereof, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness and, in any case as is specified in this Condition 13.4 in relation to a Material Subsidiary, the event is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

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

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

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

13.8 (a) the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (b) it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement or (c) all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid or (d) the DBK Law is repealed and, following the occurrence of any of the events specified in this Condition

13, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

13.9 (a) all or any substantial part of the undertaking, assets and revenues of the Issuer 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 (b) the Issuer or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues and, following the occurrence of any of the events specified in this Condition 13.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

13.10 the Republic of Kazakhstan ceases to be a member, or eligible to use the general resources of the International Monetary Fund; or

13.11 the Republic of Kazakhstan takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an agreement or composition with or for the benefit of its creditors or a moratorium is declared in respect of the payment of any class of obligations of the Republic of Kazakhstan (such payment being due in a currency other than the lawful currency for the time being of the Republic of Kazakhstan); or

13.12 the Government of the Republic of Kazakhstan and the regional authorities of the Republic of Kazakhstan who, together, are the registered holders of the entire issued and outstanding share capital of the Issuer as at 27 September 2002 (together, the "Existing Shareholders") cease to own directly 100.0 per cent. of the paid-up share capital of the Issuer, provided, however, that in the event that any Existing Shareholder sells, transfers or otherwise disposes of part of its shareholding to one or more supranational entities established by treaty each having a credit rating assigned by at least one statistical rating organisation generally recognised by banks, securities houses and investors in the European financial markets of AA or its equivalent (both at the time of such sale, transfer or disposal and so long as such supranational entity owns any shares of the Issuer), such event shall not constitute an Event of Default under this Condition 13.12. Notwithstanding any other provision of this Condition 13.12 to the contrary, if at any time the Government of the Republic of Kazakhstan ceases to own directly 51.0 per cent. or more of the paid-up share capital of the Issuer, such circumstance shall constitute an Event of Default under this Condition 13.12.

14. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

15. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority stock exchange or quotation system), subject to all applicable laws and listing authority stock exchange or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

16. AGENTS

16.1 In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and, in certain circumstances, the Trustee. The Paying Agents do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

16.2 The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer, with the prior written approval of the Trustee, reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor Principal Paying Agent or Calculation Agent and additional or successor paying agents; provided, however, that:

(a) the Issuer shall at all times maintain a Principal Paying Agent;

(b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent;

(c) if and for so long as the Notes are admitted to listing, trading and/or quotation, by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange or quotation system; and

(d) the Issuer shall maintain a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER AND ENFORCEMENT

17.1 The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

17.2 The Trustee may agree, without the consent of the Noteholders or Couponholders, to (a) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, (b) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and (c) determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) will not be treated as such, provided that such modification, waiver or determination is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

17.3 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 as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration or by litigation), 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 to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

17.4 The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances and to be paid its costs and expenses in priority to claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

17.5 In connection with the exercise of its functions (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 shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

18. FURTHER ISSUES AND CONSOLIDATION

18.1 The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.

18.2 The Issuer may, with the prior approval of the Trustee and the Principal Paying Agent (which shall not be unreasonably withheld), from time to time on any Interest Payment Date occurring on or after the Redenomination Date (as defined in Condition 22) on giving not less than 30 days' prior notice to the Noteholders in accordance with Condition 19, without the consent of the Noteholders or Couponholders, consolidate the Notes of one Series with the Notes of one or more other Series issued by it, whether or not originally issued in one of the European national currencies or in euro, provided such other Notes have been redenominated in euro (if not originally denominated in euro) and which otherwise have, in respect of all periods subsequent to such consolidation, the same terms and conditions as the Notes.

19. NOTICES

Notices to the Noteholders shall be valid if published in a leading daily newspaper of general circulation in Europe and so long as the Notes are listed on any stock exchange, in a leading daily newspaper with general circulation in the city or cities where the stock exchange(s) on which the Notes are listed (which in the case of the Luxembourg Stock Exchange, is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

20. CURRENCY INDEMNITY

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

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

21. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. REDENOMINATION

22.1 This Condition 22 is applicable to the Notes only if it is specified in the relevant Pricing Supplement as being applicable.

22.2 If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Trustee, the Noteholders and the Paying Agents, designate a date (the "Redenomination Date"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

22.3 Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(a) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Trustee and the Principal Paying Agent that the then market practice in respect of the re-denomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

(b) if Notes have been issued in definitive form:

(i) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the "Euro Exchange Date") on which the Issuer gives notice (the "Euro Exchange Notice") to the Trustee and the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;

(ii) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 22) shall remain in full force and effect; and

(iii) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

22.4 Following redenomination of the Notes pursuant to this Condition 22, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

22.5 If the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

23. GOVERNING LAW, JURISDICTION AND ARBITRATION

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

23.2 Subject to Condition 23.6, the Issuer has agreed in the Trust Deed for the benefit of the Noteholders and the Couponholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings which may arise out of or in connection with the Notes ("Proceedings") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

23.3 Subject to Condition 23.6, the submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

23.4 For the purpose of Conditions 23.2 and 23.3, the Issuer 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 that any such court is not a convenient or appropriate forum.

23.5 The Issuer has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Bracewell & Guilliani LLP at 1 Cornhill, London EC3V 3ND, England or, if different, its registered office for the time being or at any address of the Issuer or in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such Person is not or ceases to be effectively appointed to accept service of process on the Issuer's behalf, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer or and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

23.6 The Issuer has agreed in the Trust Deed that the Trustee may elect by written notice to the Issuer that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "Rules") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated in this Condition. The number of arbitrators shall be three. The parties may nominate and the London Court of International Arbitration may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. Each arbitrator appointed shall be a lawyer experienced in international securities transactions. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

23.7 The Issuer has consented generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings 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 made or given in such Proceedings.

23.8 In relation to any Proceedings and to the enforcement of any judgment, order or award (whether or not given or made in those Proceedings), to the extent that the Issuer 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 its assets or revenues, the Issuer has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

24. RIGHTS OF THIRD PARTIES

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

Capitalisation

The following table sets out the total capitalisation of the Issuer as at 31 March 2005.

	As at 31 March 2005	
	(U.S.$ thousands)[1]	(KZT thousands)
	(unaudited)	(unaudited)
Long-term debt:		
U.S.$100 million 7.375 per cent. notes due 2013	100,030	13,262,920
KZT 4.3 billion 0.1 per cent. budget loan due 2018	32,442	4,301,493
KZT 4.599 billion 0.1 per cent. budget loan due 2019	34,692	4,599,767
U.S.$2.8 million loan due 2010[2]	2,607	345,650
U.S.$100 million 7.125 per cent. notes due 2007	101,890	13,509,623
KZT 4.5 billion 8.5 per cent. notes due 2007[3]	15,353	2,035,706
U.S.$40 million syndicated loan due 2006[4]	40,441	5,362,083
U.S.$5 million loan due 2006[5]	5,021	665,795
Total debt	332,476	44,083,037
Shareholders' equity:		
Share capital[6]	440,088	58,351,300
Reserve capital	49,596	6,575,875
Revaluation reserve	5,526	732,796
Retained earnings	4,069	539,487
Total shareholders' equity.	499,279	66,199,458
Total capitalisation.	831,755	110,282,495

Notes:

(1) As at 31 March 2005 the KZT/U.S. $ exchange rate was KZT 132.59 per U.S. $ 1.00.

(2) This loan bears an interest rate of LIBOR plus 0.55 per cent.

(3) The Issuer has repurchased KZT 2,168 million principal amount of these notes through secondary market transactions.

(4) This loan bears an interest rate of LIBOR plus 1.0 per cent.

(5) This loan bears an interest rate of LIBOR plus 2.0 per cent.

(6) Issued and paid up share capital as at 31 March 2005 consisted of 1,167,026 common shares for the total amount of KZT 58,351 million.

On 22 April 2005, the Issuer entered into a three year U.S.$15 million loan agreement. The facility was fully drawn down on 25 April 2005.

Since 31 March 2005 save as disclosed above, there has been no material change in the Issuer's capitalisation.

JSC Development Bank of Kazakhstan

GENERAL

The Issuer was registered on 31 May 2001 as Closed Joint Stock Company Development Bank of the Republic of Kazakhstan. Its governing legislation comprises a Presidential Decree dated 28 December 2000, the Law on Development Bank of Kazakhstan No. 178-II dated 25 April 2001, as amended as at the date of this Offering Circular (the "DBK Law"), the Resolution of the Government No. 289 On Memorandum of Credit Policy of Joint Stock Company Development Bank of Kazakhstan dated 9 March 2004 as amended at the date of this Offering Circular (the "Memorandum"), its Charter and other legislation regulating the activities of the Issuer. In August 2003, the Issuer was re-registered as Joint Stock Company Development Bank of the Republic of Kazakhstan to comply with the requirements of the Law on Joint Stock Companies adopted in May 2003. The Issuer was re-registered with the Ministry of Justice on 18 August 2003 under re-registration number No.4686-1900-AO. The Issuer was issued license No. 253 dated 30 October 2003 by the NBK.

The Issuer's legal address is Republic Avenue 32, Astana, 010000, Republic of Kazakhstan.

PURPOSE AND AUTHORITY

The Issuer's statutory purposes as stated in the DBK Law are to:

- enhance the effectiveness of industrial investment activity by the Government;
- stimulate the development of industrial infrastructure and processing industries not related to oil and gas extraction in Kazakhstan; and
- attract foreign and domestic investment into Kazakhstan's economy through the issue of debt securities and other debt financings.

Specifically the Issuer provides medium and long-term financing for investment projects (of not less than U.S.$5 million) and export transactions (of not less than U.S.$1 million) to companies operating in various priority sectors of economy, as set out in the Memorandum. See "Lending". The Issuer may not lend to sectors of the economy which have received significant foreign and domestic investment, such as oil and gas production or exploration.

The Issuer's lending activities are funded through the issuance and placement of bonds both domestically and internationally, through borrowings from financial institutions and loans financed from the state budget. Furthermore the NBK's designation of the Issuer as a Financial Agency provides that any interest paid on the Issuer's debt securities is exempt from Kazakhstan income taxes.

In addition to financing investment projects and export-related transactions, the Issuer acts as service agent for national and regional investment projects financed from the state budget and Government guaranteed loans. The Issuer also opens and maintains accounts for servicing loans of the Issuer and loans funded from the state and local budgets.

In accordance with the DBK Law and subject to certain restrictions provided in this law, the Issuer is authorised to engage in the following operations in Tenge and foreign currencies:

- lending and issuing guarantees;
- issuing and confirming letters of credit;
- opening and maintaining correspondent accounts with and to banks and other financial institutions;
- opening and maintaining special conditional deposit and reserve accounts in connection with Government guaranteed loans;
- opening and maintaining bank accounts for servicing loans of the Issuer and the loans financed from state and local budgets;

- settlement operations for its customers;
- money transfers for its customers;
- collecting certain payments for its customers;
- deposit taking from banks and other financial institutions;
- issuing debt securities;
- leasing; and
- dealing in Government securities as well as other securities as permitted under the banking laws of Kazakhstan.

The Issuer may also offer other banking products and services not specifically authorised by the DBK Law, pursuant to its banking license, such as trust operations with cash denominated in Tenge or foreign currency.

The Issuer may not:

- lend to, or issue guarantees to secure obligations of, individuals, commercial banks, credit unions, private pension funds, investment funds, private pension fund asset management companies, insurance companies, leasing companies and other financial institutions;
- take deposits and open or maintain accounts for individuals and companies except for the purposes stated in the DBK Law; or
- grant uncollateralised loans.

GOVERNMENT CONTROL AND SUPERVISION

As at 31 March 31, 2005, the Issuer was the largest bank in Kazakhstan in terms of paid-in share capital of KZT 58,351 million, consisting of 1,167,026 common shares with a nominal value of KZT 50,000 per share, of which 87.2 per cent. was held by the Government and the remaining 12.8 per cent. by regional authorities of 14 regions in the Republic and the cities of Almaty and Astana. Under the DBK Law such entities are the only permitted shareholders of the Issuer. In March 2005, the Issuer registered an additional issue of 300,000 common shares with the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations ("FMSA"), of which the Government acquired 200,000 common shares for an aggregate amount of KZT 10,000 million. The Issuer anticipates that the remaining 100,000 common shares will be placed with the regional authorities by the end of 2005. The DBK Law requires that the Government shall be the majority shareholder of the Issuer. As such, the Government is able to determine all matters that require approval by the General Shareholders' Meeting of the Issuer. See "Management General".

Before December 2002, the authority to manage the Government's shareholding in the Issuer, including the voting rights, was vested with the Ministry of Finance. In December 2002, the Ministry of Finance was replaced by the Ministry of Economy and Budget planning. Pursuant to Government Resolution No. 68 dated 22 January 2004, the Ministry of Industry and Trade then replaced the Ministry of Economy and Budget Planning as the holder of that authority. The motive for this transfer was that it is now the responsibility of the Ministry of Industry and Trade to support the Industrial Development Programme of Kazakhstan and promote the growth of processing industries.

On 17 May 2003, an Industrial Innovation Development Strategy of Kazakhstan for the years 2003 to 2015 was issued pursuant to a Presidential Decree, No. 1096 (the "Industrial Strategy"). The Industrial Strategy sets out the Government policy of industrial economic development in Kazakhstan promoting diversification of industrial growth of the country and incorporation of industrial cluster concepts. Pursuant to the Industrial Strategy, the Government established several financial institutions to stimulate the development of the service sectors of Kazakhstan's economy. Specifically, the Government established the Kazakhstan Investment Fund, with KZT 23,000 million in charter capital as at 31 December 2004. The mandate of the Kazakhstan Investment Fund is to make equity investments in a number of the non-extractive sectors in Kazakhstan. The Government also established the Innovation Fund, with KZT 13,500 million in charter capital as at

31 December 2004 to make equity investments in the high technology sector in Kazakhstan. The Export Insurance Corporation, with KZT 7,700 million in charter capital as at 31 December 2004, was also established to provide insurance against political and regulatory risks for export related loans. The Government with the intention to further implement the Industrial Strategy also established the Centre for Marketing and Analytical Research and the Centre for Transfer of Technologies, to conduct marketing and analytical research into various segments of the Kazakh economy and to evaluate the level of competitiveness of such industrial sectors both domestically and internationally. Pursuant to the Industrial Strategy, the Issuer's principal role is to support Government initiatives through low-cost medium to long-term lending and issuance of guarantees to secure loans extended by other financial institutions.

The DBK Law requires the Issuer to submit its annual audited financial statements to the Government and the Parliament for review. Under the Memorandum, the Issuer is also required to submit monthly, quarterly and annual reports to the NBK. The FMSA and the NBK are responsible for the supervision of the Issuer's foreign exchange transactions, operations on money transfers, financial agency activities and other banking operations covered by its banking license, but not its lending activity.

COMPETITION

The Issuer is the largest bank in Kazakhstan in terms of paid-in share capital. See "The Banking Sector in Kazakhstan". However, pursuant to the DBK Law, the Issuer's primary lending objectives are medium (from five to ten years) and long-term (from 10 to 20 years) financings. Local commercial banks generally provide short to medium-term financing for up to three years. The Issuer does not consider itself to be a competitor with such commercial banks as they principally focus on extractive sectors with higher revenue earning capacity on shorter pay-back periods, such as oil and gas extraction and mineral resources, while the Issuer supports non-extractive industries and infrastructure pursuant to the Industrial Strategy and the Memorandum. However, the Issuer attempts to stimulate the commercial banks' interest in medium and long-term investment projects by promoting lending on a risk-sharing basis such as issuing guarantees to other commercial banks for specific medium and long-term projects. The Kazakhstan Investment Fund, designated to be part of the development infrastructure of Kazakhstan by the Industrial Strategy, has similar objectives to those of the Issuer, namely to support the development of non-extractive sectors of the economy of Kazakhstan. However, the Kazakhstan Investment Fund is only permitted to make equity investments whereas the Issuer is primarily engaged in lending activities. Therefore, the Issuer does not generally view the Kazakhstan Investment Fund as its competitor.

STRATEGY

The Issuer's principal objective is to provide low-cost medium and long-term financings in the priority sectors of Kazakhstan's economy, as set out in the Memorandum, while maintaining a commercial rate of return on such financings. The Issuer intends to achieve this through (i) continued expansion of its role as Kazakhstan's development bank, (ii) lowering the cost of its funding base; (iii) offering a wider range of credit instruments; and (iv) effectively managing risks associated with its activities.

Development Bank

As part of its medium-term strategy, the Issuer intends to increase its credit portfolio up to U.S.$330 million in the priority sectors of the Kazakhstan economy by the end of 2005. As at 31 March 2005, the total outstanding amount of investment projects and export-related credits financed by the Issuer was U.S.$204 million and U.S.$75 million respectively or a total of U.S.$279 million. See "Lending". The Issuer's management believes that additional lending opportunities will appear as a result of implementation of various Government programmes intended to stimulate economic growth in Kazakhstan, in particular, the Industrial Strategy and the following specific new development programmes:

- A programme approved by the Government on 17 February 2005 allowing the Issuer to expand into neighbouring markets, in relation to business opportunities in countries bordering with Kazakhstan, to facilitate the expansion of Kazakh producers into neighbouring markets by financing: (i) projects that are technologically linked to processing facilities located in Kazakhstan; (ii) infrastructure projects which enhance the transit potential of Kazakhstan exports as set forth in the Development programme for transportation from 2004 to 2006; and (iii) projects by non-residents recommended by the Government and guaranteed by foreign governments;

- Programme for Development of Construction Material Production from 2005 to 2007, to promote development of the construction materials industry;

- State Agro-Food Programme for 2003-2005, to increase the volume of agricultural products sold domestically and exported internationally; and
- Programme on the Petrochemical Industry Development for 2004-2010, to introduce new technologies to produce petrochemicals.

The Issuer has entered into a memoranda of understanding with several national companies to jointly participate in the financing of major infrastructure projects in Kazakhstan, under the above programmes.

The Issuer intends to develop expertise in the leasing sector, which its management believes will be complementary to its development lending activities. On 24 December 2003 the Issuer acquired a minority equity stake in the Kazakhstan Stock Exchange which allowed it to reduce transaction costs in connection with buying and selling securities.

By investing in human resources and increasing the use of, and upgrading its information technology, the Issuer's management intends to improve its operating efficiencies. The Issuer has developed its own internal documentation and information network protection system allowing for efficient communication and data management. The Issuer has established internal and external training programmes designed to improve the skill base of its employees.

Improving Funding Base

As permitted by the DBK Law, the Issuer funds its operations by issuing debt securities on the domestic and international capital markets and borrowing from international commercial banks. In order to promote investment opportunities in Kazakhstan, the Issuer interacts with various multinational financial development organisations through project co-financing. The Issuer believes that through these types of funding it will be able to provide lower cost loans to stimulate economic growth, establish margin yield benchmarks based upon its debt securities for domestic and international corporate debt security issuers whilst contributing to further development of Kazakhstan's securities market. See "Funding and Liquidity Management".

Managing Investment Portfolio

Pursuant to the Memorandum, the Issuer is prohibited from utilising its share capital to fund investment projects. Therefore the Issuer invests its share capital in highly liquid financial instruments. A significant portion of the Issuer's investment portfolio consists of securities issued by the Government, the NBK or local authorities. As a part of its medium-term strategy the Issuer intends to diversify its investment portfolio to include debt securities issued by international financial institutions, foreign sovereigns and legal entities. The Issuer plans to transfer part of its investment portfolio to an asset manager in a manner similar to that used by NBK for the National Fund in the medium-term to diversify its investment portfolio.

Managing Risks

The Issuer has established three key committees to manage its assets and the risks associated with its activities: the Asset and Liability Committee (the "ALCO"), the Investment Committee and the Credit Committee. The main guidelines for the Issuer's risk management policies are set out in the Memorandum.

The ALCO makes strategic decisions with regards to the attraction and placement of the Issuer's capital resources and determines the overall asset and liabilities structure and limits of the Issuer. The Credit Committee is responsible for the implementation of the lending policy of the Issuer within the limits set by the Memorandum and the ALCO. The Investment Committee is responsible for managing the Issuer's investment portfolio in compliance with the general guidelines defined in the Issuer's Strategy for Investment Portfolio Management, approved by the Board of Directors on 14 April 2004. The Issuer believes that the interaction of these three committees allows it to effectively manage its assets and risks. See "Asset and Liability Management". The Issuer has also adopted its own standards, internal rules and provisioning procedures based on those required of commercial banks by the FMSA and NBK. The Issuer intends to continue to maintain its conservative lending policies, including strict compliance with its various internal lending limits, credit and risk management policies.

STRUCTURE OF THE ISSUER

The Issuer's head office is in Astana. As at 31 December 2004, the Issuer had one representative office in Almaty for liaison with the various financial and credit institutions located there.

The following are the principal operating departments and divisions of the Issuer:

- Treasury Operations;
- Project Financing;
- Project Analysis;
- Control of Financial Risks;
- Export Financing;
- Collateral Appraisal;
- Project Monitoring and Agency Services;
- Problem Credits and Sales of Non-Financial Assets;
- Borrowings and Structural Financing, and Agency Finance; and
- Strategic Planning.

The operating units are supported by the following central administrative departments and divisions: Finance, Operations, Information Technologies, Budget Planning, Procurement, Internal Audit, Legal, Claims and Liabilities Monitoring, International Relations and Administrative Department. Management believes that its efficient organisational structure and the centralisation of its administrative activities in its head office will help to control operating expenses.

LENDING

The Issuer is a development financial institution that provides medium and long-term financing for investment projects and short-term trade financing for export operations in the priority sectors of the economy of Kazakhstan as set out in its Memorandum.

Such priority sectors are:

- value added manufacture of agricultural products (excluding alcohol and tobacco);
- yarn and finished textiles production;
- production of leather, leather goods and shoe production;
- forestry and wood production;
- pulp and paper industry (excluding publishing);
- coke, refined petroleum and nuclear fuel production;
- chemical production (excluding explosives);
- production of rubber and plastic goods;
- production of other non-metal mineral products;
- metallurgy and manufacture of finished metal products;
- machinery and equipment manufacturing (excluding weapon and ammunition manufacturing);
- manufacture of electric, electronic and optical equipment;
- distribution of electric power, gas, steam and hot water;
- construction (except for house-building, education, hotels, sport, sanitation and entertainment complexes and exploration drilling); and

- transport and communications.

The Issuer may not lend to sectors of the economy regarded as having already received significant foreign or domestic investment such as, oil and gas production or exploration.

As at 31 March 2005 the outstanding amount of investment project loans provided by the Issuer to finance projects was U.S.$204 million. As at 31 March 2005 the principal investment projects financed by the Issuer are (in accordance with appropriate credit agreements):

JSC KEGOC. The total cost of the investment project is U.S.$280 million. The remaining cost of the project is co-financed by EBRD. The project involves the construction of the second 500 kW power transmission line running from the North to the South of Kazakhstan. The project will help to transmit low cost electric power from sparsely populated North Kazakhstan to populated centres in Southern Kazakhstan. The Issuer extended a credit facility of U.S.$21 million to JSC KEGOC. The tenor of the credit facility is 15 years. The Issuer commenced disbursement of the facility in November 2004 and anticipates full draw down by November 2006.

JSC Biohim. The total cost of the investment project is U.S.$70.2 million. The purpose of this investment project is construction of a plant for grain processing and production of natural additives in North Kazakhstan. The Issuer approved a credit facility in the amount of U.S.$53.8 million to JSC Biohim. The tenor of the credit facility is eight years. The Issuer commenced disbursement of its credit facility to JSC Biohim in February 2005 and anticipates that the borrower shall draw down the full amount of the credit facility by February 2006.

JSC Melanzh. The total cost of the investment project is U.S.$40.5 million. The purpose of the project is the modernisation of weaving facilities of a textile plant located in Shymkent. The tenor of the credit facility is ten years. The Issuer commenced disbursement of the U.S.$34.4 million credit facility in November 2004 and anticipates that it shall be fully drawn down by November 2005.

JSC Agromash Holding. The total cost of the investment project is U.S.$40 million. The project is for the reconstruction and modernisation of a plant located in Kostanai for the production of diesel engines for agricultural machinery. The tenor of the credit facility is 15 years. The Issuer commenced disbursement of the U.S.$20.2 million credit facility in May 2004 and anticipates that it shall be fully drawn down by May 2005.

OJSC "Transtelecom". The total amount of the investment project is U.S.$26.4 million. The purpose of this investment project is the construction and laying of a fibre optic communication line between Almaty and Astana. The tenor of this facility is nine years. The Issuer commenced disbursement of the U.S.$19.5 million credit facility in June 2004 and anticipates the final draw down of this facility by June 2006.

LLP Khobas Pipes Kazakhstan. The total cost of the investment project is U.S.$20.2 million. The purpose of the project is the construction of a plant for the production of pipes and fittings in Aktobe city under the license of Hobas Engineering (Austria). The tenor of the credit facility extended by the Issuer is eight years. The Issuer commenced disbursement of the U.S.$19.1 million credit facility in December 2003 and anticipates that it shall be fully drawn down by June 2005.

«Utex» L.L.P. The total amount of the investment project is U.S.$19.3 million. The purpose of the project is the construction of facilities for the manufacture of cotton fibre and knitting cotton in Shymkent. The tenor of the credit facility extended by the Issuer is ten years. The borrower fully drew down the U.S.$13.1 million credit facility in December 2004.

CJSC "Kazakhstan Kagazy". The total cost of the investment project is U.S.$18.3 million. The purpose of the project is the manufacturing of paper, corrugated cardboard and paper-cardboard products for the food industry. The tenor of the credit facility is five years. The borrower fully drew down the U.S.$10.0 million credit facility in October 2003.

"Altyn Nan" L.L.P. The total cost of the investment project is U.S.$15.4 million. The purpose of this investment project is the construction of a plant for the processing of corn and production of corn starch syrup in Almaty oblast. The tenor of the credit facility is 11 years. The Issuer commenced the disbursement

of the U.S.$13.9 million credit facility to "Altyn Nan" L.L.P. in March 2002 and the borrower fully drew down the facility in March 2005.

LLP Nov Apack. The total cost of the investment project is U.S.$15.2 million. The purpose of the project is the modernisation of a paper treatment plant in Boraldy, Almaty region. The tenor of the credit facility extended by the Issuer is seven years. The Issuer commenced the disbursement of the U.S.$8.1 million credit facility in February 2005 and anticipates that it shall be fully drawn down by February 2006.

JSC Astana Poligraphia. The total cost of the investment project is U.S.$13.5 million which is fully financed by the Issuer. The project's purpose is the modernisation of a printing plant located in Astana. The tenor of the credit facility extended by the Issuer is 10 years. The Issuer commenced disbursement of the U.S.$13.5 million credit facility in October 2004 and anticipates that it shall be drawn down by October 2005.

OJSC "Ekoton+". The total cost of the investment project is U.S.$12.8 million. The purpose of this investment project is the construction of a manufacturing facility for concrete building materials in Astana. The tenor of the credit facility is nine years. The borrower fully drew down the U.S.$6.0 million credit facility in May 2004.

OJSC "VITA". The total amount of the investment project is U.S.$12.5 million, which was fully financed by the Issuer. The tenor of the credit facility is seven years. The second stage of the Vitasoy Project is the construction of a vegetable oil and animal feed production unit. The Issuer commenced disbursement of the U.S.$12.5 million credit facility in August 2003 and anticipates final draw down of this facility by February 2006.

LLP Tengiz Transportation. The total amount of the investment project is U.S.$11.7 million which is fully financed by the Issuer. The purpose of the project is the purchase of tankers for transportation of LPG for export. The tenor of the credit facility extended by the Issuer is 11 years. The U.S.$11.7 million credit facility was fully drawn down by the borrower in September 2002.

LLP "Amitex Karasai Pipe". The total cost of the investment project is U.S.$11 million. The purpose of this project is purchase of equipment for production of glass-reinforced plastic pipes in Astana. The tenor of the credit facility extended by the Issuer is five years. The borrower fully drew down the U.S.$10.3 million credit facility in June 2004.

CJSC "Uzhpolymetal". The total cost of the investment project is U.S.$10.1 million, which was fully financed by the Issuer. The tenor of the credit facility is 10 years. The project stipulates upgrading of existing facilities of the borrower located in South Kazakhstan to manufacture manual switch and lock movements. The borrower fully drew down the credit facility in March 2005.

JSC "KazMorTransFlot". The total cost of the investment project is U.S.$10 million, which is fully financed by the Issuer. The project stipulates the building of a seaport on the Caspian sea coast in Mangistau oblast. The tenor of the credit facility is 5.5 years. The borrower fully drew down the U.S.$10 million credit facility in October 2003.

JSC KazEnergoCabel. The total cost of the investment project is U.S.$10 million. The purpose of this project is the modernisation of existing facilities at its Pavlodar cable plant. The tenor of the credit facility is seven years. The Issuer commenced disbursement of the U.S.$5.3 million credit facility in November 2004 and anticipates that it shall be fully drawn down by November 2005.

JSC Susyndar. The total cost of the investment project is U.S.$7.8 million. The purpose of the project is the modernisation of a non-alcoholic beverage production facility in Almaty with up-to-date technological equipment from Germany. The tenor of the credit facility is 8.5 years. The Issuer commenced disbursement of the U.S.$7.1 million credit facility in March 2004. The borrower fully drew down the facility in March 2005.

"Kazruno" L.L.P. The total cost of the investment project is U.S.$7.5 million, which is fully financed by the Issuer. The loan is for the purchase of modern wool-processing equipment for a wool treatment plant located in Semipalatinsk. The tenor of the credit facility is nine years. The borrower fully drew down the U.S.$7.5 million credit facility in August 2004.

OJSC "VITA". The total amount of the investment project is U.S.$7.5 million, which was fully financed by the Issuer. The purpose of this investment project is the construction of a soy bean processing plant in Almaty. The tenor of the credit facility is seven years. The borrower fully drew down the U.S.$7.5 million credit facility in January 2003.

LLP Agrofirma Kenasby. The total cost of the investment project is U.S.$7.4 million which is financed by the Islamic Development Bank. The Issuer issued a guarantee for U.S.$6.5 million in favour of the Islamic Development Bank. The project is for the construction of new grain milling facilities in Akmola region. The tenor of the guarantee issued by the Issuer is seven years.

JSC Astana-Contract. The total cost of the investment project is U.S.$5.5 million. The purpose of the project is the construction of a new cargo terminal at the railway station Almaty-1 and the modernisation of information technologies supporting the cargo transportation. The tenor of the credit facility is seven years. The Issuer shall commence disbursement of the U.S.$5.4 million credit facility in the second quarter of 2005 and anticipates that it shall be drawn down by the end of 2006.

As at 31 March 2005, the total outstanding amount of the export related credits financed by the Issuer was U.S.$75 million. As at 31 March 2005, the principal export related projects financed by the Issuer are as follows (in accordance with appropriate credit agreements):

Amount of the facility	Term	Borrower	Export Project Description
U.S.$3.0 million	3 years	LLP NAM Plant	Assembly of audio-visual equipment and other household appliances for export
U.S.$3.0 million	3 years	LLP ATG	Assembly of audio-visual equipment and other household appliances for export
U.S.$4.8 million	1 year	LLP Astyk Trade	Grain export
U.S.$5.0 million	1 year	JSC Vita	Soya products export
U.S.$4.5 million	1 year	LLP Bompi Tex	Purchase of cotton fibre and yarn production
U.S.$4.5 million	1 year	LLP Energy	Cotton fibre treatment
U.S.$4.9 million	10 months	JSC PK Uzhpolimetal	Lead and associated products production for export
U.S.$4.5 million	3 years	LLP A.T.A. Company	Purchase, processing and sale of pelt wool
U.S.$4.7 million	37 months	JSC Agromashholding	Pre-export finance
U.S.$4.8 million	1 year	JSC Kazexportastyk Holding	Grain export
U.S.$4.8 million	1 year	LLP Astyk Trade	Grain export
U.S.$4.5 million	1 year	LLP Bogvi	Purchase of grain wheat for export
U.S.$5.0 million	5 years	JSC AtyrauBalyk	Export of caviar and sturgeon
U.S.$5.0 million	1 year	JSC Vita	Export of soy products
U.S.$10.0 million	18 months	JSC Kazexporttastyk Holding	Grain purchase for export sales
U.S.$3.0 million	2 years	LegPromKontrakt	Export of wheat flour to Tajikistan

As at the date of this Offering Circular, the Issuer is currently reviewing credit applications to finance investment projects of an aggregate total cost of approximately U.S.$422.4 million of which the Issuer plans to finance U.S.$157.6 million. These prospective projects have already fulfilled the Issuer's various requirements concerning collaterialisation. Details of the investment projects under review by the Issuer are:

JSC "KEGOC". The purpose of this U.S.$280 million investment project is the construction of the second and third stages of a 500 kilowatt power transmission line running from the North to the South of Kazakhstan. In connection with this project the Issuer is considering a U.S.$53.4 million loan. The tenor of the credit facility is 15 years. The Issuer is planning to commence disbursement of the credit facility in the fourth quarter of 2005 and anticipates this facility to be fully drawn down by the second quarter of 2007.

JSC "Condensate". This is a U.S.$36.7 million project, of which the Issuer's share is U.S.$20.1 million. This investment project is for the construction of the second stage of gas condensation production at the Karachaganak oil and gas fields. It will increase production capacity and the quality of the existing manufacturing process. The tenor of the credit facility is six years. The Issuer is planning to disburse the

U.S.$20.1 million credit facility in the third quarter of 2005 and anticipates that it shall be fully drawn down in the first quarter of 2007.

"Tengizservice" L.L.P. This is a U.S.$33 million project for the construction of a bunkering complex for tankers, which will be fully financed by the Issuer. The tenor of the credit facility is 12 years. The Issuer is planning to commence disbursement of the facility in the fourth quarter of 2005 and anticipates this facility to be fully drawn down by the second quarter of 2007.

"Nimex Textile" L.L.P. This is a U.S.$22.3 million project for the reconstruction and modernisation of textile manufacturing facilities in Ust-Kamenogorsk. The tenor of the credit is eight years. The Issuer is planning to disburse the U.S.$16.9 million credit facility in the third quarter of 2005 and anticipates this facility to be fully drawn down by the third quarter of 2006.

