JSC Bank Caspian

(A joint stock company incorporated in The Republic of Kazakhstan)

U.S.$150,000,000
7.875 per cent. Notes due 2008
Issue Price: 99.672 per cent.

The U.S.$150,000,000 7.875 per cent. Notes due 2008 (the "Notes") are issued by JSC Bank Caspian (the "Bank" or the "Issuer"). Interest on the Notes will accrue from 17 October 2005 and will be payable semi annually in arrear on 17 April and 17 October of each year, commencing on 17 April 2006. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 17 October 2005 between the Issuer and Citicorp Trustee Company Limited, as trustee for the holders of the Notes (the "Trustee").

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the "FSMA") (in such capacity, the "UK Listing Authority") for the Notes to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Reference in this prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purpose of Directive 93/22/EEC (the "Investment Services Directive"). The Issuer will also apply for the Notes to be listed on the Kazakhstan Stock Exchange (the "KASE") as from (and including) the Closing Date (as defined below).

See "Risk Factors" starting on page 12 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered outside the United States by the Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form and will initially be represented by beneficial interests in a global note certificate (the "Global Note Certificate"), in fully registered form, without interest coupons, which will be deposited on or around 17 October 2005 (the "Closing Date") with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Global Note Certificate will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive, fully registered, form, without coupons, in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof without interest coupons attached provided that no transfer shall be permitted if after the transfer of any Note, a Noteholder would hold less than U.S.$100,000 in aggregate principal amount of Notes. See "Form of Notes and Transfer Restrictions; Summary of Provisions Relating to the Notes in Global Form".

Lead Manager and Sole Bookrunner

Citigroup

Managers

MNB Capital Markets | **Alpha Bank** | **JSC Bank Caspian**

The date of this Prospectus is 12 October 2005.

This Prospectus together with the attached unaudited interim condensed consolidated financial statements for the six months ended 30 June 2005 and the audited consolidated financial statements for the year ended 31 December 2004 and December 2003 constitute a base prospectus for the purposes of Article 5.4 of the Directive 2003/71/EC (the "Prospectus Directive").

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

This Prospectus does not constitute an offer to sell or a solicitation of an offer to purchase the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes and for the admission to trading of the Notes on the London Stock Exchange's Gilt Edged and Fixed Interest Market and may be used only for the purposes for which it is published. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer, the Managers and the Trustee to inform themselves about and to observe such restrictions. Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that 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 other applicable provisions of the Regulations. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "Subscription and Sale".

In connection with the issue of the Notes, Citigroup Global Markets Limited (or any person acting on behalf of Citigroup Global Markets Limited) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that Citigroup Global Markets Limited (or any person acting on behalf of Citigroup Global Markets Limited) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

RESPONSIBILITY STATEMENT

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

The information in this Prospectus contained under the heading "The Banking Sector in Kazakhstan" 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 participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information provided herein. The Issuer accepts responsibility for accurately reproducing such extracts, and as far as the Issuer is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.

TABLE OF CONTENTS

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer is a joint stock company organised under the legislation of Kazakhstan and all of its officers and directors and certain other persons referred to in this Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Issuer and each 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, the Trust Deed and the Agency Agreement are governed by the laws of England and the Issuer has agreed in the Notes and the Trust Deed and the Agency Agreement that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder, to arbitration in London, England. See Condition 18 (*Governing Law; Jurisdiction and Arbitration*) 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") pursuant to which Kazakhstan courts are obligated, subject to a limited number of conditions, to recognise as binding and to enforce arbitral awards made in the territory of any country other than Kazakhstan, including arbitral awards made in London, England. In addition, on 28 December 2004, Kazakhstan passed the law on International Commercial Arbitration, which also provided, subject to similar conditions, for the recognition as binding and the enforcement of arbitral awards outside Kazakhstan including those made in London, England.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements can be identified by the use of forward-looking terminology such as "estimates", "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately", or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include, but are not limited to, statements regarding the Issuer's objective to increase profitability; the anticipated expansion of the Issuer's SME (as defined in "Risk Factors — Considerations Relating to the Issuer") customer base, including, in particular, in the SME segment and of the Issuer's revenue base; develop and strengthen its existing market position; enter into new financial market segments; optimise and modernise its banking products and make flexible its product range; increase the quality of services that the Issuer provides; increase its national coverage and management's expectations regarding the employment of the Issuer's existing liquidity and capital and improving the composition of the Issuer's loan portfolio. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions; the demand for the Issuer's services; competitive factors in the market sectors in which the Issuer competes; changes in governmental regulation; changes in (tax requirements including tax rate changes, new tax laws and revised tax law interpretations); results of litigation or arbitration; interest rate fluctuations and other market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders; and the timing, impact and other uncertainties of future actions. See "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from these forward-looking statements.

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

PRESENTATION OF FINANCIAL INFORMATION

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "U.S.$", "USD", "U.S. Dollars" and "$" are to the lawful currency of the United States of America, references to "Tenge" or "KZT" are to Kazakhstani Tenge, the lawful currency of the Republic of Kazakhstan and references to "Euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European community, as amended. 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 Prospectus presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. No representation is made that the Tenge or U.S. Dollar amounts in this Prospectus would have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate or at all. See "Summary Financial Information".

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

THIRD PARTY INFORMATION

Macroeconomic data, which appears in this Prospectus, has been derived from statistics published by Kazakhstan's National Statistics Agency ("NSA") and by the National Bank of Kazakhstan ("NBK"). It is difficult to obtain precise industry and market information regarding Kazakhstan's banking industry or economic information on Kazakhstan generally. Generally, information as to the market and competitive position data included in this Prospectus has been obtained from the NBK, the NSA and the FMSA, from published financial information and from surveys or studies conducted by third-party sources that are believed to be reliable.

GENERAL DESCRIPTION

The following summary highlights significant aspects of the Bank's business and the offering of the Notes, but prospective investors should read this entire Prospectus, including the Bank's historical audited consolidated financial statements and related notes, included elsewhere in this Prospectus, before making an investment decision. Prospective investors also should carefully consider the information set forth under "Risk Factors".

The Bank

Established in 1991 as Al-baraka Bank Kazakhstan, the Bank became JSC Bank Caspian when OAO LUKoil purchased a majority share in it in 1995. In 1997, the Bank merged with Kazdorbank, a formerly state owned bank, which had responsibility for financing local road boards but which came with a nationwide branch network. In 2002, LUKoil sold its stake in the Bank to a group of Russian and Kazakh shareholders, the Bank became the sole Kazakh bank to be a member of a banking alliance with Russian financial institutions from Siberia, Moscow, the Russian far east and the Urals region. In 2004, the Bank left this alliance to focus on domestic expansion in the Kazakhstan market.

Management believes the Bank to be the eighth largest bank in Kazakhstan in terms of assets which at 30 June 2005 equalled KZT104.6 billion. The Bank's primary business consists of retail and corporate banking. The Bank's retail banking activities and products include deposit taking, consumer loans and mortgages. Its corporate banking activities include a broad range of banking products offered to a diversified group of domestic customers, primarily small- and medium-sized companies, in wholesale and retail trade.

On 1 August 2003 the Bank was re-registered as Joint Stock Company Bank Caspian to comply with the requirements of 2003 Law on Joint Stock Companies, and its registration number is 3403-1900-AO. The address of the Bank's registered office is 90 Adi Sharipov Street, Almaty 050012, Republic of Kazakhstan and the telephone number of its registered office is +7 3272 501 720.

As at 30 June 2005, the Bank, in addition to its head office in Almaty, had 40 branch offices, 74 mini offices, a network of 1,135 express consumer loan outlets in retail stores in Kazakhstan.

Business Strategy

The Bank's objective is to become one of the five most profitable banks in Kazakhstan in the next five years by focussing on its higher margin banking products and services, in particular express consumer loans and loans to SMEs. In order to implement its strategy, the Bank intends to focus on the following: the development of its retail banking distribution network by further geographical expansion, increasing the number of SME clients by expanding market presence in prime sectors and locations and offering a high quality of customer service; optimization of existing banking products and services and introducing new products, such as credit cards and mortgage loans; leveraging its corporate lending capabilities to build relationships with companies which may facilitate development of the Bank's retail business; continuing to develop its credit assessment, risk management and IT systems in order to support retail portfolio growth and diversifying its funding base by developing relationships with international banks and investors and by using new financing instruments.

Credit Ratings

The Bank is rated Ba2 by Moody's Investor Service ("Moody's"), B+ by Fitch's Ratings ("Fitch").

The Notes have been assigned a preliminary rating of Ba2 by Moody's, B+ by Fitch.

A security credit rating is not a recommendation to buy, sell or hold the securities, and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

SUMMARY FINANCIAL INFORMATION

The following table contains summary historical financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2004 and 2003. TOO Deloitte & Touche ("Deloitte & Touche") audited the Bank's consolidated financial statements for the years ended 31 December 2004 and 2003. Deloitte & Touche is located at 240-v Furmanov Street, Almaty 480099, Kazakhstan and is the Kazakhstan national practice of Deloitte & Touche Tohmatsu, which is a Swiss verein. Deloitte & Touche is a separate and independent legal entity of Deloitte & Touche Tohmatsu. The summary information for the six months ended 30 June 2005 and 2004 is extracted from the unaudited interim condensed consolidated financial statements prepared by the Bank. Investors should not rely on interim results as being indicative of results the Bank may expect for the full year. The Bank's financial statements have been prepared in accordance with International Financing Reporting Standards ("IFRS") and are presented in Tenge.

Solely for the convenience of the reader, the Bank has translated the summary income statement information for the six months ended 30 June 2005 and for the year ended 31 December 2004 into U.S. Dollars at the rates of U.S.$1.00 = KZT131.20 and U.S.$1.00 = KZT136.05, respectively and the summary balance sheet information for the six months ended 30 June 2005 and for the year ended 31 December 2004 into U.S. Dollars at the rates of U.S.$1.00 = KZT135.26 and U.S.$1.00 = KZT130.00, respectively.

Prospective investors should read the following summary consolidated financial and other information in conjunction with the information contained in "Capitalisation", Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Bank's consolidated interim financial statements and consolidated financial statements and the related notes thereto appearing elsewhere in this Prospectus.

Consolidated Income Statement Data

	For the six month period ended 30 June			For the year ended 31 December		
	2005	2005	2004	2004	2004	2003
	(U.S.$ millions) (Unaudited)	(KZT millions) (Unaudited)		(U.S.$ millions) (Audited)	(KZT million)	
Income Statement:						
INTEREST INCOME						
Loans to customers	47.4	6,216	3,391	55.0	7,483	4,377
Investment Securities	2.6	345	224	3.6	492	580
Amounts due from credit institutions	0.6	73	16	0.4	46	13
	50.6	6,634	3,631	59.0	8,021	4,970
INTEREST EXPENSE						
Amounts due to customers	(6.8)	(883)	(691)	(10.1)	(1,378)	(1,820)
Subordinated loan	(3.7)	(482)	(437)	(6.7)	(914)	(195)
Amounts due to credit institutions	(3.9)	(516)	(187)	(3.7)	(497)	(239)
Debt securities issued	(3.3)	(433)	(118)	(2.5)	(338)	(241)
	(17.7)	(2,314)	(1,433)	(23.0)	(3,127)	(2,495)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	32.9	4,320	2,198	36.0	4,894	2,475
Impairment of interest earning assets	(6.2)	(817)	(508)	(13.3)	(1,810)	(732)
NET INTEREST INCOME	26.7	3,503	1,690	22.7	3,084	1,743
FEES AND COMMISSIONS						
Fees and commission income	8.0	1,052	725	10.9	1,484	1,186
Fees and commission expense	(0.8)	(102)	(75)	(1.6)	(222)	(88)
	7.2	950	650	9.3	1,262	1,098
Gains less losses from trading securities	1.0	134	(95)	(0.3)	(45)	34
Gains less losses from foreign currencies						
– dealing	1.6	208	146	3.4	465	220
– translation differences	(1.9)	(247)	62	0.4	60	(93)
Underwriting income	0.4	47	10	0.3	38	32
Other income	1.9	247	41	1.7	231	54
NON INTEREST INCOME	3.0	389	164	5.5	749	247
Salaries and benefits	(8.9)	(1,173)	(633)	(11.5)	(1,565)	(1,051)
Depreciation	(0.8)	(101)	(42)	(1.3)	(173)	(109)
Administrative and operating expenses	(6.9)	(897)	(481)	(8.2)	(1,111)	(782)
Other impairment and provisions	0.1	11	69	(0.5)	(68)	(123)
NON INTEREST EXPENSE	(16.5)	(2,160)	(1,087)	(21.5)	(2,917)	(2,065)
INCOME BEFORE TAX INCOME EXPENSE	20.4	2,682	1,417	16	2,178	1,023
Income tax expenses	(3.7)	(486)	(160)	(2.9)	(400)	(181)
NET INCOME	16.7	2,196	1,257	13.1	1,778	842

Consolidated Balance Sheet Data

	As at 30 June		As at 31 December		
	2005	2005	2004	2004	2003
	(U.S.$ millions) (Unaudited)	KZT millions) (Unaudited)	(U.S.$ millions) (Audited)	(KZT million)	
Balance Sheet					
ASSETS:					
Cash and cash equivalents	62.4	8,440	73.7	9,587	6,220
Obligatory reserves	7.3	990	7.8	1,012	681
Trading securities	139.1	18,814	105.7	13,746	8,383
Amounts due from credit institutions	20.0	2,709	20.6	2,675	1,779
Loans to customers	514.1	69,543	380.3	49,432	35,459
Investment securities available for sale	1.0	134	—	—	—
Property and equipment	22.2	2,997	19.5	2,539	1,888
Other assets	7.3	986	5.9	768	326
TOTAL ASSETS	773.4	104,613	613.5	79,759	54,736
LIABILITIES:					
Amounts due to Government	0.5	67	0.6	73	243
Amounts due to credit institutions	222.3	30,071	156.3	20,314	8,729
Amounts due to customers	267.6	36,201	243.8	31,695	30,023
Debt securities issued:					
– subordinated debt securities issued	78.2	10,574	81.3	10,573	7,050
– unsubordinated debt securities issued	97.2	13,143	51.0	6,629	2,250
Deferred tax liabilities	1.2	169	—	—	94
Provisions	1.2	165	1.4	190	123
Other liabilities	11.2	1,513	5.3	687	501
Total liabilities	679.4	91,903	539.7	70,161	49,013
SHAREHOLDERS' EQUITY:					
Share capital	50.0	6,758	44.6	5,797	3,700
Additional paid-in capital	3.8	522	4.0	522	522
Treasury stock	(0.5)	(70)	(0.2)	(25)	(1)
Reserves	40.7	5,500	25.4	3,304	1,502
Total shareholders' equity	94.0	12,710	73.8	9,598	5,723
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	773.4	104,613	613.5	79,759	54,736
FINANCIAL COMMITMENTS AND CONTINGENCIES	168.3	22,760	122.3	15,903	13,158

Selected Financial Ratios

	For the six month period ended 30 June		For the year ended 31 December	
	2005	2004	2004	2003
	(Annualised) (per cent., unless otherwise noted)			
Combined Key Ratios:				
Return on shareholders' equity[1]	39.4	39.0	23.21	18.39
Operating expenses/operating income before provisions for loan losses	38.4	38.4	41.3	51.0
Operating expenses/operating income after provisions for loan losses	44.6	43.2	57.3	67.0
Effective provisioning rate on customer loans and advances	4.2	3.1	4.8	3.5
Profitability Ratios:				
Net interest margin[2]	11.0	9.2	8.8	7.0
Operating expenses as a percentage of net interest income before provisions for loan losses	50.0	52.6	58.2	78.5
Operating expense as a percentage of average total assets	4.7	4.2	4.2	4.7
Net profit as a percentage of average total assets	4.8	4.5	2.6	2.0
Net profit as a percentage of average shareholders' equity	39.4	39	23.21	18.4
Balance Sheet Ratios:				
Customer accounts as a percentage of total assets	34.6	41.7	39.7	54.9
Total net loans and advances to customers as a percentage of total assets	66.5	66.8	62.0	64.8
Total shareholders' equity as a percentage of total assets	12.1	12.8	12.0	10.5
Liquid assets as a percentage of customer accounts[3]	82.6	51.0	82.0	54.5
Liquid assets as a percentage of liabilities of up to one month	95.1	53.3	137.4	120.0
Capital Adequacy Ratios:[4]				
Total capital	23	23	27	24
Tier 1 capital	15	15	17	14
Credit Quality Ratios:[5]				
Non-performing loans as a percentage of total loans	1.8	1.57	1.66	1.23
Non-performing loans as a percentage of total loans and guarantees	1.58	1.35	1.53	1.08
Provisions for loan losses as a percentage of non-performing loans	249	281	307	295
Exchange Rates used in financial statements of the Bank: (KZT/U.S.$1.00)				
Period end	135.26	136.45	130.00	144.22
Average for the period[6]	131.2	138.57	136.05	149.50
Macroeconomic Data:				
Consumer Price Inflation (for the twelve months then ended)	3.5	2.4	6.7	6.8
Real GDP (change during the year)	9.1	9.1	9.3	9.2

(1) Calculation is based on average opening and closing balances for the period.

(2) Net interest margin is net interest income before provisions for loan losses as a percentage of average interest-earning assets.

(3) Liquid assets include cash and balances with the NBK, loans and advances to banks (with maturity of less than one month), securities in the trading portfolio and investment securities.

(4) Calculated in accordance with the Basel Accord, as currently in effect.

(5) For the definition of non-performing loans used by the Bank, see "Selected Statistical and Other Information-Non-Performing Loans and Provisioning Policy."

(6) The average rate for the period is the average of the KASE's daily rates for the period. The average annual rate is the average of the 12 monthly average rates.

GENERAL DESCRIPTION OF THE OFFERING

The summary below describes the principal terms of the Notes. See "Terms and Conditions of the Notes" and "Form of Notes and Transfer Restrictions" for a more detailed description of the Notes.

Issuer	JSC Bank Caspian
Issue	U.S.$150,000,000 principal amount of 7.875 per cent. Notes due 2008.
Lead Manager	Citigroup
Issue Price	99.672 per cent. of the principal amount of the Notes.
Maturity Date	17 October 2008
Trustee	Citicorp Trustee Company Limited
Principal Paying and Transfer Agent	Citibank N.A., London
Registrar	Citibank, N.A.
Interest and Interest Payment Dates	The Notes will bear interest at a rate of 7.875 per cent. per annum. Interest on the Notes will accrue from 17 October 2005 and will be payable semi-annually in arrears on 17 April and 17 October of each year, commencing on 17 April 2006.
Status	The Notes constitute direct, general, unconditional and (subject to Condition 5) unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and 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 of Notes."
Use of Proceeds	The Issuer will use the proceeds from the issuance of the Notes to finance the growth of its consumer and SME loan portfolio and for other general banking purposes.
Listing	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The Issuer will also apply for the Notes to be listed on the KASE as from (and including) the Closing Date.
Form	The Notes will be issued in registered form. The Notes will initially be represented by beneficial interests in a Global Note Certificate, in fully registered form, without interest coupons. The Global Note Certificate will be exchangeable in certain limited circumstances for Notes in definitive, fully registered, form in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof, without interest coupons attached provided that no transfer shall be

	permitted if, after the transfer of any Note, a Noteholder would hold less than U.S.$100,000 in aggregate principal amount of Notes. See "Form of Notes and Transfer Restrictions".
Tax Redemption	The Notes may be redeemed at the option of the Issuer in whole, at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes in taxation in the Republic of Kazakhstan. See Condition 8.2 (*Redemption for tax reasons*).
Negative Pledge.	The Issuer agrees that, so long as any Note remains outstanding, it shall not and shall not permit any of its Subsidiaries (as defined in Condition 5) to create or permit to subsist any mortgage, charge, lien, pledge or other security interest upon the whole or any part of their respective undertakings, assets or revenues to secure any Indebtedness for Borrowed Money (as defined in Condition 5) unless the Notes are secured equally and rateably with such other Indebtedness for Borrowed Money or are otherwise given the benefit of such security interest. See "Terms and Conditions of the Notes-Negative Pledge."
Certain Covenants.	The Issuer will agree in the Notes and the Trust Deed to certain covenants, including, without limitation, covenants with respect to limitation on certain transactions, limitation on payment of dividends and maintenance of capital adequacy.
Events of Default	If an Event of Default occurs, the Trustee may, subject as provided in the Trust Deed, give notice to the Issuer that the Notes are and shall become immediately due and repayable at their principal amount together with accrued interest. See also Condition 11 (*Events of Default*).
Governing Law	The Notes and the Trust Deed will be governed by, and construed in accordance with, the laws of England.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom and the Republic of Kazakhstan) only in compliance with applicable laws and regulations. See "Subscription and Sale".
Risk Factors	An investment in the Notes involves a high degree of risk. See "Risk Factors".
Security Codes	The identification numbers for the Notes are as follows: ISIN Code . . . . XS0232868827 Common Code 23286882

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Prospectus, the following risk factors associated with investment in Kazakhstan entities generally, the Bank and in the Notes specifically. Additional risks and uncertainties not presently known to the Bank, or that it currently believes are immaterial, could also impair the Bank's business operations. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in Kazakhstan which in some respects may differ from that prevailing in other countries.

Risk Factors Relating to The Republic Of Kazakhstan

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

Political and Regional Considerations

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has experienced significant change as it emerged from a single-party political system and a centrally controlled command economy. 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 market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than most other countries of the CIS. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this Prospectus will continue or that such reforms will achieve all or any of their intended aims.

Kazakhstan depends on neighbouring states 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 addition to taking various steps to promote regional integration among neighbouring countries, Kazakhstan signed an agreement in September 2003 with Ukraine, Russia and Belarus for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to co-ordinate their fiscal, credit and current policies. Government policy advocates further economic integration with the CIS countries, one of the aims of which is to ensure continued access to export routes. However, should access to these routes be materially impaired, the economy of Kazakhstan could be adversely affected.

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

Macroeconomic Considerations and Exchange Rate Policies

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

The Government began implementing market-based economic reforms following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 12 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed and curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. Whilst Gross Domestic Product ("GDP") has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.8 per cent. in 2002, 9.2 per cent. in 2003, 9.4 per cent. in 2004 and 9.1 per cent. for the six months ended 30 June 2005, there can be no assurance that GDP will continue to grow and any fall in GDP in subsequent years could adversely affect the banking sector in Kazakhstan.

The Tenge is convertible for current account transactions, although it is not fully convertible outside Kazakhstan. Depressed export markets in 1998 and early 1999 caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0 per cent. against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 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 lower rate, depreciating by 3.8 per cent. in 2001 and by 3.3 per cent. in 2002. The Tenge appreciated against the U.S. Dollar during 2003 and 2004 from KZT 155.60 per U.S.$1.00 as at 31 December 2002 to KZT 144.22 per U.S.$1.00 as at 31 December 2003 and to KZT 130.00 per U.S.$1.00 as at 31 December 2004. Since year end 2004, the U.S. Dollar has appreciated against the Tenge and, as at 30 June 2005, the official exchange rate for U.S. Dollars as reported by the NBK was KZT 135.26 per U.S.$1.00. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

Implementation of Further Market-Based Economic Reforms

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain major enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national communications company. There remains a need for substantial investment in many sectors of the Kazakhstan economy, however, and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the size of the shadow economy adversely affects the implementation of reforms and restrict the efficient collection of taxes. The Government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration. The Government has also indicated that it is considering the possibility of presenting to Parliament a law establishing a one-time property amnesty aimed at reducing the size of the shadow economy 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 revised tax code, laws relating to foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Moreover, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful.

It is expected that the tax legislation in Kazakhstan will become more sophisticated and that there will be additional revenue raising measures which may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Bank's business and financial condition and on the results of operation of companies operating in Kazakhstan.

Less Developed Securities Markets

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

Risk Factors Relating To the Bank

The interests of the Bank's controlling shareholders may conflict with those of the Noteholders.

As of 30 June 2005, approximately 85% of the Bank's total outstanding share capital was beneficially owned and controlled by three members of the Board of Directors, Yuriy Tskhai, Sanat Iskakov and Vyacheslav Kim, with each of them owning a little over 28 per cent. The Bank's major shareholders have not always agreed in the past as to the strategy of the Bank, and as a result of this, one prior major shareholder has recently sold his shares. Mr Iskakov is currently also considering whether or not to sell his shares following his departure from the Management Board of the Bank. At present, there is no formal shareholders' agreement between these three members of the Board of Directors, although they do plan to enter into one in the near future. These three individuals will be able to elect the majority of the Bank's Board of Directors and determine the outcome of all matters submitted to the shareholders of the Bank without recourse to the minority shareholders except where such matters fall within the rules governing related party transactions under Kazakh legislation. For example, although these three individuals have not done so in the past, they could cause the Bank to pursue acquisitions and other transactions or make large dividend payments or distributions or payments to shareholders that are designed to benefit themselves, even though such transactions may involve increased risk for the Noteholders. Also, although it is in the best interest of Noteholders for the Bank to remain compliant with regulatory and contractual financial ratios, the Bank's controlling shareholders may not be willing or able to provide the further capital contributions required.

The Bank's financial condition and results of operations depend on consumers' consumption and income levels which are outside the Bank's control.