JSC "KazMorTransFlot". This U.S.$10.6 million investment project will be fully financed by Issuer. The purpose of this project is the construction of a base for the construction of artificial islands in the Kashagan sector of the Caspian Sea. The tenor of the credit facility is ten years. The Issuer is planning to commence disbursement of this credit facility in the fourth quarter of 2005 and anticipates completion and utilisation of this facility by the second quarter of 2007.

JSC "Agromash Holding". This U.S.$20 million project is the second stage of the reconstruction of a production plant for diesel engines and of a maintenance centre for agricultural transportation. The tenor of the credit facility is 15 years. The Issuer plans to commence disbursement of its U.S.$10.3 million credit facility in the third quarter of 2005 and anticipates completion of the draw down of this facility by the first quarter of 2007.

JSC "BurlinGasStroy". This U.S.$8.1 million investment project involves the expansion of a plant in Astana producing crushed gravel and bitumen. The tenor of the credit facility is six years. The Issuer is planning to commence disbursement of this credit facility in the fourth quarter of 2005 and anticipates completion of draw down of this facility by the second quarter of 2007.

OJSS "VitaRoss". This U.S.$5.2 million investment project will be fully financed by the Issuer, and involves the construction of an extrusion plant in Nizhniy Novgorod (Russia). The tenor of this credit facility is seven years. The Issuer plans to commence disbursement of its U.S.$5.2 million credit facility in the fourth quarter of 2005 and anticipates full draw down by the second quarter of 2007.

AGENCY SERVICES

Pursuant to the DBK Law, the Issuer acts as a collection and payment agent for various national and regional investment projects financed from the state or local government budget or supported by Government guarantees. Acting solely as payment agent, the Issuer receives fees but assumes no risk. Agency services include project monitoring, servicing of payments and collections, including opening and maintaining special conditional deposit and reserve accounts, and collection of loans on behalf of the Government. The scope of the Issuer's agency services and the fees for such services are defined by the agency agreements between the parties who have received loans funded from the state or local government budgets or Government guarantees and the Issuer.

As at 31 March 2005, the Issuer was acting as payment agent for ten investment projects including two Government loans and eight Government guaranteed loans in the aggregate amount of approximately U.S.$609 million. The Issuer's total anticipated fees for agency services in 2005 are approximately KZT 1.7 million.

FINANCIAL ADVISORY SERVICES

The Issuer provides financial advisory services to its customers to assist them in the development of their technical and financial analysis of investment projects. The Issuer also provides corporate borrowers with assistance in market analysis, finance structure, terms and drafting of business plans and credit documents in compliance with internationally recognised requirements of various multilateral development banks.

As at 31 December 2004 the Issuer had collected an aggregate KZT 22 million in fees for financial advisory services.

INTERNATIONAL BANKING

The Issuer closely cooperates with international development organisations and financial institutions such as the International Monetary Fund, the World Bank, the Islamic Development Bank, the Asian Development Bank, the Development Bank of Turkey, the Development Bank of China, the European Bank for Reconstruction and Development ("EBRD") and other international financial institutions. Due to such continuous exchanges of information and experience with such entities, the Issuer believes that it will continue to efficiently implement its statutory objectives. The Issuer has also been appointed a national co-ordinator and operator for the Islamic Corporation for Private Sector Development and in September 2003 the Issuer became a member of the Association for Development of Financial Institutions of Asia and the Pacific.

The Issuer maintains correspondent banking relationships with numerous banks including ING Bank N.V., Commerzbank AG, Citibank N.A., Dresdner Bank AG, and JP Morgan Chase Bank.

EMPLOYEES

As at 31 March 2005, the Issuer had 152 full-time employees as compared to 145 and 123 as at 31 December 2004 and 2003, respectively. The Issuer has not entered into any collective labour agreements nor are any of its employees members of a labour union nor has the Issuer experienced any work stoppages resulting from labour disputes. The average age of the Issuer's employees is 31 years and all employees in professional positions hold university degrees, twenty two employees hold MBA degrees.

From 2003 through to February 2005, employees from key departments and divisions of the Issuer attended the following specialised training seminars organised by multinational financial institutions:

- Trade and Export Finance seminar arranged by the World Bank in Almaty in March 2003;
- Procurement seminar conducted by the World Bank in Tashkent, Uzbekistan, in October 2003;
- Overview of Basel Accord on Capital Adequacy seminar held by EBRD in Almaty in October 2003;
- Seminar on Planning, Development and Evaluation of Projects arranged by ADFIAP in Manila and Bahrain, in April 2004;
- Risks Evaluation and Problem Assets Management seminar held by EBRD in London in April 2004;
- Principles and practice of Islamic Economy and Banking seminar organised by IDB in Astana in October 2004; and
- Developing Skills in Project Finance seminar held by JBIC in Japan from January to February 2005.

The Issuer is committed to continuing to upgrade the level of the professional skills and knowledge of its personnel to ensure availability of sufficient trained personnel to implement its strategic objectives set forth in the DBK Law and the Memorandum. For this purpose the Issuer budgeted KZT 18 million for training in the year 2005.

TECHNOLOGY

The Issuer has developed its own internal documentation and information network protection system to assist efficient communication and a high level of data management and protection. The Issuer's banking information system is based on Sisco 1721, Sisco 2610 and Firewall Sisco PIX 515E-UR-FE applications. In 2002 the Issuer successfully installed the Colvir Information System utilising Oracle database management software. Use of these communications systems enables the Issuer to have protected interactive access to SWIFT, the Kazakh Centre of Interbank Settlements for KZT payments and the REUTERS informational agency. The Issuer is committed to further upgrading and maintaining its information and technology systems and it has budgeted KZT 64 million for the year 2005.

LEGAL PROCEEDINGS

The Issuer is not a party to any legal proceedings which could have a material impact on the Issuer's results of operations, financial condition and prospects and there are no legal proceedings pending or, to the best knowledge of the Issuer, threatened, which could have a material impact on the Issuer's results of operations, financial condition and prospects with respect to its properties or assets.

Selected Financial and Other Information

The selected financial and other information set out below has been extracted from, and should be read in conjunction with, and is qualified in its entirety by, the Issuer's financial statements, including the notes thereto, contained elsewhere in this Offering Circular. See "Index to Financial Statements" and "Financial Review".

The Issuer's financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2004 and 2003 and the interim condensed financial statements, including the notes thereto, as at and for the three-month periods ended 31 March 2005 and 2004, were prepared in accordance with IFRS. The Issuer's financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended December 2004 and 2003 were audited by Ernst & Young, whose audit report is included elsewhere in this Offering Circular. The Issuer's interim condensed financial statements in this Offering Circular, including the notes thereto, as at and for the three-month periods ended 31 March 2005 and 2004 were reviewed by Ernst & Young, whose review report thereon is also included elsewhere in this Offering Circular. Investors should not rely on the interim results for the three month period ended 31 March 2005 as being indicative of results that the Issuer may expect for the full year.

Prospective investors should read the selected financial information in conjunction with the information contained in "Risk Factors", "Capitalisation", "Financial Review", "JSC Development Bank of Kazakhstan" and the Issuer's audited financial statements, including the notes thereto, and the other financial data contained elsewhere in this Offering Circular.

INCOME STATEMENT DATA

	Three months ended 31 March			Year ended 31 December		
	2005	2005	2004	2004	2004	2003
	(U.S.$ millions, unaudited)(1)	(KZT millions, unaudited)	(KZT millions, unaudited)	(U.S.$ millions)(2)	(KZT millions)	
Interest income	15	1,938	1,494	48	6,561	4,850
Interest expense	(5)	(647)	(654)	(18)	(2,435)	(1,791)
Net interest income before impairment charge	10	1,291	840	30	4,126	3,059
Impairment charge	(3)	(396)	20	(5)	(768)	(150)
Net interest income	7	895	860	25	3,358	2,909
Net fee and commission income	—	6	(1)	—	(4)	36
Non interest income	—	50	88	4	597	(983)
Non interest expense	(3)	(416)	(187)	(6)	(886)	(711)
Income before income tax expense and interest	4	535	760	23	3,065	1,251
Income tax benefit/(expense)	—	4	(8)	—	(21)	(40)
Net income	4	539	752	23	3,044	1,211

(1) Calculated using the average U.S. Dollar/Tenge exchange rate for the three month period ended 31 March 2005 which equalled KZT 130.25 per U.S.$1.00.

(2) Calculated using the average U.S. Dollar/Tenge exchange rate for 2004 which equalled KZT 136.04 per U.S.$1.00.

BALANCE SHEET DATA

	As at 31 March		As at 31 December		
	2005	2005	2004	2004	2003
	(U.S.$ millions, unaudited)(1)	(KZT millions, unaudited)	(U.S.$ millions)(2)	(KZT millions)	(KZT millions)
Assets					
Cash and cash equivalents	38	5,013	16	2,057	5,011
Amounts due from other financial institutions	17	2,264	35	4,582	9,972
Amounts due from reverse repurchase agreements	—	—	—	—	128
Derivative financial assets	—	28	—	9	4
Investment securities:					
– available-for-sale	535	70,979	466	60,637	42,195
– held-to-maturity	27	3,576	27	3,466	7,099
Loans to customers	273	36,245	220	28,574	19,311
Property and equipment	1	162	1	166	95
Intangible assets	1	69	1	73	88
Other assets	1	79	—	58	191
Total assets	893	118,415	766	99,622	84,094
Liabilities					
Amounts due to the Government and the NBK	67	8,901	69	8,901	4,300
Amounts due to other financial institutions	103	13,565	52	6,795	4,721
Amounts due to customers	3	418	3	364	353
Debt securities issued	218	28,808	214	27,789	32,811
Tax liabilities	—	46	—	50	—
Derivative financial liabilities	—	43	—	32	—
Provisions	2	285	1	118	76
Other liabilities	1	150	1	156	112
Total liabilities	394	52,216	340	44,205	42,373
Shareholders' equity					
Share capital	440	58,351	372	48,351	37,700
Reserve capital	50	6,576	31	4,022	2,810
Revaluation reserve(3)	5	733	—	—	—
Retained earnings	4	539	23	3,044	1,211
Total shareholders' equity	499	66,199	426	55,417	41,721
Total liabilities and shareholder's equity	893	118,415	766	99,622	84,094

(1) *Calculated using the period-end U.S. Dollar/Tenge exchange rate on 31 March 2005 which equalled KZT 132.59 per U.S.$1.00.*

(2) *Calculated using the period-end U.S. Dollar/Tenge exchange rate on 31 December 2004 which equalled KZT 130.00 per U.S.$1.00.*

(3) *Due to a restatement as set forth in Note 3 to the condensed interim unaudited financial statements for the three month period ended 31 March 2005, a revaluation reserve was required after 1 January 2005, but not for the audited annual financial statements for the years ended 31 December 2004 and 2003.*

SELECTED FINANCIAL RATIOS

	As at 31 December	
	2004	2003
Profitability Ratios (per cent.)		
Return on shareholders' equity	5.5	2.9
Return on average shareholders' equity[(1)]	6.3	3.2
Return on average assets[(1)]	3.3	1.7
Net interest margin before impairment charge[(2)]	4.5	4.3
Non-interest expense excluding impairment charge and income tax/net interest income before impairment charge plus non-interest income[(3)]	17.9	30.6
Non-interest expense as a percentage of average total assets[(3)(1)]	1.0	1.0
Balance Sheet Ratios and Capital Adequacy (per cent.)		
Total net loans as a percentage of shareholders' equity	51.6	46.3
Total shareholders' equity as a percentage of total assets	55.6	49.6
Liquid assets as a percentage of total assets[(4)]	71.0	76.6
Contingent liabilities as a percentage of shareholders' equity[(5)]	30.4	22.6
Direct liabilities as a percentage of shareholders' equity[(6)]	79.2	101.1
Economic Data[(7)]		
Period end exchange rate (KZT/U.S.$)	130.00	144.22
Average exchange rate for period (KZT/U.S.$)	136.04	149.58
Inflation rate	6.7	6.8
Growth of real GDP	9.4	9.2

(1) *Averages are calculated based on opening and closing balances for the period.*

(2) *Calculated as net interest income as a percentage of interest bearing assets.*

(3) *Non-interest expense comprises salaries and benefits, depreciation and amortisation, taxes other than income tax expenses, administrative and operating expenses and provisions.*

(4) *Liquid assets comprise cash and cash equivalents, trading and investment securities, amounts due from the NBK, credit institutions and other financial institutions and amounts receivable under repurchase agreements.*

(5) *Contingent liabilities include guarantees issued by the Issuer, commitments to extend credits and commercial letters of credit.*

(6) *Direct liabilities include amounts due to Government, financial institutions, customers, debt securities issued and derivative financial agreements.*

(7) *Data published by the NBK and the NSA.*

Financial Review

The following review should be read in conjunction with the Issuer's reviewed interim IFRS financial statements for the three months ended 31 March 2005 and the audited IFRS financial statements for the years ended 31 December 2004 and 2003. This discussion includes forward-looking statements based on assumptions about the Issuer's future business. The Issuer's actual results could differ materially from those contained in such forward-looking statements.

INTRODUCTION

The Issuer's annual financial statements, including the notes thereto, as at and for the years ended 31 December 2004 and 2003, which are included on pages F-24 to F-51 of this Offering Circular, were audited by Ernst & Young, whose audit report thereon is also included on page F-26 of this Offering Circular. The Issuer's interim unaudited condensed financial statements, including the notes thereto, as at and for the three months ended 31 March 2005 and 2004, which are included on pages F-2 to F-25 of this Offering Circular, were reviewed by Ernst & Young, whose review report thereon is also included on page F-4 of this Offering Circular. All of the Issuer's financial statements included in this Offering Circular were prepared in accordance with IFRS.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2005 AND 2004

Certain accounting categories have been restated in the preparation of the condensed interim unaudited financial statements for the three months ended 31 March 2005 to reflect a revaluation reserve of KZT 733 million (see Note 3 to the condensed interim unaudited financial statements for the three months ended 31 March 2005). The restatement is due to changes made by the International Accounting Standards Board in December 2003 when it issued revised IAS Standards 32, 36, and 39. All the Standards are effective for the financial years beginning on or after 1 January 2005. IAS 32 and 39 cumulatively provide comprehensive guidance on the 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 the financial assets and liabilities, which is to be applied prospectively. The Issuer has adopted the four revised standards starting from 1 January 2005. The condensed interim unaudited financial statements for the three months ended 31 March 2005 have been prepared taking into account the revised standards, whereas the audited financial statements for the years ended 31 December 2004 and 2003 have not been restated since they were prepared prior to the Issuer's adoption of the revised standards in 2005. Accordingly there are differences between such annual audited financial statements prepared under the old standards and the condensed interim unaudited financial statements which do take into account the revised standards.

During the three months ended 31 March 2005, the Issuer's net income was KZT 539 million, a decrease of KZT 213 million or 28.3 per cent. from KZT 752 million during the three months ended 31 March 2004.

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

	Three months ended 31 March	
	2005	2004
	(unaudited)	
	(KZT thousands)	
Interest income	1,937,727	1,494,297
Interest expense	(647,099)	(654,136)
Net interest income before impairment charge	1,290,628	840,161
Allowance for loan impairment	(395,673)	20,110
Net interest income after impairment charge	894,955	860,271

Net interest income before impairment charge of the Issuer increased by 53.6 per cent. to KZT 1,291 million for the three month period ended 31 March 2005 as compared to KZT 840 million for the three month period ended 31 March 2004.

Interest Income

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

	Three months ended 31 March	
	2005	2004
	(unaudited)	
	(KZT thousands)	
Interest on loans	805,902	446,829
Interest on securities	1,018,796	836,848
Interest on deposits with other banks	111,846	210,197
Interest on reverse repurchase agreements	1,183	423
Total interest income	1,937,727	1,494,297

Interest income increased by 29.7 per cent. to KZT 1,938 million for the three month period ended 31 March 2005, as compared to KZT 1,494 million for the three month period ended 31 March 2004. The increase in the first quarter of 2005 was primarily due to an increase in the size of the securities portfolio and the volume of loans to customers.

Interest Expense

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

	Three months ended 31 March	
	2005	2004
	(unaudited)	
	(KZT thousands)	
Interest on debt securities issued	(552,484)	(632,841)
Interest on deposits and loans from credit institutions	(91,715)	(19,874)
Interest on amounts due to Government	(2,225)	(1,075)
Interest on repurchase agreements	(595)	(341)
Interest on customer accounts	(80)	(5)
Total interest expense	(647,099)	(654,136)

For the three month period ended 31 March 2005, interest expense decreased by 1.1 per cent. to KZT 647 million, as compared to KZT 654 million for the three-month period ended 31 March 2004.

The decrease in interest expense in the first quarter of 2005 was due to a decreased amount of debt securities issued as a result of buybacks of domestic bonds carried out in 2004.

Allowance for Loan Impairment

The charge for loan impairment increased to KZT 396 million for the three month period ended 31 March 2005 from the reversal of the impairment charge of KZT 20 million in the first quarter of 2004. The impairment charge for the first quarter of 2005 as compared to the reversal of the impairment charge in the first quarter of 2004 was the result of the repayment of a classified loan followed by reversal of the relevant amount of provisions in the first quarter of 2004 and an increase in the Issuer's loan portfolio and in the amounts of the existing credit facilities extended by the Issuer to its customers.

Non-Interest Income

The following table sets out the principal components of the Issuer's non-interest income for the three months ended 31 March 2005 and 2004:

	Three months ended 31 March	
	2005	2004
	(unaudited)	
	(KZT thousands)	
Net gain/(losses) from derivative financial instruments	4,946	10,259
Net gain/(losses) from available for sale securities	2,433	(876)
Net gain/(losses) from foreign currencies:		
— dealing	21,082	6,272
— translation differences	15,407	48,525
Fee and commission income	24,757	14,305
Fee and commission expense	(18,753)	(15,673)
Other income/(expenses)	5,675	23,326
Total non-interest income	55,547	86,138

Total non-interest income decreased in the first quarter of 2005 to KZT 56 million from KZT 86 million for the first quarter of 2004. This decrease in the first quarter of 2005 primarily reflects the decrease of gains from derivative financial instruments and decrease in foreign currency translation differences gains off-set by the increase in dealing gains and as set off by a loss in net fees and commission and decrease in other income. The decrease in net gain from foreign currencies translation differences was as a result of negative impact of foreign currency exchange rates. The increase in the net gain from dealing operations was primarily due to the increased amount of client foreign exchange operations.

The increase in fee and commission expense to KZT 19 million for the three-month period ended 31 March 2005 from KZT 16 million for the three-month period ended 31 March 2004 was primarily due to the increase of direct liabilities and other expenses compensated by customers.

Non Interest Expense

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

	Three months ended 31 March	
	2005	2004
	(unaudited)	
	(KZT thousands)	
Salaries and benefits	(179,697)	(122,756)
Depreciation and amortisation	(14,035)	(15,000)
Taxes other than income tax	(5,869)	(3,796)
Administrative expenses and operating expenses	(48,584)	(42,221)
Other provisions	(167,497)	(2,937)
Total non interest expense	(415,682)	(186,710)

Non interest expense increased by 122.6 per cent. in the first quarter of 2005 as compared to the first quarter of 2004. Non interest expense represented 77.7 and 24.6 per cent. of operating income before income tax expense, for the three month periods ended 31 March 2005 and 2004, respectively. The overall increase in operating expenses in the first quarter of 2005, as compared to the first quarter of 2004, was primarily due to increases in salary and bonuses as a result of an increase in the number of employees in the first quarter of 2005, the introduction of a new employee retention system which increased salaries and bonuses of employees in key revenue generating departments. Other provisions increased to KZT 167 million in the first quarter of 2005 as compared to KZT 3 million in the first quarter of 2004 due to the increase of the volume of uncovered letters of credit issued by the Issuer.

Taxation

The Issuer's income tax benefit was KZT 4.7 million for the three month period ended 31 March 2005, as compared to the income tax expense of KZT 7.5 million for the three month period ended 31 March 2004. The Issuer's effective tax rates were (0.9) and 1.0 per cent. for the first quarters of 2005 and 2004, respectively. The decrease in the deferred tax liabilities to KZT 58 million for the three month period ended 31 March 2005 from KZT 85 million for the three month period ended 31 December 2004 was a result of decrease in amortization of the costs related to the debt securities issued by the Issuer.

FINANCIAL CONDITION FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2005 AND 31 DECEMBER 2004

Total assets

As at 31 March 2005, the Issuer's total assets were KZT 118,415 million, an increase of 18.9 per cent. as compared to 31 December 2004. The growth in the first quarter of 2005 was primarily attributable to an 26.8 per cent. growth in the Issuer's loan portfolio, and a 16.3 per cent. increase in the Issuer's securities portfolio.

As at 31 March 2005, the Issuer's cash and cash equivalents balances had increased 143.6 per cent. to KZT 5,013 million, from KZT 2,057 million as at 31 December 2004. The increase in the first quarter of 2005 was primarily due to the increase in short term deposits with other banks and the NBK.

As at 31 March 2005, amounts receivable under derivative financial assets increased 219.3 per cent. to KZT 28.1 million, from KZT 8.8 million as at 31 December 2004. The increase in the first quarter of 2005 was due to the increased volume of transactions with swaps, forwards and other derivative instruments.

As at 31 March 2005, the total amount of outstanding loans to customers was KZT 36,245 million, an increase of 26.8 per cent., as compared to KZT 28,574 million as at 31 December 2004. The increase in the first quarter of 2005 was mainly due to an increase in the volume of loans extended by the Issuer and increase of the amounts of the existing credit facilities extended by the Issuer to its customers.

Total liabilities

As at 31 March 2005, the Issuer's total liabilities were KZT 52,215 million, an increase of 18.1 per cent. as compared to KZT 44,205 million at 31 December 2004. The increase in the first quarter of 2005 was primarily due to increases in amounts due to other financial institutions.

As at 31 March 2005, debt securities issued increased to KZT 28,808 million as compared to KZT 27,789 million as at 31 December 2004. As at 31 March 2005, amounts due to financial institutions increased by 99.6 per cent. as compared to 31 December 2004. The increase in the first quarter of 2005 was due to the Issuer's need to fund its operations.

As at 31 March 2005, provisions for guarantees and letters of credit increased to KZT 285 million as compared to KZT 118 million as at 31 December 2004 as a result of an increase of the volume of uncovered letters of credit issued by the Issuer.

As at 31 March 2005, the allowance for loan impairment increased to KZT 1,549 million as compared to KZT 1,153 million as at 31 December 2004 as a result of an increase of the volume of loans to customers.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

Net Interest Income

The following table sets out the principal components of the Issuer's net interest income for each of the years ended 31 December 2004 and 2003:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Interest income	6,560,777	4,849,777
Interest expense	(2,435,003)	(1,790,744)
Net interest income before impairment charge	4,125,774	3,059,033
Allowance for loan impairment	(767,302)	(150,357)
Net interest income after impairment charge	3,358,472	2,908,676

The Issuer's net interest income before impairment charge increased by KZT 1,067 million or 34.9 per cent. to KZT 4,126 million in the year ended 31 December 2004 as compared to KZT 3,059 million in the year ended 31 December 2003.

Interest Income

The following table sets out the principal components of the Issuer's interest income for the years ended 31 December 2004 and 2003:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Interest on loans	2,176,313	1,345,335
Interest on securities	3,759,674	1,349,633
Interest on deposits with other Banks	621,472	803,408
Interest on reverse repurchase agreements	3,318	1,351,401
Total interest income	6,560,777	4,849,777

Interest income increased by 35.3 per cent. or by KZT 1,711 million, to KZT 6,561 million for the year ended 31 December 2004, as compared to KZT 4,850 million as at 31 December 2003. The increase in 2004 was primarily due to an increase in the size of the securities portfolio and the volume of loans to customers. Interest on reverse repurchase agreements decreased due to the repayment of repurchase agreements with the NBK during 2003.

Interest Expense

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

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Interest on debt securities issued	(2,337,466)	(1,681,474)
Interest on deposits and loans from credit institutions	(87,669)	(106,504)
Interest on amounts due to Government	(6,216)	(406)
Interest on repurchase agreements	(3,433)	(2,139)
Interest on customer accounts	(219)	(221)
Total interest expense	(2,435,003)	(1,790,744)

For the year ended 31 December 2004, interest expense increased by 36.0 per cent. or KZT 644 million from KZT 1,791 million for the year ended 31 December 2003.

The increase in interest expense in 2004 is a reflection of the issuance of debt securities by the Issuer, which was slightly offset by a smaller amount of interest paid to financial institutions.

Average Interest Rate

The Issuer's overall average interest rate paid on interest bearing assets decreased to 7.4 per cent. as at 31 December 2004 from 7.9 per cent. as at 31 December 2003 due to (i) a decrease in the interest earned on the Issuer's securities portfolio resulting from the decrease of average interest rates in the domestic securities market and (ii) a reduction of investments attributable to reverse repurchase agreements and the reinvestment of free funds into the securities portfolio at a lower interest rate.

The following tables set out the effective average interest income and expense rates by size of the principal interest-bearing assets and liabilities of the Issuer as at 31 December 2004 and 2003. The analysis has been prepared using period-end effective contractual rates.

	Year ended 31 December					
	2004			2003		
Interest bearing assets[(1)]	Amount of asset (KZT million)	Interest on asset (KZT million)	Average Interest Rate (per cent.)	Amount of asset (KZT million)	Interest on asset (KZT million)	Average Interest Rate (per cent.)
Securities	57,836	3,760	6.5	18,876	1,350	7.2
Loans to customers	22,021	2,176	9.9	14,047	1,345	9.6
Amounts due from financial institutions	8,689	622	7.1	12,652	803	6.3
Reverse repurchase agreements	295	3	1.0	15,789	1,351	8.6
Total	88,841	6,561	7.4	61,364	4,849	7.9

	Year ended 31 December					
	2004			2003		
Interest bearing liabilities[(2)]	Amount of liability (KZT million)	Interest on liability (KZT million)	Average Interest Rate (per cent.)	Amount of liability (KZT million)	Interest on liability (KZT million)	Average Interest Rate (per cent.)
Debt securities issued	30,372	(2,337)	7.7	21,238	(1,681)	7.9
Amounts due to financial institutions	3,120	(88)	2.8	3,842	(107)	2.8
Amounts due to the Government	6,026	(6)	0.1	538	(0.4)	0.1
Total	39,518	(2,431)	6.2	25,618	(1,788)	7.0

(1) *Calculated as an average amount of the opening and closing balance of each respective asset for a quarterly period;*

(2) *Calculated as an average amount of the opening and closing balance of each respective liability for a quarterly period.*

Average interest rate for the average loan portfolio for 2004 increased to 9.9 per cent. as compared to average interest rate of 2003 which was 9.6 per cent.

Allowance for Loan Impairment

The charge for loan impairment increased to KZT 768 million for the year ended 31 December 2004 from KZT 150 million for the year ended 31 December 2003. The higher charge for 2004 as compared to 2003 was the result of the increase in the Issuer's loan portfolio. As a percentage of total gross loans to customers, allowance for loan impairment was 3.9 and 2.0 per cent. as at 31 December 2004 and 2003, respectively. The increase in 2004 was mainly due to a larger loan portfolio growth as compared to 2003.

Non-Interest Income

The following table sets out the principal components of the Issuer's consolidated non-interest income for the years ended 31 December 2004 and 2003:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Net gain/(losses) from derivative financial instruments	(27,565)	(134,003)
Net gain/(losses) from available for sale securities	535,444	(137,996)
Net gain/(losses) from foreign currencies		
–dealing	(43,664)	(17,032)
–translation differences	82,544	(709,872)
Fee and commission income	56,968	75,040
Fee and commission expense	(61,293)	(38,942)
Other income/(expenses)	49,933	15,844
Total non-interest income	592,367	(946,961)

Total non-interest income increased in 2004 to a gain of KZT 592 million from a loss of KZT 947 million for the year ended 31 December 2003. This increase in 2004 primarily reflects the net gains from available-for-sale securities and the increase in dealing losses off-set by the increase in foreign currency translation gain and as set off by a loss in net fees and commissions. The increase in the net gain from available-for-sale securities was mainly due to the increase in the realised gain from the sale and redemption of such securities. However, gains from foreign exchange operations increased due to gains in foreign currencies translation differences as a result of the Issuer's short position on U.S. Dollars during 2004.

The decrease in fee and commission income to KZT 57 million for the year ended 31 December 2004 from KZT 75 million for the year ended 31 December 2003 was primarily due to a decrease in the amount of fees and commission charged by the Issuer on transfer account maintenance and deposit taking, documentary settlements and arrangement of loans.

The increase in fee and commission expense to KZT 61 million for the year ended 31 December 2004 from KZT 39 million for the year ended 31 December 2003 was primarily due to: (i) an increase in fees for fund transfer operations in the domestic interbank payment system; (ii) an increase in fees and commissions related to the management of investment portfolios, specifically broker-dealers, custodian and Central Depository fees and commissions; and (iii) an increase of fees related to trading on the KASE.

The following table sets out a breakdown of certain components of the Issuer's fees and commission expense for the years ended 31 December 2004 and 2003:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Fee expense for funds transfer operations	(671)	(316)
Commission expense on securities sale and purchase transactions	(14,014)	(10,740)
Commission expense on foreign exchange transactions	(2,825)	—
Fee expense for custody services	(31,269)	(25,403)
Other fee and commission expense	(12,514)	(2,483)
Total fee and commission expense	(61,293)	(38,942)

Non Interest Expense

The following table sets out the principal components of the Issuer's non-interest expense for the years ended 31 December 2004 and 2003:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Salaries and benefits	(578,715)	(350,416)
Depreciation and amortisation	(56,201)	(48,554)
Taxes other than income tax	(22,871)	(54,082)
Administrative expenses and operating expenses	(186,513)	(181,622)
Other provisions	(41,858)	(75,779)
Total non interest expense	(886,158)	(710,453)

Non interest expense increased by 24.7 per cent. in 2004 as compared to 2003. Non interest expense represented 28.9 and 56.8 per cent. of operating income before income tax expenses in the years ended 31 December 2004 and 2003, respectively. Taxes other than income tax decreased by KZT 31,211 thousand in 2004 as compared to 2003 mainly due to the elimination of withholding tax payable on interest on debt securities issued by the Issuer. The overall increase in operating expenses in 2004, as compared to 2003, was due primarily to: (i) increases in salary and bonuses as a result of an increase in the number of employees from 123 in 2003 to 145 during 2004; (ii) the introduction of a new employee retention system which increases salaries and payment of bonuses to employees of key revenue generating departments of the Issuer; and (iii) an increase in depreciation as a result of the purchase of new computer equipment.

Salaries and Benefits

Salaries and benefits increased by 65.2 per cent. in 2004 to KZT 579 million from KZT 350 million in 2003, primarily due to salary increases.

The following table shows the composition of the Issuer's salaries and benefits expenses for the periods indicated:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Salaries and benefits	(429,613)	(221,123)
Accrued employee's bonus and leave pay	(90,387)	(85,440)
Social tax	(58,715)	(43,853)
Salaries and benefits	(578,715)	(350,416)

Administrative and Operating Expenses

The following table shows the composition of the Issuer's administrative and operating expenses for the periods indicated:

	Year ended 31 December	
	2004	2003
	(KZT thousands)	
Communication expenses	(39,073)	(23,433)
Professional services expenses	(31,109)	(27,890)
Expenses on business trips	(25,935)	(13,101)
Utilities expenses	(25,749)	(20,554)
Entertainment expenses	(10,894)	(1,721)
Training expenses	(9,249)	(1,371)
Software maintenance	(7,109)	(6,317)
Rent expenses	(4,923)	(54,776)
Advertising expenses	(4,627)	(7,514)
Transport expenses	(3,708)	(2,631)
Stationary	(2,765)	(2,326)
Other	(21,372)	(19,988)
Total expenses	(186,513)	(181,622)

Administrative and operating expenses increased by 2.7 per cent. in 2004 to KZT 187 million, compared to KZT 182 million for 2003. Higher communication expenses, professional services fees, business trip expenses, entertainment and training expenses represented the largest contributing factors to the increase in 2004, compared to 2003, although these were significantly offset by reductions in rent expenses and advertising costs.

Communication expenses increased by 66.7 per cent. to KZT 39 million for the year ended 31 December 2004 compared to KZT 23 million for the year ended 31 December 2003 due to the installation in 2004 of an on-line connection to the domestic inter-bank payment system, KASE and Reuters.

Business trip expenses rose by 98.0 per cent., to KZT 26 million, for the year ended 31 December 2004, compared to KZT 13 million for the year ended 31 December 2003, as a result of the Issuer's increased marketing activity both in the domestic and foreign markets as well as credit monitoring on-site visits to various regions in Kazakhstan to monitor projects where some of the Issuer's borrowers are located.

Rent expenses decreased by 91.0 per cent. to KZT 5 million for 2004, compared to KZT 55 million for 2003, largely due to relocation of the Issuer's headquarters to a new building which was completed in 2004. The new building was transferred to the Issuer under a trust management agreement entered into by the Government and the Issuer on 10 September 2003, whereby the Issuer only pays maintenance expenses related to the building and utilities.

Taxation

The Issuer's income tax expense was KZT 21 million for the year ended 31 December 2004, as compared to KZT 40 million for the year ended 31 December 2003. The Issuer's effective tax rates were 0.7 and 3.2 per cent. for 2004 and 2003, respectively. The reduction in the effective tax rate for the years 2004 and 2003 was the result of the increase in the Issuer's investments in non-taxable government securities and tax exempt loans with maturities of over three years.

FINANCIAL CONDITION AS AT 31 DECEMBER 2004 AND 2003

Total assets

As at 31 December 2004, the Issuer's total assets were KZT 99,622 million, an increase of 18.5 per cent. as compared to 31 December 2003. The growth in 2004 and 2003 was primarily attributable to 30.0 and 50.9 per cent. respectively, increase in the Issuer's securities portfolio and increase in the gross loan portfolio.

As at 31 December 2004, the Issuer's cash and cash equivalent balances had decreased 58.9 per cent. to KZT 2,057 million, from KZT 5,011 million as at 31 December 2003. The decrease in 2004 was primarily due to the decrease in short term deposits with other Issuers and an increase in lending activities.