The Bank's growth prospects depend on its ability to develop its retail banking, consumer finance and SME banking business. Whilst the sustainable development of the retail banking market in the

Kazakhstan is highly dependent on economic growth, increases in consumers' average disposable income and levels of consumer spending. A deterioration in the performance of the Kazakh economy or stagnation or reduction in levels of personal income, individual purchasing power or consumer confidence (either generally or specifically in respect of the banking sector) may cause the demand for such consumer goods to decrease, resulting in a corresponding decrease in demand for the Bank's express consumer loans and other consumer finance products.

Credit Exposure and Loan Portfolio Growth

The Bank's gross loans and advances (before allowances) have increased rapidly in recent years growing by 41.4 per cent. from KZT36,742 million in 2003 to KZT51,946 million in 2004 and by a further 39.7 per cent. in the first six months of 2005 to KZT72,587 million. The growth in the gross loan portfolio is attributable to an overall increase in the lending activity of the Bank, especially to small- and medium-sized enterprises (i.e., companies which have less than 250 employees, an annual turnover of up to U.S.$9 million and original exposure of less than U.S.$1 million) ("SMEs") and retail customers. Classified loans, being loans classified by the Bank in accordance with IFRS as unsatisfactory, doubtful and loss, as a percentage of gross loans, increased from 2.7 per cent. in 2003 to 6.5 per cent. in 2004 and then decreased to 5.5 per cent. for the first six months of 2005.

The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued monitoring by the Bank's management of credit quality and the adequacy of its impairment assessment and continued improvement in the Bank's credit risk management programme.

In particular, the Bank's strategy of further diversifying its customer base, including through increased lending to SMEs and retail customers (both express and non-express), may also increase further the credit risk exposure in the Bank's loan portfolio. SMEs and retail customers typically have less financial strength, and negative developments in the Kazakhstan economy could affect these borrowers more significantly, than larger borrowers. In addition, there is generally less financial information available about SMEs and retail customers. As a result, the Bank may need to change its estimates of impairment and implement additional credit risk management policies and procedures. Failure to manage growth and development successfully and to maintain the quality of its assets could have a material adverse effect on the Bank's results of operations and financial condition.

Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain a significant number of qualified personnel and to train new personnel appropriately, not only to monitor asset quality, but also to ensure access to appropriately flexible funding sources that do not impose inappropriate constraints on the Bank's future funding strategy. Furthermore, the development of relatively new products, such as new mortgage products and credit cards for SMEs and retail borrowers, require not only credit assessment skills and personnel, but also risk management, experience and systems, some of which are not currently in place at the Bank. As the average maturity of the Bank's loan portfolio increases, it will need to introduce more sophisticated techniques to manage related risks. There can be no assurance that the Bank will obtain the necessary skills and systems to manage these types of risks in a timely manner, if at all. Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's financial condition and results of operations.

Competition

The Bank is subject to competition from both domestic and foreign banks. As at 31 December, there were a total of 34 commercial banks in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. According to the NBK, as at 31 December 2004, the three largest banks in Kazakhstan, Halyk Savings Bank, Kazkommertsbank and Bank TuranAlem, held approximately 67 per cent. of the total loan portfolio and 62 per cent. of total bank assets in Kazakhstan. The Bank does not compete with these banks for larger corporate clients however it does compete with Bank CenterCredit, Alliance Bank and Nurbank for smaller corporate clients and SMEs. Loans to SMEs (including accrued interest on such loans) comprised approximately 9 per cent. of the Bank's gross loan portfolio as at 30 June 2005. Furthermore, the Bank may in the future, compete with foreign banks for such clients. Although foreign-owned banks do not currently provide significant domestic competition, these institutions have significantly greater resources and cheaper funding bases than the Bank. Foreign banks also have greater international experience, which allows them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate and SME banking sector in the longer term.

The Bank's principal competitors in traditional retail banking products such as deposit taking and consumer loans are Halyk Savings Bank, Bank CenterCredit, Alliance Bank and Nurbank. Management believes the Bank was the largest bank in terms of express consumer lending as at 30 June 2005 (KZT8,955 million as at 30 June 2005). Express consumer loans (including accrued interest and after intergroup eliminations performed with AIIG) comprised approximately 12 per cent. of the Bank's gross loan portfolio as at 30 June 2005. The Bank competes mainly against Texaka Bank and Alliance Bank for express consumer loan customers. The Bank estimates that its share of the express consumer loan market was more than 50 per cent. for the first six months of 2005. However certain other domestic banks such as Kazkommertsbank may intend to expand their retail products and services in order to increase their market share and certain foreign banks may seek to develop operations in this sector in the future, which would have an adverse effect on the Bank's market share of express consumer lending.

According to the NBK, as at 31 December 2004, the Bank held approximately 3 per cent. market share of the total bank loan portfolio and approximately 3 per cent. market share of total bank assets in Kazakhstan. See "Description of the Bank – Competition".

Concentration of Lending and Deposit Base

As at 30 June 2005, the Bank's 10 major borrowers accounted for 23.7 per cent. of gross loans and advances to customers, compared to 26.4 per cent. as at 31 December 2004. The Bank will have to continue to place emphasis on credit quality and to further develop financial and management controls to monitor this credit exposure; a failure to achieve this could have a material adverse effect on the Bank's results of operations and financial condition.

As at 30 June 2005, the Bank's 10 largest depositors accounted for approximately 22 per cent. of total deposits compared to 29 per cent. as at 31 December 2004. The Bank has reduced and further intends to reduce the concentration in its deposit base by attracting SME and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's result of operations and financial condition.

The Bank's express consumed lending business relies heavily on its relationships with large consumer retail chains such as Planet of Electronics, but there is no guarantee that these relationships will continue in their current form or at all.

The retail chains Planet of Electronics, Technodom and Logycom which sell household appliances and consumer electronics products, has historically generated up to approximately 25 per cent. of the Bank's express consumer loans. For the year ended 31 December 2004, Planet of Electronics generated approximately 10 per cent. of the Bank's express consumer loans and this percentage increased to 12 per cent. for the first six months of 2005. At present, the Bank has co-operation agreements with all three retail chains. However, the Bank's relationships with Planet of Electronics, Technodom and Logycom are for a limited period only, and, accordingly, they and other retailers may either seek other alternatives or renegotiate their relationship with the Bank to be more consistent with recent market developments. There can be no guarantee that other retail stores which have the Bank's express lending outlets in-store will not choose to transfer some or all of their business to other banks, or seek to provide express consumer lending directly themselves or seek to renegotiate. As a result, the Bank's business, financial condition, results of operation or prospects could be adversely affected.

Moreover, these retail chains and stores currently pay the Bank (and other Banks who provide express lending) a subscription fee to establish such outlets and the Bank does not pay any rental in respect of such outlets. It is possible that increased competition in the market may lead to the Bank being required to pay rental fees for its outlets.

Liquidity Risk

The Bank, like other commercial banks in Kazakhstan and elsewhere, is exposed to liquidity risk due to maturity mismatches between its assets and liabilities. Although the Bank believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy, which includes daily monitoring of and maintaining liquidity reserves sufficient to meet the Bank's liquidity needs for a certain period, allow and will continue to allow the Bank to meets its short-term and long-term liquidity needs, any maturity mismatches between the Bank's assets and liabilities (including by reason of the withdrawal of large deposits) may have a material adverse effect on its results of operations and financial condition.

Capitalisation

If the Bank's loan portfolio continues to increase as rapidly as it has in previous years, capital will be required in the medium-term to strengthen further the Bank's capital base. In addition, commercial loans funded through increased levels of debt financing from financial institutions and capital markets will also require the Bank to raise additional capital in order to meet required capital adequacy levels. Any failure to maintain adequate levels of capital in the future could substantially limit the Bank's ability to continue to increase the size of its loan portfolio whilst complying with applicable regulatory guidelines and covenants imposing certain minimum capital adequacy requirements on the Bank, which could, in turn, have a material adverse effect on the Bank's results of operations and financial condition.

Lack of Statistical, Corporate and Financial Information

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally, specific economic sectors and companies within it, the publication of corporate and financial information relating to companies and other economic enterprises and gathering of credit information relating to individuals, is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements and credit information available to the Bank relating to its prospective corporate borrowers, SME or retail clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information or credit history of the applicant may decrease the accuracy of the Bank's assessments of credit risk. This may increase the risk of borrower default and decrease the likelihood that the Bank will be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. In addition, small- and medium-sized enterprises, a focus of the Bank's strategy, have, in many cases, not prepared audited financial statements, which may lessen the Bank's ability to perform a reliable credit assessment of them.

The absence of central credit information may lead to the overextension of credit and greater credit risk exposure by the Bank.

Kazakhstan does not currently have any central credit bureaus, and the Bank and its competitors do not share customer information. Therefore, the Bank is unable to independently confirm information provided by credit applicants regarding the total credit extended to the applicant. As a result, customer may be overextended by virtue of other credit obligations about which the Bank has no knowledge. The Bank is therefore exposed to credit risks which it may not be able to accurately assess and provide for.

The Bank's financial condition and results of operations depends on correctly assessing the creditworthiness of its customers, this is not always possible, especially in the retail sector.

The Bank is subject to credit risks associated with its retail lending, both express and non-express.

There can be no assurance that the Bank will correctly assess the creditworthiness of credit applicants. While credit rating agencies have announced plans to start operations in Kazakhstan, there are currently no central credit rating agencies in Kazakhstan as there are in Western countries. Moreover, while the Bank has access to several databases of information which helps it to more accurately assess the creditworthiness of some credit applicants, both internally and nationally, such as the tax authorities and the Ministry of Justice, these databases may not provide an accurate assessment of each credit applicant. The Bank's internal database only provides a credit history of existing clients. These factors and other may result in the Bank facing credit delinquencies in its retail portfolio. While the Bank has detailed policies to deal with problem loans, there can be no assurance that these policies will result in full or partial recover of its problem loans.

As of 30 June 2005, 4 per cent (by value) of the Bank's aggregate loans and advances to customers (which includes express consumer loans as well as other loans) were overdue. Express consumer loans accounted for 8.6 per cent of the Bank's assets as of that date. Problem express consumer loans, i.e. loans who are overdue for more than 180 days currently comprise 0.05 per cent. of the Bank's express consumer loan portfolio. There can be no assurance that the Bank's current quality of express consumer loan portfolio will be maintained in the future.

Dependence on the Ability to Recruit and Retain Key Personnel

The Bank's success in growing its business will depend, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. The Bank relies on its senior management for the implementation of its strategy and its day-to-day operations. As competition for skilled personnel, especially at the senior management level, is intense, the Bank seeks further to develop its remuneration levels and to take other measures such as bonuses and continued training to attract and motivate skilled personnel. If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business and results of operations could be adversely affected. Competition in Kazakhstan for personnel with relevant expertise is intense due to a disproportionately low number of available qualified and/or experienced individuals compared to demand. The Bank's failure to manage successfully its personnel needs could adversely affect the Bank's business and results of operations.

Dependence on Information Technology

A substantial aspect of the Bank's strategy is to expand its customer base by providing additional products and services such as credit cards and points of service terminals allowing immediate cash withdrawal, both of which will require a substantial capital investment by the Bank in its information technology. While the Bank is currently in the process of developing its information technology to enable it to provide these services to its customers and believes that it will be successful in such implementation, there is no certainty that the Bank will be in a position in the near future to offer such products and systems. In addition, the Bank may be susceptible to failures in its information technology if it becomes dependent on such products and systems for its success.

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and the capital adequacy of banks. In addition, an institutional development plan was prepared for leading Kazakhstan banks. According to the plan, banks are required to prepare their accounts in accordance with IFRS and to apply the Basel Committee norms within a period determined by the NBK on a case-by-case basis. Banks are also required to participate in a bank-funded deposit insurance scheme and be audited annually by a public accountancy firm approved by the NBK. Following legislative changes in July 2003, the Agency on Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA"), was formed and as from 1 January 2004 assumed responsibility for most of the supervisory and regulatory functions in the financial sector that had previously been performed by the NBK. The FMSA's main task is to regulate and supervise the financial markets and financial institutions. See "The Banking Sector in Kazakhstan".

In addition, the Government of Kazakhstan may implement additional regulations or policies, including with respect to limitations on borrowings by Kazakhstan banks from foreign institutions or on extensions of credit to Kazakhstan borrowers or may otherwise take action that could have a material adverse effect on the Bank's financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Notwithstanding the relatively strict regulatory standards in Kazakhstan, prospective investors should understand that regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in countries with more highly developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries. See "—Risks relating to Kazakhstan—Underdevelopment and Evolution of Legislative and Regulatory Framework".

Reform of the International Capital Adequacy Framework

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

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 market price of the Notes may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank.

Financial stability in emerging market countries other than Kazakhstan could adversely affect the market price of the Notes, even if the economy in Kazakhstan remains relatively stable. Accordingly, the Notes may be subject to fluctuations which may not necessarily be related to the financial performance of the Bank or economic conditions in Kazakhstan.

Taxation in Kazakhstan

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

Under the terms of the current legislation, holders that realise such a gain and do not qualify for an exemption under the appropriate double tax treaty are obliged to file a tax declaration with the Kazakhstan tax authorities. There is, however, uncertainty as to how the Kazakhstan tax authorities would assess such tax on non-resident foreign holders of the Notes.

In addition, as discussed in "Taxation – Kazakhstan Taxation", payments of interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15 per cent., unless, in the case of non-resident holders, reduced by a relevant double tax treaty. The Bank has agreed to pay additional amounts in respect of such withholding. See "Terms and Conditions of the Notes – Condition 9 (*Taxation*)".

The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts in Kazakhstan and there may be some doubt as to whether they would enforce such an agreement. The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See "Terms and Conditions of the Notes – Condition 8(b) (*Redemption for Tax Reasons*)".

Prospective purchasers and holders of Notes should consult their own professional advisers as to the tax consequences of them holding or transferring the Notes.

Credit Rating

Outstanding Eurobonds of the Republic of Kazakhstan are rated Baa3 by Moody's and BBB by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank's long-term rating was upgraded to "Ba2" Stable by Moody's on 20 September 2005 and to "B+" Stable by Fitch on 2 September 2005. Any adverse change in the credit rating of either the Bank or the Republic of Kazakhstan could negatively affect the trading price of the Notes.

Absence of Trading Market for the Notes

There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell their Notes or the price at which such Noteholders would be able to sell Notes. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading London Stock Exchange's

Gilt Edged and Fixed Interest Market. In addition, the Bank will apply for the Notes to be listed on the KASE as from (and including) the Closing Date. There can be no assurance that either such listing will be obtained or, if 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. Further, Kazakhstan is considered by international investors to be an emerging market. Political, economic, social and other developments in other emerging markets may have an adverse effect on the market value and liquidity of the Notes. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

TERMS AND CONDITIONS OF THE NOTES

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

The U.S.$150,000,000 7.875 per cent. Notes due 2008 (the "Notes", which expression includes any further notes issued pursuant to Condition 16 (*Further issues*) and forming a single series therewith) of JSC Bank Caspian (the "Issuer") are (a) subject to, and have the benefit of, a trust deed dated 17 October 2005 (as amended or supplemented from time to time, the "Trust Deed") between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression includes all persons for the time being appointed as trustee under the Trust Deed) as trustee for the holders of the Notes (the "Noteholders") and (b) are the subject of a paying agency agreement dated 17 October 2005 (as amended or supplemented from time to time, the "Paying Agency Agreement") between the Issuer, Citibank, N.A. as registrar (the "Registrar", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A., as principal paying and transfer agent (the "Principal Paying and Transfer Agent", which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Principal Paying and Transfer Agent, the "Transfer Agents", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying and Transfer Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "Agents" are to the Registrar, the Principal Paying and Transfer Agent, the Transfer Agents and the Paying Agents and any reference to an "Agent" is to any one of them.

Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Paying Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below. Copies are also available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Notes are in registered form, without interest coupons attached, in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof (each denomination an "authorised denomination") provided that no transfer shall be permitted if after the transfer of any Note, a Noteholder would hold less than U.S.$100,000 in aggregate principal amount of Notes. The Global Note will be exchangeable for notes in definitive, fully registered, form ("Definitive Notes"), without coupons, in the circumstances specified in the Global Note.

1.2 Title

Title to the Notes will pass by transfer and registration in the Register as described in Conditions 2 (*Registration*) and 3 (*Transfers*). The holder (as defined below) of any Note 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.

In these Conditions, "holder" means the person in whose name a Note is registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "holders" and "Noteholders" shall be construed accordingly.

1.3 Third party rights

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

2. REGISTRATION

The Registrar will maintain a register (the "Register") at the specified office of the Registrar in respect of the Notes in accordance with the provisions of the Paying Agency Agreement. A certificate (each, a "Note Certificate") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

3. TRANSFERS

3.1 Subject to Conditions 3.4 and 3.5, a Note may be transferred in whole or in part upon surrender of the relevant Note Certificate, with the endorsed form of transfer (the "Transfer Form") duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations. Transfer Forms are available from any Transfer Agent, the Registrar and the Issuer upon the request of any holder. In the case of a transfer of only a portion of the Notes represented by a Note Certificate, neither the portion transferred nor the balance thereof not transferred may be less than the applicable authorised denomination, and a new Note Certificate in respect of such balance not so transferred will be issued to the transferor. Transfers will be done through the office of any Transfer Agent upon presentation and surrender of the Note.

3.2 Within five business days of the surrender of a Note Certificate in accordance with Condition 3.1, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 3.2, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

3.3 The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.4 Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.5 All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of the Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. STATUS

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

5. NEGATIVE PLEDGE AND CERTAIN COVENANTS

5.1 Negative pledge

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

5.2 **Limitations on certain transactions**

For so long as any Note is and remains outstanding, the Issuer will not, after the Issue Date, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.$1,500,000 unless such transaction or series of transactions is or are at a Fair Market Value.

5.3 **Limitation on payment of dividends**

For so long as any Note remains outstanding, the Issuer will not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default (as defined in Condition 11 (*Events of Default*)) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default or (ii) at any time when no such Event of Default or event exists, (1) more frequently than once during any calendar year or (2) in an aggregate amount exceeding 50 per cent. of the Issuer's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with International Financial Reporting Standards ("IFRS") (formerly referred to as the International Accounting Standards), for which purpose, the amount of the Issuer's net income shall be determined by reference to its audited financial statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to the payment of any dividends in respect of any preferred shares of the Issuer which may be issued by the Issuer from time to time.

5.4 **Maintenance of capital adequacy**

The Issuer shall not permit its total capital ratio calculated in accordance with the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices (the "Committee") to fall below 13 per cent., such recommendations to be as provided in the Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988 as amended in November 1991 and as further amended, replaced or substituted by the Committee, such calculation to be made by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS.

5.5 **Definitions**

For the purposes of these Conditions:

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

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

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

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

"International Organisation" means any of Asian Development Bank, European Bank for Reconstruction and Development, International Bank for Reconstruction and Development, International Finance Corporation, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. or Deutsche Investitions-und Entwicklungsgesellschaft GmbH and any person which is a, or controlled by any, Kazakhstan governmental body acting on behalf of or funded in relation to the relevant Indebtedness for Borrowed Money by one or more of the foregoing.

"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 (i) 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 (ii) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer's or such Subsidiary's customers, (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 (i) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (ii) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (iii) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (f) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest, (g) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property, (h) granted by the Issuer in favour of an International Organisation to secure Indebtedness for Borrowed Money owed by the Issuer to such International Organisation pursuant to any loan agreement or other credit facility entered into between the Issuer and such International Organisation, provided, however, that (i) the amount of Indebtedness for Borrowed Money so secured pursuant to this clause (h) shall not exceed in the aggregate an amount in any currency or currencies equivalent to 20 per cent. of the Issuer's gross loans and advances to customers (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS) and (ii) the relevant Security Interest only extends to the asset financed by the relevant Indebtedness for Borrowed Money and/or any Security Interest or other claim held by the Issuer in relation thereto, (i) created or outstanding upon any property or assets (including current and/or future revenues, accounts receivables and other payments) of the Issuer or any Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the primary source of payment of any obligations secured by such property or assets is the proceeds of such property or assets (or where the payment of such obligations is otherwise supported by such property or assets) and where recourse to the Issuer or the relevant Subsidiary in respect of such obligations does not extend to defaults by the obligors in relation to such property or assets, provided that the aggregate amount of such obligations so secured pursuant to this clause (i) at any one time (measured at the time of initial incurrence) shall not exceed an amount in any currency or currencies equivalent to 15 per cent. of the Issuer's gross loans and advances to customers (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS) and (j) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.$15,000,000 (or its equivalent in other currencies) at that time.

"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 a separate legal personality.

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

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

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

The Trust Deed does not oblige the Trustee to monitor compliance by the Issuer with the Conditions (including Conditions 5.2, 5.3 and 5.4) but it does oblige the Issuer to furnish the Trustee, annually, with a certificate, on which the Trustee may rely, as to such compliance.

6. INTEREST

6.1 Interest Accrual

Each Note bears interest from 17 October 2005 (the "Issue Date") at the rate of 7.875 per cent. per annum (the "Rate of Interest"), payable on 17 April and 17 October in each year (each, an "Interest Payment Date"), subject as provided in Condition 7 (Payments). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period".

6.2 Cessation of Interest

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

6.3 **Calculation of Interest for an Interest Period**

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

6.4 **Calculation of Interest for any other period**

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

7. PAYMENTS

7.1 **Principal**

Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

7.2 **Interest**

Payments of interest shall be made by U.S. Dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

7.3 **Payments subject to fiscal laws**

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

7.4 **Payment on a business day**

Where payment is to be made by transfer to a U.S. Dollar account, payment instructions (for value on the due date, or, if the due date is not a business day, for value on the next succeeding business day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed (a) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case or part payment only, endorsed) at the Specified Office of a Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for a payment not being a business day or (ii) a cheque mailed in accordance with this Condition 7 (Payments) arriving after the due date for payment or being lost in the mail. In this Condition 7.4, "business day" means any day on which banks are open for business (including dealings in foreign currencies in London and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

7.5 **Paying Agents**

In acting under the Paying Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times and for so long as the Notes remain listed on the London Stock Exchange and such Exchange so requires maintain a paying agent in London, a registrar and a principal paying agent. In addition, the Issuer undertakes that it will ensure that it maintains a paying agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the European 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 in accordance with Condition 14 (Notices).

8. REDEMPTION AND PURCHASE

8.1 Scheduled redemption

Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 17 October 2008, subject as provided in Condition 7 (Payments).

8.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) to any greater extent than would have been required had such a payment been required to be made on 12 October 2005 as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction, but excluding any such change or amendment which obliges the Issuer to pay additional amounts in respect of Notes held by or on behalf of a person resident, domiciled or organised in the Republic of Kazakhstan in respect of whom no additional amounts would be required to be paid in relation to a payment of interest on the Notes if it were required to be made on 12 October 2005), which change or amendment becomes effective on or after 12 October 2005 and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided, however*, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) 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 (ii) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a) and (b) above, in which event they shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 8.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 8.2.

8.3 No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 8.1 and 8.2 above.

8.4 Purchase

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

8.5 **Cancellation of Notes**

All Notes which are redeemed pursuant to Conditions 8.1 and 8.2 or submitted for cancellation pursuant to Condition 8.4 shall be cancelled and may not be reissued or resold. So long as the Notes are admitted to trading on London Stock Exchange's Gilt Edged and Fixed Interest Market, the Issuer shall notify the London Stock Exchange of any such cancellation.

9. TAXATION

9.1 **Taxation**

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

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

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment 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 surrendered the relevant Note Certificate 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 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; or

(d) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Note Certificate to another Paying Agent in a member state of the European Union.

9.2 **Relevant Date**

In these Conditions, "Relevant Date" means 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 New York by the Principal Paying and Transfer 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.

9.3 **Additional amounts**

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 9 (*Taxation*) pursuant to the Trust Deed.

9.4 **Taxing jurisdiction**

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

10. PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

11. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter 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:

11.1 Non-payment

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

11.2 Breach of other obligations

The Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 11 (*Events of Default*)) 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

11.3 Cross-default

(a) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; or (b) any Indebtedness for Borrowed Money becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness for Borrowed Money; or (c) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Indebtedness Guarantee, provided that the amount of Indebtedness for Borrowed Money referred to in (a) and/or (b) above and/or the amount payable under any Indebtedness Guarantee referred to in (c) above individually or in the aggregate exceeds U.S.$5,000,000 (or its equivalent in any other currency or currencies (as determined by the Trustee)); or

11.4 Bankruptcy

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

11.5 **Substantial change in business**

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

11.6 **Maintenance of business**

The Issuer fails to take any action as is required of it under applicable banking regulations in Kazakhstan or otherwise to maintain in effect its banking licence or corporate existence or fails to take any action to maintain any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations which is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders and such failure 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

11.7 **Material compliance with applicable laws**

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

11.8 **Invalidity or unenforceability**

(a) the validity of the Notes, the Trust Deed or the Paying Agency Agreement is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes, the Trust Deed or the Paying Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (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 Paying Agency Agreement or (c) all or any of its obligations set out in the Notes, the Trust Deed or the Paying Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 11.8, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

11.9 **Government intervention**

(a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary is condemned, seized, nationalised or otherwise appropriated by any person acting under the authority of any national, regional or local government or (b) the Issuer or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 11.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders.

As used in this Condition 11 (*Events of Default*) "Material Subsidiary" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5 per cent. of the consolidated gross assets, or, as the case may be, consolidated gross revenues of the Issuer and its consolidated Subsidiaries and, for these purposes (i) the gross assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements, in each case prepared in accordance with IFRS.

The Trust Deed provides that the Trustee may, at any time, or, in making any determination under these Conditions or the Trust Deed, act on the opinion or advice of, or information obtained from, any expert, auditor, lawyer or professional entity, without further enquiry or evidence. If such evidence is relied upon, the Trustee's determination shall be conclusive and binding on all parties, and the Trustee will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

12. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent having its Specified Office in London, subject to all applicable laws and stock exchange 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 Note Certificates must be surrendered before replacements will be issued.

13. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER

13.1 Meetings of Noteholders

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, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing 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 certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "Reserved Matter")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

13.2 Written resolution

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 under the Trust Deed 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.

13.3 Modification without Noteholders' consent

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

14. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and the rules of that exchange so require, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

15. TRUSTEE

15.1 Indemnification

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

15.2 Exercise of power and discretion

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

15.3 Enforcement

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

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

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

15.4 Failure to act

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

15.5 Retirement and Removal

Any Trustee may retire at any time on giving at least three months' written notice to the Issuer without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders may by Extraordinary Resolution remove any Trustee provided that the retirement or removal of a sole trust corporation will not be effective until a trust corporation is appointed as successor Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, it will use all reasonable endeavours to procure that another trust corporation be appointed as Trustee.

16. FURTHER ISSUES

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

17. CURRENCY INDEMNITY

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

18. GOVERNING LAW; JURISDICTION AND ARBITRATION

18.1 Governing law

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

18.2 Submission to Jurisdiction; Arbitration

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

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

FORM OF NOTES AND TRANSFER RESTRICTIONS; SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following information relates to the form, transfer and delivery of the Notes and is a summary of certain provisions to be contained in the Global Note Certificate which apply to the Notes.

1. Form of Notes

All Notes will be in fully registered form, without interest coupons attached. The Notes will be represented by interests in the Global Note Certificate, in fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Citibank N.A., as common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name Citibank N.A.

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

2. Transfer Restrictions

Each purchaser of Notes and each subsequent purchaser of Notes in resales prior to the 40^{th} day after the closing date (the "distribution compliance period"), by accepting delivery of this Prospectus and the Notes, will be deemed to have represented and agreed as follows:

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

(ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

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

3. Notices

Notwithstanding Condition 14 (*Notices*) (and without prejudice to the requirements in such Condition to publish notices in accordance with the rules and regulations of such stock exchange(s) on which the Notes are listed), while all the Notes are represented by the Global Note Certificate and the Global Note Certificate is deposited with a common depositary for the Euroclear and Clearstream, Luxembourg or any other clearing system, notices to Noteholders may be given by delivery of the relevant notice to the Euroclear, Clearstream, Luxembourg or, as the case may be, such other clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to the Euroclear, Clearstream, Luxembourg or, as the case may be, such other clearing system.

4. Meetings

The holder of the Global Note Certificate (unless the Global Note Certificate represents only one Note) will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 principal amount of Notes for which the Global Note Certificate so held may be exchanged.

5. Exchange of Interests in Global Note Certificate for Note Certificates

The Global Note Certificate will become exchangeable for Note certificates in definitive form ("Note Certificates") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) an Event of Default (as defined in Condition 11) occurs. In such circumstances, such Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Bank will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

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

On exchange, a person having an interest in a Global Note Certificate must provide the Registrar with (i) a written order containing instructions and such other information as the Bank and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) a fully completed, signed certificate substantially in the form contained in the Paying Agency Agreement to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Regulation S, a certification that the transfer is being made in compliance with the provisions of Regulation S.

In addition to the requirements described under "Form of Notes and Transfer Restrictions; Summary of Provisions Relating to the Notes in Global FormTransfer Restrictions", the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3.

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

6. Euroclear and Clearstream, Luxembourg Arrangements

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the fifteenth day before the due date for such payment (the "Record Date").

The holdings of book-entry interests in the Notes in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in the Euroclear and Clearstream, Luxembourg.

Interests in the Global Note Certificate will be in uncertificated book-entry form.

So long as the Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of the Global Note Certificate, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the Global Note Certificate for all purposes under the Paying Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the Global Note Certificate will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of the Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar and on behalf of the Issuer on the schedule to the Global Note Certificate. None of the Bank, the Trustee, any Agent or the Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Note Certificate or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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

7. Interests in the Global Note Certificate will be in uncertified book-entry form

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interest in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of the Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to U.S.$147,765,000 after deduction of the combined management and underwriting commission and estimated expenses incurred in connection with the issue of the Notes, will be used by the Bank to finance the growth of its consumer and SME loan portfolio and for other general banking purposes.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange Rates

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

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

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. This decision was supported by international financial organisations such as the International Monetary Fund (the "IMF"). As a result, the Tenge depreciated from a pre-announcement rate of KZT88 per U.S. Dollar to a rate of about KZT130 per U.S. Dollar by May 1999. Thereafter, the Tenge continued to depreciate in nominal terms against the U.S. Dollar for a period, although it strengthened against the U.S. Dollar in 2003 and the first half of 2004.

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

Year ended 31 December

	Period-end	High	Average(1)	Low
1999	138.20	141.00	119.65	83.80
2000	144.50	144.50	142.12	138.20
2001	150.20	150.20	146.73	145.00
2002	155.60	155.60	153.28	150.60
2003	144.22	155.89	149.50	143.66
2004	130.00	143.33	136.05	130.00

Six months ended

	Period-end	High	Average(1)	Low
30 June 2004	136.45	143.33	138.57	136.00
30 June 2005	135.26	136.00	131.20	129.83

(1) The average of the middle rate reported by the NBK on each day during the relevant period.

The middle KZT/U.S. Dollar exchange rate on the Kazakhstan Stock Exchange, as reported by the NBK on 30 June 2005, was 135.26 per U.S.$1.00.

The above rates may differ from the actual rates used in the preparation of the Bank's consolidated financial statements and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the Tenge amounts actually represent such U.S. Dollar amounts or that such amounts could have been converted into U.S. Dollars at any particular rate, if at all.

Exchange Controls

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain outflowing 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 adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules in the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of 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 resulting, among other things, in full internal convertibility of the Tenge, permission for banks to invest abroad, and the removal of restrictions on investments in foreign investment-grade securities and opening of bank accounts in OECD banks by 2007.

Kazakhstan recently significantly liberalised its foreign exchange regulations. Since May 2003, a licence 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 intends further to liberalise licensing rules in 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.

CAPITALISATION

The following table sets out the consolidated capitalisation of the Bank as at 30 June 2005 and as adjusted to reflect the issuance of the Notes:

	30 June 2005			
	Actual		As Adjusted	
	(U.S.$ millions)(1)	(KZT millions)	(U.S.$ millions)(1)	(KZT millions)
Liabilities(2)				
Debt securities issued	97.2	13,143	247.2	33,436
Amount due to Government	0.5	67	0.5	67
Subordinated debt	78.2	10,574	78.2	10,574
Total liabilities	175.9	23,784	325.9	44,077
Shareholders' equity				
Share capital	50.0	6,758	50.0	6,758
Additional paid-in capital	3.8	522	3.8	522
Treasury shares	(0.5)	(70)	(0.5)	(70)
Reserves	40.7	5,500	40.7	5,500
Total shareholders' equity	94.0	12,710	94.0	12,710
Total capitalisation	269.9	36,494	419.9	56,787

(1) U.S.$1.00 = KZT135.26

(2) On 2 September 2005, the Bank entered into a U.S.$65 million one-year syndicated loan co-arranged by Citibank and Standard Bank plc. See ''Description of the Issuer – Syndicated Loans''.

Other than as set forth in the notes to the capitalisation table, there has been no material change in the Bank's capitalisation since 30 June 2005.

SELECTED FINANCIAL AND OTHER INFORMATION

The following table contains selected historical financial and other information derived from the Bank's audited consolidated IFRS financial statements as at and for the years ended 31 December 2004 and 2003, which were audited by Deloitte & Touche. The selected information for the six months ended 30 June 2005 and 2004 is extracted from the unaudited interim condensed consolidated IFRS financial statements prepared by the Bank. Investors should not rely on interim results as being indicative of results the Bank may expect for the full year. The Bank's financial statements have been prepared in accordance with IFRS and are presented in Tenge.

Solely for the convenience of the reader, the Bank has translated the selected income statement information for the six months ended 30 June 2005 and for the year ended 31 December 2004 into U.S. Dollars at the rates of U.S.$1.00 = KZT131.20 and U.S.$1.00 = KZT136.05, respectively and the selected balance sheet information for the six months ended 30 June 2005 and for the year ended 31 December 2004 into U.S. Dollars at the rates of U.S.$1.00 = KZT135.26 and U.S.$1.00 = KZT130.00, respectively.

Prospective investors should read the following selected consolidated financial and other information in conjunction with the information contained in "Capitalisation," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Bank's consolidated interim financial statements and consolidated financial statements and the related notes thereto appearing elsewhere in this Prospectus.

Consolidated Income Statement Data

	For the six month period ended 30 June			For the year ended 31 December		
	2005	2005	2004	2004	2004	2003
	(U.S.$ millions) (Unaudited)	(KZT millions) (Unaudited)		(U.S.$ millions) (Audited)	(KZT million)	
Income Statement:						
INTEREST INCOME						
Loans to customers	47.4	6,216	3,391	55.0	7,483	4,377
Investment Securities	2.6	345	224	3.6	492	580
Amounts due from credit institutions	0.6	73	16	0.4	46	13
	50.6	6,634	3,631	59.0	8,021	4,970
INTEREST EXPENSE						
Amounts due to customers	(6.8)	(883)	(691)	(10.1)	(1,378)	(1,820)
Subordinated loan	(3.7)	(482)	(437)	(6.7)	(914)	(195)
Amounts due to credit institutions	(3.9)	(516)	(187)	(3.7)	(497)	(239)
Debt securities issued	(3.3)	(433)	(118)	(2.5)	(338)	(241)
	(17.7)	(2,314)	(1,433)	(23.0)	(3,127)	(2,495)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	32.9	4,320	2,198	36.0	4,894	2,475
Impairment of interest earning assets	(6.2)	(817)	(508)	(13.3)	(1,810)	(732)
NET INTEREST INCOME	26.7	3,503	1,690	22.7	3,084	1,743
FEES AND COMMISSIONS						
Fees and commission income	8.0	1,052	725	10.9	1,484	1,186
Fees and commission expense	(0.8)	(102)	(75)	(1.6)	(222)	(88)
	7.2	950	650	9.3	1,262	1,098
Gains less losses from trading securities	1.0	134	(95)	(0.3)	(45)	34
Gains less losses from foreign currencies						
– dealing	1.6	208	146	3.4	465	220
– translation differences	(1.9)	(247)	62	0.4	60	(93)
Underwriting income	0.4	47	10	0.3	38	32
Other income	1.9	247	41	1.7	231	54
NON INTEREST INCOME	3.0	389	164	5.5	749	247
Salaries and benefits	(8.9)	(1,173)	(633)	(11.5)	(1,565)	(1,051)
Depreciation	(0.8)	(101)	(42)	(1.3)	(173)	(109)
Administrative and operating expenses	(6.9)	(897)	(481)	(8.2)	(1,111)	(782)
Other impairment and provisions	0.1	11	69	(0.5)	(68)	(123)
NON INTEREST EXPENSE	(16.5)	(2,160)	(1,087)	(21.5)	(2,917)	(2,065)
INCOME BEFORE TAX INCOME EXPENSE	20.4	2,682	1,417	16	2,178	1,023
Income tax expenses	(3.7)	(486)	(160)	(2.9)	(400)	(181)
NET INCOME	16.7	2,196	1,257	13.1	1,778	842

Consolidated Balance Sheet Data

	As at 30 June		As at 31 December		
	2005	2005	2004	2004	2003
	(U.S.$ millions) (Unaudited)	(KZT millions) (Unaudited)	(U.S.$ millions) (Audited)	(KZT million)	
Balance Sheet					
ASSETS:					
Cash and cash equivalents	62.4	8,440	73.7	9,587	6,220
Obligatory reserves	7.3	990	7.8	1,012	681
Trading securities	139.1	18,814	105.7	13,746	8,383
Amounts due from credit institutions	20.0	2,709	20.6	2,675	1,779
Loans to customers	514.1	69,543	380.3	49,432	35,459
Investment securities available for sale	1.0	134	—	—	—
Property and equipment	22.2	2,997	19.5	2,539	1,888
Other assets	7.3	986	5.9	768	326
TOTAL ASSETS	773.4	104,613	613.5	79,759	54,736
LIABILITIES:					
Amounts due to Government	0.5	67	0.6	73	243
Amounts due to credit institutions	222.3	30,071	156.3	20,314	8,729
Amounts due to customers	267.6	36,201	243.8	31,695	30,023
Debt securities issued:					
– subordinated debt securities issued	78.2	10,574	81.3	10,573	7,050
– unsubordinated debt securities issued	97.2	13,143	51.0	6,629	2,250
Deferred tax liabilities	1.2	169	—	—	94
Provisions	1.2	165	1.4	190	123
Other liabilities	11.2	1,513	5.3	687	501
Total liabilities	679.4	91,903	539.7	70,161	49,013
SHAREHOLDERS' EQUITY:					
Share capital	50.0	6,758	44.6	5,797	3,700
Additional paid-in capital	3.8	522	4.0	522	522
Treasury stock	(0.5)	(70)	(0.2)	(25)	(1)
Reserves	40.7	5,500	25.4	3,304	1,502
Total shareholders' equity	94.0	12,710	73.8	9,598	5,723
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	773.4	104,613	613.5	79,759	54,736
FINANCIAL COMMITMENTS AND CONTINGENCIES	168.3	22,760	122.3	15,903	13,158

Selected Financial Ratios

	For the six month period ended 30 June		For the year ended 31 December	
	2005	2004	2004	2003
	(Annualised) (per cent., unless otherwise noted)			
Combined Key Ratios:				
Return on shareholders' equity [(1)]	39.4	39.0	23.21	18.39
Operating expenses/operating income before provisions for loan losses	38.4	38.4	41.3	51.0
Operating expenses/operating income after provisions for loan losses	44.6	43.2	57.3	67.0
Effective provisioning rate on customer loans and advances	4.2	3.1	4.8	3.5
Profitability Ratios:				
Net interest margin[(2)]	11.0	9.2	8.8	7.0
Operating expenses as a percentage of net interest income before provisions for loan losses	50.0	52.6	58.2	78.5
Operating expense as a percentage of average total assets	4.7	4.2	4.2	4.7
Net profit as a percentage of average total assets	4.8	4.5	2.6	2.0
Net profit as a percentage of average shareholders' equity	39.4	39	23.21	18.4
Balance Sheet Ratios:				
Customer accounts as a percentage of total assets	34.6	41.7	39.7	54.9
Total net loans and advances to customers as a percentage of total assets	66.5	66.8	62.0	64.8
Total shareholders' equity as a percentage of total assets	12.1	12.8	12.0	10.5
Liquid assets as a percentage of customer accounts [(3)]	82.6	51.0	82.0	54.5
Liquid assets as a percentage of liabilities of up to one month	95.1	53.3	137.4	120.0
Capital Adequacy Ratios:[(4)]				
Total capital	23	23	27	24
Tier 1 capital	15	15	17	14
Credit Quality Ratios:[(5)]				
Non-performing loans as a percentage of total loans	1.8	1.57	1.66	1.23
Non-performing loans as a percentage of total loans and guarantees	1.58	1.35	1.53	1.08
Provisions for loan losses as a percentage of non-performing loans	249.00	281.00	307.00	295.00
Exchange Rates used in financial statements of the Bank: (KZT/U.S.$1.00)				
Period end	135.26	136.45	130.00	144.22
Average for the period[(6)]	131.20	138.57	136.05	149.50
Macroeconomic Data:				
Consumer Price Inflation (for the twelve months then ended)	3.5	2.4	6.7	6.8
Real GDP (change during the year)	9.1	9.1	9.3	9.2

(1) Calculation is based on average opening and closing balances for the period.

(2) Net interest margin is net interest income before provisions for loan losses as a percentage of average interest-earning assets.

(3) Liquid assets include cash and balances with the NBK, loans and advances to banks (with maturity of less than one month), securities in the trading portfolio and investment securities.

(4) Calculated in accordance with the Basel Accord, as currently in effect.

(5) For the definition of non-performing loans used by the Bank, see ''Selected Statistical and Other Information-Non-Performing Loans and Provisioning Policy.''

(6) The average rate for the period is the average of the KASE's daily rates for the period. The average annual rate is the average of the 12 monthly average rates.

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

The following discussion should be read in conjunction with the Bank's audited annual IFRS financial statements as at and for the years ended 31 December 2004 and 2003 and its unaudited interim condensed consolidated IFRS financial statements as at and for the six months ended 30 June 2005 and 2004 appearing elsewhere in this Prospectus. This discussion includes forward-looking statements based on assumptions about the Bank's future business. The Bank's actual results could differ materially from those contained in such forward-looking statements.

Introduction

Established in 1991, management believes the Bank to be the eighth largest commercial bank in Kazakhstan, measured by total assets as at 30 June 2005, providing both retail and corporate banking products and services. As at and for the six months ended 30 June 2005, the Bank had net income of KZT2,196 million, total assets of KZT104.6 billion and shareholders' equity of KZT12,710 million.

The Bank's financial statements as at and for the years ended 31 December 2004 and 2003 were prepared in accordance with IFRS and audited by Deloitte & Touche. These financial statements are consolidated and reflect the results of operations of the Bank and its subsidiary, AIIG.

The discussion in relation to the Bank's financial statements as at and for the years ended 31 December 2004 and 2003 is, unless otherwise stated, based upon the Bank's consolidated financial statements as at and for the years ended on such dates. This discussion, in so far as it refers to average amounts, has been based upon an analysis of average daily balances calculated on the basis used in the Bank's IFRS financial statements.

The discussion in relation to the Bank's results of operations and financial condition for the six months ended and as at 30 June 2005 and 2004 is based on the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2005 and 2004 which have been prepared in accordance with IFRS and are stated on a basis substantially consistent with the audited annual financial statements included elsewhere in this Prospectus.

Kazakhstan's Economy

Overview

Kazakhstan has been recognised by both the European Union and the United States as having a market economy. It has experienced extensive economic transformation since independence in 1992; for example, real GDP, which fell by 38.6 per cent., between 1990 and 1995, is estimated to have grown by roughly the same amount since then, assisted substantially by the flotation of the Tenge in April 1999 and its subsequent devaluation, improvement in the global economic environment and rising commodity prices over the period.

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

Gross domestic product and incomes

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

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

	For the year ended 31 December							
	2004	2003	2002	2001	2000	1999	1998	1997
Nominal GDP (KZT millions)	5,542,500	4,449,800	3,747,200	3,250,593	2,599,902	2,016,456	1,733,264	1,672,143
Real GDP (percentage change during the twelve months then ended)	9.3	9.2	9.5	13.5	9.8	2.7	(1.9)	1.7
Nominal GDP per capita (KZT)	367,783	297,844	252,263	219,170	174,854	135,088	114,991	109,045
Population (millions average annual)	15.1	14.9	14.9	14.9	14.9	14.9	15.0	15.2

Source: NSA, NBK

Real GDP increases over the period are principally the result of systemic reforms (including price and trade liberalisation as well as privatisation), foreign investment (particularly in the oil and gas and non-ferrous metallurgy sectors), increases in agricultural production, strong commodity prices in recent years and the flotation of the Tenge in April 1999.

Personal Incomes

As at 31 December 2004 the average income per person in Kazakhstan was KZT28,270 per month according to data derived from the NSA.

GDP by source

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

	For the year ended 31 December							
	2004	2003	2002	2001	2000	1999	1998	1997
	(per cent. share of GDP)							
Industry	31.1	29.5	29.3	30.7	31.9	28.2	24.4	21.4
Construction	5.9	6.2	6.1	5.5	5.3	4.8	4.9	4.2
Agriculture	7.9	7.3	7.9	8.7	8.7	9.9	8.6	11.4
Transportation and Telecommunications	12.2	12.1	11.5	11.2	12.0	12.0	13.9	11.7
Trade	11.4	12.1	12.0	12.1	12.6	3.6	15.2	15.6
Other (1)	31.5	32.8	33.2	31.8	29.5	31.5	33.0	35.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

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

The composition of Kazakhstan's GDP has changed over recent years, with the share of agriculture decreasing and that of industry increasing by more than fifty per cent. since 1997.

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and minerals are the most significant industries in the Kazakhstan economy. Exports of hydrocarbons and minerals accounted for 68 per cent. and 65 per cent. of total exports in 2004 and 2003, respectively.

Inflation

The year-on-year rate of consumer price inflation has fallen from 11.2 per cent. at the end of 1997 to 6.7 per cent. as at the end of 2004, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

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

	For the year ended 31 December							
	2004	2003	2002	2001	2000	1999	1998	1997
Consumer Prices	6.7	6.8	6.6	6.4	9.8	17.8	1.9	11.2
Producer Prices	23.8	5.9	11.9	(14.1)	19.4	57.2	(5.5)	11.7

Source: NSA, NBK

Balance of Payments

The following table sets forth the year on year surplus (or deficits) of current accounts and surplus of capital and financial accounts (primarily attributable to inflows of foreign direct investment) as at the dates indicated:

	For the year ended 31 December				
	2004	2003	2002	2001	2000
	(U.S.$ millions)				
Current accounts	532.9	(270.1)	(1,024.3)	(1,389.5)	366.6
Capital and financial accounts	4,592.5	2,756.1	1,239.2	2,428.7	1,016.5

The current accounts deficit in prior years had been offset by inflows of foreign direct investment. The capital and financial accounts 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 accounts surplus of U.S.$2,428.7 million. In 2002, foreign direct investment for the year amounted to U.S.$4,106.4 million, which resulted in a capital and financial accounts surplus of U.S.$1,239.2 million. In 2003, foreign direct investment was U.S.$4,607 million and the capital and financial accounts surplus was U.S.$2,756.1 million. In 2004, foreign direct investment was U.S.$8,423.7 million which resulted in a capital and financial accounts surplus of U.S.$4,592.5 million.

Critical Accounting Policies

Basis of consolidation

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

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 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 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 remeasurement of these items are disclosed in the accounting policies set out in the Notes attached to the audited financial statements of the Bank.

Trading securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recorded in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at the quotes of the Kazakhstan Stock Exchange if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are part of the Bank's treasury management. These agreements are accounted for as financing transactions. Securities sold under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under reverse repurchase agreements are recorded as amounts due from credit institutions or loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the Bank's consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale of such securities are recorded within gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

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

Write off of loans and advances

Loans and advances are written off against allowances for loan losses in the event that loans and advances are unlikely to be repaid, including through repossession of collateral. Loans and advances are written off after the Bank's management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has received all available collateral.

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 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 prior loss experience and management's judgment as to the level of losses that will be most likely to occur 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 Bank's consolidated financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Non-interest expenses are recognized at the time the transaction occurs.

The accrual of interest income on loans is generally discontinued when a loan repayment becomes 30 days overdue as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days overdue, interest accrued in the current year but not received is reversed against interest income and interest accrued in prior years and not received is charged off against the allowance for losses. Subsequent payments by borrowers are applied entirely to the principal if the estimated repayment of the loan is low and to either principal or delinquent interest, based on the estimated repayment of the loan and delinquent interest at the time of payment, if the Bank has objective evidence that the loan and delinquent interest are reasonably assured of repayment within a reasonable period. A non-accrual loan may be restored to accrual status when all the Bank has objective evidence that all principal and interest amounts contractually due are reasonably assured of timely repayment.

Reserve for Insurance Losses and Loss Adjustment Expenses

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

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported. The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in current income.

Results of Operations for the six months ended 30 June 2005 compared to the six months ended 30 June 2004

Net Interest Income

The following table sets out the principal components of the Bank's consolidated net interest income for the six months ended 30 June 2005 and 2004:

	For the six months ended 30 June		Variation
	2005	2004	2005/2004
	(KZT million (Unaudited))		(per cent.)
Interest income	6,634	3,631	82.7
Interest expense	(2,314)	(1,433)	61.5
Net interest income	4,320	2,198	96.5
Provision for loan impairment	(817)	(508)	61.1
Net interest income after provision for loan impairment	**3,503**	**1,690**	**107.2**

Interest income increased by 82.7 per cent. or by KZT3,003 million, from KZT3,631 million for the six months ended 30 June 2004, to KZT6,634 million for the six months ended 30 June 2005. This increase was primarily due to an increase in the volume of loans (both express and non-express) and advances extended to consumers and SMEs in the wholesale and retail trade sector.

For the six months ended 30 June 2005, interest expense increased by 61.5 per cent. or by KZT881 million, from KZT1,433 million for the six months ended 30 June 2004 to KZT2,314 million for the six months ended 30 June 2005. This increase is attributable to an increase in loans from credit institutions and an issuance of domestic bonds by the Bank.

Interest Margin

The Bank's overall net interest margin (net interest income before provision for loan losses as a percentage of average interest-earning assets) grew from 9.2 per cent. for the six months ended 30 June 2004 to 11.0 per cent. to the six months ended 30 June 2005.

The overall net interest margin increased as a result of increases in both consumer and SME loans as a percentage of the Bank's loan portfolio, as these loans generate higher margins than corporate loans.