As at 31 December 2004, amounts receivable under derivative financial assets increased 96.8 per cent. to KZT 8.8 million, from KZT 4.5 million as at 31 December 2003. The increase in 2004 was due to increased derivative transactions such as option contracts for corporate debt securities held in the Issuer's investment portfolio.

As at 31 December 2004, the total amount of outstanding loans to customers was KZT 28,574 million, an increase of 48.0 per cent., as compared to KZT 19,311 million as at 31 December 2003. The increase in the 2004 and 2003 loan portfolio was mainly due to an increase in the volume of loans extended by the Issuer which was in line with the Issuer's strategic objectives and Memorandum.

As at 31 December 2004, fixed and intangible assets, less accumulated depreciation increased from KZT 183 million as at 31 December 2003 to KZT 239 million. In 2004 property and equipment increased mainly due to acquisitions of new buildings but the overall increase for fixed assets was off-set by depreciation and intangible assets decreased due to accumulated amortisation.

Total liabilities

As at 31 December 2004, the Issuer's total liabilities were KZT 44,205 million, an increase of 4.3 per cent. as compared to KZT 42,373 million at 31 December 2003. The increase in 2004 was primarily due to increases in amounts due to the Government and other financial institutions but was slightly off-set by a decrease in debt securities issued. Debt securities issued decreased as a result of buybacks of KZT denominated bonds and depreciation of U.S. Dollar denominated eurobonds in KZT terms due to the appreciation of the KZT Tenge against the U.S. Dollar.

As at 31 December 2004, debt securities issued decreased to KZT 27,789 million as compared to KZT 32,811 million as at 31 December 2003. As at 31 December 2004, amounts due to financial institutions increased 43.9 per cent. as compared to 31 December 2003. The increase in 2004 was due to new syndicated loans to the Issuer. The amount due to the Government increased by 107.0 per cent., to KZT 8,901 million as at 31 December 2004 as compared to KZT 4,300 million as at 31 December 2003.

As at 31 December 2004, the Issuer had deferred tax liabilities of KZT 50 million as compared to none as at 31 December 2003 because of adjustments by it to account for expenses arising from debt securities issued.

Equity and Capital Adequacy Ratios

As at 31 December 2004, the Issuer's total shareholders' equity had increased by 32.8 per cent., to KZT 55,417 million, as compared to KZT 41,721 million as at 31 December 2003. The increase in total shareholders' equity in 2004 was due to an increase in share capital which in turn was the result of additional issuance by the Issuer of ordinary shares and increases of 151.5 per cent. in retained earnings and 43.1 per cent. in reserve capital.

Pursuant to the DBK Law the Issuer is not subject to the prudential requirements of the FMSA applicable to commercial banks in Kazakhstan. Therefore, the Issuer does not calculate Tier 1 capital ratio as a part of its liquidity management policy. In July 2003, following the assignment by the NBK to the Issuer of financial agency status, the Issuer became subject to the prudential requirements of the FMSA applicable to financial agents and was required to maintain a risk weighed capital adequacy ratio of not less than 8.0 per cent. As at 31 March 2005, the Issuer had a risk weighted capital adequacy ratio of 38.1 per cent.

The following table gives certain information regarding the Issuer's risk weighted capital adequacy ratio calculated in accordance with the requirements of the FMSA set for financial agencies as at 31 March 2005 and 31 December 2004:

	31 March 2005	31 December 2004
	(KZT thousands)	
	(unaudited)	
Share capital	58,351,300	48,351,300
Reserve capital	6,575,875	4,021,072
Total shareholders' equity	64,927,175	52,372,372
Other investments(1)	(2,200)	(2,200)
Total	64,924,975	52,370,172
Total Assets	118,414,704	99,622,205
Contingent liabilities(2)	51,850,124	42,389,976
Capital adequacy ratio (per cent.)	38.1	36.9

(1) *Other investments include investment in the KASE.*

(2) *Contingent liabilities include cash collateralised and un-collateralised commercial letters of credit, guarantees and commitments to extend credit.*

According to the Memorandum, the Issuer's contingent liabilities to shareholders' equity ratio should not exceed 2:1 and direct liabilities to shareholders' equity ratio should not exceed 4:1. The following table gives certain information regarding the Issuer' contingent liability ratio and direct liability ratio as at the dates indicated.

	As at 31 December	
	2004	2003
Contingent liabilities Ratio(1) (per cent.)	1.5	5.7
Direct Liability Ratio(2) (per cent.)	78.5	100.3

(1) *As defined in the Memorandum contingent liabilities include guarantees, issued by the Issuer.*

(2) *Direct liabilities include amounts due to the Government and financial institutions and debt securities issued.*

Asset and Liability Management

GENERAL

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

To manage risk the Issuer has established (i) the ALCO, (ii) the Credit Committee and (iii) the Investment Committee, which are responsible for devising, implementing and monitoring the Issuer's risk policies, including liquidity, credit and market risks. The basic credit policy of the Issuer is set out and governed by the Memorandum. The Issuer has also adopted and follows a comprehensive Asset and Liability Management Strategy to facilitate management of credit risks.

ASSET AND LIABILITY COMMITTEE

The overall asset and liability position of the Issuer is monitored and managed by the ALCO. The ALCO is a permanent collective body that consists of 13 members and reports to the President. All members of the ALCO are appointed by the President for a term of one year. The ALCO is headed by the Chairman of the ALCO and is comprised of the representatives of Treasury Department, Borrowings and Structured Finance Department, Strategic Planning Department, Project Lending Department and Project Analyses Department. The ALCO meets at least once a month. The ALCO regularly monitors the Issuer's liquidity position, maturity gaps, interest income and expense on interest bearing liabilities as well as operational expense, liabilities and conditions of domestic and international financial markets. The ALCO reviews the Issuer's compliance with the operational ratios established by the Memorandum. The ALCO is responsible for setting interest rate limits on the Issuer's borrowed resources, placed assets, establishes the range of interest rates payable on new loans by borrowers on a monthly basis, and determines various limits and other criteria including individual lending limits and ratios for funding. The ALCO also establishes lending rate limits on an individual basis if the amount of a loan exceeds U.S.$5 million.

CREDIT COMMITTEE

The Credit Committee implements the Issuer's credit policies set out in the Memorandum and its additional internal controls. All members of the Credit Committee are appointed by the President for a term of one year. The Credit Committee is a permanent collective body that consists of 13 members and reports to the President. The Credit Committee is headed by the Chairman of the Credit Committee. Principal responsibilities of the Credit Committee include implementation of the internal lending policy of the Issuer, ensuring compliance by the Issuer with the requirements established in the Memorandum, other limitations set by the ALCO and, minimising credit risk and maximising growth of net income from lending operations. The Credit Committee also establishes interest rates and fees in relation to export credits. See "Lending Policies and Procedures".

INVESTMENT COMMITTEE

The Investment Committee monitors and manages the Issuer's treasury portfolio within the guidelines established by the ALCO. The Investment Committee is a permanent collective body of 8 members and reports to the President. The Investment Committee is responsible for the development of the Issuer's internal policy on investment portfolio management. In April 2004 the Board of Directors of the Issuer approved the Investment Portfolio Management Strategy. That strategy seeks to effectively improve the management of the Issuer's investment portfolio by defining the types of instruments in which the Issuer invests, investment limitations, the structure of the portfolio and investment risk evaluation methods.

MATURITIES

The following tables set out a breakdown of the Issuer's assets and liabilities by maturity as at 31 December 2004 and 31 December 2003 and contain certain information regarding the liquidity risk faced by the Issuer. Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they fall due.

	As at 31 December 2004						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(KZT thousands)						
Assets							
Cash and cash equivalents. .	284,832	254,309	1,518,219	—	—	—	2,057,360
Amounts due from other financial institutions	—	945,967	2,365,670	1,270,056	390	—	4,582,083
Derivative financial assets	8,790	—	—	—	—	—	8,790
Investment securities:							
-available-for-sale	—	1,487,262	3,022,602	12,804,700	26,881,334	16,441,268	60,637,166
-held-to-maturity	—	12,008	—	1,890,318	1,564,069	—	3,466,395
Loans to customers, net . . .	—	146,234	879,208	7,927,664	14,596,376	5,024,742	28,574,224
Other assets	—	18,207	24,229	9,022	2,200	—	53,658
	293,622	2,863,987	7,809,928	23,901,760	43,044,369	21,466,010	99,379,676
Liabilities							
Amounts due to the Government of Kazakhstan	—	1,916	—	418	—	8,899,000	8,901,334
Amounts due to other financial institutions	—	—	—	644,727	5,817,737	332,438	6,794,902
Amounts due to customers .	336,161	—	—	—	27,625	—	363,786
Debt securities issued	—	—	63,600	333,667	14,712,195	12,679,051	27,788,513
Tax liabilities	—	—	—	—	50,240	—	50,240
Derivative financial liabilities	31,888	—	—	—	—	—	31,888
Other liabilities	—	13,475	47,244	96,373	—	—	157,092
	368,049	15,391	110,844	1,075,185	20,607,797	21,910,489	44,087,755
Net position	(74,427)	2,848,596	7,699,084	22,826,575	22,436,572	(444,479)	55,291,921
Accumulated gap	(74,427)	2,774,169	10,473,253	33,299,828	55,736,400	55,291,921	

	As at 31 December 2003						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(KZT thousands)						
Assets							
Cash and cash equivalents. .	29,018	443,570	4,538,753	—	—	—	5,011,341
Amounts due from other financial institutions	—	952,449	2,069,711	6,949,669	465	—	9,972,294
Amounts receivable under Repo.	—	128,006	—	—	—	—	128,006
Derivative financial assets . .	4,467	—	—	—	—	—	4,467
Investment securities:							
-available-for-sale	—	—	1,303,084	12,013,230	16,292,497	12,586,401	42,195,212
-held-to-maturity	—	—	43,907	3,313,353	3,741,674	–	7,098,934
Loans to customers, gross . .	—	155,650	411,377	3,439,359	13,452,264	1,852,198	19,310,848
Other assets	2,431	12,444	6,104	161,790	—	2,200	184,969
	35,916	1,692,119	8,372,936	25,877,401	33,486,900	14,440,799	84,906,071
Liabilities							
Amounts due to the Government of Kazakhstan	—	—	—	406	—	4,300,000	4,300,406
Amounts due to other financial institutions	—	3,970,809	749,743	—	—	—	4,720,552
Amounts due to customers .	325,732	27,557	–	–	–	–	353,289
Debt securities issued	—	—	—	506,297	18,321,182	13,984,010	32,811,489
Other liabilities	—	12,667	2,509	96,445	—	—	111,621
	325,732	4,011,033	752,252	603,148	18,321,182	18,284,010	42,297,357
Net position	(289,816)	(2,318,914)	7,620,684	25,274,253	15,165,718	(3,843,211)	41,608,714
Accumulated gap	(289,816)	(2,608,730)	5,011,954	30,286,207	45,451,925	41,608,714	

The Issuer maintains its liquidity management processes with the objective of ensuring that funds will be available at all times to fund all cash flow obligations as they become due.

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

INTEREST RATE MANAGEMENT

The following table sets out the average interest rates on the Issuer's interest earning and bearing assets and liabilities broken down by currencies for the indicated periods.

	As at 31 December			
	2004		2003	
	KZT	Freely convertible currencies	KZT	Freely convertible currencies
	(per cent.)			
Deposit with the NBK	—	—	3.0-3.5	—
Amounts due from other financial institutions	6.5-9.2	—	5.5-9.0	4.5-9.5
Amounts receivable under reverse repurchase agreements..	—	—	0.9-2.5	—
Investment securities:				
–available-for-sale	2.9-11.0	9.6-12.0	5.7-11.0	8.5-11.5
–held-to-maturity	6.0-9.2	—	3.9-15.7	9.5-13.6
Loans to customers	—	7.0-11.8	—	7.0-11.8
Amounts due to the Government of Kazakhstan	0.1	—	0.1	—
Amounts due to other financial institutions	—	3.0-4.2	—	3.5-4.1
Amounts due to customers	—	1.0	—	1.0
Debt securities issued	8.5	7.1-7.4	8.5	7.1-7.4

The principal objective of the Issuer's interest rate risk management activities is to limit the effect of adverse interest rate movements on interest income by managing interest rate exposure. The Issuer, in accordance with the DBK Law, sets the rate of interest for loans to borrowers based on the average cost of borrowings and operational expenses of the Issuer. The maximum margin charged by the Issuer may not exceed 4.0 per cent. of that average. The Issuer monitors its interest rate sensitivity by estimating: (i) its gap position, which is based on analysing the composition of its assets and liabilities and off-balance sheet financial instruments susceptible to interest rate fluctuations and evaluations of asset and liabilities differentials in selected time periods; (ii) mismatches between average maturities of its assets and liabilities base; (iii) duration; and (iv) VAR, which is based on evaluating potential loss of the Issuer as a result of adverse market fluctuations. Pursuant to the Memorandum and its strategic objectives, the Issuer intends to continue to provide low cost medium- and long-term funding to its customers, and its management believes that the Issuer does not have any significant interest rate exposure.

Although the relative maturities of the Issuer's assets and liabilities, as described in the table under "Maturities", give some indication as to the Issuer's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the frequency with which the Issuer is able to reprice its assets and liabilities. However the Issuer calculates the duration of assets and liabilities on a daily basis to evaluate its interest rate risk.

INVESTMENT PORTFOLIO AND MANAGEMENT OF SHARE CAPITAL

Although the Memorandum does not provide specific rules on the investment of share capital, other than a prohibition against using such capital for investment project financing, the Issuer invests its share capital in highly liquid financial instruments according to criteria established by the Investment Committee and approved by the Board of Directors.

In accordance with these criteria, all financial instruments in the investment portfolio are classified as liquid or savings instruments. Liquid instruments consist of unutilised borrowed funds which are used to maintain the required liquidity level. Savings instruments are funded through the Issuer's equity and serve to maintain the Issuer's capital at adequate levels.

The DBK Law as amended, provides that the Issuer may deal in Government securities and other securities as allowed by the banking laws of Kazakhstan and the Memorandum. The above criteria and the requirements set forth in the DBK Law permit the Issuer's share capital to be invested in the following types of instruments:

- securities issued by the Government, the Ministry of Finance, the NBK or local authorities;
- securities issued by other sovereigns with credit ratings of not lower than BBB/Baa3;
- debt securities issued by international financial institutions, such as the World Bank or EBRD;
- debt securities issued by domestic and foreign entities listed on the "A" board of the Kazakhstan Stock Exchange;
- debt securities issued by foreign entities with credit ratings of not lower than BBB/Baa3; and
- derivative transactions with local commercial banks or foreign counterparties with appropriate credit ratings.

As at 31 December 2004 the Issuer's securities portfolio totalled KZT 64,104 million compared to KZT 49,294 million as at 31 December 2003. A significant portion of the Issuer's securities portfolio consists of securities issued by the Ministry of Finance, the NBK and local authorities which, as at 31 December 2004, comprised 82.8 per cent. of the Issuer's securities portfolio compared to 82.1 per cent. as at 31 December 2003. The remaining portfolio is comprised of debt securities issued by Kazakhstan issuers. The Kazakhstan issuers include companies in the food processing, agriculture and banking sectors. These companies are believed by the Issuer to be of an acceptable credit risk. The Issuer does not currently hold securities issued by non-Kazakhstan entities or securities issued by foreign governments.

The Issuer intends to diversify its investments by investing in debt securities issued by foreign entities and sovereigns with credit ratings of not less than BBB/Baa3 as set out in the Memorandum. Additionally, as has been the case with many other financial institutions in Kazakhstan, the Issuer acquired a seat on the KASE (through equity purchase) in order to reduce the costs of securities transactions on the KASE.

The following table shows the composition of the Issuer's investment portfolio as at the dates indicated:

	As at 31 December					
	2004			2003		
	Amount (KZT thousands)	Interest rate (per cent.)	Maturity	Amount (KZT thousands)	Interest rate (per cent.)	Maturity
Available-for-sale securities						
Bonds of the Ministry of Finance	34,492,386	4.9 — 6.4	2005 — 2013	20,318,374	5.7 — 9.9	2006 — 2013
Notes of the NBK	13,404,331	2.9 — 5.1	2005	11,836,399	4.5 — 5.4	2004
Corporate bonds	10,597,926	7.5 — 12.0	2005 — 2011	7,637,261	7.4 — 12.0	2010
Atyrau city municipal bonds	2,142,523	8.5	2008	2,403,178	8.5	2008
Total available-for-sale securities	60,637,166			42,195,212		
Held-to-maturity securities						
Astana city municipal bonds	2,139,856	8.3 — 8.5	2005 — 2006	3,141,022	8.3 — 9.8	2004 — 2006
Bonds of the Ministry of Finance of the RK	924,159	6.0 — 8.3	2005 — 2007	2,721,272	5.5 — 9.9	2004 — 2007
Corporate bonds	402,380	9.2	2007	1,201,808	9.2 — 10.0	2004 — 2007
Euronotes of the Ministry of Finance of the RK	—	—	—	34,832	3.9	2004
Total held-to-maturity securities	3,466,395	—	—	7,098,934	—	—
Total	64,103,561			49,294,146		

Funding And Liquidity Management

INTRODUCTION

The Issuer's funding and liquidity management policies, which are implemented by the ALCO, seek to ensure that the Issuer has sufficient funds available to meet its operational needs. Liquidity risk arises in the general funding of the Issuer's lending and investment activities. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price. To provide for unexpected short-term funding requirements, the Issuer invests its funds in highly liquid financial instruments.

In addition, the ALCO establishes and reviews the Issuer's liquidity guidelines. The following table provides certain information as to the Issuer's guidelines for liquidity ratios and the Issuer's liquidity:

	ALCO Requirement	31 December 2004
	(Per cent.)	
Net loans/ total assets	Not to exceed 100.0	28.7
Net loans/equity	Not to exceed 70.0	51.6
Liquid assets[(1)]/total assets	Not less than 30.0	71.0

Note:

(1) *Liquid assets comprise cash and cash equivalents, trading and investment securities, amounts due from NBK credit institutions and other financial institutions and amounts receivable under repurchase agreements.*

The Issuer's activities are funded through the issuance and placement of bonds, both domestically and internationally, through borrowings from financial institutions and loans financed from the state budget. The Issuer is not permitted to take deposits from customers that are not borrowers of the Issuer or customers of the Issuer.

The Issuer may take inter-bank deposits and open and maintain correspondent accounts for the purpose of managing its liquidity. The Issuer also acts as a collection and payment agent for projects financed from the state and local budgets and Government guaranteed loans. Acting in its agency capacity, the Issuer opens interest free current and interest bearing deposit accounts. The customers accumulate in such accounts funds received from, or guaranteed by, the Government or funded from the local budgets.

The following table sets out the Issuer's sources of funds as at the dates indicated:

	As at 31 December			
	2004		2003	
	(KZT thousands)	(per cent.)	(KZT thousands)	(per cent.)
Amounts due to the Government of Kazakhstan	8,901,334	20.1	4,300,406	10.2
Amounts due to other financial institutions	6,794,902	15.4	4,720,552	11.1
Amounts due to customers	363,786	0.8	353,289	0.8
Debt securities issued	27,788,513	62.9	32,811,489	77.4
Other liabilities	356,857	0.8	187,400	0.5
Total liabilities	44,205,392	100.0	42,373,136	100.0

To diversify its funding base and to enable it to manage the maturities of its debt, the Issuer (i) has entered into various debt facilities described under "Borrowings" below; (ii) has entered into the Programme and has issued various debt securities as described in "Debt Securities" below and; (iii) has commenced negotiations on entering Framework Agreements with Japan Bank for International Cooperation, Dresdner Bank A.G., Sanpaolo IMI Bank, ABN AMRO Bank, ING Bank N.V., AKA Bank, Commerzbank A.G., Banca Populare Di Vicenza and UBS A.G. and ISDA Master Agreements with a number of international banks; and (iv) entered into a Cooperation Agreement with Development Bank of China ("DBC") and commenced negotiations for opening a credit line with the DBC to finance large-scale infrastructure projects.

As at 31 December 2004, the Issuer's authorised and paid-in share capital equalled KZT 48,351 million. The 2005 State Budget allocated KZT 15,000 million more to be paid into the share capital of the Issuer by the end of 2005. The first tranche was paid in March 2005, increasing the Issuer's authorised and paid-in capital to KZT 58,351 million. The Issuer anticipates that the remaining KZT 5,000 million will be invested by the regional authorities. Although, under the DBK Law, the Issuer may not use its share capital to finance investment projects, however, the Issuer is allowed to use its share capital to finance export-related transactions if the amount does not exceed 20 per cent. of share capital, and to invest in high liquidity financial instruments. See "Asset and Liability Management Investment Portfolio and Management of Share Capital". In addition, the DBK Law prohibits the Issuer from declaring and distributing dividends and requires net income earned by the Issuer to be retained as reserve capital.

BORROWINGS

Set out below are summary descriptions of the terms of the debt facilities under which the Issuer is a borrower as at the date of this Offering Circular:

The HSBC Facility

On 7 December 2004, the Issuer entered into a two year U.S.$40 million, unsecured loan agreement with a syndicate of foreign banks led by HSBC Bank Plc. (the "HSBC Facility"). The HSBC Facility was fully drawn down in December 2004.

The loan under the HSBC Facility bears an interest rate of LIBOR plus 1.0 per cent. The Issuer is entitled to prepay the HSBC Facility at any time in full or part without penalty. The HSBC Facility loan matures on 7 May 2006, however, the Bank has an option to extend it for another two years.

As at 31 March 2005, the outstanding principal balance of the HSBC Facility was U.S.$40 million.

Under the HSBC Facility the Issuer is obliged to maintain certain financial ratios, particularly with regard to its capital adequacy and tangible net worth. As at 31 March 2005, the Bank was in compliance with all financial ratios and other covenants imposed on it under the HSBC Facility.

The Standard Bank Facility

On 15 March 2004, the Issuer entered into a U.S.$10 million unsecured loan agreement for the purpose of financing export related projects. Interest on the principal balance is at the annual rate of LIBOR plus a margin quoted on a case by case basis depending on the underlying transactions, with Standard Bank London Limited (the "Standard Bank Facility"). The Standard Bank Facility was utilised by the Issuer to fund two export related projects: (i) in the total amount of U.S.$5 million, bearing an interest of LIBOR plus 2.0 per cent., and maturing on 1 September 2006; and (ii) in the total amount of U.S.$4.95 million, bearing interest at LIBOR plus 1.5 per cent. and maturing on 9 August 2005.

As at 31 March 2005, the aggregate outstanding principal amount under the Standard Bank Facility was U.S.$9.95 million.

The Deutsche Bank Facility

On 9 July 2003 the Issuer entered into a basic agreement with Deutsche Bank Aktiengesellschaft, Frankfurt am Main, pursuant to which the Issuer is permitted to draw various amounts in foreign currency for the purpose of on-lending funds in connection with specific export related transactions that are eligible for national export credit agency insurance, with a view to financing 85.0 per cent. of value of such transactions (the "Basic Agreement"). Pursuant to the Basic Agreement, on 29 December 2003 the Issuer entered into a U.S.$2.8 million individual loan agreement, bearing interest at LIBOR plus 0.6 per cent., with Deutsche Bank A.G., London (the "Deutsche Bank Facility"). The loan matures on 30 July 2010.

As at 31 March 2005, the total outstanding principal amount under the Deutsche Bank Facility was U.S.$2.6 million.

The Government Loans

Pursuant to the DBK Law and the Law On Budget System dated 1 April 1999, the Issuer may, from time to time, borrow certain funds from the Government for the purpose of further on-lending funds to its corporate customers subject to the requirements and objectives set in the Memorandum and the DBK Law.

On 26 November 2003, the Issuer entered into a fifteen year credit agreement with the Government for the total principal amount of KZT 4,300 million, bearing an interest on the principal balance at the annual rate of 0.1 per cent. (the "First Government Loan"). As at 31 March 2005, the total outstanding principal amount under the First Government Loan was KZT 4,300 million.

On 27 July 2004, the Issuer entered into a second fifteen year credit agreement with the Government for the total principal amount of KZT 4,599 million, bearing an interest on the principal balance at the annual rate of 0.1 per cent. (the "Second Government Loan"). As at 31 March 2005, the total outstanding principal amount under the Second Government Loan was KZT 4,599 million.

The Issuer is entitled to prepay the First Government Loan and the Second Government Loan at any time in full or part without penalty subject to prior consent of the Government.

DEBT SECURITIES

In 2002, the Issuer issued KZT 4,500 million 8.5 per cent. domestic bonds due 2007 indexed to U.S. Dollars. Since then the Issuer repurchased these 2007 domestic bonds for a principal amount of KZT 2,168 million. In December 2002, the Issuer registered an issue of KZT 6,300 million domestic bonds, maturing in December 2009 with the NBK. As at 31 March 2005, none of the bonds of this issue had been placed. The Issuer intends to place those bonds over the course of the next several years.

In October 2002 the Issuer issued U.S.$100 million 7.125 per cent. Notes due 2007 under the Programme. In November 2003 the Issuer issued U.S.$100 million 7.375 per cent. Notes due in November 2013 under the Programme.

COUNTERPARTY RISK MANAGEMENT

The Issuer's total exposure to a single borrower or a group of affiliated borrowers may not exceed 20.0 per cent. of the Issuer's equity. In addition, the ALCO sets exposure limits to direct and contingent liabilities of any counterparty commercial bank which varies from 80.0 to 100.0 per cent. of the equity of a counterparty commercial bank. The majority of projects to date which have been financed by the Issuer have involved credit enhancement in the form of a guarantee from a commercial bank or banks, in an amount on average, equal to 60.0 per cent. of the value of the financing. The Issuer has approved lending limit policies in relation to the largest commercial banks in Kazakhstan with a view to increasing its permitted exposure to certain of these banks. Additionally, the Issuer believes that as certain development projects move from the development and construction stages into operation, collateral in the form of operational assets such as machinery and equipment, buildings and construction and inventory will replace commercial bank guarantees. Accordingly, the Issuer believes that its loan portfolio growth will not be constrained due to the growth of the commercial banking sector and the equity base thereof.

FOREIGN CURRENCY MANAGEMENT

The following table sets out the Tenge equivalent amount of the Issuer's monetary assets and liabilities denominated in Tenge and foreign currencies as at 31 December 2004 and 2003.

	As at 31 December					
	2004			2003		
	KZT	Freely convertible currency	Total	KZT	Freely convertible currency	Total
	(KZT thousands)					
Assets						
Cash and cash equivalents	1,834,269	223,091	2,057,360	2,958,186	2,053,155	5,011,341
Amounts due from other financial institutions	4,581,693	390	4,582,083	3,455,850	6,516,444	9,972,294
Amounts receivable under reverse repurchase Agreements	—	—	—	128,006	—	128,006
Derivative financial assets	8,790	—	8,790	4,467	—	4,467
Investment securities:						
– available-for-sale	59,987,147	650,019	60,637,166	39,965,558	2,229,654	42,195,212
– held-to-maturity	3,466,395	—	3,466,395	5,537,158	1,561,776	7,098,934
Loans to customers	84,064	28,490,160	28,574,224	—	19,310,848	19,310,848
Other assets	44,678	8,980	53,658	180,262	4,707	184,969
	70,007,036	29,372,640	99,379,676	52,229,487	31,676,584	83,906,071
Liabilities						
Amounts due to the Government of Kazakhstan	8,901,334	—	8,901,334	4,300,406	—	4,300,406
Amounts due to other financial institutions	—	6,794,902	6,794,902	—	4,720,552	4,720,552
Amounts due to customers	956	362,830	363,786	18	353,271	353,289
Debt securities issued	2,035,876	25,752,637	27,788,513	4,338,386	28,473,103	32,811,489
Tax liabilities	50,240	—	50,240	—	—	—
Derivative financial Liabilities	—	31,888	31,888	—	—	—
Other liabilities	121,800	35,292	157,092	108,639	2,982	111,621
	11,110,206	32,977,549	44,087,755	8,747,449	33,549,908	42,297,357
Net balance sheet position	58,896,830	(3,604,909)	55,291,921	43,482,038	(1,873,324)	41,608,714
Net off balance sheet position	—	16,836,290	16,836,290	—	9,431,078	9,431,078

Following the floating of the Tenge in 1999, the Tenge generally continued to depreciate in value against the U.S. Dollar, although at a much slower rate but in 2003 it began to appreciate in value against the U.S. Dollar and has continued to do so through to 31 March 2005.

The Issuer is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Financial Risk Control Department monitors the Bank's net currency position and advises on the Issuer's strategy accordingly. The ALCO sets the Issuer's limits on the level of exposure to foreign currencies, ranging from -2.0 per cent. to +2.0 per cent. of the Issuer's equity.

During 2004 the Issuer's net currency position did not exceed the established limits. Since a significant portion of the Issuer's assets is denominated in US Dollars, the Issuer maintains its currency position at almost zero to mitigate the risk of any US Dollar depreciation in the future.

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

	As at 31 December	
	2004	2003
Net long (short) position (KZT thousands)	298,200	362,650
Net position as a percentage of shareholders' equity (per cent.)	0.5	0.9
Net position as a percentage of foreign currency liabilities (per cent.)	0.9	1.1

Net currency position numbers provided in the above table include: (i) assets and liabilities which are indexed to the U.S. Dollar to reflect the effect of any change in the Tenge against the U.S. Dollar; (ii) total loans, before impairment charge; and (iii) total borrowed funds including loans from credit institutions and Notes issued by the Issuer less fee and commission expense related to such borrowed funds.

GEOGRAPHIC CONCENTRATION

The following table sets out certain information relating to the Issuer's financial assets and liabilities by reference to the geographic location of the Issuer's counterparties.

	As at 31 December					
	2004			2003		
	Kazakhstan	OECD	Total	Kazakhstan	OECD	Total
	(KZT thousands)					
Assets						
Cash and cash equivalents	2,025,296	32,064	2,057,360	5,010,064	1,277	5,011,341
Amounts due from other financial institutions	4,582,083	—	4,582,083	9,972,294	—	9,972,294
Amounts receivable under reverse repurchase. agreements	—	—	—	128,006	—	128,006
Derivative financial assets	8,790	—	8,790	4,467	—	4,467
Investment securities:						
– available-for-sale	60,637,166	—	60,637,166	42,195,212	—	42,195,212
– held-to-maturity	3,466,395	—	3,466,395	7,098,934	—	7,098,934
Loans to customers	28,574,224	—	28,574,224	19,310,848	—	19,310,848
Other assets	53,658	—	53,658	184,969	—	184,969
	99,347,612	32,064	99,379,676	83,904,794	1,277	83,906,071
Liabilities						
Amounts due to the Government of Kazakhstan	8,901,334	—	8,901,334	4,300,406	—	4,300,406
Amounts due to other financial institutions	—	6,794,902	6,794,902	4,720,552	—	4,720,552
Amounts due to customers	341,339	22,447	363,786	353,289	—	353,289
Debt securities issued	2,035,876	25,752,637	27,788,513	4,338,386	28,473,103	32,811,489
Tax liabilities	50,240	—	50,240	—	—	—
Derivative financial liabilities	—	31,888	31,888	—	—	—
Other liabilities	157,033	59	157,092	111,621	—	111,621
	11,485,822	32,601,933	44,087,755	13,824,254	28,473,103	42,297,357
Net position.	87,861,790	(32,569,869)	55,291,921	70,080,540	(28,471,826)	41,608,714

LOAN PORTFOLIO

The Issuer provides medium-term financing, from five to ten years, and long-term financing, from ten to twenty years, for investment projects (of not less than U.S.$5 million) and export transactions (of not less than U.S.$1 million) of businesses operating in various priority commercial sectors of Kazakhstan, as set out in the Memorandum. See "JSC Development Bank of Kazakhstan—Lending". Within the classification of the priority commercial sectors as set forth in the Memorandum, the Issuer's Board of Directors sets limits on the Issuer's total exposure under the investment projects to a specific economic sector as a percentage of the Issuer's own capital. The following table sets out the Issuer's exposure limits broken down by industry sector:

	Percentage of the Issuer's equity
	(per cent.)
Agriculture, forestry and hunting	40.0
Fishing industry	20.0
Oil and gas industry except services and exploration	40.0
Processing agricultural products	40.0
Paper production	20.0
Textile and closing industry	40.0
Non-metal mineral products	30.0
Machinery and equipment	40.0
Rubber and plastic items.	20.0
Metal industry	40.0
Electronic equipment	40.0
Transportation and communication	40.0
Production and distribution of energy	40.0

As at 31 March 2005, the Issuer's gross loan portfolio equalled KZT 37,794 million as compared to KZT 29,728 million as at 31 December 2004.

Ten major borrowers accounted for 58.9 per cent. and 63.8 per cent. of the Issuer's gross loan portfolio as at 31 March 2005 and 31 December 2004, respectively. Ten major borrowers represented 33.5 per cent. and 32.9 per cent. of the Issuer's shareholders' equity as at 31 March 2005 and 31 December 2004, respectively.

In line with the Issuer's policy of limiting its exposure to currency fluctuations, the Issuer's loan portfolio consists of non-Tenge loans, primarily in U.S. Dollars. Such policy is based on the historical trend of the devaluation of the Tenge relative to the U.S. Dollar. Accordingly, any strengthening in the value of the Tenge relative to the U.S. Dollar might result in increased costs to the Issuer. Conversely, such a strengthening would weaken the position of the Issuer's customers which do not have foreign currency reserves or earnings.