The following table sets out the effective average interest rates by major currencies for the principal interest-bearing assets and liabilities of the Bank as at 30 June 2005 and as at 31 December 2004. The analysis has been prepared using period-end effective contractual rates.

	For the six months ended 30 June 2005			For the year ended 31 December 2004		
	KZT	USD	Other foreign currencies	KZT	USD	Other foreign currencies
	(per cent.)					
Assets						
Cash and cash equivalents	—	0.1-2.7	0.1-1.9	—	0.1-2.0	0.1-2.0
Trading securities	2.1-8.3	6.5-11.1	—	2.9-8.3	1.7-5.2	—
Amounts due from credit institutions	2.8-9.3	1.9-6.0	—	7.5	2.0	—
Loans to customers	6.0-25.0	5.0-19.0	6.0-16.0	5.0-30.0	5.0-26.0	—
Liabilities						
Amounts due to government	2.0-4.3	—	—	2.0-4.3	—	—
Amounts due to credit institutions	7.5-10.3	3.5-4.3	1.7-9.0	6.0-7.5	1.0-11.8	2.2-6.4
Amounts due to customers	3.0-11.0	1.7-7.5	2.0-7.3	2.0-13.0	1.5-14.0	1.5-8.6
Debt securities issued	8.4-9.5	—	—	8.7-10.1	—	—

Allowance for Losses and Provisions

The allowance for losses and provisions was KZT806 million for the six months ended 30 June 2005 an increase of 83.6 per cent. from KZT439 million for the six months ended 30 June 2004. The increase for the first six months of 2005 as compared to 2004 was primarily due to a conservative review of the Bank's existing lending policy with regard to its corporate loan portfolio. In addition, several corporate clients repaid outstanding cash collateralised loans (totalling KZT5.6 billion) due to the Bank in 2004 for which no provision had been made by the Bank. Provisions as a percentage of the Bank's overall loan portfolio increased as a result.

As a percentage of total loans and advances to customers, the allowance for losses and provisions decreased from 4.8 per cent. for the year ended 31 December 2004 to 4.2 per cent. for the six months ended 30 June 2005. The Bank envisages this percentage will stabilize in 2005 at 4.0-4.5 per cent. The Bank believes that this is the optimal level of allowances and provisions required for its loan portfolio based on analysis of past trends, both of the Bank and the banking sector in Kazakhstan as a whole.

Non-Interest Income

The following table sets out the principal components of the Bank's consolidated non-interest income for the six months ended 30 June 2005 and 2004:

	For the six months ended 30 June		Variation
	2005	2004	2005/2004
	(KZT million) (Unaudited)		(per cent.)
Fees and commission income	1,052	725	45.1
Fees and commission expense	(102)	(75)	36.0
Net gain/(loss) on trading securities	134	(95)	241.1
Net gain on foreign exchange operations			
– Dealing	208	146	42.5
– translation differences	(247)	62	(498.4)
Underwriting income	47	10	370.0
Other income	247	41	502.4
Total non-interest income	1,339	814	64.5

Total non-interest income increased by 64.5 per cent., or by KZT525 million, up to KZT1,339 million for the six months ended 30 June 2005 from KZT814 million for the six months ended 30 June 2004. This increase primarily reflects an increase in the Bank's foreign currency dealings and other income due to an increase in fees and commission income attributable to increased volume of consumer and SME lending operations. Loans extended to SMEs for the six months ended 30 June 2005 increased to 2,630 compared to 248 for the same period in 2004. Express loans extended to consumers increased to 423,976 for the six months ended 30 June 2005 compared to 98,057 for the same period in 2004. As at 30 June 2005, the number of standard or non-express consumer loans outstanding had increased to 3,368 compared to 1,485 as at 30 June 2004.

Income from trading securities increased by 241.1 per cent for the first six months of 2005, however trading securities as a percentage of the Bank's assets decreased to 18 per cent. as at 30 June 2005 from 20 per cent. as at 30 June 2004. Other income increased by 502.4 per cent. to KZT247 million as at 30 June 2005 from KZT41 million as at 30 June 2004. This was primarily attributable to lending penalties and fines incurred and payable by clients of the Bank, which comprised approximately 70 per cent of other income.

Fees and Commission Income

The following table sets out the principal components of the Bank's consolidated fees and commission income for the six months ended 30 June 2005 and 2004:

	For the six months ended 30 June		Variation
	2005	**2004**	**2005/2004**
	(KZT millions) (Unaudited)		**(per cent.)**
Documentary operations	292	228	28.1
Cash operations	289	190	52.1
Settlements	184	156	17.9
Foreign exchange operations	79	63	25.4
Bank account serving	52	29	79.3
Other operations	156	59	164.4
Total fees and commission income	1,052	725	45.1

For the six months ended 30 June 2005, total fees and commission income increased by 45.1 per cent. or by KZT327 million, as compared to the six months ended 30 June 2004. This increase was primarily attributable to increased levels of cash operations due to an increased volume of loans to consumers and the fees and commission earned, and increased documentary and other operations of the Bank. Other operations income is comprised of loan commissions earned and fees charged for safety deposit services and the provision of other services to customers.

For the six months ended 30 June 2005, total fees and commission expense increased by 36.0 per cent. or by KZT27 million to KZT102 million, as compared to KZT75 million for the six months ended 30 June 2004. This increase was largely due to expenses related to the increased levels of operations.

Non Interest Expense

	For the six months ended 30 June 2005 (unaudited)	For the six months ended 30 June 2004 (unaudited)	Variation 2004/2005
	(KZT millions) (Unaudited)		**(per cent.)**
Salaries and bonuses	1,050	565	85.8
Social security costs	123	68	80.9
Administrative	179	84	113.1
Operating taxes	172	71	142.3
Marketing and advertising	123	49	151.0
Occupancy and rent	98	40	145.0
Communications	73	45	62.2
Business travel	53	36	47.2
Transportation	27	19	42.1
Security	24	16	50.0
Repair and maintenance of property and equipment	23	13	76.9
Fines and penalties	21	31	(32.3)
Entertainment	17	5	240.0
Other	87	72	20.8
Depreciation	101	42	140.5
Other impairment and provisions	(11)	(69)	84.1
Total non-interest expense	2,160	1,087	98.7

Non-interest expense increased by 98.7 per cent. or by KZT1,073 million to KZT2,160 million for the six months ended 30 June 2005 as compared to KZT1,087 million for the same period in 2004. This increase was primarily a result of the increase in salary and bonus expenses paid by the Bank, increases in administrative expenses, operating taxes, marketing and advertising, occupancy and rent and depreciation of assets. This increase was partially set off by a decrease in impairment and provision to KZT11 million for the first six months ended 30 June 2005 from KZT69 million for the six months ended 30 June 2004 due to a decrease in the provisions for guarantees.

As at 30 June 2005, the Bank employed 2,662 people, which represented approximately a 30 per cent. increase compared to the number of employees as at 31 December 2004. In addition, the salaries of the employees increased as competition for skilled banking employees in Kazakhstan increased, thereby causing upward pressure on salaries throughout the sector. Salary and bonuses expenses increased 85.8 per cent. for the six months ended 30 June 2005 from the same period in 2004, from KZT565 million to KZT1,050 million. Social security costs which comprise the social security tax payable also increased by 80.9 per cent. This tax is calculated as a percentage of the salary of each of the Bank's employees.

Administrative expenses increased by 113.1 per cent. for the six months ended 30 June 2005 from the same period in 2004, increasing from KZT84 million to KZT179 million, due to increased levels of operations as a result of the Bank's expansion.

Operating taxes include value added tax ("VAT"), withholding taxes and taxes on land, property and transport. Operating taxes increased from KZT71 million for the six months ended 30 June 2004 to KZT172 million for the six months ended 30 June 2005, or by 142.3 per cent. This is primarily attributable to increased withholding tax due to increased foreign borrowing by the Bank.

Marketing and advertising expenses also increased by 151 per cent for the first six months of 2005 to KZT123 million from KZT49 million for the first six months of 2004 due to marketing campaigns to promote customer deposits, consumer (both express and non-express) and SME loans undertaken by the Bank.

Occupancy and rent increased from KZT40 million for the first six months of 2004 by 145 per cent. to KZT98 million for the same period in 2005 due to the increased number of branches and mini-branches rented by the Bank as a result of its expansion.

Depreciation increased by 140.5 per cent. from KZT42 million for the six months ended 30 June 2004 to KZT101 million for the six months ended 30 June 2005, as a result of an increase in the volume of the Bank's fixed assets.

The Bank's ratio of non interest expense to net interest income before provisions for loan losses and non-interest income decreased from 46 per cent. for the six months ended 30 June 2004 to 45.9 per cent. for the same period ended 30 June 2005.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. For the six months ended 30 June 2005, the effective tax expense incurred by the Bank was 18.1 per cent. of the relevant IFRS audited pre-tax income figure compared to the effective tax expense of 11.3 per cent. incurred by the Bank for the six months ended 30 June 2004. The effective tax rate in the first six months of 2005 was lower than the statutory tax rate mainly due to adjustments to the Bank's taxable income from securities, insurance premiums and mortgage premiums.

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 Bank's consolidated net interest income for each of the years ended 31 December 2004 and 2003:

	For the year ended 31 December		Variation
	2004	2003	2004/2003
	(KZT millions)		(per cent.)
Interest income	8,021	4,970	61.4
Interest expense	(3,127)	(2,495)	25.3
Net interest income	4,894	2,475	97.7
Provision for loan losses	(1,810)	(732)	147.3
Net interest income after provision for loan losses	3,084	1,743	76.9

Interest income increased by 61.4 per cent., or by KZT3,051 million, from KZT4,970 million for the year ended 31 December 2003, to KZT8,021 million for the year ended 31 December 2004. This increase was primarily due to increased volumes of loans and advances extended to consumers, in particular, express consumer loans which have annual interest rates of up to 40-45 per cent. The increase in interest income can also be attributed to the increased volume of loans extended to corporate customers in the wholesale retail trade sector, in particular its SME loans which have higher average interest rates of approximately 19 per cent.

For the year ended 31 December 2004, interest expense increased by 25.3 per cent., by KZT632 million, from KZT2,495 million for the year ended 31 December 2003, to KZT3,127 million for the year ended 31 December 2004. The increase in interest expense is mainly attributable to an increase in the volume of loans from credit institutions and the interest payable on the domestic bonds issued by the Bank in 2004.

Interest Margin

The Bank's overall net interest margin increased from 7.0 per cent. for the year ended 31 December 2003 to 8.8 per cent. for the year ended 31 December 2004. This increase was primarily due to the increase in the volume of the Bank's consumer and SME loan portfolios in 2004.

The following table sets out the effective average interest rates by major currencies for the principal interest-bearing assets and liabilities of the Bank as at 31 December 2004 and 2003. The analysis has been prepared using period-end effective contractual rates.

	31 December 2004			31 December 2003		
	KZT	USD	Other currencies	KZT	USD	Other currencies
	(per cent.)	(per cent.)	(per cent.)	(per cent.)	(per cent.)	(per cent.)
Assets						
Cash and cash equivalents	—	0.1-2.0	0.1-2.0	—	0.2-2.0	0.5-4.0
Securities held-for-trading	2.9-8.3	1.7-5.2	—	6.0-17.1	10.0-13.6	—
Amounts due from credit institutions	7.5	2.0	—	2.3-18.0	—	—
Loans to customers	5.0-30.0	5.0-26.0	—	5.0-26.0	5.0-26.0	—
Liabilities						
Amounts due to government	2.0-4.3	—	—	0.0-7.7	—	—
Amounts due to credit institutions	6.0-7.5	1.0-11.8	2.2-6.4	11.5	1.0-9.0	1.7-9.0
Amounts due to customers	2.0-13.0	1.5-14.0	1.5-8.6	2.0-17.8	2.0-14.0	1.8-8.5
Debt securities issued	8.7-10.1	—	—	8.8-9.5	—	—

Allowance for Losses and Provisions

The allowance for losses and provisions increased by 147 per cent. to KZT1,810 million for the year ended 31 December 2004 from KZT732 million for the year ended 31 December 2003. This increase is primarily attributable to the Bank's more conservative reclassification of loans in its loan portfolio in the first quarter of 2004 and a decrease in the number of cash collateralised loans totalling KZT5.6 billion which were repaid by corporate clients of the Bank.

As a percentage of total loans and advances to customers, the loan impairment allowance increased from 3.5 per cent. as at 31 December 2003 to 4.8 per cent. as at 31 December 2004.

Non-Interest Income

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

	For the year ended 31 December		Variation
	2004	**2003**	**2004/2003**
	(KZT millions)		**(per cent.)**
Fees and commission income	1,484	1,186	25.1
Fees and commission expense	(222)	(88)	152.3
Net gain on trading securities	(45)	34	(233.2)
Net gain from foreign exchange operations			
dealing	465	220	111.4
translation differences	60	(93)	164.5
Underwriting income	38	32	18.8
Other income	231	54	327.8
Total non-interest income	2,011	1,345	49.5

Total non-interest income increased by 49.5 per cent. or by KZT666 million, up to KZT2,011 million for the year ended 31 December 2004 from KZT1,345 million for the year ended 31 December 2003. This increase primarily reflects an increase in the Bank's foreign currency dealings and fees and commission income earned from its lending operations.

Fees and Commission Income

The following table sets out the principal components of the Bank's consolidated fees and commission income for the years ended 31 December 2004 and 2003:

	For the year ended 31 December		Variation
	2004	**2003**	**2004/2003**
	(KZT millions)		**(per cent.)**
Cash operations	465	321	44.9
Documentary operations	383	344	11.3
Settlements	341	291	17.2
Foreign exchange operations	153	142	7.7
Other operations	142	88	61.4
Total fees and commission income	1,484	1,186	25.1

For the year ended 31 December 2004, total fees and commission income increased by 25.1 per cent. or by KZT298 million, as compared to the year ended 31 December 2003. This increase was primarily due to increased levels of cash operations due to increased volumes of other operations. Other operations income includes loans commission earned, fees charged for safety deposit services and the provision of other services to customers.

Fees earned from foreign exchange operations increased only by 7.7 per cent in 2004. Foreign exchange operations are conducted only on request of corporate clients of the Bank. The Bank's corporate client base experienced moderate growth in 2004 in comparison to its consumer client base.

For the year ended 31 December 2004, total fees and commission expense increased by 152.3 per cent. or by KZT134 million to KZT222 million, as compared to KZT88 million for the year ended 31 December 2003. This increase was largely due to expenses related to the increased levels of operations.

Non-interest Expense

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

	For the year ended 31 December		Variation
	2004	2003	2004/2003
	(KZT millions)		(per cent.)
Salaries and bonuses	1,401	891	57.2
Social security costs	164	160	2.5
Operating taxes	172	124	38.7
Administrative	194	87	123.0
Communications	105	79	32.9
Business travel	104	52	100.0
Marketing and advertising	102	113	(9.7)
Occupancy and rent	100	74	35.1
Loss on property and equipment disposals	60	11	445.5
Repair and maintenance of property and equipment	52	34	52.9
Transportation	47	32	46.9
Security	35	23	52.2
Fines and penalties	34	—	100.0
Entertainment	27	10	170.0
Office supplies	21	22	(4.5)
Legal and consultancy	17	17	0.0
Decrease in the carrying amount of property arising on revaluation	—	44	(100.0)
Other	41	60	(31.7)
Depreciation	173	109	58.7
Other impairment and provisions	68	123	(44.7)
Total non-interest expense	2,917	2,065	41.3

Non-interest expense increased by 41.3 per cent. in 2004 to KZT2,917 million as compared to KZT2,065 million in 2003 and represented 57 per cent. of total income as at 31 December 2004 compared to 67 per cent. as at 31 December 2003. This increase in non-interest expense was due primarily to increases in salary and bonus expenses, administrative expenses, business travel, depreciation of fixed assets, and loss incurred on property and disposal of equipment. The increase in non-interest expense was partially off-set by a decrease of 44.7 per cent in impairment and provisions for guarantees and other obligations from KZT123 million in 2003 to KZT68 million in 2004.

The major components of the Bank's non-interest expense were salaries and bonuses, which accounted for 48.0 per cent. of non-interest expense in the year ended 2004, compared to 43.1 per cent. for the same period in 2003. Salaries and bonuses increased by 57.2 per cent. to KZT1,401 million for the year ended 2004 from KZT891 million in 2003. The rise in salaries resulted from an increase in the number of staff employed by the Bank to 2,047 as at 31 December 2004 from 1,099 as at 31 December 2003 as well as general pressure to increase the salaries of all banking employees and pay bonuses in Kazakhstan due to stiff competition for skilled labour. Social security costs comprising social security tax (which used to be calculated as a percentage of each employee's income) increased by only 2.5 per cent due to a change in the method of calculation of the tax from a progressive tax rate to a regressive tax rate.

Operating taxes consist of VAT, withholding taxes and taxes on land, property and transport. Operating taxes increased to KZT172 million (38.7 per cent) for the year ended 31 December 2004 from KZT124 million in 2003 due to an increase in withholding tax expenses due to increased foreign borrowing by the Bank.

Administrative expenses increased by KZT107 million (123 per cent.) in 2004 as compared to 2003 due an increase in the number of employees and the growth of the Bank's regional branch network.

Business travel expenses increased by KZT52 million (100 per cent.) in 2004 as compared to 2003 due to the increased volume of travel undertaken by the Bank's employees and the increasing geographical size of the Bank's network.

Marketing and advertising expenses declined by KZT11 million (9.7 per cent) for the same period in 2003. This decrease was primarily attributable to the absence of any new marketing campaigns undertaken by the Bank, the Bank decided to maintain its existing advertising campaigns.

Loss on property and disposal of equipment increased by 445.5 per cent to KZT60 million in 2004 from KZT11 million in 2003 due to the renewal of certain fixed assets and the disposal of certain equipment and property.

Depreciation expenses increased by 58.7 per cent. from KZT109 million in 2003 to KZT173 million in 2004 due to an increase in the value of the Bank's fixed assets primarily as a result of the expansion of the Bank's branch network.

The Bank's ratio of non-interest expense to net interest income before provision for loan losses and non-interest income decreased from 75.9 per cent. for the year ended 31 December 2003 to 51.7 per cent. for the same period ended 31 December 2004, due to higher comparable growth in net income than in interest expense.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. The Bank's income tax expense was KZT400 million for the year ended 31 December 2004, as compared to KZT181 million for the year ended 31 December 2003, which accounted for 18.4 per cent. and 17.7 per cent. of the relevant IFRS audited pre-tax income figure for the years ended 31 December 2004 and 2003, respectively, as a result of the changes to applicable tax laws relating to the tax treatment of certain types of loans.

Financial Condition as at 30 June 2005 and as at 31 December 2004 and 2003

Total assets

As at 30 June 2005, the Bank's total assets amounted to KZT104.6 billion, an increase of 31.2 per cent., on the total assets figure at 31 December 2004. During 2004, the Bank's total assets increased by KZT25,023 million, or 45.7 per cent., from KZT54,736 million at the end of 2003 to KZT79,759 million at the end of 2004. The growth for the first six months in 2005 was primarily attributable to the 40.7 per cent. increase in the net loans to customers in the Bank's retail, SME and corporate loan portfolio. The growth in 2004 was also primarily attributable to the 39.4 per cent. increase in the loans to retail, SME and corporate customers in the Bank's loan portfolio.

As at 30 June 2005, the Bank's cash and cash equivalents had decreased to KZT8,440 million, from KZT9,587 million as at 31 December 2004, a decrease of 12 per cent. This decrease was primarily due to a 60 per cent. decrease in the Bank's current accounts held with various credit institutions. Cash and cash equivalents increased by KZT 3,367 million, or 54.1 per cent., from the end of 2003 to the end of 2004, due to an increase in the Bank's current accounts with the NBK. This increase was primarily due to a significant increase in the volume of customer current accounts with the Bank.

As at 30 June 2005, obligatory reserves totalled KZT990 million, a decrease of 2.2 per cent. as compared to 31 December 2004 primarily as a result of a decrease in customer deposits of the Bank. The Bank is required under Kazakh law to maintain such reserves which are calculated as a percentage of certain liabilities including customer accounts. From 31 December 2003 to 31 December 2004, obligatory reserves increased by KZT331 million, or by 48.6 per cent, due to an increase in demand deposits placed with the Bank. Overall obligatory reserves are subject to volatility of balances on certain current accounts in the Bank.

The Bank held KZT18,814 million of trading securities at 30 June 2005, compared to KZT13,746 million of securities held at 31 December 2004, an increase of 36.9 per cent. which reflects an increase in the volume of the Bank's trading operations and an increase in the holding of government securities by the Bank in order to minimise liquidity risk and diversify its assets. The Bank's trading securities totalled KZT13,746 million as at 31 December 2004, a 64 per cent. increase from KZT8,383 million as at 31 December 2003, primarily due to an increase in the holding of government securities.

As at 30 June 2005, amounts due from credit institutions increased to KZT2,709 million, a 1.3 per cent. increase from 31 December 2004. Amounts due from credit institutions increased by 50.4 per cent. or KZT896 million from KZT1,779 million as at 31 December 2003 to KZT2,675 million as at 31 December 2004 due to an increase in time deposits and loans with the Bank.

As at 30 June 2005, the total amount of outstanding loans and advances to customers, net of loan loss provisions, was KZT69,543 million, an increase of 40.7 per cent., as compared to 31 December 2004. This was mainly due to an increase in the volume of loans and advances extended to consumers and customers in the wholesale and retail trade and construction sectors. The total amount of outstanding loans, net of loan loss provisions, was KZT49,432 million at the end of 2004, a 39.4 per cent. increase as compared to KZT35,459 million at the end of 2003. This increase in 2004 was primarily due to an increase in loans and advances to consumers and customers in the wholesale and retail trade sectors, and reflects the Bank's focus on the retail sector.

As at 30 June 2005, property and equipment assets, less accumulated depreciation, of the Bank, had increased by 18 per cent. from KZT2,539 million as at 31 December 2004 to KZT2,997 million due to an increase in the number of the Bank's branches and mini-branches and the purchase of additional IT and telecommunications equipment. During 2004, these assets increased by 34.5 per cent. or KZT651 million from KZT1,888 million as at 31 December 2003, due to an increase in the number of the Bank's branches and the purchase of additional IT and telecommunications equipment.

Total liabilities

As at 30 June 2005, the Bank's total liabilities were KZT91,903 million, an increase of 31 per cent. as compared to 31 December 2004. This increase was primarily due to an increase in customer accounts, deposits from banks and proceeds from debt securities issued. During 2004, the Bank's liabilities increased by 43 per cent., to KZT70,161 million from KZT49,013 million at the end of 2003. The increase in 2004 primarily resulted from an increase in loans and advances from banks, subordinated and non-subordinated debt securities issued.

As at 30 June 2005, customer accounts totalled KZT36,201 million, an increase of 14.2 per cent., as compared to 31 December 2004 in this sector. This was primarily due to an increase in the number of the term deposits placed with the Bank. In 2004, customer accounts increased by KZT1,672 million or by 5.6 per cent., from KZT30,023 million as at 31 December 2003 to KZT31,695 million, as at 31 December 2004.

As at 30 June 2005, deposits received from financial institutions amounted to KZT30,071 million, an increase of 48 per cent., as compared to 31 December 2004. Deposits received from financial institutions increased by 132.7 per cent., from KZT8,729 million at the end of 2003 to KZT20,314 million at the end of 2004. The significant growth in 2004 and the first six months of 2005 were primarily attributable to an increase in the number of time deposits and loans made by such financial institutions, including a U.S.$40 million syndicated loan in February 2005, an increase in the Bank's trade finance portfolio of approximately 20 million and repurchase agreements entered into by the Bank to finance the increase in volume of loans in the Bank's loan portfolio.

Outstanding subordinated debt of the Bank remained unchanged from 31 December 2004 to KZT10,574 million subordinated debt as at 30 June 2005. As at 31 December 2004, subordinated debt was KZT10,573 million, an increase of 50 per cent from KZT7,050 million as at 31 December 2003. This increase in 2004 was due to a domestic bond issuance by the Bank.

As at 30 June 2005, unsubordinated debt securities issued by the Bank totalled KZT13,143 million, an increase of 98.3 per cent from KZT6,629 million as at 31 December 2004. This increase was primarily attributable to two domestic bond issuances by the Bank. This was an increase of KZT4,379 million or 194.6 per cent. over from this figure as at 31 December 2003.

Amounts due to the government decreased from KZT73 million as at 31 December 2004 to KZT67 million as at 30 June 2005, a decrease of 8.2 per cent. During 2004, amounts due to the Government decreased by 70 per cent. from KZT243 million owed at 31 December 2003 due to the payment of all monies owed to the Ministry of Agriculture of the Republic of Kazakhstan.

Other liabilities of the Bank increased by KZT826 million or 120.2 per cent. to KZT1,513 million at 30 June 2005 from 2004. This increase was primarily attributable to an increase in the volume of balances on the Bank's transit accounts which occurred due to incorrect recipient account details being provided by many clients. Transit accounts are temporary accounts where funds are held until the correct recipient of the funds has been identified. Other liabilities of the Bank amounted to KZT687 million as at 31 December 2004, an increase of 37.1 per cent. from KZT501 million as at 31 December 2003. This increase was primarily due to the reclassification of deferred income tax as other liabilities and the prepayment of fees for safe deposit services and documentary operations by customers of the Bank.

Deferred tax liabilities decreased from KZT94 million as at 31 December 2003 to nil as at 31 December 2004, a decrease of 100 per cent.