The following table shows a breakdown of the Issuer's loan portfolio by industry sector as at the dates indicated:

	As at 31 December			
	2004		2003	
	(KZT thousands)	(per cent.)	(KZT thousands)	(per cent.)
Food	5,686,240	19.1	3,332,636	16.9
Non-metal mineral products	4,675,064	15.7	1,772,445	9.0
Textile and clothing	4,372,726	14.7	2,511,739	12.7
Transportation and communication	4,366,482	14.7	3,085,000	15.7
Machinery and equipment	2,571,605	8.6	1,002,898	5.1
Processing of agricultural products	2,496,074	8.4	4,364,980	22.2
Metal	1,739,862	5.9	803,875	4.1
Paper production	1,324,150	4.5	1,437,723	7.3
Electronic equipment	1,242,559	4.2	870,872	4.4
Fishing	664,150	2.2	—	—
Production and distribution of energy	504,739	1.7	—	—
Mortgage loans	84,064	0.3	—	—
Rubber and plastic items	—	—	514,869	2.6
Total	29,727,715	100.0	19,697,037	100.0

Lending Policies and Procedures

GENERAL

The DBK Law and the Memorandum set forth the principal guidelines in relation to the lending policies of the Issuer and concerning the terms, credit levels and interest rates charged for all lending. The Memorandum limits the exposure of the Issuer to any single borrower or group of borrowers to 25 per cent. of its equity. However the Issuer, following a resolution passed by its Board of Directors, has adopted a more stringent internal exposure limit of 20 per cent. The Issuer's credit approval process is based on the Memorandum, Regulation on Internal Lending Policy and other internal procedures approved by the Issuer's Board of Directors.

All credit applications must be submitted to the Issuer on its standard forms with a full package of supporting documentation attached. Depending on the type of credit requested, the application is initially reviewed for compliance either by the Project Financing Department, in the case of an investment project, or by the Export Financing Division, in the case of an export credit. As at the date of this Offering Circular, the Project Financing Department consists of four Investment Project Financing Divisions, each of which is responsible for investment projects assigned to such division. The Project Financing Department consists of 18 employees. The Export Financing Division comprises five employees. After the initial compliance review, the application is sent for review by the Legal and Project Analysis Departments consisting each of 14 and 10 employees, respectively. These departments undertake a thorough analysis of the application, including a feasibility study, a financial, legal, credit analysis and an ecological and sociological evaluation of the proposed project. Following such analysis, each department then prepares a recommendation based on the results. The Project Monitoring Division, consisting of three employees, registers a credit application and issues a registration certificate. The Project Monitoring Division monitors compliance by the relevant departments and divisions involved in the review of a credit application to the established timing for such review. Upon approval of a credit application, the Project Monitoring Division administers the utilisation of the loan by the borrower through documentary examinations and on-site visits. In addition the Issuer's Collateral Appraisal Division makes an assessment of the collateral being offered including valuation, title, encumbrances and enforceability. The Issuer also carries out an investigation and appraisal of the potential borrower by obtaining references from various state agencies. All recommendations and information are then reviewed by the relevant credit manager responsible for the preparation of a credit dossier and the final recommendation to the Credit Committee. The Problem Loan and Sale of Non-Financial Assets Division, consisting of two employees, and is responsible for taking specific actions on the recovery of loans and foreclosure of collateral in the event of continuous delays in the payment of principal and interest by a borrower due to significant deterioration in the financial condition of such a borrower.

The Issuer's Credit Committee examines the application and the credit dossier and evaluates the final recommendation of the credit manager. Depending on the type and the amount of the credit, the Credit Committee either makes the final credit decision, in the case of an export credit of up to U.S.$5 million (or equivalent), or submits the application and the credit dossier together with its own recommendation to the Board of Directors for a final credit decision.

Since the beginning of its operations, the Issuer received an aggregate of 313 credit applications to finance investment and export projects. As at 31 December 2004 only 55 credit applications for investment and export projects had been approved for the aggregate amount of U.S.$922.5 million, of which the Issuer's participation share amounts to U.S.$501.9 million. In addition the Issuer had issued two guarantees for the total amount of U.S.$16.5 million.

On 4 June 2004 the Issuer and EBRD entered into a Memorandum on Principles of Co-operation (the "Cooperation Memorandum"). Pursuant to the Cooperation Memorandum the Issuer and EBRD intend to co-operate further in financing of the second construction phase of the KEGOC North-South power transmission line as a result of successful completion of their joint financing of the first construction phase of this project. For the first time in the history of the Kazakhstani power distribution sector, a company operating in this sector succeeded in obtaining significant long-term funding from an international development bank without the benefit of a Government guarantee. Co-operation with EBRD during this project allowed the Issuer's credit extending and monitoring personnel to familiarise themselves with international standards for credit assessment, portfolio performance and management of informational systems.

MATURITY LIMIT

The maturity of the Issuer's loans depends on the nature of the loans in question. Maximum loan maturities are as follows:

Nature of the Loan	Maturity
Medium-term investment project	5 to 10 years
Long-term investment project	10 to 20 years
Export loans	Depends on the terms of an export transaction

COLLATERALISATION

Pursuant to the DBK Law and the Memorandum the Issuer is required to request collateral from all borrowers. Acceptable collateral includes highly liquid assets, such as government securities, cash or bank guarantees, as well as real estate, machinery and motor vehicles, industrial equipment, industrial goods, other commercial goods, grain, oil products and receivables. The Collateral Appraisal Department of the Issuer estimates the net realisable value of the collateral provided and regularly monitors the quality of the collateral taken as security. In certain cases, additional collateral might be sought from the borrower.

The following table sets out the percentage of the various categories of collateral to the Issuer's loan portfolio as at 31 March, 2005:

Collateral Categories	Loan/ Collateral Value (per cent.)
Cash collateral or refined gold	100.0
Bank guarantees	100.0
Government securities	100.0
Guarantees from legal entities	80.0
Municipal debt securities	Up to 90.0
Machinery and equipment	80.0
Specialised transport equipment (railway, marine, air and pipeline transport)	80.0
Buildings and constructions	70.0
Equity securities and corporate debt securities	70.0
Inventory	50.0
Vehicle and agricultural equipment	40.0

As at 31 March 2005, the Issuer's loan portfolio was 194.6 per cent. collateralised.

The laws of Kazakhstan allow a secured creditor to foreclose its collateral upon occurrence of a default either through judicial or non-judicial procedures. Non-judicial foreclosure allows the secured creditor to hold an auction for such collateral after a 60-day notice. No such specified time limit exists for judicial foreclosure. Non-judicial foreclosure has been upheld in the past by the courts of Kazakhstan. The Issuer's collateral documents provide for both non-judicial and judicial foreclosure. In Kazakhstan, collateral documents may be required to be registered with local specialised departments of the Ministry of Justice. No such registration is required for collateral over certain types of movable property. However, registration of collateral over either immovable or movable property establishes priority of such collateral over unregistered collateral. The Issuer requires all of its collateral to be so registered.

PORTFOLIO SUPERVISION

The Issuer's Financial Risks Control Division is responsible for evaluation of the Issuer's loan portfolio and establishing allowances and provisions in relation thereto.

Pursuant to the DBK Law, the Issuer classifies its loan portfolio in accordance with requirements established by the NBK and FMSA. Using this classification, the Issuer can evaluate the quality of its loan portfolio and the provisioning requirements in relation to it. The Financial Risks Control Division also conducts regular monitoring and evaluations of other assets and off-balance sheet contingent liabilities.

Loans are classified by reference to: (i) the customer's financial performance; (ii) the timelines of repayment of principal and/or interest; (iii) the quality of collateral; (iv) whether there has been any extension of the loan;

(v) the timeliness of repayments on other loans; (vi) whether there has been any unauthorised use of the loan; (vii) whether other credits to that customer have been written off; and (viii) any rating assigned to the customer. Each of the criteria is assessed and then assigned a risk weight grade according to the following matrix:

Criteria	Grade
Financial Performance	
Stable	0
Satisfactory	+1
Unstable	+2
Critical	+4
Timeliness of Repayment of the Loan	
On time payments	0
Overdue by 1-30 days	+1.5
Overdue by 31-60 days	+2.5
Overdue by 61-90 days	+3.5
Overdue by more than 90 days	+4.5
Quality of Collateral	
Reliable	-3
Good	-2
Satisfactory	0
Unsatisfactory	+1
No collateral	+2
Extensions	
None	0
Some	+ (number of extensions)

Criteria	Grade
Timeliness of Repayment on Other Loans	
On time payments	0
Payments overdue	+1
Unauthorised Use of the Loan	
Up to 25.0 per cent.	0
25.0 to 50.0 per cent. (non-inclusive)	+1
50.0 to 75.0 per cent. (non-inclusive)	+2
75.0 to 100.0 per cent. (non-inclusive)	+3
100.0 per cent. and more	+4
Write-offs	
None	0
Some	+2
International Rating	
"A" and above	-3
Above Kazakhstan sovereign to "A"	-2
Kazakhstan sovereign	-1
Below Kazakhstan sovereign	0

In relation to the Financial Performance criteria:

"*Stable*" means that the borrower is solvent; has no losses; has a strong market presence; and there are no external and/or internal factors evidencing deterioration in the financial performance until maturity of the loan or doubts as to repayment of the loan.

"*Satisfactory*" means that there are some indications of temporary deterioration in the financial performance of the borrower such as a decrease in revenues, deterioration in cash position or market share or there are some external and/or internal factors that might affect the financial performance of the borrower; although there is some probability of default, there is also an expectation that the borrower can overcome such temporary problems.

"*Unstable*" means that there are significant indications of constant and significant deterioration in the financial performance of the borrower such as losses, diminished liquidity, continuous deterioration of the market share; no assurance can be made that the borrower's financial performance will improve; or available information is not sufficient to assess the borrower's financial position.

"*Critical*" means that the continuous deterioration of the financial performance of the borrower has reached a critical stage and is characterised by significant losses, imminent insolvency, significant loss of market share, negative equity capital; borrower was declared bankrupt and/or rehabilitation was requested for a period of one year; the *force majeure* events materially affected the borrower or its activities; financial information about the borrower is completely unavailable.

In relation to the Quality of Collateral criteria:

"*Reliable*" means highly liquid collateral in the form of Kazakhstan governmental guarantees, guarantees from banks having an international rating not less than "AA", cash collateral and pledges over Kazakhstan governmental securities, securities issued by foreign governments having an international rating of not less than "A" or precious metals, in each case securing all of the credit.

"*Good*" means highly liquid collateral as in Reliable Collateral securing not less than 90.0 per cent. of the credit.

"*Satisfactory*" means non-highly liquid collateral securing all of the credit or highly liquid collateral as in Reliable Collateral securing not less than 70.0 per cent. of the credit.

"*Unsatisfactory*" means any collateral securing less than 50.0 per cent. of the credit.

"*No Collateral*" means that the loan is not secured or the collateral secures less than 50.0 per cent. of the credit.

The risk weight grades for all criteria are then combined, resulting in clarification of the Issuer's portfolio as follows (both under NBK requirements and under IFRS):

Total Grades	NBK Classification	Timeliness of Repayment	IFRS Classification
Less than 1	Standard	Current	Standard
1-2	Doubtful first category	Current	Sub-standard
	Doubtful second category	Overdue	Sub-standard
2-3	Doubtful third category	Current	Unsatisfactory
	Doubtful fourth category	Overdue	Unsatisfactory
3-4	Doubtful fifth category	Both current and overdue	Doubtful
4 and more	Loss	Both current and overdue	Loss

Total classified loans under the NBK's classification comprise doubtful loans and loss loans. Total classified loans under IRFS comprise unsatisfactory loans, doubtful loans and loss loans.

The Issuer pays strict attention to the timeliness of debt repayments but even though a customer may have no prior record of repayment problems it may still find itself as not being classified as current. According to its internal policies, the Issuer's determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria including: the loan classification as described above; applications to change credit terms; failure of the borrower or its counterparty to fulfil terms under a contract relating to the loan; refusal of a borrower to co-operate in supplying documentation; and evasion of the Issuer's officers by the borrower. Applying those classification criteria, the Issuer would categorise a loan which has unsatisfactory collateral as a doubtful first category loan. Such collateral as a future receivable under an export related project or a fixed asset still under construction related to an investment project would be deemed unsatisfactory according to the Issuer's internal policies. However, upon receipt of such receivables by the borrower or completion of construction of such fixed asset, the Issuer shall reclassify the loan as a standard loan.

PROVISIONING POLICY

The Issuer calculates provisions on a monthly basis. The Issuer applies the classification matrix described above to determine the provisioning rate. The Issuer also creates a general provision of 2.0 per cent. of the value of each unclassified loan. The Issuer may also make specific provisions for possible loan losses on a case-by-case basis and actual provisions established take into account the Issuer's own experience and management's judgement as to the level of losses that will most likely be recognised. For this reason the actual provision levels may differ from the stated provisioning rates.

The Bank considers a loan to be non-performing when either interest or principal payments are past their due date by 30 days. At such time, the recognition of interest is suspended. The Issuer's internal policies require the Issuer to fully provision a loan if interest and principal have not been paid for more than 90 days or if management is of the opinion that the loan is uncollectible because the Issuer has been unable to collect the loan or to enforce its security.

The following table sets out certain information relating to the Issuer's gross loans and allowances for impairment in relation to them in accordance with the NBK and FSMA regulations as at the dates indicated:

	As at 31 December					
	2004			2003		
Classification categories and provisioning levels	Amount of debt	Amount of Provisions	Provision to classification category	Amount of debt	Amount of Provisions	Provision to classification category
	(KZT thousands)	(KZT thousands)	(per cent.)	(KZT thousands)	(KZT thousands)	(per cent.)
Standard	20,829,397	416,588	2.0	19,309,418	386,188	2.0
Doubtful first category (5.0 per cent.).	1,681,875	84,094	5.0	0	0	0.0
Doubtful second category (10.0 per cent.).	6,528,088	652,809	10.0	0	0	0.0
Doubtful third category (20.0 per cent.).	0	0	0.0	0	0	0.0
Doubtful fourth category (25.0 per cent.).	0	0	0.0	0	0	0.0
Doubtful fifth category (50.0 per cent.).	0	0	0.0	0	0	0.0
Loss (100.0 per cent.)	0	0	0.0	0	0	0.0
Total:	29,039,360	1,153,491	4.0	19,309,418	386,188	2.0

As at 31 March 2005 the Issuer classified one loan for the total amount of KZT 1,366 million extended to a borrower operating in the transport infrastructure sector as a doubtful third category due to: (i) a delay in the commissioning of a construction plant which had been financed by the Issuer; and (ii) a deterioration in the financial condition of the borrower. The Issuer closely monitors the commissioning process of the plant through regular on site visits and on-going communication with the borrower. As at 31 March 2005, none of the Issuer's loans were considered non-performing.

Management

The following organisation chart sets out the Management reporting lines and principal business units of the Issuer

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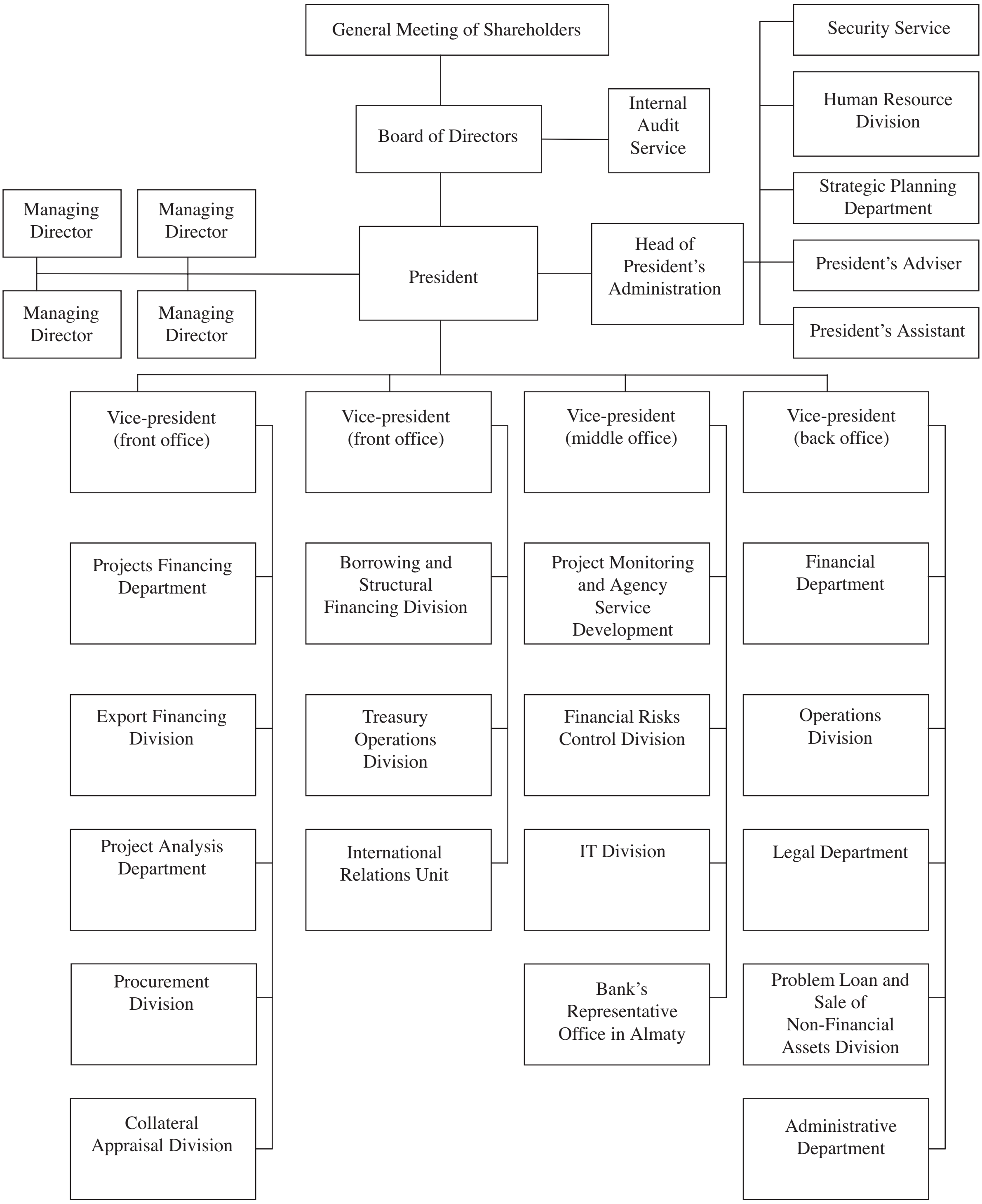

GENERAL

The Issuer's charter provides for the following corporate governing bodies: (i) the General Shareholders' Meeting, which represents the highest corporate governing authority of the Issuer and is vested with the power of final approval of certain major corporate decisions; (ii) the Board of Directors, which is responsible for general management of the Issuer and approval of strategic and operational plans of the Issuer; (iii) the President, who is responsible for day to day management and administration of the Issuer; and (iv) the Internal Audit Service, which is responsible for internal control processes and reports to the shareholders.

BOARD OF DIRECTORS

The Issuer's Board of Directors, consisting of seven members, is generally responsible for setting the strategic policy of the Issuer in accordance with the Memorandum, determining and overseeing the remuneration of the Issuer's President, approving the Issuer's annual budget, convening the annual and extraordinary General Shareholders' Meetings and dealing with all other matters not reserved to the General Shareholders' Meeting. In accordance with the DBK Law and the Issuer's charter, three members of the Board of Directors are elected at the General Shareholders' Meeting upon the recommendation of the President of Kazakhstan and the other four members are elected upon the recommendation of the Government. The Issuer's Board of Directors is comprised of Government officials, representatives of the President of the Republic and representatives of the regional authorities.

The current members of the Issuer's Board of Directors are:

Name	Other Positions
Erzhan A. Utembayev	Head of the Senate under the Parliament of Kazakhstan (Chairman of the Board of Directors)
Gani N. Uzbekov	Vice-Minister of Finance of Kazakhstan
Aset Isekeshev	First Vice Minister of Industry and Trade of Kazakhstan
Kairat M. Aitekenov	Vice-Minister of Economy and Budget Planning of Kazakhstan
Sergei V. Kulagin	Governor of the Kostanai Region
Shalbai R. Kulmakhanov	Governor of the Almaty Region
Kambar B. Shalgimbayev	President of the Issuer

PRESIDENT

According to the Issuer's charter, the President is elected at a General Shareholders' Meeting upon the recommendation of the Government. The President must be a member of the Board of Directors of the Issuer. The President is responsible for implementing the decisions taken by the Board of Directors and at the General Shareholders' Meetings, day to day business decisions, appointing heads of the representative offices of the Issuer, preparing quarterly budget reports and dealing with all other matters not reserved to the Board of Directors or the General Shareholders' Meeting. The President has four Vice-Presidents. The Vice-Presidents are appointed by the Board of Directors upon the recommendation of the President.

The name, age and certain other information about the President and Vice-Presidents of the Issuer is set out below:

Kambar B. Shalgimbayev (42), President, graduated from the Leningrad Finance and Economic Institute in 1984. After graduation he worked for the Ministry of Finance as Deputy Head of the Republican Budget Analysis Department until 1992 when he joined Alem Bank, initially as Head of the Investment and Project Expertise Department. In 1995, he was appointed Deputy Chairman of KazCredSocBank, in which position he served until 1997 when he became Deputy Chairman of Bank CenterCredit. In 1999, he was appointed Deputy Governor of the Mangistau Region and since then he has also held senior positions with the mining company ABC Balhash and JSC KazMunaiGas. He was elected to his current position with the Issuer in June 2002.

Alexander I. Andrushenko (56), Vice President, graduated from Almaty Power Communications College in 1967 and from Kazakh Polytechnic Institute, Almaty in 1978. Between November 1999 and January 2001, he worked as the Vice Minister of Economy of Kazakhstan, between January 2001 and September 2002 as Vice Minister of Industry and Commerce of Kazakhstan and as the First Vice Minister of Industry and Commerce between September 2002 and August 2003. He was appointed to his current position with the Issuer in September 2003.

Seytkali S. Rakhimov (40), Vice-President, graduated from Karaganda State University in 1991 with a degree in law. Between 1998 and 2002 he worked as a Head of the Legal Department at CJSC "KazTransOil". In April 2002 Mr. Rakhimov joined LLP KazMunaiGas Trading House as a Director of the Legal Department. Between August 2003 and December 2004 he worked as a Managing Director of the Issuer. He was appointed to his current position with the Issuer in December 2004.

Yerzhan B. Tajiyakov (30), Vice President, graduated from the Kazakh State Academy of Management in 1996 with a degree in Finance. In 2000, Mr. Tajiyakov graduated from Fairleigh Dickinson University (USA) with a Master's degree in financial economics. Between 1995 and 1997 he worked as a dealer at OJSC Halyk Savings Bank of Kazakhstan, and between March and June 2001 as a Senior Manager of the Financial Institutions Division of OJSC Nauryz Bank. He joined the Issuer in 2001 as a Senior Manager in the Borrowings and Structured Finance Department and soon became a head of that Department, which was followed by his appointment as a Managing Director. Mr. Tajiyakov was appointed to his current position with the Issuer in September 2004.

Askar S. Aspandiarov (35), Vice-President, graduated in 1993 from the Plekhanov Russian Academy of Economy with degrees in international economic affairs and finance and credit. In 1994 he graduated from the Sorbonne University (France) with a Master's degree in Banking and Finance. In 1998 Mr. Aspandiarov completed two specialised courses on Land Management at the Russian State Land Use Planning University. In 1991, he worked in the Currency Control Division of Vnesheconombank, USSR. In 2004, Mr. Aspandiarov joined BNP Paribas (France) as a specialist in the Privatisation Consulting Services Department. Between 2000 and 2003 he worked as a chief specialist in the Emerging Markets Group of the Corporate Finance Department at BNP Paribas. From May 2003 until November 2004, he worked as a Vice-president of the Structured Finance Department in the Department of Project and Export Finance at BNP Paribas Bank Geneva dealing with companies operating in the mining sector in Eastern Europe, CIS countries and Turkey. He was appointed to his current position with the Issuer in December 2004.

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE (ALCO)

As at the date of this Offering Circular the members of ALCO are as follows:

Members	Positions
Yerzhan B. Tajiyakov	Chairman of ALCO Committee, Vice president
Yuriy K. Kozlov	Head of President's Administration
Alexander I. Andrushenko	Vice-President
Seytkali S. Rakhimov	Vice-President
Askar S. Aspandiarov	Vice President
Rishat S. Zhakanbayev	Director of Financial Department, Chief Accountant
Galina A. Musenova	Director of Strategic Planning Department
Arman Zh. Lepisbayev	Head of Treasury Operations Division
Timur S. Aysagaliyev	Head of Financial Risks Control Department
Bakhytzhan G. Baynazarov	Head of Borrowing and Structural Financing Division
Timur M. Biyseitov	Head of Collateral Appraisal Division
Ainur N. Mamadova	Head of Project Legal Expertise Division No.2 of Legal Division
Timur B. Izbasarov	Secretary Of ALCO Committee, Chief Manager Of Strategic Planning Division of Strategic Planning Department

ALCO determines the Issuer's general policy on assets and liabilities management with the objective of increasing interest and non-interest income, maintaining adequate liquidity, complying with prudential standards and regulations, and minimising the impact of financial market risks.

CREDIT COMMITTEE

As at the date of this Offering Circular the members of the Credit Committee are as follows:

Members	Positions
Seytkali S. Rakhimov	Chairman of the Credit Committee, Vice-President
Alexander I. Andrushenko	Deputy Chairman of the Credit Committee, Vice-President
Yerzhan B. Tajiyakov	Vice president
Zh. Sh. Zhakanov	Managing Director
N. K. Niyetbayev	Managing Director
E. S. Iskaliyev	Managing Director
E. Sh. Shardarbekov	Managing Director
Rishat S. Zhakanbayev	Director of Financial Department, Chief Accountant
D. M. Akhmetbekov	Director of Project Analysis Department
L.G. Kireyeva	Director of Legal Department
E.A. Kunanbayev	Director of Projects Financing Department
Timur S. Aysagaliyev	Head of Financial Risks Control Division
A N. Bekmukhambetova	Secretary of the Credit Committee, attorney, Legal Support Division of Legal Department

The principal responsibilities of the Credit Committee include implementation of the internal lending policy of the Issuer, ensuring compliance of the Issuer with the requirements established in the Memorandum and in the internal lending policy of the Issuer and limitations set by the ALCO, minimising credit risk and maximising growth of net income from lending operations. The Credit Committee also establishes interest rates and fees in relation to export credits.

INVESTMENT COMMITTEE

As at the date of this Offering Circular the members of the Investment Committee are as follows:

Members	Positions
Askar S. Aspandiarov	Chairman of the Investment Committee, Vice-President
Yerzhan B. Tajiyakov	Deputy Chairman of the Investment Committee, Vice-President
Rishat S. Zhakanbayev	Director of Financial Department, Chief Accountant
Seytkali S. Rakhimov	Vice-President
Aigul.R. Aytbekova	Head of Legal Support Division
Aliya K. Zhetenova	Head of Strategic Planning Division
Bakhytzhan G. Bainazarov	Head of Borrowing and Structural Financing Division
Arman Zh. Lepisbayev	Head of Treasury Operations Division
Madina T. Tleubayeva	Secretary of Investment Committee, Manager of Treasury Operations Division

The Investment Committee is responsible for the development of the Issuer's internal policy on investment portfolio management. The Investment Committee is also responsible for managing the Issuer's investment portfolio in compliance with the general guidelines of the Issuer's Strategy for Investment Portfolio Management approved by the Board of Directors on 14 April 2004.

INTERNAL AUDIT SERVICE

The Internal Audit Service, which as at the date of this Offering Circular consists of two members, oversees the Issuer's financial and business activities. Members of the Internal Audit Service are appointed and dismissed by the Board of Directors upon recommendation of the Issuer's President for a term determined by the Board of Directors which presently stands at three years. The Internal Audit Service has the right to convene an extraordinary meeting of the Board of Directors of the Issuer. The current members of the Internal Audit Service are Mr. Marat S. Bisenov, elected in February 2005 and Akmaral K. Irubaeva, elected in July 2003.

MANAGEMENT REMUNERATION

In accordance with the Issuer's charter, the remuneration of the Board of Directors is determined by the General Shareholders' Meeting of the Issuer. The remuneration of the President and the members of the Internal Audit Service is determined by the Board of Directors. Currently, remuneration is set at levels equivalent to that of officials of comparable seniority at the NBK. As at 31 March 2005, there were no outstanding loans or guarantees granted by the Issuer to any member of the Board of Directors or the President or to any parties related to them.

Share Capital and Principal Shareholders

As at 31 December 2004, the Issuer's issued and outstanding paid-in share capital was KZT 48,351 million, consisting of 967,026 common shares with a nominal value of KZT 50,000 per share, of which 84.49 per cent. was held by the Government and the remaining 15.51 per cent. by regional authorities of 14 regions in the Republic, and the cities of Almaty and Astana. In March 2005, the Issuer registered an additional issue of 300,000 common shares with FMSA, of which the Government acquired 200,000 common shares in the aggregate amount of KZT 10,000 million. The Issuer anticipates that the remaining 100,000 common shares will be placed among the regional authorities by the end of 2005. Each common share is entitled to one vote. In accordance with the DBK Law the Issuer does not pay dividends on its common shares. The Issuer's net income is used to form its reserve capital.

The Shareholder structure of the Bank was as follows at 31 March 2005:

Issuer's Shareholders	Number of Common Shares	Percentage of Common Shares (per cent.)
Government	1,017,026	87.2
Akmola regional administration	9,375	0.8
Aktobe regional administration	9,375	0.8
Almaty regional administration	9,375	0.8
Atyrau regional administration	9,375	0.8
East Kazakhstan regional administration	9,375	0.8
Almaty city administration	9,375	0.8
Astana city administration	9,375	0.8
Zhambyl regional administration	9,375	0.8
West Kazakhstan regional administration	9,375	0.8
Karagandy regional administration	9,375	0.8
Kostanay regional administration	9,375	0.8
Kyzylorda regional administration	9,375	0.8
Mangystau regional administration	9,375	0.8
Pavlodar regional administration	9,375	0.8
South Kazakhstan regional administration	9,375	0.8
North Kazakhstan regional administration	9,375	0.8
Total	1,167,026	100.0

The Banking Sector in Kazakhstan

INTRODUCTION

Since mid-1994, Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. The Government 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 in the case of the NBK Governor) 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, replacing Grigoriy Marchenko.

The principal governing bodies of the NBK are the Management Board and the Directorate. The Management 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 of Kazakhstan 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 and 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 Bolat Zhamishev, former Deputy Governor of the NBK, 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 and pension asset management companies, as well as professional participants of the securities market. The FMSA is empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions, and to monitor the activities of, to apply sanctions where necessary to, and to participate in the liquidation of, financial institutions.

BANKING

Structure of the Banking System of Kazakhstan

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the FMSA (or, prior to 2004, 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 established for bank inspections and for periodic reporting by commercial banks to the NBK, now the FMSA. In 2003, all banks were required to develop and install internal risk management systems.

The FMSA monitors compliance with capital adequacy standards (in compliance with international standards set by the Basel 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 loan loss reserves.

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

The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system. In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 30 September 2004, 33 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal deposits of up to KZT 7 million in any currency and current accounts with a coverage amount up to KZT 400,000 in total at any given bank and operates on a sliding scale of coverage up to a maximum amount per customer at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

Current legislation requires the FMSA to approve any acquisition of a shareholding of 10.0 per cent. or more (whether held independently or jointly with another legal entity) in a Kazakh bank. Furthermore, a foreign entity holding 10.0 per cent. or more of a Kazakh bank must have a credit rating at least equal to that of the Republic of Kazakhstan.

Commercial Banks

According to the NBK, as at 30 September 2004, there were 35 banks in Kazakhstan, excluding the NBK and the DBK 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 33.0 per cent. stake in Halyk Savings Bank, by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2.1 billion.

As at 31 December 2004, two commercial banks licensed in Kazakhstan failed to comply with prudential regulatory requirements, compared to one as at 31 December 2003, and one such bank as at 31 December 2002. In each case, the non-compliant banks did not meet the current liquidity and capital requirements, single borrower exposure, the open currency position and the maximum asset investment ratios imposed by the FMSA. As at 31 December 2004, Kazakhstan commercial banks had aggregate provisions for bad debts of KZT 56.3 billion.

The financial standing of Kazakhstan's banks varies. As at 30 September 2004, 17 of the 35 commercial banks had registered capital of over KZT 2 billion, 16 banks had registered capital of KZT 1 billion to KZT 2 billion and two banks had registered capital of KZT 500 million to KZT 1 billion. As at the same date, there were no banks with a 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.

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 or 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 Kazakh subsidiary or joint venture in order to operate as a bank in Kazakhstan.

As at 31 December 2004, there were 15 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 and control. Banks with less than one-third foreign ownership are considered domestic banks.

Furthermore, the aggregate registered capital of banks with foreign participation may not exceed 50.0 per cent. of the aggregate registered capital of all Kazakhstan banks, unless authorised by the FMSA. As at 31 December 2004, the aggregate registered capital of all banks with foreign participation represented approximately 36.6 per cent. of the aggregate registered capital of all Kazakhstan banks.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank A.G., Deutsche Bank A.G., Commerzbank, Société Génerale and ING Bank N.V.

EXCHANGE CONTROLS

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted 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 made 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.

New licensing rules adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules over the next few years. 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. In May 2003, a new law was passed which provides for step-by-step liberalisation, which is intended to result in, among other things, full internal convertibility of the Tenge, the ability of banks to invest abroad and the removal of restrictions on investments in foreign investment-grade securities and the opening of accounts in OECD banks by 2007.

In addition, Kazakhstan has significantly liberalised its foreign exchange regulations. Since May 2003, a license has not been required for a resident of Kazakhstan to invest in foreign investment-grade securities or to acquire more than 50.0 per cent. of the voting interests in a company incorporated in any OECD country, for an individual to open an account with a bank rated at least A by Standard & Poor's and incorporated in an OECD country or for banks based in Kazakhstan to make loans to non-residents. The NBK intends to liberalise licensing rules further within the next few years.

Taxation

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

KAZAKHSTAN TAXATION

Under Kazakhstan's laws as presently in effect, payments of interest on the Notes and gains derived from the disposal, sale, exchange or transfer of the Notes are not subject to Kazakhstan taxation.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The European Union has adopted a new Directive regarding the taxation of savings income (Directive 2003/48/EC). Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 July 2005 to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Subscription and Sale

Notes may be sold from time to time by the Issuer to any one or more of UBS Limited and any other dealer appointed under the terms of the Programme Agreement (as defined below) (together, the "Dealers"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a programme agreement dated 27 September 2002, as supplemented by a supplemental programme agreement dated 20 May 2005 (the "Programme Agreement") and made between the Issuer and the Dealers. Any such agreement will, inter alia, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

UNITED STATES OF AMERICA

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from 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 Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code or 1986 and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, that it will not offer, sell or deliver any Notes, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

UNITED KINGDOM

Each Dealer has represented warranted and agreed that:

(a) ***No Offer to Public*** in relation to Notes which have a maturity of one year or more, during the period up to but excluding the date on which the Directive 2003/71/EC is brought into force in the United Kingdom it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such Notes, will not offer to sell any such 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 businesses 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 Public Offers of Securities Regulations 1995 (as amended);

(b) *No Deposit-Taking* in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;

(c) *Financial Promotion* 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 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 Issuer; and

(d) *General Compliance* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

REPUBLIC OF KAZAKHSTAN

Each Dealer 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.

JAPAN

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

SWITZERLAND

Each Dealer has agreed that any issue of Notes denominated in Swiss Francs will be in compliance with the guidelines of the Swiss National Bank regarding issues of Swiss Franc denominated debt securities.

REPUBLIC OF FRANCE

Each Dealer has represented and agreed, that it has not, as part of their initial distribution, offered or sold Notes in France, whether or not such Notes are Paris listed Notes, and has not distributed and will not distribute or cause to be distributed in France the Offering Circular or any other offering material relating to the Notes, except, in compliance with the relevant regulations issued from time to time by the Commission des Operations de Bourse, to (i) qualified investors (*investisseurs qualifies*) acting for their own account and/or for the account of other qualified investors or (ii) a restricted circle of investors (*cercle restreint d'investisseurs*), all as defined in Article 30 of the Ordonnance dated 28 September 1967 as amended by law no. 98-546 dated 2 July 1998 and Decree no. 98-880 dated 1 October 1998.

GENERAL

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Pricing Supplement, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Programme Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this document.

General Information

LISTING

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange and, in connection therewith, the Luxembourg Stock Exchange has assigned registration number 12766 to the Programme. Prior to the listing of any Notes, the constitutional documents of the Issuer and the legal notice relating to the issue will be registered with the Registre de Commerce et des Sociétés in Luxembourg, where copies of these documents may be obtained upon request.

However, Notes may be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

AUTHORISATIONS

The establishment of the Programme was authorised by a duly convened meeting of the General Shareholders' of the Issuer held on 2 September 2002. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

CLEARING OF THE NOTES

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Pricing Supplement relating thereto. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be applied by the Issuer for the funding of various investment projects and trade finance in Kazakhstan.

LITIGATION

Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer or any of its assets or revenues, nor is the Issuer aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the Programme or the issue of the Notes thereunder.

NO SIGNIFICANT CHANGE

Save as disclosed in this Offering Circular and since 31 March 2005, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer that is material in the context of the Programme or the issue of the Notes thereunder;

DOCUMENTS AVAILABLE FOR INSPECTION

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent and the Paying Agent having its specified office in Luxembourg, namely:

(a) the Agency Agreement;

(b) the Trust Deed (which contains the forms of the Notes in global and definitive form);

(c) the Procedures Memorandum;

(d) The Programme Agreement

(e) any Pricing Supplement relating to Notes which are listed on any stock exchange (in the case of any Notes which are not listed on any stock exchange, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Noteholders); and

(f) the Law on Development Bank of Kazakhstan dated 25 April 2001, as amended.

FINANCIAL STATEMENTS AVAILABLE

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified office of the Principal Paying Agent, namely:

(a) the most recent publicly available annual report of the Issuer; and

(b) the most recent publicly available unaudited financial statements (if any) of the Issuer.

The Issuer does not generally publish interim audited or unaudited financial statements, although solely for the purpose of this Offering Circular the Issuer published its condensed interim unaudited financial statements for the three month periods ended 31 March 2005 and 2004, respectively. The Issuer does not intend to publish interim financial statements in the future.

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Index to Financial Statements and Auditors' Reports

ҚАЗАҚСТАННЫҢ ДАМУ БАНКІ
БАНК РАЗВИТИЯ КАЗАХСТАНА

Development Bank of Kazakhstan

Unaudited Condensed Interim Financial Statements

March 31, 2005

Together with Independent Accountants' Review Report

ERNST & YOUNG

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Board of Directors of Development Bank of Kazakhstan –

We have reviewed the accompanying condensed balance sheet of Development Bank of Kazakhstan (the "Bank") as of March 31, 2005, and the related condensed interim statements of income, changes in shareholders' equity, and cash flows for the three-month period ended March 31, 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

We have previously audited, in accordance with International Standards on Auditing, the balance sheet of the Bank as of December 31, 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated January 18, 2005, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived. We have not performed any auditing procedures since December 31, 2004.

Ernst & Young Kazakhstan

May 6, 2005

Almaty

BALANCE SHEETS

(Thousands of Kazakh tenge)

	Notes	*March 31, 2005 (unaudited)*	*December 31, 2004 (restated)*
Assets			
Cash and cash equivalents	4	**5,012,701**	2,057,360
Amounts due from other financial institutions	5	**2,263,918**	4,582,083
Derivative financial assets		**28,065**	8,790
Investment securities:			
-available-for-sale	6	**70,978,568**	60,637,166
-held-to-maturity	6	**3,576,007**	3,466,395
Loans to customers	7, 8	**36,244,858**	28,574,224
Property and equipment		**162,045**	166,173
Intangible assets		**68,912**	72,820
Other assets		**79,630**	57,194
Total assets		**118,414,704**	99,622,205
Liabilities and shareholders' equity			
Amounts due to the Government of Kazakhstan	9	**8,901,260**	8,901,334
Amounts due to other financial institutions	10	**13,564,813**	6,794,902
Amounts due to customers		**417,825**	363,786
Debt securities issued	11	**28,808,249**	27,788,513
Tax liabilities	12	**45,573**	50,240
Derivative financial liabilities		**42,871**	31,888
Provisions	8	**285,134**	117,637
Other liabilities		**149,521**	157,092
Total liabilities		**52,215,246**	44,205,392
Shareholders' equity			
Share capital	13	**58,351,300**	48,351,300
Reserve capital		**6,575,875**	4,047,737
Revaluation Reserve		**732,796**	489,638
Retained earnings		**539,487**	2,528,138
Total shareholders' equity		**66,199,458**	55,416,813
Total liabilities and shareholders' equity		**118,414,704**	99,622,205
Financial commitments and contingencies	14		

Signed and authorized for release on behalf of the Bank:

Kambar Shalgimbayev
President

Rishat Zhakanbayev
Chief Accountant

May 6, 2005

The accompanying notes on page 5 to 19 are an integral part of these financial statements.

CONDENSED INTERIM STATEMENTS OF INCOME

(Thousands of Kazakh tenge)

	Notes	*Three-month periods ended March 31,* 2005 *(unaudited)*	2004 *(unaudited)*
Interest income			
Securities		**1,018,796**	836,848
Loans to customers		**805,902**	446,829
Amounts due from other financial institutions		**111,846**	210,197
Reverse repurchase agreements		**1,183**	423
		1,937,727	1,494,297
Interest expense			
Debt securities issued		**(552,484)**	(632,841)
Amounts due to other financial institutions		**(91,715)**	(19,874)
Amounts due under repurchase agreements		**(595)**	(341)
Amounts due to the Government of Kazakhstan		**(2,225)**	(1,075)
Amounts due to customers		**(80)**	(5)
		(647,099)	(654,136)
Net interest income		**1,290,628**	840,161
(Charge for)/ reversal of impairment of interest earning assets	8	**(395,673)**	20,110
		894,955	860,271
Fee and commission income		**24,757**	14,305
Fee and commission expense		**(18,753)**	(15,673)
Fees and commissions		**6,004**	(1,368)
Gains less losses from derivative financial instruments		**4,946**	10,259
Gains less losses from available-for-sale securities		**2,433**	(876)
Gains less losses from foreign currencies:			
-dealing		**21,082**	6,272
-translation differences		**15,407**	48,525
Other income		**5,675**	23,326
Non interest income		**49,543**	87,506
Salaries and benefits		**(179,697)**	(122,756)
Depreciation and amortization		**(14,035)**	(15,000)
Taxes, other than income tax		**(5,869)**	(3,796)
Administrative and operating expenses		**(48,584)**	(42,221)
Other provisions	8	**(167,497)**	(2,937)
Non interest expense		**(415,682)**	(186,710)
Income before income tax expense		**534,820**	759,699
Income tax benefit /(expense)	12	**4,667**	(7,500)
Net income		**539,487**	752,199

The accompanying notes on page 5 to 19 are an integral part of these financial statements.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended March 31, 2005 and 2004

(Thousands of Kazakh tenge)

	Share capital	*Reserve capital*	*Revaluation reserve*	*Retained earnings*	*Total*
December 31, 2003 ***as previously reported***	**37,700,000**	**2,810,403**	**–**	**1,210,669**	**41,721,072**
Changes in accounting policy with respect to the fair value of available-for-sale financial assets *(note 3)*	–	–	**(26,665)**	**26,665**	–
December 31, 2003 ***(restated)***	**37,700,000**	2,810,403	**(26,665)**	**1,237,334**	**41,721,072**
Transfer	–	1,237,334	–	(1,237,334)	–
Capital contributions	7,665,000	–	–	–	7,665,000
Changes in fair value of available-for-sale financial assets, net of tax *(unaudited)*	–	–	98,880	–	98,880
Net income *(unaudited)*	–	–	–	752,199	752,199
March 31, 2004 ***(unaudited)***	**45,365,000**	**4,047,737**	**72,215**	**752,199**	**50,237,151**
Transfer	–	–	–	–	–
Capital contributions	2,986,300	–	–	–	2,986,300
Changes in fair value of available-for-sale financial assets, net of tax *(note 3)*	–	–	417,423	–	417,423
Net income *(note 3)*	–	–	–	1,775,939	1,775,939
December 31, 2004 ***(note 3)***	**48,351,300**	**4,047,737**	**489,638**	**2,528,138**	**55,416,813**

	Share capital	*Reserve capital*	*Revaluation reserve*	*Retained earnings*	*Total*
December 31, 2004 ***as previously reported***	**48,351,300**	**4,021,072**	**–**	**3,044,441**	**55,416,813**
Changes in accounting policy with respect to the fair value of available-for-sale financial assets	–	–	**489,638**	**(489,638)**	–
Transfers	–	**26,665**		**(26,665)**	–
December 31, 2004 ***(restated)***	**48,351,300**	**4,047,737**	**489,638**	**2,528,138**	**55,416,813**
Transfer	–	**2,528,138**	–	**(2,528,138)**	–
Capital contributions	**10,000,000**	–	–	–	**10,000,000**
Changes in fair value of available-for-sale financial assets, net of tax	–	–	**243,158**	–	**243,158**
Net income	–	–	–	**539,487**	**539,487**
March 31, 2005 ***(unaudited)***	**58,351,300**	**6,575,875**	**732,796**	**539,487**	**66,199,458**

The accompanying notes on page 5 to 19 are an integral part of these financial statements.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS
For the three month periods ended March 31,

(Thousands of Kazakh tenge)

	Notes	2005 (unaudited)	2004 (unaudited)
Cash flows from operating activities:			
Income before income tax expense		**534,820**	759,699
Adjustments for:			
Depreciation and amortization		**14,035**	15,000
Impairment charge (reversal) and other provisions	8	**563,170**	(18,934)
Loss on sale of property and equipment		–	260
Unrealized loss on derivative financial assets		**(8,162)**	–
Unrealized foreign exchange (gain) loss		**(15,690)**	(41,684)
Operating cash flows before changes in net operating assets		**1,088,173**	714,341
(Increase) decrease in operating assets:			
Amounts due from credit institutions		**2,318,165**	(223,445)
Derivatives financial assets		**(11,113)**	(10,258)
Loans to customers		**(8,158,542)**	1,690,884
Other assets		**(22,436)**	9,017
Increase (decrease) in operating liabilities:			
Amounts owed to the Government of Kazakhstan		**(74)**	–
Amounts due to credit institutions		**6,605,495**	(4,423,844)
Amounts due to customers		**54,039**	(349,980)
Derivatives financial liabilities		**10,983**	–
Other liabilities		**(9,900)**	66,322
Net cash flows from operating activities before income tax		**1,874,790**	(2,526,963)
Corporate income tax (paid)/reimbursement received		**–**	–
Net cash flows from operating activities		**1,874,790**	(2,526,963)
Cash flows from investing activities			
Purchase of investment securities		**(16,334,541)**	(5,436,667)
Proceeds from sale of investment securities		**6,126,685**	2,438,215
Purchase of property and equipment		**(3,670)**	(6,483)
Proceeds from sale of property and equipment		–	(260)
Net cash flows from investing activities		**(10,211,526)**	(3,005,195)
Cash flows from financing activities:			
Amounts due to credit institutions		**164,416**	1,075
Capital contributions		**10,000,000**	7,665,000
Proceeds from debt securities issued		**1,127,375**	–
Redemption of debt securities issued		–	(449,714)
Net cash flows from financing activities		**11,291,791**	7,216,361
Effect of change in exchange rates on cash and cash equivalents		**286**	(6,841)
Net change in cash and cash equivalents		**2,955,341**	1,677,362
Cash and cash equivalents at the beginning of the period		**2,057,360**	5,011,341
Cash and cash equivalents at the end of the period	4	**5,012,701**	6,688,703
Supplemental information:			
Interest paid		**149,959**	240,153
Interest received		**306,280**	240,921

The accompanying notes on page 5 to 19 are an integral part of these financial statements.

(Thousands of Kazakh tenge)

1. Principal Activities

Development Bank of Kazakhstan ("the Bank") was registered with the Ministry of Justice of the Republic of Kazakhstan as a closed joint stock company on May 31, 2001, (certificate of state registration of legal entity No. 4686-1900-AO) and was reregistered as a joint stock company on August 18, 2003, (certificate of state reregistration of legal entity No. 4686-1900-AO). The Bank operates under the Law of the Republic of Kazakhstan Concerning the Development Bank of Kazakhstan dated April 25, 2001 No.178-II as amended as of the date of these financial statements (the "Law"), the Charter of the Bank and Memorandum concerning the credit policy of the Bank as approved by the resolution of the Government dated March 9, 2004 No 289 (the "Memorandum"). The Bank operates in accordance with article 7 of the Law. The Bank has a license, No 253, to carry out banking and other types of operations, stipulated in the Banking legislation, which was granted by the National Bank of Kazakhstan ("the NBK") on October 21, 2001. On October 30, 2003, license No 253 was reregistered due to the change in the legal entity's name.

The Bank's legal address is: 32 Republic avenue, Astana, 010000, Republic of Kazakhstan.

The main objective of the Bank is to improve and increase the effectiveness of state investment activities, to develop production infrastructure and the processing industry and to assist in attracting foreign and domestic investments into the economy of the country. Specifically the Bank provides medium (between 5 and 10 years) and long-term (between 10 and 20 years) financing for investment projects (of not less than U.S.$5 million) and export transactions (of not less than U.S.$1 million) to companies operating in various priority sectors of economy, as set out in the Memorandum. The Bank may not lend to sectors of the economy which have received significant foreign and domestic investment, such as oil and gas production or exploration. Pursuant to the Memorandum, the Bank is prohibited to use its share capital for funding investment projects.

Kazakh bonds issued by the Bank are listed on the Kazakhstan Stock Exchange ("KASE") and the euro bonds issued by the Bank are primarily listed on the Luxemburg Stock Exchange and have a secondary listing on KASE.

The Bank has a seat in the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Standard & Poor's, Moody's Investors Service and Fitch Ratings awarded the Bank credit ratings equivalent to the sovereign rating of the Republic of Kazakhstan, being BBB-, Baa3, BBB-, respectively.

As of March 31, 2005, the following shareholders owned the outstanding shares of the Bank.

Shareholder	%
The Government of the Republic of Kazakhstan	87.15
Local government bodies of 14 regions, and the cities of Almaty and Astana	12.85
Total	**100.00**

The Bank had an average of 152 employees during the three-month period ended March 31, 2005 (December 31, 2004: 144 employees).

2. Basis of Preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Kazakh tenge ("KZT" or "tenge"), unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Bank's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The primary estimates, which relate to the allowance for loan impairment, deferred taxes and the carrying value of investments, are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

(Thousands of Kazakh tenge)

3. Summary of Significant Accounting Policies

Recognition of Financial Instruments

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

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

Financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Related parties

Related parties include key management personnel, the National Bank of the Republic of Kazakhstan ("the NBK"), the Government of the Republic of Kazakhstan and local executive bodies. The rights to the ownership and use of the shares of the Bank constituting the share of the Government of the Republic of Kazakhstan have been transferred to the Ministry of Industry and Trade of the Republic of Kazakhstan. The NBK is the Bank's custodian and its broker with respect to transactions with state securities.

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of the consideration received. Cash and cash equivalents consist of cash on hand, amounts due from the NBK, and amounts due from other financial institutions that mature within three months of the date of origination and are free from contractual encumbrances.

Amounts Due From Other Financial Institutions

In the normal course of business, the Bank maintains correspondent accounts or deposits for various periods of time with other banks. Amounts due from other financial institutions with fixed maturity terms 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 other financial institutions are carried net of any allowance for impairment.

Reverse Repurchase Agreements

Reverse repurchase agreements are utilized by the Bank as an element of its treasury management. These agreements are accounted for as financing transactions.

Securities purchased under agreements to resell ('reverse repos') are recorded as amounts receivable under reverse repurchase agreements.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense in the accompanying statements of income, accrued using the effective interest method during the period that the related transactions are open.

Derivative Financial Instruments

In the normal course of business, the Bank enters into various derivative financial instruments including options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Other derivatives assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying statements of income as gains less losses from derivative financial instruments.

Derivative instruments embedded in other financial instruments are treated as separate derivatives as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from derivative financial instruments.

(Thousands of Kazakh tenge)

Investment Securities

The Bank classifies its investment securities into two categories:

Securities with fixed maturities and fixed or determinable payments that the Bank has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and

Securities that are not classified by the Bank as held-to-maturity or trading are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of the Bank at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

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

Available-for-sale securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

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

Loans to Customers

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

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 loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the financial instrument.

The allowances are based on the Bank'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 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 the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

Deferred income tax assets are recognized 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 utilized.

(Thousands of Kazakh tenge)

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

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

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on 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
Computers	3
Vehicles	6 - 7
Other	4 - 10

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in other administrative and operating expenses.

Expenses related to repairs and renewals are charged when incurred unless they qualify for capitalization.

Intangible Assets

Intangible assets include licenses and computer software. Intangible assets are stated at cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life, i.e. 5 years.

Amounts Due to Other Financial Institutions and Due to Customers

Amounts due to other financial institutions and to customers are initially recognized in accordance with the recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Amounts Due to the Government of Kazakhstan

Amounts due to the Government of Kazakhstan are initially recognized in accordance with the recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. Amounts due to the Government of Kazakhstan received at nil or low interest rates are considered as a Government assistance and, in accordance with IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", the benefit is not quantified by the imputation of interest.

Debt Securities Issued

Debt securities issued represent bonds and eurobonds issued by the Bank. They are accounted for in accordance with the same principles used for amounts owed to other financial institutions and to customers.

Provisions

Provisions are recognized when the Bank 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.

Shareholders' Equity

Share capital is recognized at the fair value of the consideration received net of the cost of equity transactions, being the incremental external costs directly attributable to the equity transaction that would otherwise have been avoided.

The Bank is not permitted to declare or distribute dividends. In accordance with the Law, retained earnings are transferred to reserve capital on an annual basis.

(Thousands of Kazakh tenge)

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

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

Foreign Currency Translation

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

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 rates at March 31, 2005 and December 31, 2004 were 132.59 KZT and 130.00 KZT to 1 USD, respectively.

Adoption of recently issued International Financial Reporting Standards

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, "Financial Instruments: Disclosure and Presentation", IAS 36 "Impairment of Assets", IAS 38 "Intangible Assets" and IAS 39, "Financial Instruments: Recognition and Measurement". All standards are effective for financial years beginning on or after January 1, 2005. Together, IAS 32 and 39 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 has adopted the four revised standards starting from January 1, 2005. Therefore, comparative prior year 2004 presented in the 2005 condensed interim financial statements has been restated as if the revised standards had always been in effect as follows:

Amount	*Previously reported*	*As restated*	*Comment*
489,638	Gains less losses from available-for-sale securities in the Income Statement	Revaluation reserve in Equity	According to a revised IFRS 39, a gain or loss on an available-for-sale financial asset shall be recognised directly in equity, through the statement of changes in equity

(Thousands of Kazakh tenge)

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	March 31, 2005 (unaudited)	*December 31, 2004*
Short term deposits with other banks	**2,713,356**	1,772,528
Deposit with the NBK	**2,200,917**	–
Correspondent account with the NBK	**84,830**	61,612
Correspondent nostro accounts with other banks	**13,555**	223,165
Cash	**43**	55
	5,012,701	2,057,360

As of March 31, 2005, short-term deposits were placed with Kazakh banks in tenge and USD, carrying interest at rates ranging from 6.80% to 8.50% per annum. As of December 31, 2004, short-term deposits were placed with Kazakh banks in tenge, carrying interest at rates ranging from 6.5% to 8.5% per annum.

As of March 31, 2005, the deposit with the NBK was denominated in tenge, carried interest at 2.50% per annum, and was paid on April 25, 2005.

5. Amounts Due From Other Financial Institutions

As of March 31, 2005, KZT 2,263,918 was placed in KZT denominated inter-bank deposits with Kazakh banks (December 31, 2004: KZT 4,582,083). These deposits bear annual interest rates ranging from 6.80% to 9.20% (December 31, 2004: 6.50% - 9.20%) and mature during 2005 and 2006 (December 31, 2004: 2005).

As of March 31, 2005, deposits placed with two Kazakh banks comprised 67.28% of amounts due from other financial institutions (December 31, 2004 – 62.11%) and represented 4.90% of the Bank's shareholders' equity (December 31, 2004 – 5.14%).

6. Investment Securities

Available-for-sale securities consisted of the following:

	March 31, 2005 (unaudited)	*December 31, 2004*
Bonds of the Ministry of Finance of the RK	**42,937,497**	34,492,386
Corporate bonds	**15,407,679**	10,597,926
Notes of the NBK	**10,454,861**	13,404,332
State municipal bonds	**2,178,531**	2,142,522
Available-for-sale securities	**70,978,568**	**60,637,166**
Subject to repurchase agreements		
Bonds of the Ministry of Finance of the RK	**3,871,776**	–

The interest rates and maturities of these securities were as follows:

	March 31, 2005 (unaudited)		*December 31, 2004*	
	%	*Maturity*	*%*	*Maturity*
Bonds of the Ministry of Finance of the RK	**3.78% - 8.30%**	**2005 - 2013**	4.92% - 6.40%	2005 – 2013
Corporate bonds	**7.40% - 12.00%**	**2005 - 2014**	7.50% - 12.00%	2005 – 2011
Notes of the NBK	**2.35% - 5.08%**	**2005**	2.92% - 5.08%	2005
State municipal bonds	**8.50%**	**2008**	8.50%	2008

As of March 31, 2005, corporate bonds issued by five Kazakh entities comprised 77.83% of the total corporate bonds available-for-sale (December 31, 2004 – 70%).

(Thousands of Kazakh tenge)

Held-to-maturity securities consisted of the following:

	March 31, 2005 (unaudited)		December 31, 2004	
	Carrying value	Nominal value	Carrying value	Nominal value
State municipal bonds	**2,226,728**	**2,141,865**	2,139,856	2,100,026
Bonds of the Ministry of Finance of the RK	**929,539**	**903,790**	924,159	903,790
Corporate bonds	**419,740**	**417,390**	402,380	409,237
Held-to-maturity securities	**3,576,007**	**3,463,045**	3,466,395	3,413,053

The interest rates and maturities of these securities were as follows:

	March 31, 2005 (unaudited)		December 31, 2004	
	%	Maturity	%	Maturity
State municipal bonds	**8.31% - 8.50%**	**2005 - 2006**	8.31% - 8.50%	2005 - 2006
Bonds of the Ministry of Finance of the RK	**6.00% - 8.30%**	**2005 - 2007**	6.00% - 8.30%	2005 - 2007
Corporate bonds	**9.20%**	**2007**	9.20%	2007

As of March 31, 2005, corporate bonds represent bonds, issued by one Kazakh commercial bank (December 31, 2004 – one Kazakh commercial bank).

The Bank's policy is to invest only in debt securities of the Government agencies of the Republic of Kazakhstan, prime Kazakh banks and corporations that are traded on the Kazakh Stock Exchange with an "A" listing.

7. Loans to Customers

The loan portfolio of the Bank consisted of the following:

	March 31, 2005 (unaudited)	December 31, 2004
Loans to customers	**37,794,022**	29,727,715
Less – allowance for impairment	**(1,549,164)**	(1,153,491)
Loans to customers	**36,244,858**	28,574,224

As of March 31, 2005 and December 31, 2004, the loan portfolio was denominated in US dollars, and the annual interest rates charged by the Bank ranged from 6.85% to 11.75%.

As of March 31, 2005, 10 major borrowers accounted for 58.88% of the Bank's gross loan portfolio and represented 33.53% of the Bank's shareholders' equity. As of December 31, 2004, 10 major borrowers accounted for 63.84% of the Bank's gross loan portfolio and represented 32.92% of the Bank's shareholders' equity. The gross value of these loans as of March 31, 2005 and December 31, 2004 were KZT 22,232,784 and KZT 18,241,801, respectively.

The Board of Directors of the Bank approves lending limits by industrial and geographical sectors on an annual basis. At March 31, 2005 and December 31, 2004, the majority of the loans have been extended within the Republic of Kazakhstan primarily to private companies. At March 31, 2005 and December 31, 2004, loans were made to the following sectors:

	March 31, 2005 (unaudited)	%	December 31, 2004	%
Food industry	**6,415,732**	**17%**	5,686,240	19%
Textile and clothing industry	**5,621,358**	**15%**	4,372,726	15%
Non-metal mineral products	**4,813,848**	**13%**	4,675,064	16%
Transportation and communication	**4,347,303**	**12%**	4,366,482	15%
Processing of agricultural products	**4,179,816**	**11%**	2,496,074	8%
Machinery and equipment	**2,802,014**	**7%**	2,571,605	9%
Paper production	**2,427,004**	**6%**	1,324,150	4%
Chemical industry	**1,942,766**	**5%**	–	–
Metal industry	**1,873,944**	**5%**	1,739,862	6%
Electronic equipment	**1,320,839**	**4%**	1,242,559	4%
Production and distribution of energy	**1,298,502**	**3%**	504,739	2%
Fishing industry	**667,647**	**2%**	664,150	2%
Mortgage loans	**83,249**	**–**	84,064	–
	37,794,022	**100%**	29,727,715	100%

(Thousands of Kazakh tenge)

8. Allowance for Loan Impairment and Provisions

The movements on the allowance for impairment of interest earning assets were as follows:

	Commercial Loans
December 31, 2003	(386,189)
Reversal (unaudited)	20,110
March 31, 2004 (unaudited)	(366,079)
Charge (unaudited)	(787,412)
December 31, 2004	(1,153,491)
Charge (unaudited)	**(395,673)**
March 31, 2005 (unaudited)	**(1,549,164)**

Provisions for guarantees and letters of credit are recorded in liabilities. The movements on provisions for guarantees and letters of credit were as follows:

	Guarantees and letters of credit
December 31, 2003	(75,779)
Charge (unaudited)	(1,176)
March 31, 2004 (unaudited)	(76,955)
Charge (unaudited)	(40,682)
December 31, 2004	(117,637)
Charge (unaudited)	**(167,497)**
March 31, 2005 (unaudited)	**(285,134)**

9. Amounts due to the Government of the Republic of Kazakhstan

Amounts due to the Government as of March 31, 2005, consisted of long-term loans granted by the Government of the Republic of Kazakhstan to the Bank from the State Budget in November 2003 and July 2004. The loans bear interest at 0.1% per annum, which is payable semiannually – the first loan starting from May 25, 2004 and the second loan starting from January 30, 2005. The principal amounts of the loans of KZT 4.3 billion and KZT 4.599 billion are repayable at maturity on November 25, 2018, and on July 30, 2019, respectively.

The purpose of these loans to the Bank is to fund the Bank's financing of investment projects for certain priority industries stipulated in the Memorandum.

10. Amounts Due to Other Financial Institutions

Amounts due to other financial institutions consisted of the following:

	March 31, 2005 (unaudited)	*December 31, 2004*
Deposits from Kazakh banks	**6,385,494**	–
Syndicated loan from OECD banks	**5,362,083**	5,208,574
Loans from OECD banks	**1,678,597**	1,674,857
Repurchase agreements	**220,000**	–
	13,646,174	6,883,431
Less unamortized cost of issuance	**(81,361)**	(88,529)
Amounts due to other financial institutions	**13,564,813**	6,794,902

Included in amounts due to credit institutions at March 31, 2005, is a repurchase agreement of KZT 220,000 that is secured by a pledge over certain of the Bank's available-for-sale securities, whose fair value at March 31, 2005 amounted to KZT 3,871,776.

(Thousands of Kazakh tenge)

The interest rates and maturities of these amounts were as follows:

	March 31, 2005 (unaudited) %	*Maturity*	*December 31, 2004* %	*Maturity*
Deposits from Kazakh banks	**3.00% - 5.05%**	**2005**	–	–
Syndicated loan from OECD banks	**Semiannual LIBOR+1%**	**2006 - 2008**	**Semiannual LIBOR+1%**	2006 - 2008
Loans from OECD banks	**Semiannual LIBOR+0.55% - semiannual LIBOR+2%**	**2005 - 2010**	**Semiannual LIBOR+0.55% - semiannual LIBOR+2%**	2005 - 2010
Repurchase agreements	**0.60%**	**2005**	–	–

In accordance with the contractual terms of the syndicated loan, the Bank is required to maintain certain financial ratios, particularly with regard to its capital adequacy and lending exposures. Management believes that the Bank is in compliance with covenants of the various debt agreements the Bank has with other banks and financial institutions.

11. Debt Securities Issued

Debt securities issued consisted of the following:

	March 31, 2005 (unaudited)	*December 31, 2004*
Issued eurobonds–first tranche	**13,509,623**	12,996,966
Issued eurobonds–second tranche	**13,262,920**	12,755,671
Issued Kazakh indexed bonds	**2,035,706**	2,035,876
	28,808,249	27,788,513

The first tranche of the USD denominated eurobonds was issued by the Bank in October 2002, bear interest at 7.125% per annum and mature in October 2007. Eurobonds were issued under the framework of the Luxemburg Program for issue of mid-term bonds (hereafter referred to as the EMTN Program).

The second tranche of USD denominated eurobonds was issued by the Bank under the EMTN Program in November 2003, bear interest at 7.375% per annum and mature in October 2013. The Program requires the Bank to be in compliance with the Law and Memorandum, keep net assets at a level not less than KZT 28,000,000 and not pay any dividends.

The KZT denominated bonds indexed to USD dollars were issued by the Bank in February 2002, bear interest at 8.50% per annum and mature in February 2007. Interest on debt securities issued is paid semi-annually.

Standard & Poor's, Moody's Investors Service and Fitch Ratings have rated the bonds issued by the Bank as BBB-, Baa3, BBB-, respectively.

In accordance with the terms of the Eurobonds, the Bank is required to maintain certain financial ratios, particularly with regard to its capital adequacy and lending exposures. In addition, and in accordance with the terms of Eurobonds, the Bank is not permitted to distribute any dividends to the common shareholders. Management believes that the Bank is in compliance with covenants of the various debt agreements the Bank has with the trustees and note holders.

12. Taxation

The components of the income taxes were as follows:

	March 31, 2005 (unaudited)	*March 31, 2004 (unaudited)*
Current tax charge	**–**	–
Deferred tax benefit (charge)	**4,667**	(7,500)
Income tax expense	**4,667**	(7,500)

(Thousands of Kazakh tenge)

The deferred tax assets reported in the balance sheets at March 31, 2005 and December 31, 2004, are calculated by applying the statutory tax rate in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. These comprised the following:

	March 31, 2005 (unaudited)	*December 31, 2004*
Deferred tax assets		
Fair value adjustment on initial recognition of mortgage loans	**–**	15,661
Derivatives	**–**	8,567
Property and equipment	**7,338**	6,546
Intangible assets	**5,054**	4,181
Unused tax credits for exchange losses	**–**	–
	12,392	34,955
Deferred tax liabilities		
Accrued expenses	**(57,229)**	(84,900)
Amortization of fair value adjustment	**(736)**	(295)
Unrecognized foreign exchange gains	**–**	–
	(57,965)	(85,195)
Net deferred tax liabilities	**(45,573)**	(50,240)

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits.

The legislation currently in force in Kazakhstan allows for the collection of various of taxes by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. 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.

13. Share Capital

Common shares authorized and fully paid comprised the following as of March 31, 2005 and December 31, 2004:

March 31, 2005	*Number of shares*		*In thousands of tenge*	
	Authorized	*Issued and paid*	*Nominal value*	*Amount*
Government of the Republic of Kazakhstan (87.15%)	**1,017,026**	**1,017,026**	**50**	**50,851,300**
Local government bodies, 14 regions and the cities of Almaty and Astana (in total 12.85%)	**250,000**	**150,000**	**50**	**7,500,000**
Share capital	**1,267,026**	**1,167,026**		**58,351,300**

December 31, 2004	*Number of shares*		*In thousands of tenge*	
	Authorized	*Issued and paid*	*Nominal value*	*Amount*
Government of the Republic of Kazakhstan (84.49%)	817,026	817,026	50	40,851,300
Local government bodies, 14 regions and the cities of Almaty and Astana (in total 15.51%)	150,000	150,000	50	7,500,000
Share capital	967,026	967,026		48,351,300

(Thousands of Kazakh tenge)

Movement on the Bank's common shares during 2005, was as follows:

	The Government		*Local Municipalities*		*Total*	
	Number of shares	*Amount in thousands of tenge*	*Number of shares*	*Amount in thousands of tenge*	*Number of shares*	*Amount in thousands of tenge*
December 31, 2004	817,026	40,851,300	150,000	7,500,000	967,026	48,351,300
Contributed in KZT	200,000	10,000,000	–	–	200,000	10,000,000
March 31, 2005	**1,017,026**	**50,851,300**	**150,000**	**7,500,000**	**1,167,026**	**58,351,300**

As of December 31, 2004, the Bank's issued and paid-in share capital was KZT 48,351,300 consisting of 967,026 common shares with a nominal value of KZT 50 per share. In March 2005, the Bank registered additional issue of 300,000 common shares, of which the Government of the Republic of Kazakhstan acquired 200,000 common shares in the aggregate amount of KZT 10,000,000. The Bank anticipates that the remaining 100,000 common shares shall be placed among the regional authorities by the end of 2005. Each common share is entitled to one vote. In accordance with the Law, the Bank does not pay dividends on its common shares.