Equity and Capital Adequacy Ratios

As at 30 June 2005, the Bank's shareholders' equity had increased by 32.4 per cent., to KZT12,710 million, as compared to the 31 December 2004 figures. As at 31 December 2004, the Bank's shareholders' equity had increased 67.7 per cent., to KZT9,598 million, as compared to KZT5,723 million as at 31 December 2003. The increases in shareholders' equity in 2004 and the first six months of 2005 were a result of additional issuances in shares by the Bank to which its existing shareholders subscribed and retained earnings.

The following table gives certain information regarding the Bank's Tier I and Tier II capital and its risk weighted capital adequacy ratio, based on IFRS as at 30 June 2005 and 31 December 2004 and 2003, and calculated in accordance with the Basel Accord:

	As at 30 June	As at 31 December	
	2005	2004	2003
	(KZT millions, except for percentages)		
Tier I capital	12,243	9,130	5,297
Tier II capital	6,454	5,033	3,534
Tier I and Tier II capital (total capital)	18,697	14,163	8,808
Total risk weighted assets	82,452	52,813	36,895
Capital adequacy ratio (per cent.)	22.7	26.8	23.9

Using ratios calculated in accordance with the Basel Accord, the Bank had a Tier I capital ratio of 17.3 per cent. at 31 December 2004, compared to a ratio of 14.3 per cent. at 31 December 2003 and total weighted capital adequacy ratio (comprising total capital divided by total risk weighted assets) of 26.8 per cent. at 31 December 2004, compared to 23.9 per cent. at 31 December 2003.

Prudential Ratios

The following table sets out certain prudential ratios calculated in accordance with the requirements of the NBK, based on financial statements prepared according to Kazakhstan Accounting Standards, at 30 June 2005 and 31 December 2004 and 2003 regarding capital adequacy, foreign exchange positions, maximum exposures and certain other matters:

	NBK's minimum requirements	As at 30 June 2005	As at 31 December 2004	2003
	(per cent., unless otherwise noted)			
Share Capital (KZT)[(1)]	Not less than KZT2,000 million[2]	6,588	5,804	3,355
Capital Adequacy Ratios				
K1 – tier I capital to total assets[(2)]	Not less than 6 per cent.	9.0	10.0	8.0
K2 – own capital to total assets weighted for risk[(2)]	Not less than 12 per cent.	17.0	22.0	21.0
K4 – Current Liquidity ratio	Greater than or equal to 30 per cent.	106.0	145.0	91.0
K5 – Short-term Liquidity Ratio	Greater than or equal to 50 per cent.	66.0	105.0	59.0
Reserves with the NBK and cash[(3)]	A monthly average of 6 per cent. of deposits with a maturity of less than three months	12.0	11.0	13.3
K6 - investments in fixed assets and non-financial assets to own capital	Not greater than 50 per cent. of the Bank's own capital	21.0	21.0	25.0
Maximum aggregate net open foreign currency position[(4)]	Not greater than 50 per cent. of the Bank's own capital	6.4	22.9	1.8
Maximum net open (short "−" or long "+") position in currencies of countries rated "A" or higher and the Euro	Not greater than 30 per cent. of the Bank's own capital	(5.4)	(23.5)	(2.7)
Maximum net open (short "−" or long "+") position in currencies of countries rated from "B" to "A"	Not greater than 15 per cent. of the Bank's own capital	(0.97)	0.59	1.0
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	Not greater than 100 per cent. of the Bank's own capital	3.0	2.0	8.0
Maximum exposure to any single borrower	Percentage of the Bank's own capital			
− related parties	Not greater than 10	2.0	0	6.0
− other borrowers	Not greater than 25	24.0	23.0	21.0
− on unsecured loans	Not greater than 10	9.0	1.0	2.0

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

(2) The NBK's definition of "own capital" is the sum of Tier 1 capital plus Tier II capital (to the extent it does not exceed Tier I capital) less equity investments. Tier I capital is the sum of share capital plus share premium plus retained earnings less intangible assets and Tier II capital is the sum of current profit for the period plus revaluation reserves plus general provisions (to the extent that they do not exceed 1.25 per cent. of risk-weighted assets) plus subordinated debt (but not more than 50 per cent. of Tier I capital).

(3) Ratio of required reserves to actual reserves.

(4) Ratio of net currency position (including off balance sheet items) to equity in accordance with NBK requirements.

DESCRIPTION OF THE ISSUER

Overview

The Bank re-registered as Joint Stock Company Bank Caspian ("Bank Caspian") on 1 August 2003, to comply with the requirements of the 13 May 2003 Law on Joint Stock Companies.

The Bank is the eighth largest bank in Kazakhstan in terms of assets which at 30 June 2005 equalled KZT104.6 billion.

The Bank's primary business consists of retail and corporate banking. The Bank's retail banking activities and products include deposit taking, consumer loans, mortgages and money transfers. Its corporate banking activities include a broad range of banking products offered to a diversified group of domestic customers, primarily small- and medium-sized companies, in wholesale and retail trade.

The Bank has the largest geographical retail network in Kazakhstan comprising the second largest branch network and the largest express consumer lending network with its express consumer loan outlets. As at 30 June 2005, the Bank, in addition to its head office in Almaty, had 40 branch offices, 74 mini offices and a network of 1,135 express consumer loan outlets situated in retail stores throughout Kazakhstan.

The Bank currently holds three banking licences, a brokerage licence (No. 040110085) issued in December 1999 by the NBK and two general banking licences (No. 245) issued on 4 May 2001 by the NBK and issued on 1 March 2004 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organisations, respectively. Its registration certificate, issued by the Ministry of Justice, is numbered 3403-1900-AO. The registered office and the head office of the Bank is at 90 Adi Sharipov Street, Almaty 050012, Kazakhstan.

History

The Bank was established in 1991 as Al-baraka Bank Kazakhstan. In 1995 OAO LUKoil ("LUKoil") purchased a majority shareholding in the Bank and renamed it Bank Caspian. In 1997, the Bank merged with Kazdorbank, a formerly state-owned bank which was responsible for financing local road boards but which also came with a nationwide network.

In 2002, LUKoil sold its shareholding in the Bank to a group of Russian and Kazakh shareholders, and the Bank become the sole Kazakh bank to be a member of a banking alliance (the "Alliance") with Russian financial institutions in Sibacadembank (Novosibirsk), Mezhtorgbank (Moscow), Dalvnestorgbank (Blagoveschensk) and Uralvneshtorgbank (Yekaterinburg) by virtue of its shareholders holding interests in these institutions.

Until early 2003, the Bank mainly targeted corporate companies engaged in manufacturing, construction, wholesale and retail trade and agriculture. However, in 2003 the Bank's shareholders and management started to implement its retail and SME banking focused strategy. The Bank launched its express consumer lending (See " Business of the Bank – Retail Lending") in its branches and special express consumer loan outlets in various retail stores such as Planet of Electronics, Technodom and Logycom in 2004. In April 2005, it commenced offering various express SME lending products (See "Business of the Bank – SME Banking").

In 2004, the Russian shareholders of the Bank decided to leave Kazakhstan and the Kazakh shareholders took control of the Bank by exchanging their shareholdings in the Russian banks of the Alliance for the Russian shareholders' shareholding in the Bank. The Kazakh shareholders decided to focus on domestic expansion in the Kazakhstan market, with particular emphasis on the Bank's consumer and SME lending businesses.

On 29 July 2005, Alexey Mironov was appointed Chairman of the Management Board replacing Mr Iskakov, one of the principal shareholders of the Bank who had been Chairman since September 2004. This appointment was made in accordance with the strategy of the Bank's shareholders devised on dissolution of the Alliance to appoint individuals or minor shareholders with greater banking experience to positions on the Management Board to ensure the continued development of the Bank and its new consumer and SME lending businesses.

In June 2004, Bank Caspian joined the European Bank for Reconstruction and Development's ("EBRD") Trade Facilitation Programme and Warehouse Receipts Programme.

The common shares of the Bank are currently listed on the "A" list of the Kazakhstan Stock Exchange and as at 30 June 2005 the Bank had over 4,790 shareholders. Three individuals currently control over 85 per cent. of the Bank's issued share capital. See "Management and Share Ownership — Principal Shareholders".

Strategy

Following 18 months of expansion of both the consumer and SME loan portfolios, management aims to ensure that the Bank consolidates its position in the market and continues to grow steadily. The Bank's objective is to become one of the five most profitable banks in Kazakhstan in the next five years by focussing on its higher margin banking products and services, in particular express consumer loans and express loans to SMEs.

In order to implement its strategy, the Bank intends to focus on the following:

- Development of its retail banking distribution network by further geographical expansion,
- Increasing the number of SME clients, by expanding market presence in prime market sectors and locations and offering a high quality of customer service;
- Optimizing of existing banking products and services and introducing new ones, such as credit cards and mortgage loans;
- Leveraging its corporate lending capabilities to build relationships with companies which may facilitate development of the Bank's retail business;
- Continuing to develop its credit assessment, risk management and IT systems in order to support retail portfolio growth;
- Diversifying its funding base by developing relationships with international banks and investors and by using new financing instruments.

Development of its retail banking distribution network by further geographical expansion

The Bank intends to build on its existing market position as the leading bank with the largest geographical retail network comprised of both a branch network and express lending outlet network in retail stores. The Bank plans to strengthen its branch network, which is already the second largest bank in terms of branch network in Kazakhstan by opening more mini-branches in Almaty, Aktobe, Kostanai and various cities and regional towns in Northern and Eastern Kazakhstan (up to 131 by the end of 2005). It also intends to open 250 point-of-sale terminals which will offer limited services to retail customers including deposits and repayment of express consumer loans. The Bank also intends to purchase and install up to fifty ATMs before the end of 2006, providing its VISA credit card holders with full ATM services.

Management has no intention to expand its services or branch network to neighbouring countries.

Increasing the number of its SME clients by expanding market presence in prime sectors and locations and offering a high quality of customer service

The Bank intends to increase the number of its SME clients by expanding its presence in the market sectors and locations where SMEs are most active and by offering them a high quality of customer service. The Bank believes it can offer a higher quality of customer service due to its policy of hiring highly qualified employees who already have gained experience and training in SME lending both from EBRD and other banks and can tailor the Bank's products to fulfill each client's needs. Approximately 64 per cent. of employees in the head office and 40 per cent. of employees in branches who deal with SMEs have received EBRD sponsored SME training.

Optimizing of existing banking products and services and introducing new products, such as credit cards and mortgage loans

In order to continue to improve its financial performance and market share in the competitive express consumer and SME lending sectors, the Bank intends to improve and expand its product range. For this purpose the Bank intends to implement the following: tailor its individual banking products and series of products to specific client sectors, offer a higher quality of customer service by employing individuals experienced in customer relations and financial analysis of products and streamline the various loan application processes both in express consumer and SME lending in order to attract further customers. The Bank is committed to introducing new financial products, such as VISA credit cards which it will commence issuing in the second half of 2005. The Bank also recently introduced a new mortgage product called Mortgage Plus, which allows a successful mortgage applicant to obtain the total funds extended by the Bank for a period of up to two months prior to the purchase of any real estate.

Leveraging its corporate lending capabilities to build relationships with companies which may facilitate development of the Bank's retail business

Management will seek to leverage its corporate lending capabilities to build relationships with companies, especially in the trade and retail sectors which may facilitate the development of the Bank's retail business. At present the Bank has co-operation agreements with clients such as Planet of Electronics, Technodom and Logycom to have express lending outlets in-store, however it intends to open further outlets in other store chains to attract further retail customers and increase the proportion of express consumer loans in its loan portfolio. Furthermore, it aims to market and cross-sell its retail products to employees of such client companies, including car loans, banking cards and insurance.

Continuing to develop its credit assessment, risk management and IT systems in order to support retail portfolio growth

The Bank intends to continue to develop its credit assessment and risk management systems by semi-annual reviews of and amendments to its credit policy and procedures. At the end of 2004, the Bank revised its provisioning policies in light of its strategy to focus on consumer and SME lending. In respect of market risk management, the Bank's management has elected not to hold any open trading positions in foreign currencies and instead invests solely in government securities. The Bank's IT system, which currently allows for customer data to be transmitted three times a day to the centralised head office database, is presently being upgraded in order to allow continuous updates of the Bank's customer database. Continual electronic transmission of such data to the head office which can be downloaded almost immediately, providing communication on a practically real-time basis, will provide the Bank and its employees with a more accurate picture of the Bank's retail portfolio and customers.

Diversifying its funding base by developing relationships with international banks and investors, and by using new financing instruments

In order to diversify its funding base, the Bank intends to develop both new and existing relationships with international banks and investors by either entering into new credit facilities or extending existing facilities. On 2 September 2005, the Bank entered into a U.S.$65 million syndicated loan co-arranged by Citibank and Standard Bank plc in which 22 other banks participated. The Bank is also committed to developing its relationship with the EBRD for further funding for trade finance purposes.

Competition

As at 30 June 2005, there were 34 banks, excluding the NBK and the Development Bank of Kazakhstan (the "DBK"), operating in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. The Bank believes that the decline in the number of banks in Kazakhstan from 35 as at 31 December 2004 to 34 as at 30 June 2005 is primarily attributable to stricter requirements set by the NBK as to capital adequacy, provisioning, maximum exposures, accounting and information disclosure. See "The Banking Sector in Kazakhstan".

The commercial banks in Kazakhstan can be divided into four groups: large domestic banks, including such banks as Kazkommertsbank, Halyk Savings Bank and Bank TuranAlem; medium-sized domestic banks, such as Bank CenterCredit, ATF Bank, Nurbank, Temirbank, Alliance Bank and the Bank; subsidiaries of foreign banks, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan; and other smaller banks.

The Bank currently does not compete with the leading Kazakhstan banks for large corporate clients. It concentrates on smaller corporate clients and SMEs, in the distribution and retail trade sectors, competing mainly against Bank CenterCredit, Alliance Bank and Nurbank for such clients. The Bank's principal competitor in traditional retail banking products such as deposit taking and consumer loans are Halyk Savings Bank (which has the largest branch network in Kazakhstan), Bank CenterCredit, Alliance Bank and Nurbank. Management believes, the Bank to be one of the largest banks in Kazakhstan in terms of express consumer lending (KZT8,955 million as at 30 June 2005). The Bank competes mainly against Texaka Bank and Alliance Bank for such customers, It has the second largest geographical network of branches and largest express lending outlet network in retail stores in Kazakhstan, where express consumer loans can be applied for. However, certain domestic banks, such as Kazkommertzbank may intend to expand their retail products and services in order to increase their market share. In addition, foreign banks may seek to develop their operations in the retail sector in the future. Management believes that the Bank's wide range of lending products and services, including those not offered by all competing banks such as express consumer lending, high quality of customer service and its extensive branch and outlet network position the Bank favourably in the Kazakhstan market to complete for smaller corporate clients, SME clients and retail customers.

The following table compares certain financial information (prepared in accordance with Kazakhstan accounting practices and the regulations of the NBK) relating to the Bank, certain other domestic banks and banks with foreign participation:

	As at 31 December 2004	
	Assets	Shareholders' Equity
	(KZT millions)	
Large local banks		
Kazkommertsbank	656,382	48,161
Bank TuranAlem	613,224	51,489
Halyk Savings Bank	398,186	34,355
Medium-sized domestic banks		
ATF Bank	176,071	18,839
Bank CenterCredit	148,511	12,166
Alliance Bank	120,299	16,323
Nurbank	89,390	10,414
The Bank	80,031	9,648
Temirbank	43,926	5,531
Banks under foreign ownership		
Citibank Kazakhstan	35,203	5,139
ABN AMRO Bank Kazakhstan	41,448	4,815

Source: Published Financial Statements

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

For further information, see "The Banking Sector in Kazakhstan".

Business of the Bank

The Bank is currently authorised to offer products and services such as current accounts, time deposits, consumer and SME loans (both express and non-express), mortgages, foreign exchange, trade finance of export-import transactions and brokerage services.

In 2004, following the dissolution of the Alliance and the subsequent strategy devised by the Bank's shareholders, the Bank focused on increasing its presence in both the consumer and SME sectors. The Bank has already significantly increased its retail (express and non-express loans) and SME lending which represented approximately 22 per cent and 9 per cent., respectively of the Bank's total loan portfolio as at 30 June 2005. As at 30 June 2005, 55 per cent. of the Bank's revenues are attributed to retail and SME business, the remaining 45 per cent. is attributable to corporate clients and trading of securities.

The Bank believes that the credit card business will be one of the most significant growth areas in the retail banking market in the next few years. In December 2004, the Bank become an associate member of the VISA International system and intends to issue up to 5,000 credit cards to its customers in the second half of 2005.

The Bank has 40 branch offices and 74 mini branches which are located in the main cities and larger regional towns of Kazakhstan. It also has 1,135 express lending outlets in retail stores throughout Kazakhstan. It also intends to increase the number of mini-branches to 131 by the end of 2005.

The operations of each branch are subject to internal regulations and to oversight by the head office. Each branch office provides the same broad range of banking services as the head office however, only 32 branches offer express consumer lending and 33 branches offer SME lending. In comparison with branches, mini offices perform a limited number of retail and SME banking operations such as cash deposits, loans and money transfers and, as such, primarily service the Bank's retail customers.

Express lending outlets situated in retail stores offer a limited number of products and services such as loans, insurance and credit cards, although management intends to cross-sell more products to customers in the future. Retail stores pay the Bank a set-up fee to establish such outlets. Express lending outlets are staffed by credit experts employed by the Bank who can grant express consumer loans based on interview and submission of certain required documentation. See "Retail Banking—Express Consumer Lending".

Retail banking

Introduction

The Bank offers a wide range of retail banking products and services, term deposits, overdrafts, consumer loans (both express and non-express), mortgages, currency exchange and debit cards. The Bank will commence issuing VISA credit cards before the end of 2005 and will commence processing and maintenance of such credit cards in November 2005. Since 2003, the Bank has increased its share of the retail banking market by expanding its geographical branch network (at present, the Bank has the second largest network of full service branches in Kazakhstan), introducing and increasing its express lending outlets to 1,135 since the beginning of 2004 (at present, the Bank has the largest number of express consumer loan outlets), which cumulatively mean the Bank has the largest points-of-sale network in Kazakhstan.

The Bank also intends to open approximately 250 points-of-sale terminals in its branches, mini-branches and retail stores throughout Kazakhstan in 2006, where the Bank's customers can repay loans, apply for credit cards and deposit money and 50 ATMs in similar locations in 2006 where the Bank's VISA credit card holders will be able to withdraw money on a 24 hour basis.

The retail banking market is at present one of the Bank's main sources of business due to its extensive branch network and product range and as at 30 June 2005, the Bank held approximately 4.7 per cent. of consumer loans in Kazakhstan.

Retail Lending – Express consumer lending

The Bank commenced offering its "express" consumer loans in 2004 and established express lending outlets in certain retail stores to widen its geographical presence to offer such loans to consumers. Express loans can be applied for and granted within a day in branches and express lending outlets, requiring only a minimal number of documents to be submitted. The Bank's main retail partners with whom it has set-up such outlets are Planet of Electronics, Technodom, and Logycom. It has co-operation agreements with all these retail chains to offer this in-store service.

This type of product provides for the Bank with higher margins than larger corporate loans due to the fees charged and interest rates. The Bank also receives a fee from such retail stores to establish its outlets. It does not pay or receive commission to these stores for loans issued in the in-store outlet.

By 30 June 2005 the Bank had issued 423,976 express consumer loans which management estimates to be in excess of KZT28 billion(approximately US$215 million). As at 30 June 2005 approximately 185,844 loans were outstanding. Express consumer loans (including accrued interest on such loans and after intergroup eliminations performed with AIIG) constituted approximately 12 per cent. of the Bank's gross loan portfolio at that date. See "Loan Portfolio—Loan portfolio structure by sector".

Express consumer loans are available to individuals in permanent employment who hold a residence permit. There are two types of express consumer loans, express consumer cash loans and express consumer goods loans. Express consumer cash loans can only be applied for in branches and account for approximately 80 per cent. of the express consumer loan portfolio. Express consumer goods loans are for consumer products such as white goods or consumer electronics and can only be applied for at the Bank's express lending outlets at various authorised retail outlets such as Planet of Electronics, Technodom and Logycom.

First-time clients of the Bank can apply for cash loans of up to KZT75,000 (approximately US$500) or a consumer goods loans of up to KZT250,000 (approximately US$1,500). Established clients of the Bank can apply for cash loans of up to KZT450,000 (approximately US$3,000) and also receive discounts on fees payable. Such loans have a maturity of up to one year and have an interest rate (including fees and commissions) of 40 - 45 per cent. The monthly repayments under express consumer loans should not exceed 50 per cent. of the applicant's monthly net income.

All express consumer loans must be insured by AIIG, the Bank's subsidiary. AIIG provides counter credit risk insurance for express consumer loans covering any possible late payments or default as well as insurance for the goods (if any) being financed by the loan. AIIG receives a six per cent. and twelve per cent. commission in respect of both the credit risk and property insurance provided. The applicant will enter into two individual contracts, one with the Bank and one with AIIG. If the applicant defaults on the loan, AIIG repays the outstanding amount owed to the Bank. The Bank does not reinsure in respect of the credit risk insurance given by AIIG. If the loan is for the purchase of goods, AIIG will have recourse to the loan collateral in the event of a default.

Express lending outlets are situated in at retail stores and are staffed by authorised credit experts employed by the Bank. Each applicant will be interviewed by a credit expert (if applying at an express lending outlet) or branch officers (if applying at a branch) and will be required to present that individual's identity card, social security card and tax identity number. Additional documents may be required and the client's credit history with the Bank is checked. Approximately 80 per cent. of express consumer loan applications are granted. The Bank maintains an internal credit history database on its clients which contains various types of information, such as information on late payments or overdue amounts (if any) owed by existing clients. Such clients will only be removed from the Bank's internal "black list" once the principal amount of the express consumer loan plus interest on the overdue amount (0.5 per cent. chargeable daily on the outstanding principal amount) is paid off. When assessing the credit risk relating to applicants who are existing clients, credit experts and officers will use the information from this database when making their decision. They also have access to various national databases such as the tax authorities and Ministry of Justice of Kazakhstan for criminal records and judgments which further enables it to verify the accuracy of information provided by potential borrowers.

The Bank's express consumer loans can be repaid at any of the Bank's branches or mini-branches, at other Kazakh domestic banks but a commission fee will be payable by the borrower to the relevant bank or at branches of the Kazakh national post office, Kazpost. Approximately 95 per cent. of repayments are made at the Bank's branches and mini-branches.

Express consumer loans become classified as bad credit if (i) the Bank has reason to believe the borrower has insufficient funds to repay the loan; (ii) the borrower cannot be located; (iii) the borrower has been in prison for a prolonged period of time; (iv) the borrower has left Kazakhstan to take up permanent residence in another country; (v) the borrower has obtained the loan by fraudulent means or (vi) repayment of the loan cannot be enforced in court.

The Bank evaluates its express consumer loan portfolio on a regular basis and strives regularly to improve its loan collection procedures in relation to express consumer loans. In particular, the Bank has created a multi-stage collection system that has resulted in greater efficiency in the recovery of overdue loans.

The Bank's loan collection system involves the following steps and procedures:

- Missed repayment: ten days overdue. Following the first missed payment, a telephone call is made to the relevant borrower by the Security Department informing them of the missed payment and advising on the repayment options available. A late payment fee is charged.
- Missed repayment: 30 – 60 days overdue. If a payment is overdue for 30 to 60 days from the date of actual repayment, a series of telephone calls are made by the Security Department to the borrower's home, work and contact persons stated on the loan application form informing the borrower and such person(s) of the missed payment and advising on the repayment options available. A late payment fee is charged.
- Missed repayment: 90 – 120 days overdue. If a payment is overdue for 90 to 120 days from the day of actual repayment, a series of telephone calls are made by the Security Department to the borrower's home, work and contact persons stated on the loan application form notifying the borrower and such person(s) of the missed payment and advising on the repayment options available. A late payment fee is charged. The Bank will also try to locate the borrower. Additional sources of repayment will be reviewed and determined by the Bank.
- Assessment and Notification. Loans that remain overdue are reviewed by the Express Lending Department of the Bank who access certain databases to source the borrower's address and official record to discover the reasons for such overdue repayments. The Security Department will then serve a formal notice of default. If the borrower has insufficient funds to repay the loan the borrower will be served with a notice seeking immediate repayment of the principal and interest of the loan, prior to maturity. A list of borrowers with overdue indebtedness is prepared and submitted to the Legal Department.
- Potential Default. If loan repayments remain overdue for more than 120 days and the Bank considers the loan unlikely to be repaid, the Bank will seize and liquidate the underlying collateral or other property of the borrower.