Reserve Capital

In accordance with the Law, net income cannot be distributed and is transferred to reserve capital on an annual basis after the approval of the shareholders' meeting of the annual financial statements. Reserve capital is not distributable. During the three-month period ended March 31, 2005, net income for 2004 of KZT 2,528,138 was transferred to reserve capital.

14. Commitments and Contingencies

Operating Environment

The Kazakhstan economy, while continued to display certain characteristics consistent with that of a market in transition, is deemed to be of market status starting from October 2001. These attributes have in the past included lack of liquidity in capital markets and the existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakh economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. As a result, there could be certain uncertainties that may affect future operations, the recoverability of the Bank's assets, and the ability of the Bank to maintain or pay its debts as they mature.

Legal

In the ordinary course of business, the Bank could be a subject to legal actions and complaints. As of March 31, 2005 there were no legal disputes and/or claims that could have a material adverse effect on the financial condition of the Bank and they are not anticipated.

Financial commitments and contingencies

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

	March 31, 2005 (unaudited)	*December 31, 2004*
Commitments to extend credit	**13,027,235**	10,081,175
Commercial letters of credit	**8,772,311**	6,051,499
Guarantees issued	**860,509**	843,700
Total	**22,660,055**	16,976,374
Less – Provisions	**(285,134)**	(117,637)
Less cash collateral	–	(22,447)
Financial commitments and contingencies	**22,374,921**	16,836,290

The Bank requires collateral to support credit-related financial instruments. Collateral held varies, but may include deposits held in other banks, government securities, bank guarantees, and other.

(Thousands of Kazakh tenge)

As of March 31, 2005 commitments to extend credit were made to sixteen potential borrowers (December 31, 2004 – fourteen), commercial letters of credit were granted to six clients (December 31, 2004 – four) and a guarantee was issued to one client (December 31, 2004 – one).

15. 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.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a counter party will be unable to pay amounts in full, when due. The Bank manages credit risks by means of a restriction on the size of the risk to a counter-agent, an industry sector and a geographical location. Limits on industry sectors and geographical locations are established by the Board of Directors. In accordance with the Memorandum, the Bank attracts collateral in the form of highly liquid assets for the loans issued by the Bank such as government securities, guarantees of commercial banks, etc. Such risks are monitored on a continuous basis and are subject to periodic assessment and stipulate an analysis of project implementation, the financial conditions of clients and their guarantees, the changes of their liabilities to third parties and the pledged property.

The exposure to any one borrower is further restricted by sub-limits covering balance sheet and off-balance sheet exposures which are set by the Credit Committee in accordance with the internal credit policy.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the related disclosures.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

When a potential counter-agent is being selected, the Assets and Liability Committee (the "ALCO") assesses the compliance of the base indices of partners, such as commercial banks (residents and non-residents) and organizations engaging in certain types of banking transactions. The ALCO determines the limits for direct and off-balance liabilities of such organizations on a monthly basis.

Concentration

The geographical concentration of financial assets and liabilities is set out below:

	March 31, 2005 (unaudited)				December 31, 2004		
	Kazakhstan	OECD	CIS	Total	Kazakhstan	OECD	Total
Assets							
Cash and cash equivalents	**5,001,394**	**11,307**	–	**5,012,701**	2,025,296	32,064	2,057,360
Amounts due from other financial institutions	**2,263,918**	–	–	**2,263,918**	4,582,083	–	4,582,083
Derivative financial assets	**26,165**	**1,900**	–	**28,065**	8,790	–	8,790
Investment securities:							
-available-for-sale	**70,978,568**	–	–	**70,978,568**	60,637,166	–	60,637,166
-held-to-maturity	**3,576,007**	–	–	**3,576,007**	3,466,395	–	3,466,395
Loans to customers	**35,952,850**	–	**292,008**	**36,244,858**	28,574,224	–	28,574,224
Other assets	**72,535**	–	–	**72,535**	53,658	–	53,658
	117,871,437	**13,207**	**292,008**	**118,176,652**	99,347,612	32,064	99,379,676
Liabilities							
Amounts due to the Government of Kazakhstan	**8,901,260**	–	–	**8,901,260**	8,901,334	–	8,901,334
Amounts due to other financial institutions	**6,605,495**	**6,959,318**	–	**13,564,813**	–	6,794,902	6,794,902
Amounts due to customers	**417,825**	–	–	**417,825**	341,339	22,447	363,786
Debt securities issued	**2,035,706**	**26,772,543**	–	**28,808,249**	2,035,876	25,752,637	27,788,513
Tax liabilities	**45,573**	–	–	**45,573**	50,240	–	50,240
Derivative financial liabilities	**19,734**	**23,137**	–	**42,871**	–	31,888	31,888
Other liabilities	**149,521**	–	–	**149,521**	157,033	59	157,092
	18,175,114	**33,754,998**	–	**51,930,112**	11,485,822	32,601,933	44,087,755
Net position	**99,696,323**	**(33,741,791)**	**292,008**	**66,246,540**	87,861,790	(32,569,869)	55,291,921

(Thousands of Kazakh tenge)

The above tables do not include non-monetary assets and liabilities; such as property and equipment, intangible assets, inventories and impairment allowance.

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The ALCO uses the VaR method for the periodic assessment of the market risk to the investment portfolio of the securities held by the Bank. According to the Strategy for the management of the investment portfolio of the Bank, the limit to the amount of the VaR for a specific instrument should not exceed 10% of the value of the instrument per day. The limits are provided on a monthly basis. As of March 31, 2005 the VaR of the portfolio was within the framework established by the Bank policy.

Currency Risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The ALCO sets limits on the level of exposure by currencies, primarily USD, which are monitored daily in accordance with the Assets and Liability Management Policy, as approved by the Board of Directors. The above limits also comply with the minimum requirements of the NBK. The Bank's exposure to foreign currency exchange rate risk follows:

	March 31, 2005 (unaudited)			*December 31, 2004*		
	KZT	*Freely convertible currencies*	*Total*	*KZT*	*Freely convertible currencies*	*Total*
Assets						
Cash and cash equivalents	**5,000,179**	**12,522**	**5,012,701**	1,834,269	223,091	2,057,360
Amounts due from other financial institutions	**2,263,520**	**398**	**2,263,918**	4,581,693	390	4,582,083
Derivative financial assets	**28,065**	**–**	**28,065**	8,790	–	8,790
Investment securities:						
-available-for-sale	**70,220,095**	**758,473**	**70,978,568**	59,987,147	650,019	60,637,166
-held-to-maturity	**3,576,007**	**–**	**3,576,007**	3,466,395	–	3,466,395
Loans to customers	**83,249**	**36,161,609**	**36,244,858**	84,064	28,490,160	28,574,224
Other assets	**53,134**	**19,401**	**72,535**	44,678	8,980	53,658
	81,224,249	**36,952,403**	**118,176,652**	70,007,036	29,372,640	99,379,676
Liabilities						
Amounts due to the Government of Kazakhstan	**8,901,260**	**–**	**8,901,260**	8,901,334	–	8,901,334
Amounts due to other financial institutions	**220,000**	**13,344,813**	**13,564,813**	–	6,794,902	6,794,902
Amounts due to customers	**120,593**	**297,232**	**417,825**	956	362,830	363,786
Debt securities issued	**2,035,706**	**26,772,543**	**28,808,249**	2,035,876	25,752,637	27,788,513
Tax liabilities	**45,573**	**–**	**45,573**	50,240	–	50,240
Derivative financial liabilities	**30,836**	**12,035**	**42,871**	–	31,888	31,888
Other liabilities	**119,158**	**30,363**	**149,521**	121,800	35,292	157,092
	11,473,126	**40,456,986**	**51,930,112**	11,110,206	32,977,549	44,087,755
Net balance sheet position	**69,751,123**	**(3,504,583)**	**66,246,540**	58,896,830	(3,604,909)	55,291,921
Net off balance sheet position	**–**	**22,374,921**	**22,374,921**	–	16,836,290	16,836,290

The above tables do not include non-monetary assets and liabilities; such as property and equipment, intangible assets, inventories and impairment allowance. Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries.

The above KZT denominated assets and liabilities include assets and liabilities, which are indexed to the US dollar and revalued, based on the changes of market exchange rate as of March 31, 2005 and December 31, 2004, to reflect the effect of any change in valuation in the KZT against the US Dollar. As of March 31, 2005 and December 31, 2004, such assets amounted to KZT 5,150,020 and KZT 4,925,049, respectively, and such liabilities amounted to KZT 2,035,706 and KZT 2,035,876, respectively.

Interest Rate Risk

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

(Thousands of Kazakh tenge)

The Bank, in accordance with the Law of the Republic of Kazakhstan Concerning the Development Bank of Kazakhstan, sets the rate of interest for loans to borrowers, which is calculated on the basis of the average value of borrowings and operational expenses of the Bank. The maximum margin of the Bank may not exceed 4% of the average weighted value, calculated as the average weighted value of all loans calculated at the loan issue date.

The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets or liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management policies.

As of March 31, 2005 and December 31 2004, the interest rates by currencies and comparative market rates for interest generating/ bearing monetary financial instruments were as follows:

	March 31, 2005 (unaudited)		*December 31, 2004*	
	KZT	*Freely convertible currencies*	*KZT*	*Freely convertible currencies*
Deposit with the NBK	**2.50%**	**–**	–	–
Amounts due from other financial institutions	**7.50% - 9.20%**	**–**	6.50% - 9.20%	–
Investment securities:				
-available-for-sale	**3.78% - 11.00%**	**9.60% - 12.00%**	2.92% - 11.00%	9.60% - 12.00%
-held-to-maturity	**6.00% - 9.20%**	**–**	6.00% - 9.20%	–
Loans to customers	**–**	**6.85% - 11.75%**	–	7.00% - 11.75%
Amounts due to the Government of Kazakhstan	**0.10%**	**–**	0.10%	–
Amounts due to other financial institutions	**0.60%**	**3.00% - 5.05%**	–	2.97% - 4.23%
Amounts due to customers	**–**	**1.00%**	–	1.00%
Debt securities issued	**8.50%**	**7.125% - 7.375%**	8.50%	7.125% - 7.375%

The Bank monitors its interest rate margin and is contractually able to reprice its long-term loans in response to changing market conditions. In addition, the Bank uses interest rate swaps to eliminate risk related to the floating rates financial instruments. Consequently, the Bank does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/ liabilities management process.

The table below provides an analysis of bank assets and liabilities according to agreed upon maturity dates from the balance sheet date.

	March 31, 2005 (unaudited)						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets							
Cash and cash equivalents	**98,428**	**3,368,456**	**1,545,817**	**–**	**–**	**–**	**5,012,701**
Amounts due from other financial institutions	**–**	**–**	**237,144**	**2,026,375**	**399**	**–**	**2,263,918**
Derivative financial assets	**28,065**	**–**	**–**	**–**	**–**	**–**	**28,065**
Investment securities:							
-available-for-sale	**70,978,568**	**–**	**–**	**–**	**–**	**–**	**70,978,568**
-held-to-maturity	**–**	**–**	**204,776**	**1,751,556**	**1,619,675**	**–**	**3,576,007**
Loans to customers, net	**–**	**908,998**	**1,107,293**	**8,316,740**	**20,456,627**	**5,455,200**	**36,244,858**
Other assets	**62,333**	**1,306**	**6,597**	**–**	**2,299**	**–**	**72,535**
	71,167,394	**4,278,760**	**3,101,627**	**12,094,671**	**22,079,000**	**5,455,200**	**118,176,652**
Liabilities							
Amounts due to the Government Of Kazakhstan	**–**	**–**	**1,493**	**767**	**–**	**8,899,000**	**8,901,260**
Amounts due to other financial institutions	**–**	**5,208,169**	**1,397,325**	**720,254**	**6,209,803**	**29,262**	**13,564,813**
Amounts due to customers	**413,473**	**–**	**–**	**–**	**4,352**	**–**	**417,825**
Debt securities issued	**–**	**446,110**	**374,843**	**21,612**	**15,077,606**	**12,888,078**	**28,808,249**
Tax liabilities	**–**	**–**	**–**	**–**	**45,573**	**–**	**45,573**

(Thousands of Kazakh tenge)

Derivative financial liabilities	**42,871**	**–**	**–**	**–**	**–**	**–**	**42,871**
Other liabilities	**145,716**	**1,521**	**2,284**	**–**	**–**	**–**	**149,521**
	602,060	**5,655,800**	**1,775,945**	**742,633**	**21,337,334**	**21,816,340**	**51,930,112**
Net position	**70,565,334**	**(1,377,040)**	**1,325,682**	**11,352,038**	**741,666**	**(16,361,140)**	**66,246,540**
Accumulated gap	**70,565,334**	**69,188,294**	**70,513,976**	**81,866,014**	**82,607,680**	**66,246,540**	

	December 31, 2004						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets							
Cash and cash equivalents	284,832	254,309	1,518,219	–	–	–	2,057,360
Amounts due from other financial institutions	–	945,967	2,365,670	1,270,056	390	–	4,582,083
Derivative financial assets	8,790	–	–	–	–	–	8,790
Investment securities:							
-available-for-sale	60,637,166	–	–	–	–	–	60,637,166
-held-to-maturity	–	12,008	–	1,890,318	1,564,069	–	3,466,395
Loans to customers, net	–	146,234	879,208	7,927,664	14,596,376	5,024,742	28,574,224
Other assets	–	18,207	24,229	9,022	2,200	–	53,658
	60,930,788	1,376,725	4,787,326	11,097,060	16,163,035	5,024,742	99,379,676
Liabilities							
Amounts due to the Government of Kazakhstan	–	1,916	–	418	–	8,899,000	8,901,334
Amounts due to other financial institutions	–	–	–	644,727	5,817,737	332,438	6,794,902
Amounts due to customers	336,161	–	–	–	27,625	–	363,786
Debt securities issued	–	–	63,600	333,667	14,712,195	12,679,051	27,788,513
Tax liabilities	–	–	–	–	50,240	–	50,240
Derivative financial liabilities	31,888	–	–	–	–	–	31,888
Other liabilities	–	13,475	47,244	96,373	–	–	157,092
	368,049	15,391	110,844	1,075,185	20,607,797	21,910,489	44,087,755
Net position	60,562,739	1,361,334	4,676,482	10,021,875	(4,444,762)	(16,885,747)	55,291,921
Accumulated gap	60,562,739	61,924,073	66,600,555	76,622,430	72,177,668	55,291,921	

The above tables do not include non-monetary assets and liabilities; such as property and equipment, intangible assets, and inventories; and provisions on impairment.

The Bank's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. As of March 31, 2005, there is a significant deficit in the period less than one month, resulting from a significant concentration of amounts due to customers. During 2004, the Bank extended certain existing loans to resolve its short term liquidity requirements.

In the Kazakhstan marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

16. Subsequent Events

In April 2005 the Bank received a US$ 15 million loan due 2008 from JP Morgan Chase at the rate of 5.85% per annum. The interest is payable semi-annually and principal is payable at maturity.

КАЗАКСТАННЫН ДАМУ БАНКІ
БАНК РАЗВИТИЯ КАЗАХСТАНА

Development Bank of Kazakhstan Financial Statements

Year ended 31 December 2004 Together with Report of Independent Auditors

ERNST & YOUNG

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
of Development Bank of Kazakhstan

We have audited the accompanying balance sheet of Development Bank of Kazakhstan (the "Bank") as of 31 December 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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

Ernst & Young Kazakhstan

January 18, 2005

BALANCE SHEETS

(Thousands of Kazakh tenge)

		31 December	
	Notes	2004	2003
Assets			
Cash and cash equivalents	4	2,057,360	5,011,341
Amounts due from other financial institutions	5	4,582,083	9,972,294
Amounts receivable under reverse repurchase agreements	6	—	128,006
Derivative financial assets	7	8 ,790	4,467
Investment securities:			
— available-for-sale	8	60,637,166	42,195,212
— held-to-maturity	8	3,466,395	7,098,934
Loans to customers	9, 10	28,574,224	19,310,848
Property and equipment	12	1 66,173	95,366
Intangible assets	13	7 2,820	88,104
Other assets	14	5 7,194	189,636
Total assets		99,622,205	84,094,208
Liabilities and shareholders' equity			
Amounts due to the Government of Kazakhstan	15	8,901,334	4,300,406
Amounts due to other financial institutions	16	6,794,902	4,720,552
Amounts due to customers	17	363,786	353,289
Debt securities issued	18	27,788,513	32,811,489
Tax liabilities	11	50,240	—
Derivative financial liabilities	7	31,888	—
Provisions	10	117,637	75,779
Other liabilities	14	157,092	111,621
Total liabilities		44,205,392	42,373,136
Shareholders' equity	19		
Share capital		48,351,300	37,700,000
Reserve capital		4,021,072	2,810,403
Retained earnings		3,044,441	1,210,669
Total shareholders' equity		55,416,813	41,721,072
Total liabilities and shareholders' equity		99,622,205	84,094,208
Financial commitments and contingencies	20		

Signed and authorised for release on behalf of the Bank,

Kambar Shalgimbayev
President

Rishat Zhakanbayev
Chief Accountant

January 18, 2005

The accompanying notes on page 5 to 24 are an integral part of these financial statements.

STATEMENTS OF INCOME

(Thousands of Kazakh tenge)

	Notes	Years ended 31 December 2004	2003
Interest income			
Securities		3,759,674	1,349,633
Loans to customers		2,176,313	1,345,335
Amounts due from other financial institutions		621,472	803,408
Reverse repurchase agreements		3,318	1,351,401
		6,560,777	4,849,777
Interest expense			
Debt securities issued		(2,337,466)	(1,681,474)
Amounts due to other financial institutions		(87,669)	(106,504)
Amounts due on repurchase agreements		(3,433)	(2,139)
Amounts due to the Government of Kazakhstan		(6,216)	(406)
Amounts due to customers		(219)	(221)
		(2,435,003)	(1,790,744)
Net interest income		4,125,774	3,059,033
Impairment of interest earning assets	10	(767,302)	(150,357)
		3,358,472	2,908,676
Fee and commission income		56,968	75,040
Fee and commission expense		(61,293)	(38,942)
Fees and commissions		(4,325)	36,098
Gains less losses from derivative financial instruments	21	(27,565)	(134,003)
Gains less losses from available-for-sale securities	22	535,444	(137,996)
Gains less losses from foreign currencies:			
– dealing		(43,664)	(17,032)
– translation differences		82,544	(709,872)
Other income		49,933	15,844
Non interest income (losses)		596,692	(983,059)
Salaries and benefits	23	(578,715)	(350,416)
Depreciation and amortisation	12, 13	(56,201)	(48,554)
Taxes, other than income tax		(22,871)	(54,082)
Administrative and operating expenses	24	(186,513)	(181,622)
Other provisions	10	(41,858)	(75,779)
Non interest expense		(886,158)	(710,453)
Income before income tax expense		3,064,681	1,251,262
Income tax expense	11	(20,240)	(40,593)
Net income		3,044,441	1,210,669

The accompanying notes on page 5 to 24 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December 2004 and 2003
(Thousands of Kazakh tenge)

	Note	Share Capital	Reserve C apital	Retained Earnings	Total
31 December 2002		30,000,000	773,600	2,036,803	32,810,403
Transfer	19	—	2,036,803	(2,036,803)	—
Capital contributions	19	7,700,000	—	—	7,700,000
Net income		—	—	1,210,669	1,210,669
31 December 2003		37,700,000	2,810,403	1,210,669	41,721,072
Transfer	19	—	1,210,669	(1,210,669)	—
Capital contributions	19	10,651,300	—	—	10,651,300
Net income		—	—	3,044,441	3,044,441
31 December 2004		48,351,300	4,021,072	3,044,441	55,416,813

The accompanying notes on page 5 to 24 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(Thousands of Kazakh tenge)

	Notes	Years ended 31 December 2004	2003
Cash flows from operating activities			
Net income for the year before tax		**3,064,681**	1,251,262
Adjustments for:			
Interest income on investment securities		**(2,966,011)**	(1,349,633)
Interest expense		**2,435,003**	1,790,744
Depreciation and amortisation	12,13	**56,201**	47,912
Loss on disposal of property and equipment	12	**331**	642
Unrealised gains on derivative financial assets		**27,565**	134,003
Unrealised foreign exchange (gain) loss		**(289,203)**	4,675
Impairment of interest earning assets	10	**767,302**	150,357
Other provisions	10	**41,858**	75,779
Cash flow from operating activities before changes in operating assets and liabilities		**3,137,727**	2,105,741
Increase (decrease) in operating assets and liabilities			
Decrease (increase) in amounts due from other financial institutions		**5,070,364**	(2,608,695)
(Increase) decrease in derivatives financial assets		**—**	244,701
Decrease in amounts receivable under reverse repurchase agreements		**124,573**	17,819,992
Increase in loans to customers		**(12,540,889)**	(8,544,542)
Decrease (increase) in other assets		**131,719**	(264,211)
(Decrease) increase in amounts due to other financial institutions		**(4,178,831)**	444,525
Increase in amounts due to customers		**47,758**	302,315
Increase (decrease) in other liabilities		**47,547**	(54,710)
Cash (used in) generated from operations		**(8,160,032)**	9,445,116
Interest paid		**(2,521,218)**	(1,766,569)
Reimbursement received (Corporate income tax paid)	11	**30,000**	(30,000)
Net cash (used in) provided by operating activities		**(10,651,250)**	7,648,547
Cash flows from investing activities			
Purchase of investment securities		**(30,353,974)**	(39,270,872)
Proceeds from sale of investment securities		**15,468,938**	—
Interest income received on investment securities		**2,819,165**	1,038,202
Purchase of property and equipment	12	**(239,415)**	(38 ,893)
Proceeds from sale of property and equipment		**136,808**	—
Purchase of intangible assets	13	**(9,448)**	(1,076)
Net cash used in investing activities		**(12,177,926)**	(38,272,639)
Cash flows from financing activities			
Long-term loans received from the Government of Kazakhstan		**4,599,000**	4,300,000
Long-term loans received from other financial institutions		**6,840,076**	—
Capital contributions		**10,651,300**	7,700,000
Retirement of debt securities issued		**(2,101,760)**	—
Proceeds from debt securities issued		**—**	14,442,564
Net cash provided by financing activities		**19,988,616**	26,442,564
Effects of exchange rates changes on cash and cash equivalents		**(113,421)**	(153,410)
Net change in cash and cash equivalents		**(2,953,981)**	(4,334,938)
Cash and cash equivalents at January 1		**5,011,341**	9,346,279
Cash and cash equivalents at 31 December	4	**2,057,360**	5,011,341

The accompanying notes on page 5 to 24 are an integral part of these financial statements.

(Thousands of Kazakh tenge)

1. PRINCIPAL ACTIVITIES

Development Bank of Kazakhstan ("the Bank") was registered with the Ministry of Justice of the Republic of Kazakhstan as a closed joint stock company on 31 May 2001, (certificate of state registration of legal entity No. 4686-1900-AO) and was reregistered as a joint stock company on 18 August 2003, (certificate of state reregistration of legal entity No. 4686-1900-AO). The Bank operates under the Law of the Republic of Kazakhstan Concerning the Development Bank of Kazakhstan dated 25 April 2001 No.178-II as amended as of the date of these financial statements (the "Law"), the Charter of the Bank and Memorandum concerning the credit policy of the Bank as approved by the resolution of the Government dated March 9, 2004 No 289 (the "Memorandum"). The Bank performs the transactions in accordance with article 7 of the Law. The Bank has a license, No 253, to carry out banking and other types of operations, stipulated in the Banking legislation, which was granted by the National Bank of Kazakhstan ("the NBK") on 21 October 2001. On 30 October 2003, license No 253 was reregistered due to the change in the legal entity's name.

The Bank's legal address is: 32 Republic avenue, Astana, 010000, Republic of Kazakhstan.

The main objective of the Bank is to improve and increase the effectiveness of state investment activities, to develop production infrastructure and the processing industry and to assist in attracting foreign and domestic investments in to the economy of the country. The Bank finances investment projects, including mid-term (between 5 and 10 years) and long-term (between 10 and 20 years) investment projects, and export transactions.

Kazakh bonds issued by the Bank are listed on the Kazakhstan Stock Exchange ("KASE") and the euro bonds issued by the Bank are primarily listed on the Luxembourg Stock Exchange and have a secondary listing on KASE.

The Bank has a seat in the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Standard & Poor's, Moody's Investors Service and Fitch Ratings awarded the Bank credit ratings equivalent to the sovereign rating of the Republic of Kazakhstan, being BBB-, Baa3, BBB-, respectively.

As of 31 December 2004, the following shareholders owned the outstanding shares of the Bank.

Shareholder	%
The Government of the Republic of Kazakhstan	84.49
Local government bodies of 14 regions, and the cities of Almaty and Astana	15.51
Total	100.00

The Bank had an average of 144 employees during the year ended 31 December 2004 (2003—107).

2. BASIS OF PREPARATION

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("FRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Kazakh tenge ("KZT" or "tenge"), expressed in terms of KZT purchasing power as of 31 December 2004, unless otherwise indicated. The KZT is utilised as the shareholders, the managers and the regulators measure the Bank's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Kazakh tenge in accordance with Kazakh accounting and tax regulations. These financial statements are based on the Bank's statutory books and records, as reclassified in order to comply with IFRS. The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

(Thousands of Kazakh tenge)

Recently issued International Financial Reporting Standards

Effective for financial year starting on or after January 1, 2005, IFRS 2 "Share-based Payment", IFRS 4 "Insurance Contracts", IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" as well as fifteen revised IASs are enacted. The Bank has not determined the effect of the application of new standards on its financial statements. However, the impact of the application of the new standards on the Bank's financial statements is not expected to be material, except as discussed below with regards to the revised IAS 32 (amended 2004), "Financial Instruments: Disclosure and Presentation", and 39 (amended 2004), "Financial Instruments: Recognition and Measurement".

Revised IAS 32 and 39

In December 2003, the International Accounting Standards Board (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 January 1, 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 of January 1, 2005. Therefore, comparative prior years 2004 and 2003 presented in the 2005 financial statements will be restated as if the revised standards had always been in effect. Except for the reduction in net income and increase in the equity reserve for the fair value change in available-for-sale securities of KZT 732,796, the impact of the newly issued accounting guidance is currently not expected to have a material impact on the financial statements of the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using settlement date accounting.

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 realise the asset and settle the liability simultaneously.

Financial assets and liabilities are initially recognised at cost, which is the fair value of the consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's income statement. The accounting policies for subsequent remeasurement of these items are disclosed in the respective accounting policies set out below.

Related parties

Related parties include key management personnel, the National Bank of the Republic of Kazakhstan ("the NBK"), the Government of the Republic of Kazakhstan and local executive bodies. The rights to the ownership and use of the shares of the Bank constituting the share of the Government of the Republic of Kazakhstan have been transferred to the Ministry of Industry and Trade of the Republic of Kazakhstan. The NBK is the Bank's custodian and its broker with respect to transactions with state securities.

Cash and Cash Equivalents

Cash and cash equivalents are recognised and measured at the fair value of the consideration received. Cash and cash equivalents consist of cash on hand, amounts due from the NBK, and amounts due from other financial institutions that mature within three months of the date of origination and are free from contractual encumbrances.

Amounts Due From Other Financial Institutions

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

(Thousands of Kazakh tenge)

Reverse Repurchase Agreements
Reverse repurchase agreements are utilised by the Bank as an element of its treasury management. These agreements are accounted for as financing transactions.

Securities purchased under agreements to resell ('reverse repos') are recorded as amounts receivable under reverse repurchase agreements.

Any related income or expense arising from the pricing spreads of the underlying securities is recognised as interest income or expense in the accompanying statements of income, accrued using the effective interest method during the period that the related transactions are open.

Derivative Financial Instruments
In the normal course of business, the Bank enters into various derivative financial instruments including options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognised in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Other derivatives assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying statements of income as gains less losses from derivative financial instruments.

Derivative instruments embedded in other financial instruments are treated as separate derivatives as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from derivative financial instruments.

Investment Securities
The Bank classifies its investment securities into two categories:

Securities with fixed maturities and fixed or determinable payments that the Bank has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and

Securities that are not classified by the Bank as held-to-maturity or trading are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of the Bank at the time of the purchase. Investment securities are initially recognised in accordance with the policy stated above and subsequently remeasured using the following policies:

Held-to-maturity investment securities at amortised cost using the effective interest method. An allowance for impairment is estimated on a case-by-case basis.

Available-for-sale securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Gains and losses arising from changes in the fair value of securities available for sale are recognised in gains less losses from available-for-sale securities in the statements of income in the period that the change occurs.

Loans to Customers
Loans granted by the Bank by providing funds directly to the borrower are categorised as loans originated by the Bank and are initially recognised in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than

(Thousands of Kazakh tenge)

market terms is recognised in the period the loan is issued as initial recognition of loans to customers at fair value. Loans to customers with fixed maturities are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

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

The allowances are based on the Bank's own loss experience and management's judgment as to 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 accompanying 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 the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

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.

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

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

(Thousands of Kazakh tenge)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on 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
Computers	3
Vehicles	6-7
Other	4-10

Leasehold improvements are amortised over the life of the related leased asset. The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognised in the respective period and is included in other administrative and operating expenses.

Expenses related to repairs and renewals are charged when incurred unless they qualify for capitalisation.

Intangible Assets

Intangible assets include licenses and computer software. Intangible assets are stated at cost net of accumulated amortisation. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life, i.e. 5 years.

Amounts Due to Other Financial Institutions and Due to Customers

Amounts due to other financial institutions and to customers are initially recognised in accordance with the recognition of financial instruments policy. Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

Amounts Due to the Government of Kazakhstan

Amounts due to the Government of Kazakhstan are initially recognised in accordance with the recognition of financial instruments policy. Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method. Amounts due to the Government of Kazakhstan received at nil or low interest rates are considered as a Government assistance and, in accordance with IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", the benefit is not quantified by the imputation of interest.

Debt Securities Issued

Debt securities issued represent bonds and eurobonds issued by the Bank. They are accounted for in accordance with the same principles used for amounts owed to other financial institutions and to customers.

Provisions

Provisions are recognised when the Bank 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.

Shareholders' Equity

Share capital is recognised at the fair value of the consideration received net of the cost of equity transactions, being the incremental external costs directly attributable to the equity transaction that would otherwise have been avoided.

The Bank is not permitted to declare or distribute dividends. In accordance with the Law, retained earnings are transferred to reserve capital on an annual basis.

(Thousands of Kazakh tenge)

Contingencies

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

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

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the market exchange rates quoted by KASE at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statements of income as gains less losses from foreign currencies.

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 rates at 31 December 2004 and 2003 were 130.00 KZT and 144.22 KZT to 1 USD, respectively.

4. CASH AND CASH EQUIVALENTS

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

	2004	2003
Short term deposits with other banks	**1,772,528**	4,538,753
Correspondent nostro accounts with other banks	**223,165**	1,412
Correspondent account with the NBK	**61,612**	28,958
Cash	**55**	60
Deposits with the NBK	**—**	442,158
	2,057,360	5,011,341

As of 31 December 2004, short-term deposits were placed with Kazakh banks in tenge, carrying interest at rates ranging from 6.5 per cent. to 8.5 per cent. per annum. As of 31 December 2003, short-term deposits were placed with Kazakh banks in tenge and USD, carrying interest at rates ranging from 4.5 per cent. to 9.5 per cent. per annum.

As of 31 December 2003, deposits with the NBK were denominated in tenge, carried interest at rates ranging from 3.00 per cent. to 3.50 per cent. per annum, and were paid on 9 January 2004.

(Thousands of Kazakh tenge)

5. AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS

Amounts due from other financial institutions consisted of time deposits with local banks:

	2004	2003
KZT time deposits with local banks	4,582,083	3,455,850
USD time deposits with local banks	—	6,516,444
Amounts due from other financial institutions	4,582,083	9,972,294

As of 31 December 2004, deposits placed with two Kazakh banks comprised 62.11 per cent. of amounts due from other financial institutions (31 December 2003 – 48.4 per cent.) and represent 5.14 per cent. of the Bank's shareholders' equity (31 December 2003 – 11.6 per cent.).

The interest rates and maturities of these deposits were as follows:

	2004		2003	
	%	Maturity	%	Maturity
KZT time deposits with local banks	**6.50% – 9.20%**	**2005**	5.50% – 9.00%	2004
USD time deposits with local banks	—	—	4.50% – 9.50%	2004

As of 31 December 2004 there were no deposits secured by state securities (31 December 2003 — KZT 514,783).

6. AMOUNTS RECEIVABLE UNDER REVERSE REPURCHASE AGREEMENTS

As of 31 December 2003, amounts receivable under Reverse REPO agreements were due from KASE. These agreements have been settled on January 5, 2004.

Interest rates and maturities of these Reverse REPO agreements were as follows:

	2003	
	%	Maturity
Reverse REPO agreements	0.90% — 2.50%	January 2004

7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Bank enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments and trading liabilities are as follows:

	2004			2003		
		Fair values			Fair values	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Options-domestic	**6,181,064**	**8,790**	**—**	145,405	4,467	—
Interest rate swap	**5,850,000**	**—**	**31,888**	—	—	—

(Thousands of Kazakh tenge)

8. INVESTMENT SECURITIES

Available-for-sale securities consisted of the following as of 31 December:

	2004	2003
Bonds of the Ministry of Finance of the RK	**34,492,386**	20,318,374
Notes of the NBK	**13,404,331**	11,836,399
Corporate bonds	**10,597,926**	7,637,261
Atyrau city municipal bonds	**2,142,523**	2,403,178
Available-for-sale securities	**60,637,166**	42,195,212

The interest rates and maturities of these securities were as follows:

	2004		2003	
	%	Maturity	%	Maturity
Bonds of the Ministry of Finance of the RK	**4.92% – 6.40%**	**2005 – 2013**	5.68% – 9.85%	2006 – 2013
Notes of the NBK	**2.92% – 5.08%**	**2005**	4 .50% – 5.38%	2004
Corporate bonds	**7.50% – 12.00%**	**2005 – 2011**	7.35% – 12.00%	2010
Atyrau city municipal bonds	**8.50%**	**2008**	8.50%	2008

As of 31 December 2004, corporate bonds issued by five Kazakh entities comprised 70 per cent. of the total corporate bonds available-for-sale (31 December 2003 — 85 per cent.).

Held-to-maturity securities consisted of the following as of 31 December:

	2004		2003	
	Carrying value	Nominal value	Carrying value	Nominal value
Astana city municipal bonds	**2,139,856**	**2,100,026**	3,141,022	3,096,151
Bonds of the Ministry of Finance of the RK	**924,159**	**903,790**	2,721,272	2,644,790
Corporate bonds	**402,380**	**409,237**	1,201,808	1,183,278
Euronotes of the Ministry of Finance of the RK	**—**	**—**	34,832	31,584
Held-to-maturity securities	**3,466,395**	**3,413,053**	7,098,934	6,955,803

The interest rates and maturities of these securities were as follows:

	2004		2003	
	per cent.	Maturity	per cent.	Maturity
Astana city municipal bonds	**8.31 8.50**	**2005 – 2006**	8.31 – 9.80	2004 – 2006
Bonds of the Ministry of Finance of the RK	**6.00 8.30**	**2005 – 2007**	5.53 – 9.85	2004 – 2007
Corporate bonds	**9.20**	**2007**	9.20 – 10.00	2004 – 2007
Euronotes of the Ministry of Finance of the RK	**—**	**—**	3.92	2004

As of 31 December 2004, corporate bonds represent bonds, issued by one Kazakh commercial bank (31 December 2003 two Kazakh commercial banks).

The Bank's policy is to invest only in debt securities of the Government agencies of the Republic of Kazakhstan, prime Kazakh banks and corporations that are traded on the Kazakh Stock Exchange with an "A" listing.

(Thousands of Kazakh tenge)

9. LOANS TO CUSTOMERS

The loan portfolio of the Bank consisted of the following as of 31 December:

	2004	2003
Loans to customers	**29,727,715**	19,697,037
Less – allowance for impairment	**(1,153,491)**	(386,189)
Loans to customers	**28,574,224**	19,310,848

As of 31 December 2004 and 2003, the loan portfolio was denominated in US dollars, and the annual interest rates charged by the Bank ranged from 7.00 per cent. to 11.75 per cent. per annum.

As of 31 December 2004, 10 major borrowers accounted for 63.84 per cent. of the Bank's gross loan portfolio and represented 32.92 per cent. of the Bank's shareholders' equity. As of 31 December 2003, 10 major borrowers accounted for 74.60 per cent. of the Bank's gross loan portfolio and represented 35.36 per cent. of the Bank's shareholders' equity. The gross value of these loans as of 31 December 2004, and 2003 were KZT 18,241,801 and KZT 14,754,784, respectively. The Board of Directors of the Bank approves lending limits by industrial and geographical sectors on an annual basis. At 31 December 2004 and 2003, loans have been extended within the Republic of Kazakhstan primarily to private companies. At 31 December loans were made to the following sectors:

	2004	per cent.	2003	per cent.
Food industry	**5,686,240**	**19**	3,332,636	17
Non-metal mineral products	**4,675,064**	**16**	1,772,445	9
Textile and clothing industry	**4,372,726**	**15**	2,511,739	13
Transportation and communication	**4,366,482**	**15**	3,085,000	16
Machinery and equipment	**2,571,605**	**9**	1,002,898	5
Processing of agricultural products	**2,496,074**	**8**	4,364,980	22
Metal industry	**1,739,862**	**6**	803,875	4
Paper production	**1,324,150**	**4**	1,437,723	7
Electronic equipment	**1,242,559**	**4**	870,872	4
Fishing industry	**664,150**	**2**	—	—
Production and distribution of energy	**504,739**	**2**	—	—
Mortgage loans	**84,064**	**0**	—	—
Rubber and plastic items	**—**	**—**	514,869	3
	29,727,715	**100**	19,697,037	100

10. ALLOWANCE FOR LOAN IMPAIRMENT

The movements on the allowance for loan impairment of interest earning assets were as follows:

	Commercial Loans
31 December 2002	(235,832)
Charge	(150,357)
31 December 2003	(386,189)
Charge	(767,302)
31 December 2004	(1,153,491)

Provisions for guarantees and letters of credit are recorded in liabilities. The movements on provisions for guarantees and letters of credit were as follows:

	Guarantees and letters of credits
31 December 2002	—
Charge	(75,779)
31 December 2003	(75,779)
Charge	**(41,858)**
31 December 2004	**(117,637)**

(Thousands of Kazakh tenge)

11. TAXATION

The components of the income taxes for the year ended 31 December were as follows:

	2004	2003
Current tax charge	—	(30,000)
Reassessment of prior year tax	30,000	—
Deferred tax charge	(50,240)	(10,593)
Income tax expense	(20,240)	(40,593)

Tax liabilities consisted of the following as of 31 December:

	2004	2003
Deferred tax liabilities	(50,240)	—

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable.

The effective income tax rate differs from the statutory income tax rate. A reconciliation between the provision for income taxes in the accompanying financial statements and income before taxes multiplied by the statutory tax rate for the year ended 31 December 2004 and 2003 were as follows:

	2004	2003
Income tax computed at the statutory tax rate of 30 per cent.	(919,404)	(375,379)
Tax effect of permanent differences:		
Non-taxable income:		
Interest income from securities	907,060	719,510
Interest income from investment loans	405,764	239,415
Foreign exchange	—	6,638
Other	9,664	1,340
Non-deductible expenses:		
Loss on disposal of securities	(493,314)	(138,923)
Interest expense in excess of allowed limits	—	(236,915)
Impairment of interest earning assets	(19,576)	(67,841)
Foreign exchange	—	(40,156)
Taxes other than income taxes	(300)	(16,429)
Income recognised for tax purposes only	—	(61,710)
Other	(9,935)	(342)
Income tax of prior years	30,000	—
Change in unrecognised tax assets	69,801	(69,801)
Income tax expenses	(20,240)	(40,593)

During 2004, the Bank and the tax authorities finalised a reassessment of prior year tax charges and the Bank received a repayment of KZT 30 million from the tax authorities as a final settlement.

(Thousands of Kazakh tenge)

The deferred tax assets reported in the balance sheets at 31 December 2004, and 2003 are calculated by applying the statutory tax rate in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. These comprised the following as of 31 December:

	2004	2003
Deferred tax assets		
Fair value adjustment on initial recognition of mortgage loans	**15,661**	—
Derivatives	**8,567**	—
Property and equipment	**6,546**	3,630
Intangible assets	**4,181**	1,354
Unused tax credits for exchange losses	**—**	236,570
	34,955	241,554
Deferred tax liabilities		
Accrued expenses	**(84,900)**	(86,977)
Amortisation of fair value adjustment	**(295)**	—
Unrecognised foreign exchange gains	**—**	(84,776)
	(85,195)	(171,753)
Net deferred tax (liabilities) assets	**(50,240)**	69,801
Unrecognised deferred tax assets	**—**	(69,801)
Net deferred tax liabilities	**(50,240)**	—

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits.

The legislation currently in force in Kazakhstan allows for the collection of various of taxes by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; 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.

12. PROPERTY AND EQUIPMENT

The movements on property and equipment were as follows:

	Buildings under construction	Transport	Computers	Other	Total
Cost					
31 December 2003	—	25,056	48,866	67,598	**141,520**
Additions	214,449	—	15,049	9,917	**239,415**
Disposals	(136,802)	—	—	(444)	**(137,246)**
31 December 2004	**77,647**	**25,056**	**63,915**	**77,071**	**243,689**
Accumulated depreciation					
31 December 2003	—	(9,010)	(24,466)	(12,678)	**(46,154)**
Charge	—	(3,758)	(15,809)	(11,902)	**(31,469)**
Disposals	—	—	—	107	**107**
31 December 2004	—	(12,768)	(40,275)	(24,473)	**(77,516)**
Net book value					
31 December 2004	**77,647**	**12,288**	**23,640**	**52,598**	**166,173**
31 December 2003	—	16,046	24,400	54,920	**95,366**

(Thousands of Kazakh tenge)

In accordance with an agreement with a state owned enterprise, the Bank acquired the right to use an office building on the basis of trust management for a period of 10 years starting from May 2003 at no rental charge.

13. INTANGIBLE ASSETS

The movements on intangible assets were as follows:

	Licenses	Software	Total
Cost			
31 December 2003	3,915	117,362	121,277
Additions	2,748	6,700	9,448
31 December 2004	6,663	124,062	130,725
Accumulated amortisation			
31 December 2003	(771)	(32,402)	(33,173)
Charge	(1,194)	(23,538)	(24,732)
31 December 2004	(1,965)	(55,940)	(57,905)
Net book value			
31 December 2004	**4,698**	**68,122**	**72,820**
31 December 2003	3,144	84,960	88,104

(Thousands of Kazakh tenge)

14. OTHER ASSETS AND LIABILITIES

Other assets comprise the following as of 31 December:

	2004	2003
Advances to contractors	**23,322**	157,587
Prepaid operating taxes	**8,291**	6,328
Inventory	**3,536**	4,667
Investments	**2,200**	2,200
Due from employees	**1,264**	2,580
Other debtors	**18,581**	16,274
Other assets	**57,194**	189,636

Other liabilities comprise the following as of 31 December:

	2004	2003
Accrued employees' bonus and leave pay	**90,387**	85,440
Deferred income	**44,716**	7,559
Taxes payable, other than income tax	**1,138**	9,031
Other creditors	**20,851**	9,591
Other liabilities	**157,092**	111,621

15. AMOUNTS DUE TO THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

Amounts due to the Government as of 31 December 2004, consisted of long-term loans granted by the Government of the Republic of Kazakhstan to the Bank from the State Budget in November 2003 and July 2004. The loans bear interest at 0.1 per cent. per annum, which is payable semiannually – the first loan starting from 25 May 2004 and the second loan starting from 30 January 2005. The principal amounts of the loans of KZT 4.3 billion and KZT 4.599 billion are repayable at maturity on 25 November 2018, and on 30 July 2019, respectively.

The purpose of these loans to the Bank is to fund the Bank's financing of investment projects for certain priority industries stipulated in the Memorandum.

(Thousands of Kazakh tenge)

16. AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS

Amounts due to other financial institutions consisted of the following as of 31 December:

	2004	2003
Syndicated loans from OECD banks	**5,208,574**	—
Loans from OECD banks	**1,674,857**	—
Loans from Kazakh banks	**—**	4,763,555
	6,883,431	4,763,555
Less unamortised cost of issuance	**(88,529)**	(43,003)
Amounts due to other financial institutions	**6,794,902**	4,720,552

The interest rates and maturities of these loans were as follows:

	2004		2003	
	per cent.	Maturity	per cent.	Maturity
Syndicated loans from OECD banks	**LIBOR+1** **LIBOR+0.55**	**2006 - 2008**	—	—
Loans from OECD banks	**LIBOR+2**	**2005 - 2010**	—	—
Loans from Kazakh banks	**—**	**—**	3.45 4.05	2004

17. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers consisted of the following as of 31 December:

	2004	2003
Current accounts	**304,967**	325,732
Savings accounts	**31,194**	27,557
Guarantee deposits	**27,625**	—
	363,786	353,289

The Bank is an agent of the Ministry of Finance of the Republic of Kazakhstan and the municipal authorities for servicing projects, included in State and municipal investment programs. The Bank is allowed to open deposits and current accounts only from customers that are the borrowers of the Bank or clients of the Bank under agency agreements. Acting in its agency capacity the Bank has opened interest-free current accounts and interest-bearing, at 1 per cent. per annum, savings accounts. The customers accumulate funds for repayment of pass-through loans received from or guaranteed by the Government in the savings accounts. The Bank does not bear any default risks on loans serviced under agency agreements. The Bank, however, shall pay fines of 0.1 per cent. per day for any delay above three days in transferring funds received from the borrowers to the budget.

18. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following as of 31 December:

	2004	2003
Issued eurobonds–first tranche	**12,996,966**	14,347,276
Issued eurobonds–second tranche	**12,755,671**	14,125,827
Issued Kazakh indexed bonds	**2,035,876**	4,338,386
	27,788,513	32,811,489

The first tranche of the USD denominated eurobonds was issued by the Bank in October 2002, bear interest at 7.125 per cent. per annum and mature in October 2007. Eurobonds were issued under the framework of the Luxembourg Program for issue of mid-term bonds (hereafter referred to as the EMTN Program).

The second tranche of USD denominated eurobonds was issued by the Bank under the EMTN Program in November 2003, bear interest at 7.375 per cent. per annum and mature in October 2013. The Program require the Bank to be in compliance with the Law and Memorandum, keep net assets at a level not less than KZT 28,000,000 and not pay any dividends.

(Thousands of Kazakh tenge)

The KZT denominated bonds indexed to USD dollars were issued by the Bank in February 2002, bear interest at 8.50 per cent. per annum and mature in February 2007.

Interest on debt securities issued is paid semi-annually.

Standard & Poor's, Moody's Investors Service and Fitch Ratings have rated the bonds issued by the Bank as BBB-, Baa3, BBB-, respectively.

19. SHARE CAPITAL

Common shares authorised and fully paid comprised the following as of 31 December:

	Number of shares		In thousands of tenge	
2004	**Authorised**	**Issued and paid**	**Placement value**	**Amount**
Government of the Republic of Kazakhstan (84.49 per cent.)	**817,026**	**817,026**	50	**40,851,300**
Local government bodies, 14 regions and the cities of Almaty and Astana (in total 15.51 per cent.)	**150,000**	**150,000**	50	**7,500,000**
Share capital	**967,026**	**967,026**		**48,351,300**

	Number of shares		In thousands of tenge	
2003	**Authorised**	**Issued and paid**	**Placement value**	**Amount**
Government of the Republic of Kazakhstan (80.1 per cent.)	604,000	604,000	50	30,200,000
Local government bodies, 14 regions and the cities of Almaty and Astana (in total 19.9 per cent.)	150,000	150,000	50	7,500,000
Share capital	754,000	754,000		37,700,000

Movement on the Bank's common shares during 2004 and 2003 was as follows:

	The Government		Local Municipalities		Total	
	Number of shares	**Amount in thousands of tenge**	**Number of shares**	**Amount in thousands of tenge**	**Number of shares**	**Amount in thousands of tenge**
31 December 2002	450,000	22,500,000	150,000	7,500,000	600,000	30,000,000
Contributed in KZT	154,000	7,700,000	—	—	154,000	7,700,000
31 December 2003	**604,000**	**30,200,000**	**150,000**	**7,500,000**	**754,000**	**37,700,000**
Contributed in KZT	**213,026**	**10,651,300**	—	—	**213,026**	**10,651,300**
31 December 2004	**817,026**	**40,851,300**	**150,000**	**7,500,000**	**967,026**	**48,351,300**

All shares have a placement value of 50 thousand tenge each. As of 31 December 2004 and 2003, all shares were issued, fully paid in KZT, and placed.

The Law of the RK on the State Budget for 2005 dated December 2, 2004, No. 3-III stipulates the allocation of 10,000,000 thousand tenge to be continued by the Government during 2005 in order to increase the charter capital of the Bank.

Reserve Capital

In accordance with the Law, net income cannot be distributed and is transferred to reserve capital on an annual basis after the approval of the shareholders' meeting of the annual financial statements. Reserve capital is not distributable. During 2004, net income of KZT 1,210,669 was transferred to reserve capital (2003 – KZT 2,036,803).

(Thousands of Kazakh tenge)

20. COMMITMENTS AND CONTINGENCIES

Operating Environment

The Kazakhstan economy, while continued to display certain characteristics consistent with that of a market in transition, is deemed to be of market status starting from October 2001. These attributes have in the past included lack of liquidity in capital markets and the existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakh economy will be significantly imp acted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. As a result, there could be certain uncertainties that may affect future operations, the recoverability of the Bank's assets, and the ability of the Bank to maintain or pay its debts as they mature.

Legal

In the ordinary course of business, the Bank could be a subject to legal actions and complaints. As of 31 December 2004 there were no legal disputes and/or claims that could have a material adverse effect on the financial condition of the Bank and they are not anticipated.

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprised the following as of 31 December:

	2004	2003
Commitments to extend credit	**10,081,175**	5,717,921
Commercial letters of credit	**6,051,499**	1,410,748
Guarantees issued	**843,700**	2,378,188
Total	**16,976,374**	9,506,857
Less – Provisions	**(117,637)**	(75,779)
Less cash collateral	**(22,447)**	—
Financial commitments and contingencies	**16,836,290**	9,431,078

The Bank requires collateral to support credit-related financial instruments. Collateral held varies, but may include deposits held in other banks, government securities, bank guarantees, and other.

As of 31 December 2004 commitments to extend credit were made to fourteen potential borrowers (31 December 2003 – nine), commercial letters of credit were granted to four clients (31 December 2003 – three) and a guarantee was issued to one client (31 December 2003 – two).

21. GAINS LESS LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS

Gains less losses from derivative financial instruments for the years ended 31 December consisted of the following:

	2004	2003
Income from change in the fair value of derivative financial instruments	**6,622**	4,467
Loss from change in the fair value of derivative financial instruments	**(34,187)**	(138,470)
	(27,565)	(134,003)

22. GAINS LESS LOSSES FROM AVAILABLE-FOR-SALE SECURITIES

Gains less losses from securities available-for-sale for the years ended 31 December consisted of the following:

	2004	2003
Realised income from the change in the fair value of available-for-sale securities	**1,487,233**	41,139
Unrealised loss from the change in the fair value of available-for-sale securities	**(951,789)**	(179,135)
	535,444	(137,996)

(Thousands of Kazakh tenge)

23. SALARIES AND BENEFITS

Salaries and benefits for the years ended 31 December comprise:

	2004	2003
Salaries	**(429,613)**	(221,123)
Accrued employees' bonus and leave pay	**(90,387)**	(85,440)
Social tax	**(58,715)**	(43,853)
Salaries and benefits	**(578,715)**	(350,416)

24. ADMINISTRATIVE AND OPERATING EXPENSES

Administrative and operating expenses for the years ended 31 December consisted of the following:

	2004	2003
Communication expenses	**(39,073)**	(23,433)
Professional services expenses	**(31,109)**	(27,890)
Expenses on business trips	**(25,935)**	(13,101)
Utilities expenses	**(25,749)**	(20,554)
Entertainment expenses	**(10,894)**	(1,721)
Training expenses	**(9,249)**	(1,371)
Software maintenance	**(7,109)**	(6,317)
Rent expenses	**(4,923)**	(54,776)
Advertising expenses	**(4,627)**	(7,514)
Transport expenses	**(3,708)**	(2,631)
Stationery	**(2,765)**	(2,326)
Other	**(21,372)**	(19,988)
	(186,513)	(181,622)

25. 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.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a counter party will be unable to pay amounts in full, when due. The Bank manages credit risks by means of a restriction on the size of the risk to a counter-agent, an industry sector and a geographical location. Limits on industry sectors and geographical locations are established by the Board of Directors. In accordance with the Law, the Bank attracts collateral in the form of highly liquid assets for the loans issued by the Bank. Such risks are monitored on a continuous basis and are subject to periodic assessment and stipulate an analysis of project implementation, the financial conditions of clients and their guarantees, the changes of their liabilities to third parties and the pledged property.

The exposure to any one borrower is further restricted by sub-limits covering balance sheet and off-balance sheet exposures which are set by the Credit Committee in accordance with the internal credit policy.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the related disclosures.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

When a potential counter-agent is being selected, the Assets and Liability Committee (the "ALCO") assesses the compliance of the ratings of partners, such as commercial banks (residents and non-residents) and organisations engaging in certain types of banking transactions. The ALCO determines the limits for direct and off-balance liabilities of such organisations on a monthly basis.

(Thousands of Kazakh tenge)

Concentration

The geographical concentration of financial assets and liabilities is set out below:

	2004			2003		
	Kazakhstan	OECD	Total	Kazakhstan	OECD	Total
Assets						
Cash and cash equivalents	**2,025,296**	**32,064**	**2,057,360**	5,010,064	1,277	5,011,341
Amounts due from other financial institutions	**4,582,083**		**4,582,083**	9,972,294	—	9,972,294
Amounts receivable under reverse repurchase agreements	**—**	**—**	**—**	128,006	—	128,006
Derivative financial assets	**8,790**	**—**	**8,790**	4,467	—	4,467
Investment securities:						
– available-for-sale	**60,637,166**	**—**	**60,637,166**	42,195,212	—	42,195,212
– held-to-maturity	**3,466,395**	**—**	**3,466,395**	7,098,934	—	7,098,934
Loans to customers	**28,574,224**	**—**	**28,574,224**	19,310,848	—	19,310,848
Other assets	**53,658**	**—**	**53,658**	184,969	—	184,969
	99,347,612	**32,064**	**99,379,676**	83,904,794	1,277	83,906,071
Liabilities						
Amounts due to the Government of Kazakhstan	**8,901,334**	**—**	**8,901,334**	4,300,406	—	4,300,406
Amounts due to other financial institutions	**—**	**6,794,902**	**6,794,902**	4,720,552	—	4,720,552
Amounts due to customers	**341,339**	**22,447**	**363,786**	353,289	—	353,289
Debt securities issued	**2,035,876**	**25,752,637**	**27,788,513**	4,338,386	28,473,103	32,811,489
Tax liabilities	**50,240**	**—**	**50,240**	—	—	—
Derivative financial liabilities	**—**	**31,888**	**31,888**	—	—	—
Other liabilities	**157,033**	**59**	**157,092**	111,621	—	111,621
	11,485,822	**32,601,933**	**44,087,755**	13,824,254	28,473,103	42,297,357
Net position	**87,861,790**	**(32,569,869)**	**55,291,921**	70,080,540	(28,471,826)	41,608,714

The above tables do not include non-monetary assets and liabilities; such as property and equipment, intangible assets, and inventories; and impairment allowance.

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The ALCO uses the VAR method for the periodic assessment of the market risk to the investment portfolio of the securities held by the Bank. According to the Strategy for the management of the investment portfolio of the Bank, the limit to the amount of the VAR for a specific instrument should not exceed 10 per cent. of the value of the instrument per day, and according to the Policy for the management of bank risks, the amount of the VAR for the total portfolio of securities should not exceed 3 per cent. of the amount of shareholder capital of the Bank, the limits are provided on a monthly basis. As of 31 December 2004 the VAR of the portfolio was within the framework established by the Bank policy.

(Thousands of Kazakh tenge)

Currency Risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The ALCO sets limits on the level of exposure by currencies, primarily USD, which are monitored daily in accordance with the Assets and Liability Management Policy, as approved by the Board of Directors. The above limits also comply with the minimum requirements of the NBK. The Bank's exposure to foreign currency exchange rate risk follows:

	2004			2003		
	KZT	Freely convertible currencies	Total	KZT	Freely convertible currencies	Total
Assets						
Cash and cash equivalents	**1,834,269**	**223,091**	**2,057,360**	2,958,186	2,053,155	5,011,341
Amounts due from other financial institutions	**4,581,693**	**390**	**4,582,083**	3,455,850	6,516,444	9,972,294
Amounts receivable under reverse repurchase agreements	**—**	**—**	**—**	128,006	—	128,006
Derivative financial assets	**8,790**	**—**	**8,790**	4,467	—	4,467
Investment securities:						
– available-for-sale	**59,987,147**	**650,019**	**60,637,166**	39,965,558	2,229,654	42,195,212
– held-to-maturity	**3,466,395**	**—**	**3,466,395**	5,537,158	1,561,776	7,098,934
Loans to customers	**84,064**	**28,490,160**	**28,574,224**	—	19,310,848	19,310,848
Other assets	**44,678**	**8,980**	**53,658**	180,262	4,707	184,969
	70,007,036	**29,372,640**	**99,379,676**	52,229,487	31,676,584	83,906,071
Liabilities						
Amounts due to the Government of Kazakhstan	**8,901,334**	**—**	**8,901,334**	4,300,406	—	4,300,406
Amounts due to other financial institutions	**—**	**6,794,902**	**6,794,902**	—	4,720,552	4,720,552
Amounts due to customers	**956**	**362,830**	**363,786**	18	353,271	353,289
Debt securities issued	**2,035,876**	**25,752,637**	**27,788,513**	4,338,386	28,473,103	32,811,489
Tax liabilities	**50,240**	**—**	**50,240**	—	—	—
Derivative financial liabilities	**—**	**31,888**	**31,888**	—	—	—
Other liabilities	**121,800**	**35,292**	**157,092**	108,639	2,982	111,621
	11,110,206	**32,977,549**	**44,087,755**	8,747,449	33,549,908	42,297,357
Net balance sheet position	**58,896,830**	**(3,604,909)**	**55,291,921**	43,482,038	(1,873,324)	41,608,714
Net off balance sheet position	**—**	**16,836,290**	**16,836,290**	—	9,431,078	9,431,078

The above tables do not include non-monetary assets and liabilities; such as property and equipment, intangible assets, and inventories; and provisions on impairment. Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries.

The above KZT denominated assets and liabilities include assets and liabilities, which are indexed to the US dollar and revalued, based on the changes of market exchange rate as of 31 December 2004 and 2003, to reflect the effect of any change in valuation in the KZT against the US Dollar. As of 31 December 2004 and 2003, such assets amounted to KZT 4,925,049 and KZT 2,329,736, respectively, and such liabilities amounted to KZT 2,035,876 and KZT 4,338,386, respectively.

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, in accordance with the Law of the Republic of Kazakhstan Concerning the Development Bank of Kazakhstan, sets the rate of interest for loans to borrowers, which is calculated on the basis of the average value of borrowings and operational expenses of the Bank. The maximum margin of the Bank may not exceed 4 per cent. of the average weighted value, calculated as the average weighted value of all loans calculated at the loan issue date using the VaR method.

(Thousands of Kazakh tenge)

The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets or liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management policies.

As of 31 December the interest rates by currencies and comparative market rates for interest generating/ bearing monetary financial instruments were as follows:

	2004		2003	
	KZT	Freely convertible currencies	KZT	Freely convertible currencies
	per cent.		per cent.	
Deposit with the NBK	—	—	3.00-3.50	—
Amounts due from other financial institutions	**6.50-9.20**	—	5.50-9.00	4.50-9.50
Amounts receivable under reverse repurchase agreements	—	—	0.90-2.50	—
Investment securities:				
– available-for-sale	**2.92-11.00**	**9.60-12.00**	5.68-11.00	8.50-11.50
– held-to-maturity	**6.00-9.20**	—	3.85-15.70	9.50-13.63
Loans to customers	—	**7.00-11.75**	—	7.00-11.75
Amounts due to the Government of Kazakhstan	**0.10**	—	0.10	—
Amounts due to other financial institutions	—	**2.97-4.23**	—	3.45-4.05
Amounts due to customers	—	**1**	—	1
Debt securities issued	**8.50**	**7.125-7.375**	8.50	7.125-7.375

The Bank monitors its interest rate margin and is contractually able to reprice its long-term loans in response to changing market conditions. For loans borrowed at a floating rate the Bank enters into interest rate swaps to cover its interest mismatch risks. Consequently, the Bank does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

The table below provides an analysis of bank assets and liabilities according to agreed upon maturity dates from the balance sheet date.

(Thousands of Kazakh tenge)

	2004						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	**284,832**	**254,309**	**1,518,219**	—	—	—	**2,057,360**
Amounts due from other financial institutions	—	**945,967**	**2,365,670**	**1,270,056**	**390**	—	**4,582,083**
Derivative financial assets	**8,790**	—	—	—	—	—	**8,790**
Investment securities:							
– available-for-sale	—	**1,487,262**	**3,022,602**	**12,804,700**	**26,881,334**	**16,441,268**	**60,637,166**
– held-to-maturity	—	**12,008**	—	**1,890,318**	**1,564,069**	—	**3,466,395**
Loans to customers, net	—	**146,234**	**879,208**	**7,927,664**	**14,596,376**	**5,024,742**	**28,574,224**
Other assets	—	**18,207**	**24,229**	**9,022**	**2,200**	—	**53,658**
	293,622	**2,863,987**	**7,809,928**	**23,901,760**	**43,044,369**	**21,466,010**	**99,379,676**
Liabilities							
Amounts due to the Government of Kazakhstan	—	**1,916**	—	**418**	—	**8,899,000**	**8,901,334**
Amounts due to other financial institutions	—	—	—	**644,727**	**5,817,737**	**332,438**	**6,794,902**
Amounts due to customers	**336,161**	—	—	—	**27,625**	—	**363,786**
Debt securities issued	—	—	**63,600**	**333,667**	**14,712,195**	**12,679,051**	**27,788,513**
Tax liabilities	—	—	—	—	**50,240**	—	**50,240**
Derivative financial liabilities	**31,888**	—	—	—	—	—	**31,888**
Other liabilities	—	**13,475**	**47,244**	**96,373**	—	—	**157,092**
	368,049	**15,391**	**110,844**	**1,075,185**	**20,607,797**	**21,910,489**	**44,087,755**
Net position	**(74,427)**	**2,848,596**	**7,699,084**	**22,826,575**	**22,436,572**	**(444,479)**	**55,291,921**
Accumulated gap	**(74,427)**	**2,774,169**	**10,473,253**	**33,299,828**	**55,736,400**	**55,291,921**	

	2003						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	29,018	443,570	4,538,753	—	—	—	5,011,341
Amounts due from other financial institutions	—	952,449	2,069,711	6,949,669	465	—	9,972,294
Amounts receivable under reverse Repo	—	128,006	—	—	—	—	128,006
Derivative financial assets	4,467	—	—	—	—	—	4,467
Investment securities:							
– available-for-sale	—	—	1,303,084	12,013,230	16,292,497	12,586,401	42,195,212
– held-to-maturity	—	—	43,907	3,313,353	3,741,674	—	7,098,934
Loans to customers, gross	—	155,650	411,377	3,439,359	13,452,264	1,852,198	19,310,848
Tax assets	—	—	—	—	—	—	—
Other assets	2,431	12,444	6,104	161,790	—	2,200	184,969
	35,916	1,692,119	8,372,936	25,877,401	33,486,900	14,440,799	83,906,071
Liabilities							
Amounts due to the Government of Kazakhstan	—	—	—	406	—	4,300,000	4,300,406
Amounts due to other financial institutions	—	3,970,809	749,743	—	—	—	4,720,552
Amounts due to customers	325,732	27,557	—	—	—	—	353,289
Debt securities issued	—	—	—	506,297	18,321,182	13,984,010	32,811,489
Other liabilities	—	12,667	2,509	96,445	—	—	111,621
	325,732	4,011,033	752,252	603,148	18,321,182	18,284,010	42,297,357
Net position	(289,816)	(2,318,914)	7,620,684	25,274,253	15,165,718	(3,843,211)	41,608,714
Accumulated gap	(289,816)	(2,608,730)	5,011,954	30,286,207	45,451,925	41,608,714	

(Thousands of Kazakh tenge)

The above tables do not include non-monetary assets and liabilities; such as property and equipment, intangible assets, and inventories; and provisions on impairment.

The Bank's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As of 31 December 2003, there is a significant deficit in the period less than one month, resulting from a significant concentration of amounts due to other financial institutions. During 2004, the Bank extended certain existing loans to resolve its short term liquidity requirements.

In the Kazakhstan marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

26. 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 Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

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 of the respective year-end.

Held-to-maturity Investment Securities
The estimated fair value of held-to maturity investment securities issued is based on quoted market prices.

Debt Securities issued
The estimated fair value of debt securities issued is based on quoted market prices.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial monetary assets				
Loans to customers, net	**28,574,224**	**29,547,143**	19,310,848	19,638,175
Investment securities held-to-maturity	**3,466,395**	**3,392,249**	7,098,934	7,265,342
Financial monetary liabilities				
Debt securities issued	**27,788,513**	**29,613,455**	32,811,489	34,420,024

27. CAPITAL ADEQUACY

The NBK requires banks to maintain a capital adequacy ratio of 12 per cent. of risk-weighted assets, computed on the basis of statutory accounting. At 31 December 2004 and 2003, the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

According to the Memorandum, contingent liabilities to shareholders' equity ratio should not exceed a 2 to 1 limit, and direct liabilities to shareholders' equity ratio should not exceed a 4 to 1 limit. At 31 December 2004 and 2003, the Bank was in compliance with these limits.

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Annex A: The Republic of Kazakhstan

The information contained in this section of the Offering Circular has been extracted from publicly available documents and other publications. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Issuer only accepts responsibility for accurately reproducing such extracts as they appear in this section of the Offering Circular.

INTRODUCTION

The Republic of Kazakhstan is a sovereign republic and is the second largest nation after Russia, in terms of landmass, of the nations formed upon the dissolution of the Soviet Union in 1991. The country's natural resources include oil, gas and minerals. The Republic of Kazakhstan is a producer/supplier of chrome, ferro-alloys, aluminum, iron-ore, steel, copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country also exports oil, grain, wool and meat.

The Government of Kazakhstan began implementing market-based economic reforms in 1992. Reforms included 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 ten years. Since mid-1994, the Government of Kazakhstan has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. According to figures compiled by the NSA, while gross domestic product ("GDP"), fell in 1998 by 1.9 per cent. in the aftermath of the Asian and Russian financial crises, GDP began to rebound in 1999 following the flotation of the Tenge in April of that year and increased by 2.7 per cent. in real terms over the course of the full year. According to the NSA, GDP has continued to grow in real terms, increasing 13.5 per cent. in 2001, by 9.5 per cent. in 2002 and by 9.2 per cent. in 2003. There was a 9.4 per cent. increase in real GDP between 2003 and 2004. Kazakhstan has been recognised by both the European Union and the United States as having a market economy.