Retail Lending – consumer lending

The Bank also offers standard or 'non-express' consumer loans, such loans represented approximately 40,000 client accounts as at 30 June 2005. The Bank estimates that such consumer loans (including accrued interest on such loans) constituted approximately 10 per cent. of the Bank's gross loan portfolio as at 30 June 2005. Such secured loans are typically cash loans or are loans provided for the purchase of motor vehicles, home improvements or to finance educational studies, travel, medical care or other services. Such loans have an average maturity of three years and an annual interest rate of up to 30 per cent. These loans can be categorised into the following:

- "Immediate income-related loans" are loans for amounts between KZT140,000 (approximately U.S.$1,000) to KZT7 million (approximately U.S.$50,000). Such loans have an average annual interest rate of 23 per cent. and a maturity of up to five years. Such loans must be secured, typically motor vehicles or real estate act as the underlying collateral.
- "Immediate non-income related loans" are loans for amounts between KZT70,000 (approximately U.S.$500) to KZT3.5 million (approximately U.S.$25,000). Applicants do not have to provide verification of income when applying for such loans. Such loans have an average annual interest rate of 29 per cent. and a maturity of up to five years. Such loans must be secured, typically motor vehicles or real estate act as the underlying collateral.
- Car loans are loans for amounts between KZT140,000 (approximately U.S.$1,000) to KZT 7 million (approximately U.S.$50,000). Such loans have an average annual interest rate of up to 22 per cent. depending on the size of the down payment made on the motor vehicle by the applicant. Such loans can have a maturity of up to five years. Such loans must be secured, typically motor vehicles or real estate act as the underlying collateral.
- Deposit loans are loans for amounts of and in excess of KZT70,000 (approximately U.S.$500) depending on the size of the deposit. The cash deposit acts as security for the loan. Such loans have an average annual interest rate of 4 per cent., clients are not paid interest on their collateralised deposits. Collateral must be provided and usually is the client's deposit held with the Bank.

Applications for 'non-express' consumer loans can be reviewed and granted within three days of submission of the application. If applying for a consumer loan, the applicant must complete the Bank's standard loan application form and applicant questionnaire. The following documentation must also be submitted: the applicants identity card, tax registration number, verification of the applicant's personal income (not if the loan is an "immediate non-income related loan"), and if the loan is a deposit loan, the relevant deposit documentation.

The application is reviewed by the branch credit officer and the legal department in the relevant branch. The credit officer can authorise the loan, provided the loan is not in excess of the relevant branch limit, which can be up to KZT26 million (approximately U.S.$200,000). If the loan application is rejected, it is then referred to the Legal Department at the head office who can reverse this decision. For amounts in excess of branch limits, non-express consumer loan applications will be referred to the Head Office Credit Committee together with an internal legal opinion as to the creditworthiness of the applicant.

The Bank also commenced offering residential mortgage loans to customers in May 2005. As at 30 June 2005 mortgages accounted for approximately 20 per cent. of the Bank's non-express consumer loan portfolio and amounted to KZT1,600 million (approximately U.S.$12 million). Mortgage loans are represented by two products offered by the Bank and one product offered in conjunction with JSC Kazakhstan Mortgage Company. The mortgage products offered by the Bank are:

- "Standard" mortgage loans are loans offered in Tenge or US Dollars only and have a maximum term of 10 years. The loan funds are extended to the mortgage applicant and the underlying real estate to be purchased acts as security. The annual interest rate is 25 per cent. and an initial down payment of 15 per cent. is required.
- "Mortgage Plus" loans (launched in May 2005) are provided in Tenge or US Dollars only and have a maximum term of 10 years. The Bank extends the loan funds to the customer. The customer has a two month period to find suitable real estate (which will act as security under the mortgage) and pays the Bank accrued interest during this period. The annual interest rate is 25 per cent. and an initial down payment of 15 per cent. is required.

The Bank also participates in the programme established by the NBK in 2000 for long-term financing of house construction and to encourage the development of a mortgage finance system in Kazakhstan.

Under this programme, participating banks, including the Bank, extend mortgage loans to retail customers and then transfer loans to the JSC Kazakhstan Mortgage Company ("KMC"), a wholly owned subsidiary of the Ministry of Finance of the Republic of Kazakhstan (in return for which the Bank receives a 4 per cent. commission), for further resale in the secondary mortgage market. The credit risk is borne by the KMC, the mortgage cannot be transferred back to the Bank, who acts as a guarantor for such mortgage.

Credit Cards

The Bank believes that the credit card business will be one of the most significant growth areas in the retail banking market in the next few years. In December 2004, the Bank became a participating member of the VISA International payment system allowing customers to withdraw cash and pay for goods throughout the world. Credit cards will be offered in all the Bank's branches and mini-branches before the end of 2005. The Bank's credit card transactions will be initially processed and maintained by Halyk Savings Bank, however the Bank intends to open its own processing centre in November 2005. The Bank also intends to commence offering credit cards at express consumer loan outlets in the first half of 2006.

Credit cards can be applied for and granted within ten business days, based on an interview with a credit expert or officer of the Bank (depending on where the application is sought) together with the submission of the applicant's identity card, premier land registration and tax identity number. The Bank checks its internal database (which it uses in express consumer loan applications) to check the credit risk of the applicant. Management plans to issue approximately 5,000 credit cards by the end of 2005.

In July 2005, the Bank obtained an approval from American Express to commence offering American Express credit cards, which it intends to offer to its corporate clients. In addition, the Bank is considering the benefits of joining the Mastercard payment system.

Other retail products

As at 30 June 2005, the Bank has approximately 3 per cent. market share of the retail deposit market. The Bank's retail deposits consist of current accounts and time deposits. Management intends to increase market share through its extensive branch network and improved quality of services provided.

SME Banking

The Bank commenced SME lending in April 2004 and it now offers SME lending in 33 of its 40 branches. It also has established a SME department in its head office which co-ordinates with branches with regard to products and services offered to SMEs and develops new products for the SME sector. The Bank provides commercial banking products and services to SMEs in many sectors including retail and wholesale trade, manufacturing, construction and agriculture. The Bank classifies SMEs as companies or businesses or individual entrepreneurs with assets of less than KZT315.5 million, less than 250 employees and an annual turnover which does not exceed U.S.$9 million. The maximum size of a loan for which an SME can apply is U.S.$1 million.

The Bank has a number of trading partners who co-finance SMEs, including the NBK and a number of major international financial institutions such as the EBRD. Loans to SMES (including accrued interest on such loans) constituted approximately 9 per cent. and 7 per cent. of the Bank's gross loan portfolio as at 30 June 2005 and 31 December 2004, respectively. As at 30 June 2005, the Bank had approximately 2,630 SME loans outstanding.

In addition to traditional banking products, the Bank has developed the following products aimed specifically at the SME sector:

- SME 'micro loans' for amounts up to KZT 2.6 million (approximately U.S.$20,000);
- SME 'small loans' from KZT 2.6 million (approximately U.S.$20,000) to KZT 39 million (approximately U.S.$300,000);
- SME 'medium loans' from KZT 39 million (approximately U.S.$300,000) to KZT 130 million (approximately U.S.$1 million).

Interest rates are set at rates in excess of 16 per cent. per annum. Short-term loans with a maturity of less than 24 months are used for working capital purposes. Longer term loans, with a maturity of between 5 and 10 years are usually for the purchase of equipment, motor vehicles, real estate and construction works.

Applications for such loans can be reviewed and granted within approximately nine working days of submission of the application. Applications for any of the SME loans in excess of the standard maximum amount will take longer to process, if successful the loan will be granted within twenty days of submission of the application.

If applying for a 'micro' loan, the applicant must complete the Bank's standard application form. If the SME applicant is an individual entrepreneur, the following documents must be submitted: the applicants identity card, tax registration number, tax declaration, any available credit history and documents relating to the collateral for the loan. If the SME applicant is a corporate, the following documents must be submitted: copies of the constitutional documents of the company, a list of the company's authorised signatories, the director's identity card, tax authority certificate, the company's financial statements, credit history and documents on the collateral for the loan. Additional documentation may also be required.

The application is reviewed in the relevant branch by the credit expert and the legal department. The credit committee of the branch can authorise the loan, provided the loan is not in excess of the relevant branch limit, which can be up to U.S.$200,000. If the loan is for an amount in excess of the branch limit, it is then referred to the Head Office Credit Committee who can revise the decision and approve the loan.

Loan applications for SME 'small' and 'medium' loans must be completed on the Bank's standard application forms. The credit officer and Collateral Security Department of the relevant branch or head office will then meet with the applicant. The credit expert will prepare an opinion on the application. This opinion together with four other opinions as to the creditworthiness of the applicant from the Legal, Risk Management, Collateral and Security Departments from the relevant branch or head office will be submitted to the relevant credit committee. This procedure is limited to loans sought within the permitted levels of the branch. For amounts in excess of branch limits, such SME loan applications will be referred to the SME Finance Department in the Bank's head office and will be submitted to the Head Office Credit Committee together with an internal legal opinion as to the creditworthiness of the applicant.

The Bank also developed and launched "Express" SME loans in October 2004. "Express" SME loans come in three basic products depending on whether the loan is for goods, services or cash. Express loans are for amounts between KZT60,000 (approximately U.S.$500) and KZT650,000 (approximately U.S.$5,000), aimed at smaller businesses and usually require collateral to be given as security for a loan. There are a number of "Express loans" available depending on the purpose for which the loan is being taken out:

- "Business Express" loans are loans for amounts between KZT6,000 (approximately U.S.$500) and KZT650,000 (approximately U.S.$5,000). These loans are targeted at small businesses and traders and are generally secured against goods in turnover and motor vehicles used in the business. Such loans are usually granted within two to seven days of application.
- "Fast" loans are loans for amounts up to KZT195,000 (approximately U.S.$1,500). First-time applicants can only apply for amounts up to KZT60,000 (approximately U.S.$500), subsequent loan applications can be for increased amounts in KZT20,000 increments. Such unsecured loans are aimed at retailers in the wholesale and retail trade who own their retailing trading outlet. Such loans can be granted on the same day of application.
- "Trading" loans are unsecured loans for amounts between KZT60,000 (approximately U.S.$500) and KZT650,000 (approximately U.S.$5,000). Such loans are usually to purchase stock in trade and are aimed at stallholders and traders in the wholesale and retail sector.

Each type of loan has a maximum term of 12 months and interest rates are approximately 36 per cent. per annum. Express SME loans are relatively new and comprise approximately 0.4 per cent of the Bank's loan portfolio as at 30 June 2005.

Applications for "Business Express" loans can be reviewed and granted within approximately four days of submission of the application. "Fast" loans can be reviewed and granted on the actual day of submission of the applicant.

If applying for any express SME loan, the applicant must complete the Bank's standard application form. If the SME applicant is an individual entrepreneur; the following documents must be submitted: the applicants identity card, tax registration number, tax declaration, any credit history and documents on the collateral for the loan. If the SME applicant is a corporate; the following documents must be submitted by the company: its constitutional documents, a list of the company's authorised signatories, the director's identity card, its tax authority certificate, financial statements, any available credit history and any documents regarding the collateral for the loan. Additional documentation may also be required.

The application is reviewed by an SME credit officer who prepares an opinion on the applicant. The loan application and credit opinion will be reviewed by the relevant branch credit committee if the amount of the loan is within branch limits or will be referred to the Head Office Credit Committee if in excess of branch limits.

As at 30 June 2005, the maturity of the loans in Bank's SME loan portfolio was split into the following three categories: loans with a maturity of less than one year accounted for approximately 16 per cent., loans with a maturity between one and three years accounted for approximately 75 per cent. and loans with a maturity of more than three years accounted for approximately 9 per cent.

Corporate Banking

The Bank provides commercial banking products and services to corporate customers and, to a limited extent, large businesses in Kazakhstan. The Bank's corporate banking activities include the provision of a broad range of traditional corporate banking services, including deposit taking, overdrafts, export-import transactions, loans, letters of credit and guarantees, to a diversified group of domestic customers, in particular, the wholesale and retail trade sector. As at 30 June 2005, the Bank had approximately 1,648 corporate current accounts. Loans to corporate clients (including accrued interest on such loans and exposures under documentary credits issued for the benefit of its corporate clients) constituted approximately 68 per cent. and 71 per cent. of the Bank's gross loan portfolio as at 30 June 2005 and 31 December 2004, respectively. Of this, the Bank estimates that approximately 7 per cent. and 12 per cent. of total corporate loans as at 30 June 2005 and 31 December 2004 represented exposure under documentary credits issued. Management believes that, the Bank's share of the corporate lending market in Kazakhstan was approximately 2.7 per cent. as at 30 June 2005.

The majority of the Bank's loans to corporate clients have a maturity of less than a year. As demand for longer-term facilities grows, the Bank acknowledges the necessity of lengthening the maturity of its funding base to compensate for this demand. At present approximately 37 per cent. of the Bank's corporate loans have a maturity of more than a year.

All loan applications by corporate customers must be submitted to the Bank on its standard application forms. The Bank's branch credit officers will conduct an initial compliance review of each application and prepare a credit file on the applicant. The collateral is then appraised by a collateral manager at the branch or head office or if necessary, by an independent appraiser. The Bank's Legal Department conducts a review of the loan agreement and other legal documentation involved in the lending process. The reputation and experience of the applicant is then analysed by the Security Department who obtains references from third parties, including other banks and various governmental authorities. Finally, the application is reviewed by the Risk Management Department who prepares a credit assessment based on the various opinions submitted by these various officers and departments of the Bank on the creditworthiness of the applicant. Depending on the amount requested and the borrower, the credit opinion is examined by the appropriate credit committee body of the Bank for a final decision as to whether to grant the loan.

Capital Markets

Kazakhstan's capital markets are gradually developing as the economy grows. An important factor in this development was the establishment of domestic private pension funds and asset management companies in 1998. The Bank offers brokerage services to its clients for government securities. However, the fees and commission income earned from these services is not significant due to the fact that government securities yield low income and the Bank is not permitted to offer brokerage services for non-state securities. As a matter of policy, the Bank does not engage in any proprietary trading. The Bank also issues bonds on the domestic capital markets and carries out foreign exchange operations on client request. It has issued bonds in excess of KZT23,717 million (approximately U.S.$175 million) on the A list of the KASE.

International Banking

In July 2005, the Bank established a representative office in London. The Bank maintains correspondent banking relationships with many international leading banks, including Bank Gesellschaft Berlin, The Bank of New York, Deutsche Bank, Bayerische Hypo-und Vereinsbank, Commerzbank, Raiffeisen Zentralbank Osterreich, ING Bank, Calyon Bank, Mashreq Bank, Bank of Montreal and others.

Technology

The Bank operates an integrated banking system between its head office and branches and has a unified same-day payment system which allows for on-line interactive communication between the head office and its branches throughout the entire branch network. The integrated banking system also operates in an off-line capacity. In addition, each branch maintains its own database off-line, independent of the mainframe at the head office, and transmits data electronically to the head office at least three times daily where consolidated accounts are prepared. In 2005 the Bank commenced installation of a new integrated banking system which aims to facilitate the continual electronic transmission of data from branches to the head office where it can be downloaded, providing almost real-time communication. The Bank intends to continue to invest in the maintenance and upgrading of this new system in the short- and medium-term. The Bank maintains a policy of active investment in new technologies and software and invested KZT164 million in 2004 and has budgeted KZT212 million in 2005 for such purposes.

As at the date of this Prospectus, the Bank is one of the few banks in Kazakhstan that has obtained the Certificate of Compliance to International Banking Information Technology Standards issued by the NBK. Use of an up-to-date communications system enables the Bank to execute payments by reliable and secure channels pooling all of its branches, departments and divisions into a unified corporate network and allows information exchange with the Bank's head office. Whilst the Bank has certain real-time communication capabilities at branch level, technical capability issues and inefficiencies may arise in the absence of actual real-time communication with the branches, particularly in relation to risk management capabilities, liquidity management and monitoring of lending activities.

However, management believes that investing this new integrated banking information system which practically provides real-time, interactive communication between the branches and the head office will reduce the possibility of such technical capability issues.

Subsidiary

As at 30 June 2005, the Bank had one subsidiary, JSC Insurance Company Almaty International Insurance Group ("AIIG"), which was formed as a joint stock company in 1994. AIIG is wholly owned by the Bank. AIIG holds two licences DOS 5-2/1 and OS 5-2/1, for the provision of non-voluntary and obligatory insurance. AIIG offers a wide range of insurance products such as counter credit risk, life, accident, medical and property insurance and reinsurance. As at 30 June 2005, AIIG had 22 employees.

AIIG's main source of revenue is providing counter credit risk insurance for express consumer loans and insurance in respect of the goods financed by such loans. AIIG receives a six per cent. and twelve per cent. commission (calculated as a percentage of the loan insurance premium provided) for providing such types of insurance. As at 31 December 2004, approximately 92 per cent. of insurance premiums and 91 per cent. of income earned by AIIG was attributable to insurance provided in relation to the Bank's express consumer loan business.

AIIG receives a twenty one per cent. commission (calculated as a percentage of the insurance premium provided) for provision of life and medical insurance.

Employees

As at 30 June 2005, the Bank had 2,662 full-time employees, of which 2,099 were employed at the Bank's branches. Ninety-two per cent. of the Bank's employees in professional positions hold university degrees and a number of key staff have been trained at the Bank's primary correspondent banks including UBS, Commerzbank, American Express and others. The Bank has never experienced industrial action or other work stoppages resulting from labour disputes.

Property

The Bank owns its head office at 90 Adi Sharipov Street, Almaty 050012, Kazakhstan. The Bank either owns or leases the buildings used by its branches and mini-branches, it leases approximately 70 per cent of such buildings. The Bank rents all of its express lending outlets in retail stores, but does not pay any rental fee to such stores.

Legal Proceedings

Neither the Bank nor AIIG is, or has been party to any governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Bank is aware), during the twelve months before the date of this Prospectus which may have or have had a significant effect on the financial position or profitability of the Bank or AIIG, taken as a whole.

Asset, Liability and Risk Management

Introduction

The principal risks inherent to the Bank's business are credit risk, liquidity risk, interest rate risk and foreign currency exchange rate risk and operational risk. The Bank monitors and manages the mismatch of maturities, the size and degree of its interest rate and foreign currency exchange rate exposure and credit quality in order to minimise the effects of those risks relative to the Bank's profitability and liquidity position.

The asset liability and risk management functions are divided amongst the Management Board, the Risk Management Department, the Treasury Department, the Information Technology Department and various credit committees located in branches and in the head office. The Bank's asset and liability management policy is formulated by the Asset and Liability Committee ("ALCO"). The ALCO considers and establishes policies to control interest rate risk, currency risk, liquidity risk and credit risk based on weekly reports received from the Risk Management Department and the Treasury Department on their respective activities. The ALCO contains eight members. The ALCO reports to the Management Board regarding its activities on a monthly basis.

The Risk Management Department's main responsibilities are monitoring of the Bank's loan portfolio, maintaining established lending policies, assessing of loan applications which are in excess of the relevant credit committee authorised limits and jointly monitoring and managing liquidity risk, currency risk and interest rate risk with the Treasury Department. The Risk Management Department reviews the Bank's loan portfolio on a monthly basis, reclassifies any loans in accordance with the NBK approved regulation, adjusts the loan loss reserves accordingly and determines strategies and policies regarding assets and contingent liabilities for the forthcoming month while maintaining adequate liquidity and compliance with industry norms. The Risk Management Division has 19 members, 13 of which are located in the head office, 6 are based in various regional branches. The Information Technology Department is responsible for the monitoring of operational risk.

The Bank has established several credit committees, the Head Office Credit Committee, the Directorates Credit Committee, the Lower Level Credit Committee, the SMEs Credit Committee, the Branch Credit Committee and the Bad Loans Credit Committee which are responsible for making credit decisions within their specified areas. The Head Office Credit Committee is also responsible for setting limits for all such authorised credit committees of the Bank in terms of amount, interest rates, terms and schedule of repayment. Credit limits for regional branches vary from U.S.$10,000 (KZT1.3 million) to U.S.$200,000 (KZT26 million) depending on the size of the branch. The Lower Level Credit Committee reviews applications for amounts up to U.S.$300,000 (KZT39 million). The Head Office Credit Committee reviews applications from U.S.$300,000 (KZT39 million) to U.S.$15 million (KZT1.95 billion). All loans in excess of U.S.$15 million require the approval of the Management Board. See "Lending Policies and Procedures".

Funding And Liquidity

Introduction

The Bank's funding and liquidity management policy seeks to ensure that, even under adverse conditions, the Bank maintains sufficient funds available to meet its operational needs and to ensure compliance with FMSA regulations. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and financial commitments associated with financial instruments and the risk of being unable to liquidate a position in a timely manner at a reasonable price. In order to manage liquidity risk, the Bank monitors daily future expected cash flows on clients' and banking operations, as part of its assets and liabilities management process.

The Board of Directors sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank's main areas of activity in the interbank market are repurchase and reverse repurchase transactions. Such transactions are usually concluded within a day. Such interbank borrowing is conducted to regulate daily liquidity.

The following table sets out the Bank's sources of funds for the periods indicated:

	As at 30 June		As at 31 December			
	2005		2004		2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Amounts due to customers	36,201	39.4	31,695	45.2	30,023	61.3
Amounts due to Government	67	0.1	73	0.1	243	0.5
Amounts due to credit institutions	30,071	32.7	20,314	28.9	8,729	17.8
Debt securities issued:						
– subordinated debt securities issued	10,574	11.5	10,573	15.1	7,050	14.4
– unsubordinated debt securities issued	13,143	14.3	6,629	9.4	2,250	4.6
Deferred tax liabilities	169	0.2	—	—	94	0.2
Provisions	165	0.2	190	0.3	123	0.2
Other liabilities	1,513	1.6	687	1.0	501	1.0
Total liabilities	**91,903**	**100**	**70,161**	**100**	**49,013**	**100**

The following table gives certain information as to the Bank's liquidity for the periods indicated:

	As at 30 June 2005	As at 31 December 2004
	(per cent.)	
Net Loans(1)/total assets	66.5	62.0
Net Loans(1)/customer accounts	192.1	156.0
Net Loans(1)/shareholders' equity	547.2	515.0
Liquid assets(2)/total assets	28.6	32.6
Liquid assets(2)/customer accounts	82.6	82.0

(1) Net loans means loans and advances to customers, net of allowances for losses.

(2) Liquid assets comprise held-to-maturity securities, trading securities, available-for-sale securities, cash, cash equivalents and due from bank (with maturity of less than 1 month).

Customer accounts

Corporate customer accounts traditionally represent a significant portion of the Bank's funding base. According to information compiled by the Bank, the Bank has a 1.5 per cent. share of the corporate deposit base in Kazakhstan. As at 30 June 2005 the total corporate customer accounts of the Bank accounted to KZT21,189 million.

As at 30 June 2005, the ten largest depositors totalled KZT8,119 million, and accounted for 22 per cent. of total deposits, compared to KZT9,233 million (29 per cent.) and KZT13,681 million (46 per cent. as at 31 December 2004 and 2003 respectively. All top ten depositors have placed their deposits with the Bank as time deposits.

As at 30 June 2005, time deposits were KZT25,528 million or 70.5 per cent. of total customer accounts, compared to KZT19,611 million (61.9 per cent) and KZT23,232 million (77.4 per cent.) of total customers accounts at the end of 2004 and 2003, respectively.

The following table sets forth details of customer accounts broken down into time deposits and current accounts as for the periods indicated:

	As at 30 June		As at 31 December			
	2005		2004		2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Time deposits	25,528	70.5	19,611	61.9	23,233	77.4
Current accounts	10,673	29.5	12,084	38.1	6,790	22.6
Total	**36,201**	**100.0**	**31,695**	**100.0**	**30,023**	**100.0**

The amnesty implemented by the Government in 2001 to encourage the use of the banking system was one of the factors in increasing the Bank's funding from retail deposits. Between June and July of 2001, individuals and companies who deposited funds with banks did not need to justify the source of such funds to the tax authorities or otherwise. The 30-day amnesty resulted in U.S.$480 million being placed with commercial banks. The Bank's customer deposits increased by 16.4 per cent as a result during this period.

The interest rates on the Bank's deposits are close to average rates on the market, and the Bank offers rates which are competitive with those of other institutions in Kazakhstan.

The following table sets out the average interest rates on the Bank's deposits for the periods indicated:

	As at 30 June	As at 31 December	
	2005	2004	2003
	(per cent. per annum)	(per cent. per annum)	
KZT deposits			
Time deposits	10.3	10.3	10.7
Current accounts	0.6	0.5	0.6
Foreign currency deposits			
Time deposits	7.0	7.0	6.6
Current accounts	0.05	0.05	0.1

As at 30 June 2005, approximately 73.2 per cent. of the Bank's accounts were covered by the Deposit Insurance Fund. In accordance with its rules, the Deposit Insurance Fund will not guarantee deposits exceeding KZT7 million. See "The Banking Sector in Kazakhstan".

Foreign Currency Bank Borrowings

Over the past several years, the Bank has entered into financings with foreign banks and other financial institutions. Some of the more important of these are set out below.

Since 2002, the Bank has participated in a number of special programmes for the financing of small- and medium-sized enterprises and enterprises in specific industries, in particular, wholesale and retail trade, arranged and sponsored by domestic and Russian entities such as the Development Bank of Kazakhstan, the Ministry of Agriculture and international financial institutions such as Bank Gesellschaft Berlin, The Bank of New York, Deutsche Bank, Bayerische Hypo-und Vereinsbank, Commerzbank, Deutsche Bank, Raiffeisen Zentralbank Osterreich, ING Bank, Calyon Bank and Mashreq Bank, Bank of Montreal. The Bank was the first bank in Kazakhstan to sign a U.S.$3 million loan facility with Export Import Bank of Malaysia in July 2004. It also has recently secured a €3.1 million credit facility from Islamic Development Bank. At present the Bank has in excess of U.S.$200 million secured credit facilities with such international financial institutions. Management intends to increase such credit facilities on a quarterly basis either by increasing existing facilities or attracting new credit facilities.

Export Credit Finance

The Bank is also involved in the financing of export credit agency ("ECA") covered business with ECAs such as EBRD, Hermes, US Exim Bank and SACE largely in the wholesale and retail trade sectors.

Syndicated Loans.

The Bank has attracted four syndicated loans on the international markets, of which 2 remain outstanding. The first three syndicated loans were lead arranged by Raiffeisen Zentralbank Osterreich AG. The first loan of U.S.$13 million was issued in December 2003 and was repaid in May 2004. The second loan of U.S.$20 million was issued in June 2004 with a maturity of up to one year and was repaid in January 2005. In February 2005, the Bank raised a third syndicated U.S.$40 million loan with a maturity of a year with a one year extension option. On 2 September 2005, the Bank entered into a U.S.$65 million syndicated term loan co-arranged by Citibank and Standard Bank plc. with a maturity of a year.

Domestic Bonds

In December 2003 the Bank issued 8.75 per cent. subordinated domestic bonds due 2010 with an aggregate principal amount of KZT7.5 billion. As at 30 June 2005 KZT7.5 billion principal amount of these subordinated bonds had been placed.

In May 2003 the Bank issued 9.50 per cent. subordinated bonds due 2010 with an aggregate principal amount of KZT3.1 billion. As at 30 June 2005 KZT3.1 billion principal amount of these subordinated bonds had been successfully placed.

In 2004, the Bank issued a further 8.40 per cent. non-subordinated domestic bond, due 2011 with an aggregate principal amount of KZT7 billion. As at 30 June 2005 KZT7 billion principal amount of these bonds had been placed.

Issuance of the Notes

The issue of the Notes is one of the steps being taken by the Bank in an effort to diversify and extend the maturity of the Bank's funding sources, to finance the Bank's customer loan portfolio and for general banking purposes.

Maturity Analysis

The following table[1] sets out a breakdown of the Bank's assets and liabilities by maturity for the periods indicated and contains certain information regarding the liquidity risk faced by the Bank.

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	30 June 2005 (unaudited) Total
	(KZT millions)							
Assets								
Cash and cash equivalents	8,440	—	—	—	—	—	—	8,440
Obligatory reserves	990	—	—	—	—	—	—	990
Securities held-for-trading	18,814	—	—	—	—	—	—	18,814
Amounts due from credit institutions	—	1,667	648	401	—	—	4	2,720
Loans to customers	—	1,535	2,779	30,435	32,721	2,218	2,899	72,587
Investment securities available-for-sale						134		134
Other assets	—	66	434	448	—	—	—	948
Total assets	**28,244**	**3,268**	**3,861**	**31,284**	**32,721**	**2,352**	**2,903**	**104,633**
Liabilities								
Amounts due to government	—	—	0	7	60	—	—	67
Amounts due to credit institutions	752	16,470	3,281	7,010	2,558	—	—	30,071
Amounts due to customers	10,673	1,967	4,620	10,367	8,556	18	—	36,201
Debt securities issued subordinated	—	—	—	69	—	10,505	—	10,574
Debt securities issued unsubordinated	—	132	—	85	—	12,926	—	13,143
Deferred tax liabilities	—	—	—	—	169	—	—	169
Other liabilities	803	648	—	62	—	—	—	1,513
Total liabilities	**12,228**	**19,217**	**7,901**	**17,600**	**11,343**	**23,449**	**—**	**91,738**
Net position	16,016	(15,949)	(4,040)	13,684	21,378	(21,097)	2,903	
Accumulated gap	16,016	67	(3,973)	9,711	31,089	9,992	12,895	

(1) The above table does not include the effect of allowances for loan losses of KZT3,044 million as at 30 June 2005, provisions for amounts due from credit institutions KZT11 million, provision for other assets of KZT114 million as at 30 June 2005, property and equipment net of accumulated depreciation of KZT2,997 million as at 30 June 2005, other non-monetary assets of KZT152 million as at 30 June 2005, and provisions for guarantees and credit related commitments of KZT165 million as at 30 June 2005.

	31 December 2004							
	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Total
	(KZT millions)							
Assets								
Cash and cash	9,587	—	—	—	—	—	—	9,587
Obligatory reserves	1,012	—	—	—	—	—	—	1,012
Securities held-for-trading	13,746							13,746
Amounts due from credit institutions	—	1,652	535	488	—	—	—	2,675
Loans to customers	—	2,622	5,664	20,866	20,165	825	1,804	51,946
Other assets	—	208	50	467	—	17	—	742
Total assets	**24,345**	**4,482**	**6,249**	**21,821**	**20,165**	**842**	**1,804**	**79,708**
Liabilities								
Amounts due to government	—	—	0	8	65	—	—	73
Amounts due to credit institutions	2	4,566	7,195	6,261	2,290	—	—	20,314
Amounts due to customers	12,083	1,940	5,200	8,151	4,321	—	—	31,695
Debt securities issued subordinated	—	—	—	72	—	10,501	—	10,573
Debt securities issued unsubordinated	—	—	—	44	—	6,585	—	6,629
Other liabilities	111	221	—	355	—	—	—	687
Total liabilities	**12,196**	**6,727**	**12,395**	**14,891**	**6,676**	**17,086**	**—**	**69,971**
Net position	12,149	2,245	(6,146)	(6,930)	13,489	(16,244)	1,804	
Accumulated gap	12,149	9,904	3,758	10,688	24,177	7,933	9,737	

	31 December 2003							
	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Total
	(KZT million)							
Assets								
Cash and cash	6,220	—	—	—	—	—	—	6,220
Obligatory reserves	681	—	—	—	—	—	—	681
Trading securities	8,383	—	—	—	—	—	—	8,383
Amounts due from credit institutions	—	1,080	—	697	2	—	—	1,779
Loans to customers	—	1,057	5,108	17,961	11,712	38	866	36,742
Other assets	—	51	31	135	32	17	—	266
Total assets	**15,284**	**2,188**	**5,139**	**18,793**	**11,746**	**55**	**866**	**54,071**
Liabilities								
Amounts due to government	—	—	—	2	74	167	—	243
Amounts due to credit institutions	331	4,206	628	2,824	740	—	—	8,729
Amounts due to customers	6,580	2,196	7,130	11,651	2,466	—	—	30,023
Debt securities issued subordinated	—	—	—	49	—	7,001	—	7,050
Debt securities issued unsubordinated	—	95	—	2,155	—	—	—	2,250
Deferred tax liabilities	—	—	—	—	94	—	—	94
Other liabilities	53	171	54	222	1	—	—	501
	6,964	6,668	7,812	16,903	3,375	7,168	—	48,890
Net position	8,320	(4,480)	(2,673)	1,890	8,371	(7,113)	866	5,181
Accumulated gap	8,320	3,840	1,167	3,057	11,428	4,315	5,181	

(1) The above tables do not include the effect of allowances for losses of KZT 2,514 million and KZT 1,283 million, provisions for other assets of KZT 100 million and KZT 4 million, property and equipment net of accumulated depreciation of KZT 2,539 million and KZT 1,888 million, other non-monetary assets of KZT 126 million and KZT 64 million, and provisions for guarantees and credit related commitments of KZT 190 million and KZT 123 million as of 31 December 2004 and 2003, respectively.

The Bank's capability to discharge liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. management believes that the Bank's access to domestic and international funds will continue to allow it to meet its liquidity needs. The majority of customer account liquidation has historically taken place over a period longer than their contractual maturity. However, there can be no assurance as to the Bank's ability to continue to expand the maturity of customer accounts beyond their contractual maturity. See "Risk Factors – Risk Factors Relating to the Bank – Liquidity.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programmes set up by international credit institutions. However, in the Kazakhstan marketplace, many short-term loans 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 the Bank's current accounts whose 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. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions of the Bank may not be liquidated in a short period of time without adverse price effects.

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

Interest Rate Risk

Interest Rate Risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the reporting characteristics of assets and liabilities. Approximately 80 per cent. of the Bank's assets and liabilities are fixed at present. The Bank monitors its interest rate margin on a monthly basis. The Bank's interest rate policy is reviewed and approved by its Risk Management Department and Treasury Department who report to the ALCO. The ALCO reprices certain deposits and loans in its portfolio if necessary.

The following table sets out the interest rates by currencies for interest generating/bearing monetary financial instruments as of the periods indicated:

	As at 30 June			As at 31 December					
	2005			2004			2003		
	KZT	USD	Other foreign currencies	KZT	USD	Other foreign currencies	KZT	USD	Other foreign currencies
					%				
Assets									
Cash and equivalents	—	0.1-2.7	0.1-1.9	—	0.1-2.0	0.1-2.0	—	0.2-2.0	0.5-4.0
Securities held-for-trading	2.1-8.3	6.5-11.1	—	2.9-8.3	1.7-5.2	—	6.0-17.1	10.0-13.6	—
Amounts due from credit institutions	2.8-9.3	1.9-6.0	—	7.5	2.0	—	2.3-18.0	—	—
Loans to customers	6.0-25.0	5.0-19.0	6.0-16.0	5.0-30.0	5.0-26.0	—	5.0-26.0	5.0-26.0	—
Liabilities									
Amounts due to government	2.0-4.3	—	—	2.0-4.3	—	—	0.0-7.7	—	—
Amounts due to credit institutions	7.5-10.3	3.5-4.3	1.7-9.0	6.0-7.5	1.0-11.8	2.2-6.4	11.5	1.0-9.0	1.7-9.0
Amounts due to customers	3.0-11.0	1.7-7.5	2.0-7.3	2.0-13.0	1.5-14.0	1.5-8.6	2.0-17.8	2.0-14.0	1.8-8.5
Debt securities issued	8.4-9.5	—	—	8.7-10.1	—	—	8.8-9.5	—	—

Foreign Currency Management

The Tenge has been subject to fluctuations against the U.S. Dollar. The Tenge depreciated against the U.S. Dollar by 4% in 2002, and appreciated against the U.S. Dollar by 7.5% in 2003 and by 9.9% in 2004. Since 31 December 2004, the Tenge has depreciated slightly against the U.S. Dollar.

Regulation and monitoring of the net foreign currency positions of banks is carried out by the NBK. According to current NBK regulations, the ratio of a bank's net open foreign currency position relative to its own capital must not exceed 50 per cent. and the net open foreign currency position for any currency of a country rated "A" or higher or the Euro must not exceed 30 per cent. of its own capital. The open long and short positions for any currency of a country rated from "B" to "A" are limited to 5 per cent. and 15 per cent. of own capital, respectively. In addition, the Bank has its own internal policy to limit any long aggregate foreign exchange positions. This limit is set and reviewed by ALCO on a weekly basis.

The following table shows the net foreign currency position of the Bank (calculated in accordance with IFRS) for the periods indicated:

	As at 30 June	As at 31 December	
	2005	2004	2003
Net short position (in KZT millions)	12,895	9,737	5,181
Net position as a percentage of own capital	1.02	1.01	0.91
Net position as a percentage of foreign currency liabilities	0.48	0.37	0.26

The Bank is subject to exchange rate risk due to adverse movements in currency exchange rates in which the Bank maintains assets or liabilities. The Risk Management Department and Treasury Departments sets limits on the level of exposure to currencies (primarily the US dollar) by branches and in total. As at 30 June 2005, the Bank's short position, as calculated in accordance with the NBK prudential requirements, was KZT1,010 million and was within the limits set by the NBK. The details of the Bank's exposure to foreign currency exchange rate risk is set out in the following tables:

	As at 30 June 2005			
	KZT	Freely convertible currencies	Non-convertible currencies	Total
	(KZT millions)			
Assets				
Cash and cash equivalents	7,227	1,054	159	8,440
Obligatory reserves	990	—	—	990
Trading securities	15,874	2,940	—	18,814
Amounts due from credit institutions	2,720	—	—	2,720
Loans to customers	54,763	17,788	36	72,587
Investment securities available for sale	134	—	—	134
Other assets	793	143	12	948
Total assets	**82,501**	**21,925**	**207**	**104,633**
Liabilities				
Amounts due to government	67	—	—	67
Amount due to credit institutions	11,549	18,485	37	30,071
Amounts due to customers	27,658	8,222	321	36,201
Debt securities issued subordinated	10,574	—	—	10,574
Debt securities issued unsubordinated	13,143	—	—	13,143
Deferred tax liabilities	169	—	—	169
Other liabilities	1,480	31	2	1,513
Total liabilities	**64,640**	**26,738**	**360**	**91,738**
Net balance sheet position	**17,861**	**(4,813)**	**(153)**	**12,895**

(1) The above table does not include the effect of allowances for loan losses of KZT3,044 million, provisions for amounts due from credit institutions KZT11 million, provisions for other assets of KZT114 million, property and equipment net of accumulated depreciation of KZT2,997 million, other non-monetary assets of KZT152 million and provisions for guarantees and credit related commitments of KZT165 million as of 30 June 2005.

	As at 31 December							
	2004				2003			
	KZT	Freely convertible currencies	Non-convertible currencies	Total	KZT	Freely convertible currencies	Non-convertible currencies	Total
	(KZT millions)							
Assets								
Cash and cash equivalents	7,844	1,632	111	9,587	4,524	1,486	210	6,220
Obligatory reserve	1,012	—	—	1,012	681	—	—	681
Trading Securities	11,618	2,128	—	13,746	5,168	3,215	—	8,383
Amounts due from credit institutions	2,599	76	—	2,675	1,370	409	—	1,779
Loans to customers	37,851	14,095	—	51,946	22,099	14,643	—	36,742
Other assets	636	102	4	742	235	31	—	266
Total assets	61,560	18,033	115	79,708	34,077	19,784	210	54,071
Liabilities								
Amounts due to government	73	—	—	73	243	—	—	243
Amount due to credit institutions	2,711	17,600	3	20,314	4,272	4,353	104	8,729
Amounts due to customers	22,794	8,868	33	31,695	17,090	12,911	22	30,023
Debt securities issued subordinated	10,573	—	—	10,573	7,050	—	—	7,050
Debt securities issued unsubordinated	6,629	—	—	6,629	—	2,250	—	2,250
Deferred tax liabilities					94			94
Other liabilities	618	68	1	687	427	74	—	501
Total liabilities	**43,398**	**26,536**	**37**	**69,971**	**29,176**	**19,588**	**126**	**48,890**
Net balance sheet position	**18,162**	**(8,503)**	**78**	**9,737**	**4,901**	**196**	**84**	**5,181**

(1) The above tables do not include the effect of allowances for losses of KZT 2,514 million and KZT 1,283 million, provisions for other assets of KZT 100 million and KZT 4 million, property and equipment net of accumulated depreciation of KZT 2,539 million and KZT 1,888 million, other non-monetary assets of KZT 126 million and KZT 64 million and provisions for guarantees and credit related commitments of KZT 190 million and KZT 123 million as of 31 December 2004 and 2003, respectively.

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Kazakhstan.

Treasury Operations

The main objective of the Bank's Treasury Department is to achieve efficient management of the Bank's liquidity, interest rate and currency risk (jointly with the Risk Management Department) by maintaining assets and liabilities with matching maturities and monthly monitoring of interest rates against the prior month's rates. The Treasury Department also offers brokerage services to its clients for government securities, (it does not engage in any proprietary trading), issues bonds on the domestic capital markets and carries out foreign exchange operations on client request.

It has issued bonds in excess of U.S.$175 million on the "A" list of Kazakhstan Stock Exchange this year. All client foreign exchange positions are closed on the same day. The following table shows the foreign exchange operations done by the Bank for the periods indicated:

	As at 30 June	As at 31 December	
	2005	2004	2003
Number of non-cash forex operations	322	935	1,392
Number of cash forex operations	35	40	164
Purchase of U.S.$(million)	540.4	710.0	537.6
Sale of U.S.$(million)	167.6	400.6	330
Purchase of EUR (million)	31.8	57.8	46.9
Sale of EUR (million)	3.9	10.6	16.1
Purchase of RUR (million)	1,813.0	8,635.5	1,974.2
Sale of RUR (million)	4.2	5,818.8	592.2
Cash purchased (U.S.$ million)	12.9	9.9	26.7
Cash sold (U.S.$ million)	0.0	0.0	5

Trading And Investment Portfolio

The majority of the Bank's securities portfolio is comprised of trading securities which are low-risk, highly liquid government securities. As a matter of policy, the Bank does not engage in proprietary trading. As at 30 June 2005 the Bank's securities portfolio comprised 18 per cent. of the total assets of the Bank. As at 30 June 2005, bonds of the Ministry of Finance of the Republic of Kazakhstan accounted for

60.3 per cent. of the Bank's securities portfolio compared to approximately 62.7 per cent. and 60.3 per cent., as at 31 December 2004 and 2003, respectively.

The following table shows the composition of securities held by the Bank for the periods indicated:

	As at 30 June	As at 31 December	
	2005	2004	2003
	(KZT millions)	(KZT millions)	
Debt Securities			
Bonds of the Ministry of Finance of the Republic of Kazakhstan	11,353	8,625	5,056
Notes of NBRK	3,563	2,893	—
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	2,144	2,128	3,068
Corporate bonds	1,055	96	146
Promissory notes of Kazakh corporations	699	4	113
Total trading securities	**18,814**	**13,746**	**8,383**
Subject to repurchase agreements	—	—	4,482

The Bank's total securities portfolio increased by 36.9 per cent. in the first six months of 2005 to KZT18,814 million from KZT13,746 million as at 31 December 2004.

Loan Portfolio

Introduction

The Bank offers a variety of lending products including loans (both express and non-express), overdrafts, deposits, debit cards, trade financing, letters of credit and letters of guarantee. Financing is provided for various purposes although the majority of the corporate loans are for working capital, expansion of its customer's retail networks, commercial and residential construction and trade finance purposes.

The Bank's largest corporate lending sector exposure is wholesale and retail trade which constitutes 39 per cent. and 43 per cent. of its corporate loan portfolio as at 30 June 2005 and 31 December 2004, respectively, having switched its focus from the construction sector in 2002. Loans to the trade sector and construction sector accounted for 41 per cent. and 9 per cent. of the Bank's loan portfolio as at 31 December 2003. Loans to the construction sector accounted for approximately 13.6 per cent., and 11.3 per cent. of the Bank's loan portfolio as at 30 June 2005 and 31 December 2004, respectively.

The Bank also offers various types of express and non-express lending to SMEs, in particular in the wholesale and retail trade sectors. Express SME loans can be secured or unsecured, and are usually for the financing of the stock in trade. Non-express SME loans are secured and are usually for working capital, the purchase of equipment and real estate. SME loans (including accrued interest on such loans) comprise approximately 9 per cent. of the Bank's loan portfolio as at 30 June 2005 and 7 per cent as at 31 December 2004.

Retail lending is the new focus of the Bank and constituted approximately 22 per cent. of the Bank's loan portfolio both as at 30 June 2005 and 31 December 2004. The majority of retail loans are short-term express consumer loans with a maturity of less than a year. Express consumer loans can be for cash, car loans, or loans to finance purchases of consumer products or goods necessary for trade. Such loans must be insured. Express consumer loans (including accrued interest on such loans and after intergroup eliminations performed with AIIG) constituted approximately 12 per cent of the Bank's loan portfolio as at 30 June 2005 compared to approximately 14 per cent. as at 31 December 2004. The Bank also offers non-express consumer loans with a maturity of less than a year. Such loans are usually for cash, the purchase of motor vehicles, educational studies and other services. Non-express consumer loans (including accrued interest on such loans) constituted approximately 10 per cent of the Bank's loan portfolio as at 30 June 2005 compared to 8 per cent. and 6 per cent. as at 31 December 2004.

The Bank's loan portfolio is monitored by the various credit committees depending on the size of the loan. Credit limits for regional branches vary from U.S.$10,000 to U.S.$200,000 depending on the size of the branch. The Branch Office Credit Committee reviews such applications. The Lower Level Credit Committee reviews applications for amounts up to U.S.$300,000. The Head Office Credit Committee reviews applications from U.S.$300,000 to U.S.$15 million. All loans in excess of U.S.$15 million require the approval of the Management Board. See "Lending Policies and Procedures".

Loans and advances from credit institutions

As at 30 June 2005, gross loans and advances from credit institutions in the form of time deposits and loans and reverse repurchase agreements had reached KZT2,720 million compared to KZT2,675 million and KZT1,779 million as at 31 December 2004 and 2003, respectively.

Amounts due from credit institutions comprise:

	As at 30 June	As at 31 December	
	2005	2004	2003
	(KZT millions)	(KZT millions)	
Time deposits and loans	1,919	1,425	699
Reverse repurchase agreements	801	1,250	1,080
Total amounts due from credit institutions	**2,720**	**2,675**	**1,779**

As at 30 June 2005, 3 major credit institutions accounted for 87 per cent. of time deposits and loans. Five credit institutions accounted for 93 per cent. and 86 per cent. of time deposits and loans as at 31 December 2004 and 2003, respectively. As at 30 June 2005, the Bank had entered into various reverse repurchase agreements for various Kazakh corporate securities and government securities. As at 31 December 2004, the Bank was party to various reverse repurchase agreements for government securities and NBK securities. As at 31 December 2003, the Bank was party to various reverse repurchase agreements for government securities.

Loans to customers, guarantees and letters of credit

The Bank offers a variety of corporate banking products including loans, trade financing, letters of credit and letters of guarantee. The following table sets out the composition of the Bank's loans and contingent liability exposure for the periods indicated:

	As at 30 June	As at 31 December	
	2005	2004	2003
	(KZT millions)	(KZT millions)	
Loans to customers	72,372	51,944	36,681
Overdrafts	215	2	61
Provision for loan losses	(3,044)	(2,514)	(1,283)
Loans and advances to customers, net	69,543	49,432	35,459
Contingent liabilities			
Undrawn loan commitments	11,195	10,456	7,170
Guarantees	8,167	4,202	4,778
Letters of credit	3,809	1,472	2,126
Total contingent liabilities	**23,171**	**16,130**	**14,074**
Total loans and contingent liabilities	**92,714**	**65,562**	**49,533**

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

The Bank's loan portfolio, net of provisions, grew by 33 per cent. in the first six months of 2005 to KZT69,543 million as at 30 June 2005 from KZT49,432 million and KZT35,459 million as at 31 December 2004 and 2003, respectively.

As at 30 June 2005, the top ten largest borrowers accounted for KZT17,036 million (23.7 per cent.) of the Bank's gross customer loan portfolio, compared to KZT13,704 million (26.4 per cent.) and KZT13,888 million (37.9 per cent.) as at 31 December 2004 and 2003 respectively.

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

	As at 30 June		As at 31 December			
	2005		2004		2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Up to $10,000	11,798	16.0	9,131	18.0	1,706	5.0
$10,001 - $30,000	2,747	4.0	1,610	3.0	611	2.0
$30,001-$100,000	4,832	7.0	2,850	5.0	1,089	3.0
$100,001-$500,000	10,248	14.0	7,764	15.0	4,541	12.0
Over $500,000	42,962	59.0	30,591	59.0	28,795	78.0
Total	**72,587**	**100.0**	**51,946**	**100.0**	**36,742**	**100.0**

Loan Portfolio Structure by Maturity

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

	As at 30 June		As at 31 December			
	2005		2004		2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Up to 1 month	1,535	2.0	2,621	5.0	1,057	3.0
1-3 months	2,779	4.0	5,664	11.0	5,108	14.0
3-12 months	30,435	42.0	20,866	40.1	17,961	49.0
1-5 years	32,721	45.0	20,165	38.8	11,712	32.0
Over 5 years	2,218	3.0	825	1.6	38	0.0
Overdue	2,899	4.0	1,805	3.5	866	2.0
Total	**72,587**	**100.0**	**51,946**	**100.0**	**36,742**	**100.0**

Loan portfolio structure by Sector

The following table sets forth certain information as to the structure of the Bank's net customer loans by economic sector, as at 30 June 2005 and 31 December 2004:

			As at 31 December			
	As at 30 June 2005		2004		2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Trade	28,607	39.4	22,168	42.7	15,044	40.9
Individuals	19,747	27.2	12,677	24.4	3,472	9.4
Construction	9,873	13.6	5,894	11.3	3,340	9.1
Manufacturing	4,473	6.2	4,824	9.3	8,169	22.2
Services	4,786	6.6	2,874	5.5	3,075	8.4
Oil and Gas	1,571	2.2	1,247	2.4	—	0
Agriculture and food processing	803	1.1	990	1.9	1,576	4.3
Transport	1,404	1.9	597	1.2	1,712	4.7
Other	1,323	1.8	675	1.3	354	1.0
	72,587	100	51,946	100	36,742	100
Allowance for loan losses	(3,044)	(4)	(2,515)	(5)	(1,283)	(4)
Total loans to Customers	**69,543**	**100**	**49,431**	**100**	**35,459**	**100**

Lending in the trade sector, especially wholesale and retail trade, increased due to a change in the due to Bank's corporate lending focus in 2002 away from more traditional sectors of lending such as agriculture and manufacturing. Loans in the trade sector increased from KZT15,044 million as at 31 December 2003 to KZT22,168 million as at 31 December 2004 representing an increase of 47 per cent., and, as a percentage of the loan portfolio, increased from 40.9 per cent in 2004 to 42.6 per cent. As at 30 June 2005, loans to this sector remained stable and accounted for 39.4 per cent of the Bank's loan portfolio. In addition, the Bank has targeted the retail market as a new source of lending. Loans to individuals increased to KZT19,747 million as at 30 June 2005 as compared to KZT12,677 million and KZT3,472 million as at 31 December 2004 and 2003, respectively. As a percentage of the loan portfolio, loans to individuals accounted for 27.2 per cent. for the first six months ended 30 June 2005 as compared to

24.2 per cent. and 9.4 per cent. for the year ended 31 December 2004 and 2003, respectively. Loans to the construction sector increased by 67.5 per cent. to KZT9,873 million as at 30 June 2005 from KZT5,894 million as at 31 December 2004, which was an increase of 76.4 per cent. from KZT3,340 million as at 31 December 2003. As a percentage of the Bank's loan portfolio, these loans accounted for 13.6 per cent. as at 30 June 2005 compared to 11.3 per cent. and 9.1 per cent. as at 31 December 2004 and 2003, respectively. See "—Funding and Liquidity".