AREA AND POPULATION

The Republic of Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China's Xinjiang-Uigur Autonomous Region to the east, the Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea to the west. The capital, Astana, is located in central Kazakhstan, while Almaty, in the south east of the country, is the principal financial centre and is by far its largest city. The country covers an area of approximately 2,725,000 square kilometres, approximately the same size as western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east.

As of 31 December 2004, the population of the Republic of Kazakhstan was more than 15 million. The population of the Republic of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for approximately 59.0 per cent. of the population, followed by Russians (26.0 per cent.), Ukrainians (0.9 per cent.), Uzbeks, Tatars, Germans, Uigurs and others.

Historically, the Republic of Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50.0 per cent. of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government.

CONSTITUTION, GOVERNMENT AND POLITICAL PARTIES

Constitution

The country's current constitution (the "Constitution"), adopted in August 1995, provides for a tripartite structure of government in which power is divided between the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council, local governments and local administrations and establishes an independent judicial system. Under current President Nazarbayev, the Presidency has dominated the other branches of government.

Executive Branch

Under the Constitution, the President is the Head of State and its highest official, with primary responsibility for domestic and foreign policy and the function of representing the Republic of Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of the Republic of Kazakhstan's central bank, the NBK whose appointment is subject to the approval of Parliament.

The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of his or her death, resignation or impeachment.

The Government comprises the Prime Minister, as its executive head, deputy prime ministers and ministers as members of the Government. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the incoming President. Neither the Prime Minister nor the members of the Cabinet are members of Parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy and carrying out social policy.

Mr. Nazarbayev, then the First Secretary of the Communist Party of the Republic of Kazakhstan, became President upon the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency was confirmed in a referendum in April 1995. President Nazarbayev was re-elected in elections held on 1 January 1999 and his current term of office expires in 2006. President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country and, during two Parliamentary dissolutions, from December 1993 until April 1994 and from March 1995 until 1 January 1996, legislative functions were vested solely in the President.

In June 2003, the President appointed the current Prime Minister, Daniyal Akhmetov. He replaced Imangali Tasmagambetov, who had served as Prime Minister since January 2002.

Legislative Branch

The legishative branch of the State is the Parliament, which consists of an upper chamber (the "Senate") of 39 deputies and a lower chamber (the "*Majilis*") of 77 deputies. The President appoints seven of the deputies in the Senate and the remainder are appointed by representative bodies of the regional and city authorities. The deputies in the *Majilis* are elected by direct popular vote.

Judicial Branch

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairman of the Supreme Court, the chairpersons of the Supreme Court benches and judges of the Supreme Court are elected by the Senate from candidates submitted by the President based on the recommendations of the Supreme Judicial Council.

Constitutional Council

The Constitution provides for a seven-member Constitutional Council, which is vested with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the constitution for the removal of the President from office and investigating claims brought under the Constitution in relation to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the *Majilis* appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairman.

Local Government

Local government is effected through representative bodies ("*maslikhats*") and executive bodies ("*akimats*") for each of the country's 14 regions ("*oblasts*") and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts ("*rayons*") and a further 86 cities together make up the second tier of territorial administration. The maslikhats and akimats are responsible for the collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

Political Parties

Although the principle of political plurality is enshrined in the Constitution, political parties have not played a significant role to date. This is due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies, and is also due to the changing requirements of the laws relating to the registration of political parties. These factors have made it increasingly difficult to register a party for participation in the constitutional political process. Such changes have generally strengthened the President's position. Under current legislation, only ten parties meet the applicable requirements for registration compared with nineteen parties that existed prior to these changes.

INTERNATIONAL ORGANISATIONS AND INTERNATIONAL RELATIONS

The Republic of Kazakhstan's Position in the International Community

The Republic of Kazakhstan has established diplomatic relations with over 120 countries. The Republic of Kazakhstan is a full member of the United Nations, the International Monetary Fund (the "IMF"), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, EBRD, the Arab Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Organisation of Securities Commissions and the Islamic Development Bank, although its voting rights in some of these organisations or agencies have been suspended pending payment of overdue contributions. Currently, the Republic of Kazakhstan has observer status with the World Trade Organisation.

The Republic of Kazakhstan agreed to an economic stabilisation programme with the IMF and has in the past been granted both standby and extended fund facilities.

The Republic of Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union ("EU"), which came into force in 1999 and co-operates with the EU in various scientific and environmental programmes. In 1994, the Republic of Kazakhstan joined the North Atlantic Treaty Organisation's Partnership for Peace programme under which various exercises have taken place involving troops from the United States, Russia, the Republic of Kazakhstan, Uzbekistan, the Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia. As of 31 December 2003, the Republic of Kazakhstan had signed double taxation treaties with 36 countries, of which 35 are currently in effect, including treaties with the United States, Russia, The Netherlands and the United Kingdom.

The Republic of Kazakhstan and CIS Cooperation

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, Kyrgyzstan and Belarus, joined by Tajikistan in 1999, signed a customs union which, amongst other things, provides for the removal of trade tariffs between these nations, and Kazakhstan has taken other steps to promote regional economic integration. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, this could adversely impact the economy of Kazakhstan.

In September 2003, the Republic of Kazakhstan, Ukraine, Russia and Belarus signed an agreement 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 member states also intend to co-ordinate their fiscal, credit and currency policies.

The Republic of Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, the Republic of Kazakhstan agreed with Russia that in return for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, the Republic of Kazakhstan waived all claims on former Soviet Union assets located outside its own territory. The Republic of Kazakhstan and Russia have also reached an agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations.

THE KAZAKHSTAN ECONOMY

Gross Domestic Product

The NSA adjusts GDP data in accordance with approved IMF practices in order to reflect the informal, or "black" sector, which is believed to constitute a significant portion of the Republic of Kazakhstan's economy. The NSA estimates that the informal economy (including the household sector) accounts for approximately 23.0 per cent. of GDP in 2003. Others, however, estimate the contribution of the informal economy to total GDP to be even higher.

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

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
Nominal GDP (KZT millions)	5,542,500	4,612,000	3,747,200	3,250,593	2,599,902	2,016,456	1,733,264
Real GDP (percentage change during the twelve months then ended)	9.4	9.2	9.5	13.5	9.8	2.7	(1.9)
Nominal GDP per capita (KZT)	367,783	297,844	252,263	219,170	174,854	135,088	114,991
Population (millions average annual)	15.1	14.9	14.9	14.9	14.9	14.9	15.0

Source: NSA, NBK

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

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(per cent. share of GDP)						
Industry	31.1	29.5	29.3	30.7	31.9	28.2	24.4
Construction	5.9	6.2	6.1	5.5	5.3	4.8	4.9
Agriculture	7.9	7.3	7.9	8.7	8.7	9.9	8.6
Transport and Telecommunications	12.2	12.1	11.5	11.2	12.0	12.0	13.9
Trade	11.4	12.1	12.0	12.1	12.6	13.6	15.2
Other(1)	31.5	32.8	33.2	31.8	29.5	31.5	33.0
Total(2)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

Notes:

(1) *Includes finance and service sectors such as medicine, education, culture, defence and state administration, as well as taxes.*

(2) *Components of GDP by source are measured on the basis of factor cost, whereas total GDP is calculated by reference to market prices (including net taxes).*

Inflation

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

	As of 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(per cent.)						
Consumer Prices	6.7	6.8	6.6	6.4	9.8	17.8	1.9
Producer Prices	23.8	5.9	11.9	(14.1)	19.4	57.2	(5.5)

Source: NSA

Employment and Wages

According to the NSA, in 2004, on average 7.8 million people were employed in the Republic of Kazakhstan, an increase of 2.2 per cent. compared to 2003. They represented approximately 98.5 per cent. of the eligible work force (compared to 91 per cent. in 2003 and 90.7 per cent. in 2002).

In 2002, the NSA began using International Labour Organisation methods of calculating unemployment figures. At the end of 2003, the unemployment figure was approximately 669.4 thousand or 8.8 per cent. of those eligible to work. In 2004 the unemployment figure decreased by 2.5per cent. compared to 2003 figures or 8.4 per cent.

The following table sets out the dynamics of monthly wage growth as of the years indicated.

Year	Average monthly wage	Increase in nominal terms(1)	Increase in real terms(1)
		(per cent.)	
2004	28,270	21.7	13.9
2003	28,192	15.6	8.3
2002	20,305	16.6	10.1

Source: NSA

(1) Compared to the figures of the previous year

Social Security System

Pension reforms in 1997 established a legal framework for the transformation of the pension system from a State "pay-as-you-go" system to a "fully-funded" accumulative pension system. The principle of the reforms was that private individual retirement accounts should be the main source of pension provision, although individuals can still contribute towards a State-run accumulative pension scheme. Individual retirement accounts are maintained with pension funds managed by pension asset management companies licensed and supervised by FMSA. The pension reforms increased the pensionable age from 55 to 58 for women and from 60 to 63 for men. The changeover to a "fully funded" system is expected to take many years to complete and until then the legacy of the old system will remain a burden on the State's resources.

In 2002, Parliament adopted amendments to the pension laws, which, among other things, abolished the privileged position of the State accumulative pension fund as a default fund and allowed pension funds to manage pension assets directly. Pension asset management companies are subject to regulations, including various financial ratios (such as capital adequacy requirements) similar to those imposed on banks and various investment requirements. As of 31 December 2003, pension fund assets amounted to KZT 368.3 billion compared to KZT 269.8 billion at 31 December 2002 and KZT 182.4 billion at 31 December 2001. According to the NBK, the assets of the State-run accumulative pension scheme amounted to 21.84 per cent. of the total accumulated pension fund assets as of 31 December (compared to 25 per cent. as of 31 December 2003, 28.1 per cent. at 31 December 2002 and 32.3 per cent. at 31 December 2001).

Pensions are funded through a social tax charged at regressive rates from 20.0 per cent. to 5.0 per cent. of total wages paid by employers and a compulsory contribution of 10.0 per cent. of each employee's salary is paid by the employer, on behalf of the employee and deducted from the employee's salary, into the employee's individual pension fund. Starting in 2003, the pension fund deduction was capped at the level of 7.5 times the monthly minimum wage. Additional contributions may also be made into private pension funds.

In December 2004, a new social security tax was introduced. It is assessed on all salaries higher than ten times the minimum monthly salary. The rates of this tax are as follows: from January 2005 -1.5 per cent., from January 2006 2 per cent. and from January 2007 3 per cent. Revenues from social security tax are not directed to the state budget but collected in the State Centre on Pension Payments. The introduction of new social security deductions has changed the procedure of calculating social tax. Now the social tax rates will be calculated less deductions for the social security tax.

Environment

The Republic of Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produced heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north eastern Kazakhstan, has a military facility, which until 1990 was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in the Republic of Kazakhstan were used by the Soviet Union for the testing of biological weapons and as a result are contaminated with various pathogens.

The former Soviet Union's "Virgin Lands" policy of the 1950s and 1960s, whereby large areas of the Republic of Kazakhstan's steppe land were ploughed to increase the Soviet Union's grain production, has led to soil erosion on a wide scale and up to 66.0 per cent. of the Republic of Kazakhstan's agricultural land is under threat of desertification. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan exposing land, which is unsuitable for agriculture. Furthermore, the Caspian Sea suffers from serious pollution due to industrial dumping.

NATURAL RESOURCES

Introduction

The extraction and production of hydrocarbons (i.e., oil, natural gas and gas condensates) and the extraction and processing of minerals are significant industries in the Kazakhstan economy. According to the NSA, the exports of hydrocarbons and minerals accounted for 68.0 per cent. of total exports in 2004, compared to 65.0 per cent. in 2003, 61.0 per cent. in 2002 and 58.0 per cent. in 2001.

Oil and Gas

The actual proved level of the Republic of Kazakhstan's oil and natural gas reserves has not yet been established. The Statistical Review of World Energy completed by British Petroleum in 2004 (the "BP Statistical Review of World Energy") estimated the Republic of Kazakhstan's total oil reserves in 2003 at 1.2 billion tonnes or 0.8 per cent. of world reserves, with a reserves/production ratio of 22.3 per cent.

The largest deposits of explored oil reserves are located in the Tengiz, Zhetybai, Kalamkas and Uzenfields in the Caspian region, the Karachaganak and Zhanazhol fields in north-western Kazakhstan and the Kumkol field in central Kazakhstan. 12.75 million tonnes of oil were produced at the Tengiz field in 2003, as compared with 13 million tonnes in 2002. In 2003, the Karachaganak field produced 5.73 million tonnes of gas condensate and 5.51 billion cubic metres of gas, as compared with 5.16 million tonnes of gas condensate and 4.8 billion cubic metres of gas in 2002.

According to the NSA, the Republic of Kazakhstan produced 52.2 million tonnes of oil and gas condensate in 2004, 1.5 per cent. more than in 2003 in which 51.4 million tonnes were produced.

The BP Statistical Review of World Energy estimated the Republic of Kazakhstan's total reserves of natural gas in 2003 at approximately 1.9 trillion cubic metres, or 1.1 per cent. of world reserves. In 2003, the Republic of Kazakhstan produced 12.9 billion cubic metres of gas, compared to 10.6 billion cubic metres in 2002 and 10.8 billion cubic metres in 2001.

Exports of Oil and Gas

The production and export of hydrocarbons has been constrained by the Republic of Kazakhstan's landlocked position and its significant dependence on Russia's transportation infrastructure for export routes. Until recently, there was only one pipeline connected to the Russian export network. Russia retains the right to suspend and impose restrictions on the flow of Kazakhstan oil from this pipeline into Russia's transportation network and Russian enterprises have priority access to Russian export terminals. In the past, Russia has imposed an annual quota on the Republic of Kazakhstan's exports through Russia. However, an agreement between Russia and the Republic of Kazakhstan on oil transportation is expected to improve the Republic of Kazakhstan's export position. Starting in 2003, the agreement provides for an automatically renewable quota for the following 14 years for passage of not less than 15 million tonnes through the Atyrau-Samara pipeline and 2.5 million tonnes through the Makhachkala-Tikhoretsk-Novorossiysk pipeline.

Nevertheless, other export outlets will be needed in order for the Republic of Kazakhstan to realise the full economic potential of its oil and natural gas reserves.

Projects to diversify export routes include the CPC, which was established for the purpose of developing a 1,500 kilometre export pipeline from the Tengiz oil field to the Russian seaport of Novorossiysk on the Black Sea, together with oil pumping stations and oil storage and loading facilities. The CPC was formed in

July 1992 and is currently owned by the Russian, Kazakhstan and Oman Governments and a number of Russian and international oil companies.

The first stage of construction, a pipeline with a capacity of 28 million tonnes (204 million barrels) per year, was completed in September 2001 at a cost of U.S.$2.6 billion. The CPC started commercial operations in November 2001. The second stage comprising reconstruction of existing systems and construction of new facilities has not started. Upon completion of the second stage, the capacity of the pipeline is expected to be 67 million tonnes (490 million barrels) per year.

The Kenkiyak-Atyrau pipeline provides oil producing companies in the Aktobe region with access to the existing export pipelines and will also be used as the first part of the pipeline from western Kazakhstan to China. The Kenkiyak-Atyrau pipeline was started in May 2002 and it became operational in March 2003.

Foreign Investment in Oil and Gas

In 2004, foreign investors invested approximately U.S.$2.6 billion in the Republic of Kazakhstan's oil and gas sector as compared to approximately U.S.$2.1 billion in 2003 and 2002 and U.S.$3.1 billion in 2001. The most significant foreign investment thus far has been in the Tengiz oil field where, under the terms of a 40 year joint-venture agreement, Tengizchevroil is expected to invest a total of approximately U.S.$20 billion in the field. In 2004 U.S.$780 million was invested in Tengiz.

In addition to direct investment in transportation, exploration and production projects, there have also been significant purchases by foreign investors of State-owned oil and gas enterprises. In 1997, the Government sold 60.0 per cent. of JSC Mangistaumunaigas to Indonesia's Central Asian Petroleum (part of the Medco group) in a transaction valued at U.S.$4.35 billion (which amount includes a planned investment programme) and 84.0 per cent. of JSC Aktobemunaigas to China National Petroleum. China National Petroleum, as controlling shareholder in JSC Aktobemunaigas, has agreed to invest up to U.S.$4 billion over a period of 20 years in developing the Aktyubinsk field.

An international consortium of oil companies are party to a development agreement relating to the Karachaganak oil and natural gas fields. The agreement has a term of 40 years and provides for investments of U.S. $16 billion. It is anticipated that the Republic of Kazakhstan will be paid approximately 80.0 per cent. of the shared income over the 40-year concession period. The consortium members plan to construct an oil pipeline connecting the Karachaganak fields to the CPC's pipeline. Another international consortium of oil companies has a production sharing agreement relating to the north Caspian Sea. This agreement also has a term of 40 years and provides that the Republic of Kazakhstan will be paid approximately 80.0 per cent. of the shared income, including taxes and other payments to the budget, over the concession period and provides for certain investments. Investments in Karachaganak in 2004 amounted to U.S.$712 million. 8 million tonnes of oil and 8 billion cubic metres of gas were produced in 2004 at Karachaganak fields.

Currently there is negotiation underway concerning Kazakhstan's participation in transportation of oil on Baku-Tbilisi-Ceihan pipeline. If accomplished this project could facilitate export of oil by 2007 at the level of 400,000 barrels per day.

Mineral Resources

According to the NSA, the Republic of Kazakhstan produced 43.2 million tonnes of coal in 2003, approximately 1.7 per cent. of total coal extracted globally in 2003.

The Republic of Kazakhstan also produces precious metals. According to the Republic of Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tonnes and produced approximately 18.9 tonnes in 2004, 19 tonnes in 2003 and 22.4 tonnes in 2002. The Republic of Kazakhstan also produced approximately 733 tonnes of silver in 2004 as compared to 827 produced in 2003 and 892 tonnes produced in 2002 (10.0 per cent. less than in 2001).

The Republic of Kazakhstan has significant non-ferrous mineral reserves, including chrome, iron-ore, aluminium, lead, zinc, copper and manganese. In 2004, the Republic of Kazakhstan produced 316,515 tonnes of zinc (compared to 294,965 tonnes in 2003 and 286,300 tonnes in 2002), 157,000 tonnes of lead in 2004 (compared to 140,721 tonnes in 2003 and 161,800 tonnes in 2002) and 44,230 tonnes of refined copper (compared to 432,401 tonnes in 2003 and 453,000 tonnes in 2002).

THE ECONOMY

Balance of Payments and Foreign Trade Current Account

Based on NBK data, Kazakhstan's current account deficit in 2002 was U.S.$843.4 million and U.S.$1,209.3 million in 2001 compared with a surplus of U.S.$563.1 million in 2000. The current account deficit in 2003 was U.S.$39.0 million. The current account surplus in September 2004 was U.S.$136.4 million.

Capital and Financial Account

The capital and financial account surplus in 2000 was U.S.$1,016.5 million, resulting in a balance of payment surplus of U.S.$585.1 million. In 2001, foreign direct investment in the amount of U.S.$4,556.6 million resulted in a capital and financial account surplus of U.S.$2,428.7 million. In 2002, foreign direct investment for the year amounted to U.S.$4,106 million, which resulted in a capital and financial account surplus of U.S.$1,239.2 million. In 2003, foreign direct investment was U.S.$4,607.6 million and the capital and financial account surplus was U.S.$2,756.1 million. In 2004 foreign direct investment was U.S. $8,423.7 million resulting in a capital and financial account surplus of U.S.$4,592.5 million.

Foreign Trade

The following table sets out the Republic of Kazakhstan's foreign trade for the periods indicated:

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(U.S.$ millions)						
Exports(f.o.b)	20,603	13,232.6	10,026.9	8,927.8	9,288.1	5,988.5	5,870.6
Imports (f.o.b)	(13,818)	(9,144.5)	(7,726.3)	(7,607.3)	(6,848.2)	(5,848.2)	(6,671.5)
Trade balance	6,786	4,088.1	2,300.6	1,320.5	2,439.9	340.3	(800.9)

Source: NBK

General merchandise trade data are based on external trade statistics compiled by the NSA from customs declarations. The data are adjusted by the NBK in respect of coverage classification and valuation for balance of payments purposes. The main adjustments are to exclude the cost of freight and insurance from imports, to include "shuttle" and undeclared trade and to adjust for barter operations.

Official International Reserves

The Republic of Kazakhstan's international reserves are administered and controlled by the NBK, which is a separate legal entity. Kazakhstan law provides that such international reserves may not be pledged nor may the NBK be required to make international reserves available to support the Government's borrowings. As of the end of 2004, due to high oil prices and a number of other factors, Kazakhstan's gross international reserves amounted to U.S.$9,277 million, compared to gross international reserves of U.S.$4,962 million at the end of 2003 and U.S.$3,141 million at the end of 2002.

Similar to the Norwegian model, the Government established the National Fund of the Republic of Kazakhstan (the "National Fund") in August 2000 to accumulate State revenue earned from the sale of the Republic of Kazakhstan's hydrocarbons and mineral resources. As of the end of 2004 the National Fund had U.S. $5,131 million in assets, compared to U.S.$3,663 million in 2003 and U.S.$1,915 million as of the end of 2002.

The following table sets out certain information regarding the Republic of Kazakhstan's exports, imports and international reserves for the year ended or as of the dates indicated:

	As of/Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(U.S.$ millions)						
Exports(f.o.b)	20,603	13,232.6	10,026.9	8,927.8	9,288.1	5,988.5	5,870.6
Imports (f.o.b)	(13,818)	(9,144.5)	(7,726.3)	(7,607.3)	(6,848.2)	(5,848.2)	(6,671.5)
Foreign exchange reserves	8,477	4,233.0	2,548.3	1,990	1,594.0	1,479.9	1,460.2
Gold(1)	804	725.9	585.6	510.7	501.8	522.8	503.6
Gross international reserves	9,280	4,958.9	3,14.6	2,507.7	2,095.8	2,002.7	1,963.8

Source: *NBK*

Note:

(1) *Gold is valued at the market price prevailing at the beginning of the relevant period.*

STATE BUDGET

The following table sets out information on certain trends in the Republic of Kazakhstan's actual State revenue and expenditures (excluding quasi-fiscal operations) for the periods indicated:

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(U.S.$ millions(1))						
Revenues	10039.2	1,022,256	821,153	746,612	598,746	430,900	379,623
Expenditures	10183.1	1,062,611	820,162	759,610	602,024	498,978	451,594
Budget surplus (deficit)	143.8	(40,355)	991	(12,998)	(3,278)	(68,078)	(72,074)
Surplus (deficit) as a percentage of GDP	0.3	(0.9)	0	(0.2)	0.1	(3.7)	(4.2)

Source: Ministry of Finance

Notes:

(1) *Includes extra-budgetary funds.*

Taxation

The principal taxes in the Republic of Kazakhstan are now corporate income tax ("CIT"), social tax, personal income tax ("PIT"), a value added tax on goods and services ("VAT") and various property taxes. The Government adopted a new tax code to simplify further the tax structure and facilitate tax administration in order to improve the collection rate, which came into effect on 1 January 2002. On 1 January 2004, the Government implemented changes to the tax code reducing the rates of PIT, social tax and VAT. In December 2004, amendments were made to the tax code introducing a new mandatory social security tax that has affected the calculation procedure for the regular social tax rate.

The CIT rate is currently 30.0 per cent. and is reduced to 10 per cent. for farming corporations. Dividends are subject to a 15 per cent. withholding of CIT. PIT is levied at progressive rates, ranging from 5 per cent. to a maximum of 20 per cent. (reduced from 30 per cent. in 2003).

In general, all business activity in the Republic of Kazakhstan is subject to a flat rate VAT of 15 per cent. (reduced from 16 per cent. in 2003). Corporations are subject to property tax at the rate of 1 per cent. of the value of basic production and non-production assets and individuals are charged a property tax which ranges from 0.1 per cent. to 1 per cent. of the property's value. Fees to the Government relating to the extraction of oil, gas and other natural resources are established by individual agreements with the Government or its agencies.

In 1997, the Government amended the tax code to provide tax-free periods to foreign investors investing in designated priority sectors of the economy, which do not include the oil and natural gas sector. Eligible investors received exemptions on income, property and land taxes on an individual basis.

The generally applicable corporate tax regime applies to entities involved in the exploration and production of hydrocarbons. In addition different taxation levels relating to signature bonuses (initial payments made for the right to carry out activities under a hydrocarbons contract), commercial discovery bonuses, excess profits tax, rent on exported crude oil and royalties exist for taxpayers in the oil and natural gas industry. Hydrocarbon contracts in the Republic of Kazakhstan take the form of tax/royalty contracts and production sharing agreements. Many of the terms and conditions to the levies, bonuses and royalties are subject to negotiation under the specific hydrocarbon contracts.

Inter-Enterprise Arrears

Although the level of inter-enterprise arrears (debts which are due but unpaid) is significant and has been so since the Republic of Kazakhstan became independent, overdue inter-enterprise net debt (overdue debts payable minus overdue debts receivable) decreased from KZT 241 billion (or 19.8 per cent. of GDP) as of the end of 1997 to KZT 105.7 billion (or 4.2 per cent. of GDP) as of the end of 2002 and to KZT 93 billion (or 2.1 per cent. of GDP) as of the end of 2003.

As of 1 February 2005 the overdue net debt was KZT 150.5 billion or 3.4 per cent. of GDP.

MONETARY AND FINANCIAL SYSTEM

Money Supply

The following table presents the main monetary aggregates in Kazakhstan as of the dates indicated:

	As of 31 December				
	2004	2003	2002	2001	2000
	(KZT millions)				
Monetary base	577,841	316.962	208,171	174,959	134,416
M0 (cash in circulation)	379,273	238,545	161,701	131,175	106,422
M1	677,438	412,139	287,293	224,230	195,442
M2	1,164,432	693,381	498,071	337,980	344,643
M3 (money supply)	1,634,681	971.749	764,954	576,023	397,015

Source: NBK

Interest Rates

The following table sets out the annual refinancing rates and average yields of treasury bills and the NBK's own short-term notes as of the dates indicated:

	As of 31 December				
	2004	2003	2002	2001	2000
	(per cent.)				
Refinancing	7.0	7.0	7.5	9.0	14.0
Treasury Bill Yields(1)	3.3	6.0	6.7	5.4	6.8
NBK Note Yields(2)	3.2	5.1	5.9	5.8	7.9

Source: NBK

Notes:

(1) *Effective annual yield of three-month Treasury bills.*

(2) *Effective annual yield of short-term NBK Notes.*

Exchange Rates

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

As a result of the economic crises in Asia and Russia in 1998 and the resulting currency depreciations, primarily in Russia and other former Soviet Republics, the Republic of Kazakhstan's exports became less competitive on international markets while imports from such countries increased. In addition, the decline in world commodity prices, particularly of oil, base and precious metals and grain, reduced the Republic of Kazakhstan's foreign currency revenue. These factors contributed to the weakening of the Tenge. The NBK supported the Tenge by intervening in the foreign exchange markets.

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. As a result, the Tenge depreciated from a pre-announcement rate of KZT 88 per U.S. Dollar to a rate of about KZT 130 per U.S. Dollar by May 1999. Thereafter, the Tenge continued to depreciate in nominal terms against the U.S. Dollar until 2003. During 2003 and, the Tenge appreciated in value against the U.S. Dollar, but depreciated against the Euro. As at 31 December 2004, the official exchange rate on the KASE as reported by the NBK was 130.0 KZT per U.S.$1.00.

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

	Period-end	High	Average(1)	Low
1999	138.25	142.21	120.09	84.20
2000	145.40	145.40	142.26	138.59
2001	150.94	150.94	146.92	145.05
2002	155.60	156.29	153.28	151.31
2003	144.22	155.89	149.58	143.66
2004	130.00	143.33	136.04	130.00

(1) The weighted average rate reported by the NBK for each month during the relevant period.

Source: NBK

Foreign Exchange Regulations

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

New licensing rules were adopted at the beginning of 2002 for the treatment of the outflow of capital. The NBK intends to liberalise licensing rules in the next few years. In May 2003, a new law was passed which provides for step-by-step liberalisation resulting, among other things, in full internal convertibility of the Tenge by 2007, permission for banks to invest abroad and the removal of restrictions on investments in foreign investment grade securities and the openings of accounts in OECD banks.

Kazakhstan recently significantly liberalised its foreign exchange regulations. Since May 2003, a license has not been needed for a resident of Kazakhstan to invest in foreign investment-grade securities or to acquire more than 50 per cent., of the voting interests in a company incorporated in any OECD country or for an individual to open an account with a bank not rated below 'A' by Standard & Poor's and incorporated in an OECD country or for banks based in Kazakhstan to make loans to non-residents. The NBK further intends to liberalise licensing rules over the next few years. However, there can be no assurance that there will be no transfer restrictions for foreign currencies in the future and that the liberalisation of Kazakhstan's foreign exchange regulations will result in the international convertibility of the Tenge.

Public Debt

According to the NBK, as a percentage of GDP, total public debt decreased from 17.5 per cent. of GDP as of 31 December 2001 to 15.5 per cent. of GDP as of 31 December 2002, to 13.7 per cent. of GDP as of the end of 2003 and to 12.0 per cent. of GDP as of 31 December 2004. In nominal terms, the Republic of Kazakhstan's total public debt has grown from KZT 139.6 billion as of 31 December 1994 to KZT 609.6 billion as of 31 December 2003. In 2004 total public debt has decreased from KZT 443.2 billion to approximately KZT 355.6 billion. Until 2001, the growth in public debt had been funded primarily by increases in external borrowing and was used to finance budget deficits. However, since 2002, the Government has decreased external borrowing and increased internal borrowing.

The following table sets out data regarding the Republic of Kazakhstan's nominal public debt (i.e., excluding private sector debt and State-guaranteed debt) as of the dates indicated:

	Year ended 31 December				
	2004	2003	2002	2001	2000
Internal public debt (KZT millions)	153,114	166,369	121,802	83,977	87,418
As a percentage of GDP	2.8	3.7	3.3	2.6	3.4
External public debt(1) (KZT millions)	355,251	443,223	458,094	489,983	472,799
As a percentage of GDP	6.4	10.0	12.2	14.9	18.2
Total public debt (KZT million)	668,964	609,592	579,896	573,959.2	560,217.0
As a percentage of GDP	12.0	13.7	15.5	17.5	21.6

Source: NBK

Notes:

(1) *External public debt comprises only debt of the Government and the NBK.*

Annex B: Comform Letter of the Ministry of Industry and Trade

ҚАЗАҚСТАН
РЕСПУБЛИКАСЫНЫҢ
ИНДУСТРИЯ ЖӘНЕ САУДА
МИНИСТРЛІГІ

МИНИСТЕРСТВО
ИНДУСТРИИ И ТОРГОВЛИ
РЕСПУБЛИКИ КАЗАХСТАН

№ 03-4-2/4-1405 «13» 05 2005 г.

LETTER OF COMFORT

This letter does not represent a guarantee or other legally binding obligation of the Ministry of Industry and Trade of the Republic of Kazakhstan or the Government of the Republic of Kazakhstan in respect of any Notes issued under the Programme – see "Investment Considerations – Ministry of Industry and Trade Comfort Letter" for further information.

To: The Trustee
Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
as Trustee for the holders of Notes issued pursuant to the Trust Deed and Programme Agreement constituting the EMTN Programme referred to below.

and

The Dealers from time to time party to the Programme Agreement relating to the said EMTN Programme.

Dear Sirs,

The Ministry of Industry and Trade of the Republic of Kazakhstan (the "Ministry of Industry and Trade") refer to the US$400,000,000 Euro Medium Term Note Programme established by the JSC Development Bank of Kazakhstan ("DBK") (the "EMTN Programme") in September 2002 and would like to confirm the importance of the financial stability of DBK to the Ministry of Industry and Trade.

DBK was founded by the decree of the President of the Republic of Kazakhstan On Development Bank of Kazakhstan and operates under the Law of the Republic of Kazakhstan On Development Bank of Kazakhstan and Memorandum on Credit Policy of Development Bank of Kazakhstan approved by the Government of the Republic of Kazakhstan (the "Memorandum").

The establishment of DBK was strategic direction taken by the Government of the Republic of Kazakhstan (the "Government") in its long-term policy for development of the national economy. In this policy, the Government intends that DBK will play the leading role in the redistribution of capital flows to certain sectors of the national economy as designated in the Memorandum. The Ministry of Industry and Trade exercises a considerable degree of control in the management of the activities and operations of DBK on behalf of the Government through its holding of 87.15% of DBK's share capital and its role as regulator of certain of DBK's functions. A combination of these roles enables the Ministry of Industry and Trade to ensure that DBK does not run into any funding difficulties.

The Ministry of Industry and Trade would like to stress that DBK is a crucial part of Kazakhstan's development strategy and all major operations of DBK are under the full supervision of the Government, through its controlling shareholding and regulatory function. Any financial problems or failure by DBK would be unacceptable to the Ministry of Industry and Trade. In its supervision of DBK's activities, the Ministry of Industry and Trade will ensure that DBK is able to meet its financial obligations and if required will provide available support mechanisms.

In relation to the EMTN Programme, the Ministry of Industry and Trade hereby represents and undertakes:

1. that it acknowledges and supports the EMTN programme and accordingly will use its best efforts to assist DBK in obtaining all governmental approvals and authorisations in respect of the EMTN Programme and any issue of notes thereunder;
2. that DBK and its operations are central to the stability of the Kazakhstan's long-term investment policy and as such, enjoy the support of the Ministry of Industry and Trade;
3. that the Ministry of Industry and Trade, in its role as the DBK's shareholder and regulator, but not as a financial obligor in any manner, DBK will fulfil its payment obligations under any notes issued pursuant to the EMTN Programme and any other external obligations.

Yours faithfully,

Asset O. Issekeshev
Vice-Minister
Ministry of Industry and Trade of the Republic of Kazakhstan

Astana
[May 2005]

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