Loan portfolio structure by currencies

Non-Tenge loans comprised approximately 40 per cent. of the Bank's loan portfolio, as at 31 December 2003 then decreasing thereafter. After the flotation of the Tenge in 1999 and following the subsequent stabilisation of the Tenge against the U.S. Dollar, the structure of the Bank's loan portfolio by currency has changed. Following domestic demand and as a result of a significant portion of the Bank's deposits (both time deposits and current accounts) being in Tenge, the level of Tenge loans has increased, representing 75 per cent. of the Bank's total loan portfolio as at 30 June 2005 and 73 per cent. as at 31 December 2004. Such loans generally have a shorter-term maturity profile and usually contain provisions that allow the Bank to increase interest rates or demand early repayment in the event of a devaluation of the Tenge.

The following table sets forth certain information as to the currency profile of the Bank's gross loan portfolio as at 30 June 2005:

	As at 30 June 2005		As at 31 December 2004		As at 31 December 2003	
	(KZT millions)	**(share per cent.)**	**(KZT millions)**	**(share per cent.)**	**(KZT millions)**	**(share per cent.)**
Tenge	54,763	75.5	37,850	72.9	22,100	60.1
Freely convertible currencies	17,788	24.5	14,096	27.1	14,642	39.9
Non-convertible currencies	36	0.0	0	0.0	0	0.0
Total loan portfolio (gross)	72,587	100.0	51,946	100.0	36,742	100.0

Lending Policies And Procedures

General

The FMSA sets strict guidelines in relation to the credit approval process of banks and the terms, credit levels and interest rates of the loans given. NBK regulations limit the exposure to any single borrower or group of borrowers to 10 per cent. of a bank's equity for parties related to the bank and to 25 per cent. of a bank's equity for parties not related to the bank. The Bank's own credit approval process is based on FMSA regulations and its own internal procedures are established by the Management Board, ALCO, Risk Management Department, Treasury Department and Head Office Credit Committee.

The Bank has established several credit committees, the Head Office Credit Committee, the Directorates Credit Committee, the Lower Level Credit Committee, the SME's Credit Committee, the Branch Office Credit Committee and the Bad Loans Credit Committee which are responsible for making credit decisions within their specified area. The Head Office Credit Committee is also responsible for the approving the terms of the credit facilities extended by the other authorised credit committees of the Bank. Within each full service branch, credit decisions for loans below the credit level set for that branch are approved by the credit committee within the branch. Credit limits for regional branches vary from U.S.$10,000 to U.S.$200,000 depending on the size of the branch. Certain loans may be referred to the Lower Level Credit Committee, if such applications are for amounts up to U.S.$300,000. The Head Office Credit Committee reviews applications from U.S.$300,000 to U.S.$15 million. All loans in excess of U.S.$15 million require the approval of the Management Board.

Maturity Limit

The maximum maturity of a loan depends on the type of loan as follows:

Nature of the Loan	Maximum Maturity
Financing of working capital	Up to 1 year
Consumer credit to individuals	Up to 3 years
Loans to employees	Up to 3 years
Investments	Up to 5 years
Mortgage loans	Up to 10 years

The majority of the Bank's loans, both retail and corporate, mature within a year. However the Bank recognises the necessity for lengthening the maturity of its funding base to increase its financial flexibility and monitor its liquidity. As at 30 June 2005, 48 per cent. of the Bank's loans had a maturity of more than twelve months.

Collateralisation

To reduce its credit risks, the Bank requires collateral from borrowers. Collateral includes but is not limited to real estate, machinery and motor vehicles, industrial equipment, industrial goods, white goods, electrical goods and other commercial goods, as well as cash deposits, domestic securities and personal or financial institution guarantees. The Bank credit policy dictates that liquid collateral such as cash or government securities should equal 70 per cent. or more of the loan and general collateral such as real estate or inventory should cover at least 100 per cent. of the loan.

The Bank regularly monitors the quality of the collateral taken as security. In certain cases when existing collateral declines in value, additional collateral might be requested. In addition, the terms of the Bank's loan agreements usually provide the Bank with the flexibility to adjust interest rates or request a prepayment of the loan or a portion thereof upon changes in circumstances, including a decline in the value of collateral.

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

Collateral Categories	Loan/Collateral Value
	(per cent.)
Cash	100
Guarantees from financial institutions	100
Government debt securities	100
Real estate	30-70
Goods in turnover	0-30
Equipment	0-30
Corporate guarantees*	100
Corporate securities*	100

* as additional collateral

The following table sets forth a breakdown of total gross collateralised loans by type of collateral and as a percentage of the total gross loan portfolio for the periods indicated:

	As at 30 June 2005		As at 31 December			
			2004		2003	
	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
Collateral						
Real estate	1,593	2.2	1,143	2.2	477	1.3
Other collateral	62,256	85.8	44,368	85.4	27,179	74.0
Corporate guarantees	3,829	5.3	1,838	3.5	1,549	4.2
Cash	1,810	2.4	1,798	3.5	6,865	18.7
Unsecured	3,099	4.3	2,799	5.4	672	1.8
Total	**72,587**	**100.0**	**51,946**	**100**	**36,742**	**100.0**

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

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

Portfolio Supervision

The Bank classifies its loans in accordance with requirements established by the NBK. The Risk Management Department is responsible for monitoring the total loan portfolio of the Bank and reviewing the loan portfolios of each branch. (See "Asset and Liability Management — Introduction"). The Risk Management Division performs daily monitoring of future expected cash flows on clients' and banking operations, monitors industry and sector risks to avoid concentration of the loan portfolio in any one area as part of the asset and liabilities management process. The Board of Directors sets limits on the minimum portion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place in the event of withdrawals at unexpected levels of demand.

Using this system, the Bank is able to evaluate the quality of the loan portfolio and the requirements for loan loss provisions in relation to it. Loans are monitored on a daily basis by the Risk Management Department, which allows the Bank to identify problem credits or loans at an early stage. Furthermore, the Bank has set aside loan loss reserves to meet any bad credit, which is approximately 1.76 per cent. of the loan portfolio. In addition, an in-depth review of each borrower in the Bank's portfolio is carried out on a monthly basis where the financial state of the borrower and the status of any pledged collateral is assessed and the loan loss provisions are reviewed. Retail borrowers are assigned a rating internally by the Bank. The classification of the loan portfolio into risk groups determines the size of the credit risk to capital and the Bank's profit and allows the Bank to forecast the assets quality and contingent liability in the future. In the event of a default, the loan is referred to the Problem Loans Department, who will assess the situation in conjunction with the Risk Management Department.

The Bank classifies its loans in accordance with the requirements established by the NBK.

Loans and off-balance sheet exposure are classified by reference to the following criteria (i) customer's financial performance; (ii) timelines of repayment of principal and/or interest; (iii) quality of collateral; (iv) whether there has been any extension of the loan; (v) 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	+ (no. 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 per cent.	0
25 to 50 per cent. (non-inclusive)	1
50 to 75 per cent. (non-inclusive)	2
75 to 100 per cent. (non-inclusive)	3
100 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
Kazakhstan sovereign	-1
Below Kazakhstan sovereign/No rating	0

In relation to the Financial Performance criteria:

"Stable" means that the customer is solvent; has no losses; has a strong market presence; and there are no external 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 customer such as a decrease in revenues, deterioration in cash position or market share or there are some external and internal factors that might affect the financial performance of the customer; although there is some probability of default, there is also an expectation that customer can overcome such temporary problems.

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

"Critical" means that the continuous deterioration of the financial performance of the customer has reached a critical stage and is characterised by significant financial losses, insolvency, significant deterioration of market share, negative equity capital; declared bankruptcy and/or bankruptcy treatment was applied for a period of one year, force majeure events which materially affected the customer or its activities; absence of financial information about the customer is absent.

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 sovereign securities, securities issued by foreign governments having an international rating of not less than "A" or monetary precious metals securing all of the credit.

"Good" means highly liquid collateral as in Reliable Collateral securing not less than 90 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 per cent. of the credit.

"Unsatisfactory" means any collateral securing not less than 50 per cent. of the credit.

"No Collateral" means that the loan is not secured or the collateral secures less than 50 per cent. of the credit.

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

Total Grades	NBK Classification	Timeliness of Repayment	IFRS Classification
Less than 1	Standard		Standard
1-2	Doubtful 1st category	Current	Sub-standard
	Doubtful 2nd category	Overdue	Sub-standard
2-3	Doubtful 3rd category	Current	Unsatisfactory
	Doubtful 4th category	Overdue	Unsatisfactory
3-4	Doubtful 5th category	Both current and overdue	Doubtful
4 and more	Loss	Both current and overdue	Loss

In the Bank's judgment, total classified loans under the NBK's classification comprise doubtful loans and bad debt. Total classified loans under IFRS comprise unsatisfactory loans, doubtful loans and bad debt.

In addition, the Bank established its own internal customer rating system in November 2004 pursuant to which each of the Bank's customers are assigned an internal credit rating. The ratings assigned are based on criteria such as the customer's, credit history, quality of collateral and financial performance. The assigned ratings determine the applicable interest rate, other terms and conditions of the credit extended to the customer and the frequency and level of monitoring.

The Risk Management Department produces a monthly report to the Credit Committee which covers all aspects of the Bank's credit activity, including the timeliness of debt repayments, the classifications of loans in the Bank's loan portfolio and contingent liabilities. Any deterioration in the overall quality of the entire loan portfolio is reported of the Bank's Management Board. If any repayment problems arise, immediate action is taken by the Risk Management Department in conjunction with the Problem Loans Department, which is responsible for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. The Bank's determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria including: the credit's classification; any sudden changes in volumes in the customer's accounts with the Bank; or the customer's lifestyle and expenses which imply improper use of credit facilities; applications to change credit terms; failure of the customer or a counterparty to fulfil terms under a contract relating to the credit; refusal of a customer to supply requested documentation, and evasion of the Bank's officers by the customer. The Bank believes that it has a good record in enforcing its security and attempts to do so without resorting to court action or arbitration where possible.

Provisioning Policy

The classification matrix described above is used to determine the provisioning rate required by the NBK. Calculation of provisions is carried out on a monthly basis.

The Bank may make specific provisions for possible loan losses on a case-by-case basis and actual provisions established take into account the value of any collateral or third party guarantees. For this reason, the actual provision levels may differ from the normal provisioning rate.

The Bank considers a loan to be non-performing when either interest or principal payments are past their due date by 30 days or more. At such time, the accrual of interest is suspended. The Bank fully provisions a loan if interest and principal have not been paid for more than 60 days or more or if the Risk Management Department is of the opinion that the loan is uncollectable because the Bank has been unable to collect the loan or to enforce its security. The loan will be referred to the Problem Loans Division, where the Bank will restructure the loan and liquidate the collateral if necessary. The Bank writes off loans that are past their due date by 180 days or more although under IFRS such loans do not have to be written off but are treated as non performed loans. Once a loan has been fully provisioned by the Bank, the Risk Management Department continues to monitor the loan and related collateral for a five year period in order to assess the possibility of making a subsequent recovery.

The Bank's provisioning policy under IFRS differs from its provisioning policy under relevant laws in Kazakhstan and regulations of the NBK (collectively, "Kazakhstan Practices"). No general provision is created for unclassified loans under Kazakhstan Practices whereas under IFRS, there is a general provision of 2 per cent. of each credit exposure.

Until 2002, under Kazakhstan Practices, banks were required to create provisions for potential loans and advances to customers based primarily on the borrower's debt service performance. In 2002, the NBK introduced its current requirements as to classification of and provisions in relation to loans and advances to customers not only on the basis of borrower's debt service performance but also on the basis of such criteria as the borrower's financial performance, quality of collateral and credit history. See "Portfolio Supervision".

The table below sets forth certain information relating to the Bank's gross loans and the credit classifications and provisions in relation to them in accordance with IFRS for the period indicated:

	As at 30 June			As at 31 December					
	2005			2004			2003		
	Provisions/ Exposure	Total Exposure	%	Provisions/ Exposure	Total Exposure	%	Provisions/ Exposure	Total Exposure	%
	(KZT millions, except for percentages)								
IFRS Risk Category									
Standard	0	58,574	80.7	0	39,869	76.8	349	30,500	83
Substandard	537	10,049	13.8	528	8,698	16.7	332	5,253	14.3
Unsatisfactory	191	791	1.1	424	1,792	3.4	116	491	1.3
Doubtful	858	1,715	2.4	25	50	0.1	12	24	0.1
Loss	1,458	1,458	2.0	1,537	1,537	3.0	474	474	1.3
Total	**3,044**	**72,587**	**100.0**	**2,514**	**51,946**	**100.0**	**1,283**	**36,742**	**100.0**

The effective level of provisions decreased by 12.5 per cent. in the first six months of 2005 to 4.2 per cent. from 4.8 per cent. in 2004. Total classified loans increased by approximately 17 per cent. in the first six months of 2005 due to a more conservative classification of the Bank's loan portfolio. Collateralised loans where the collateral is goods in turnover, the value of which has decreased, are now classified as doubtful. In 2004, the amount of total classified loans increased significantly compared to 2003 by approximately 241 per cent. due primarily to three doubtful loans of KZT173.1 million, KZT755 million and KZT108 million to three of the Bank's customers which have been so classified. Total classified loans comprised 55 per cent. of the total loan portfolio as at 30 June 2005 compared to 5.5 per cent. and 2.7 per cent. as at 31 December 2004 and 31 December 2003, respectively.

Non-performing loans, determined in accordance with IFRS, which include loans on which interest has ceased to accrue, amounted to KZT1,224 million or 1.8 per cent. of the Bank's gross loan portfolio as at 30 June 2005 as compared with KZT819.7 million or 1.7 per cent. as at 31 December 2004, and KZT 434.7 million or 1.2 per cent. as at 31 December 2003.

MANAGEMENT AND SHARE OWNERSHIP

Management

On 1 August 2003, the Bank was re-registered as a Joint Stock Company to comply with the requirements of the 13 May 2003 Law on Joint Stock Companies. The revised Charter was approved by the FMSA on 4 July 2005.

Pursuant to the laws of Kazakhstan and the Bank's Charter, the control and management of the Bank is divided among the shareholders, the Board of Directors and the Management Board. The shareholders have the exclusive authority to approve certain material issues of the Bank including the election of the members of the Board of Directors. The shareholders participate in the control and management of the Bank through actions taken at General Shareholders' Meetings. Furthermore, pursuant to the Law of Kazakhstan on Joint Stock Companies, the shareholders are vested with final approval of certain major corporate decisions of the Bank in the General Shareholders' Meeting, including the authorisation to issue the Notes.

The Board of Directors in turn elects the members of the Management Board. The Board of Directors represents the interests of shareholders and is responsible for the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. The Management Board is responsible for the day-to-day management of the Bank and is headed by the Chairman. The Risk Management Department is responsible for monitoring the Bank's portfolio and together with the Treasury Department, jointly monitors the Bank's interest rate, currency exchange and liquidity risk. In addition, the Bank has various committees and departments which are mandatory and required by banking legislation. The Credit Committee and the Internal Audit Department are two such entities required by the banking legislation.

In accordance with Kazakhstan legislation, the members of the Board of Directors and the Chairman and Deputy Chairmen of the Management Board are appointed only with the consent of the FMSA. The FMSA does not have a representative on the Board of Directors or the Management Board.

Board of Directors

The Board of Directors is not directly involved in the day-to-day management of the affairs of the Bank, it supervises the Management Board's activities to protect shareholders' interests. The authorities of the Board of Directors include developing the investment, credit and other policies of the Bank, nominating the Chairman and members of the Management Board, approving material contracts (major transactions) if the size of transaction is equal or more than 10 per cent. of the bank's capital, calling General Shareholders Meetings and approving the Bank's budget.

The Board of Directors consists of five members elected by the General Shareholders' Meeting. The current members of the Board of Directors are:.

Name	Position	Age
Yuriy Tskhai	Chairman of the Board of Directors, President of Caspian Investment Holding	57
Sanat Iskakov	Member of the Board, Chairman of the Board of Directors of AIIG	40
Vyacheslav Kim	Member of the Board, Shareholder of Caspian Investment Holdings	36
Natalya Rak	Member of the Board, Shareholder of Afinsolt Ltd.	37
Askar Dzhartybayev	Member of the Board	53

All members of the Board of Directors were elected on 27 May 2005. Mr. Tskhai and Mr. Kim have been members of the Board of Directors since 2002. All members of the Board of Directors were elected for a period of two years. The business address of the members of the Board of Directors is the Bank's registered office.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank activities, subject to the supervision of the Board of Directors and ultimately the Bank's shareholders. The Bank's Management Board's responsibilities include:

- making executive business decisions; implementing the Bank's business strategy;
- appointing senior management and branch representatives of the Bank; and
- dealing with all other matters not reserved for the Board of Directors or the General Meeting of Shareholders.

The Management Board consists of seven members. As at the date of the Prospectus the members of the Management Board are:

Name	Position
Alexey Mironov	Chairman
Nurmukhamed Bektemissov	Deputy Chairman
Marat Kurmaleyev	Deputy Chairman
Kassym Yesergepov	Managing Director
Anargul Uskenbayeva	Managing Director
Nailya Ualibekova	Chief Accountant
Azamat Tleubayev	Director of Risk Management

The name, age and certain other information about each of the current members of the Management Team:

Alexey Mironov – Chairman of the Management Board (31). He was elected Chairman in July 2005. Prior to being appointed to this position he had been Chairman of the Management Board of Planet of Electronics between March 2004 and July 2005 and First Deputy Chairman of the Bank from 2002 until 2004. Mr. Mironov also worked for both Inkom Bank and Sibekobank, Novosibirsk in Russia between 1999 and 2001.

Nurmukhamed Bektemissov – Deputy Chairman of the Management Board (31). He has held this position since February 2005, having joined the Bank from the Investment Fund of Kazakhstan where he was Deputy Chairman. Prior to that he worked as a trader both at Morgan Stanley International, London, between August 2001 and September 2003 and Goldman Sachs International, London, between July 1997 and June 2001.

Marat Kurmaleyev – Deputy Chairman of the Management Board (39). Prior to being appointed to this position in October 2004, he had acted as both Deputy Director and Director of the Legal Department at Kazkommertsbank, Almaty, which he joined in August 1999.

Kassym Yesergepov – Managing Director of the Management Board (27). He has been Managing Director since September 2004. He joined the Bank as Deputy Director in June 2003 and later became Director of the Corporate Finance Department. Prior to that, his previous role was as Manager of the Corporate Relations Department at Kazkommertsbank, Almaty, which he held from August 2001 to June 2004.

Anargul Uskenbayeva – Managing Director of the Management Board (35). Prior to this, from August 1991 to March 2001 she held a number of senior positions at Halyk Savings Bank, Almaty. Between March 2001 and September 2002, she was Head of the Operations Division of Nauryz Bank. She then joined the Bank as Deputy Director of the Operations Department and later became Director of this Department. She has been a Managing Director of the Management Board since May 2004.

Nailya Ualibekova – Chief Accountant of the Management Board (31). She has held this position since October 2004. Since October 1999, she has worked at the Bank as an accountant, head of the Accounting Department, deputy chief accountant and chief accountant.

Azamat Tleubayev – Director of Risk Management of the Management Board (32). He has held this position since March 2004. Prior to this he had worked at Kazkommertsbank, Almaty, since April 1998 where he held a number of positions including Head of the Legal Department and Deputy Director of the Corporate Relations Department.

The business address of each of the members of the Management Board is the Bank's registered office.

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

Internal Audit Department

The Internal Audit Department oversees the financial and operational control of the Bank's activities. The Internal Audit Department is an independent unit of the Bank. It reports to the Chairman of the Management Board on a weekly basis and the Board of Directors on a monthly basis and is controlled by the Board of Directors. The Internal Audit Department has eight members, all of whom are appointed by the Management Board. The appointment of the Head of the Internal Audit Department must also be approved by the Board of Directors. The present Head of the Internal Audit Department is Rufina Ibrayeva.

Loans to Management

The following table sets out the principal amount of loans outstanding to members of the Board of Directors and the Management Board or to any parties related to them as at 30 June 2005:

Name	Principal amount outstanding
	(KZT millions)
Yuriy Tskhai[1]	41.1
Azamat Tleubayev	12.1
Anargul Uskenbayeva	9.9

(1) Please note that these loans are not made personally to Mr Tskhai, but to entities in which he is a controlling shareholder.

There are no other outstanding loans or guarantees granted by the Bank to any member of the Board of Directors or the Management Board, or to any parties related to them.

Principal Shareholders

Three members of the Board of Directors, Yuriy Tskhai, Sanat Iskakov and Vyacheslav Kim, beneficially own approximately 85 per cent. of the Bank's share capital, with each of them owning a little over 28 per cent. The Bank's major shareholders have not always agreed in the past as to the strategy of the Bank, and as a result of this, one prior major shareholder has recently sold his shares. Mr Iskakov is currently also considering whether or not to sell his shares following his departure from the Management Board of the Bank. At present, there is no formal shareholders' agreement between these three members of the Board of Directors, although they do plan to enter into one in the near future.

TRANSACTIONS WITH RELATED PARTIES

Related parties, defined in accordance with IAS 24, include entities and natural persons that are shareholders, affiliates or entities under common management or control of the Bank.

The following table sets forth the total outstanding related party transactions of the Bank for the periods indicated.

	As at 30 June 2005 (Unaudited)		As at 31 December 2004		As at 31 December 2003	
	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category
	(KZT millions)					
Cash and cash equivalents[1]	–	8,440	–	9,587	431	6,219
Loans to customers	76	72,587	169	51,946	247	36,742
Allowance for loan impairment	–	(3,044)	(2)	(2,514)	(73)	(1,283)
Amounts due to credit institutions	–	–	–	20,314	73	8,729
Amounts due to customers	1,268	36,201	411	31,695	280	30,022
Off-balance sheet						
Guarantees issued	10	8,167	–	4,202	11	4,778
Guarantees received	–	16,083	31	3,217	43	2,680

(1) Cash and cash equivalents are represented by current accounts with Russian commercial banks affiliated to the Bank.

Included in interest income and expense for the six months ended 30 June 2005 and as at 31 December 2004 and 2003 are the following amounts arising from transactions with related parties:

	As at 30 June 2005 (Unaudited)		As at 31 December 2004		As at 31 December 2003	
	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category
	(KZT millions)					
Interest income on loans to customers	3	6,216	6	7,483	29	4,377
Fee and commission income	–	1,052	(0.5)	1,484	(0.4)	1,186
Other income			–	231	(0.02)	54
Interest expense on amounts due to customers	(32)	(883)	(22)	(1,378)	(7)	(1,820)
Interest expense on amounts due to credit institutions	–	–	–	(497)	(0.4)	(239)

Transactions with related parties entered by the Bank during the six months ended 30 June 2005 and outstanding as at 30 June 2005 were made in the normal course of business and under arms-length conditions.

MATERIAL CONTRACTS

The Bank has not entered into any material contracts not in the ordinary course of its business, which could result in the Bank or its subsidiary, AIIG, being under an obligation or entitlement that is material to the Bank's ability to meet its obligations to Noteholders in respect of the Notes being issued.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

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

The National Bank of Kazakhstan

The NBK is the central bank of Kazakhstan and although it is an independent institution, it is subordinate to the President. The President has the power, among other things, to appoint (with the approval of Parliament) and remove the NBK's Governor and Board of 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. Mr. Anvar Saydenov is the Governor of the NBK after having been appointed to the position in 2004 for a six-year term, unless he is earlier dismissed or he resigns.

The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Governor, five other representatives of the NBK, a representative of the President 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, organise banking settlement systems, conduct currency regulation and control, assist in ensuring stability of the financial system and protect the interests of depositors with commercial banks. Following legislative changes in July 2003, the FMSA was formed and, on 1 January 2004, took responsibility for most of the supervisory and regulatory functions in the financial sector, which were previously performed by the NBK.

The FMSA is an independent institution reporting directly to the President. The President 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, larger commercial banks such as Kazkommertzbank, Bank TuranAlem and Halyk Savings Bank and other domestic banks such as Bank CenterCredit, ATF Bank, Nurbank, Temirbank, Alliance Bank and the Bank comprising the second tier. In 2001, the government, a number of local oblasts and the executive bodies of major cities founded DBK. The purpose of DBK is to provide medium- and long-term financing (in amounts of at least U.S.$5 million) for large individual projects, except financing and guarantees for such investment projects and to act as principal paying and collect agent for the Government. DBK is not permitted to lend to financial institutions or take deposits and, as such, is not considered a competitor of the commercial banks in Kazakhstan, including the Bank. DBK has a special status and is regulated by the FMSA only in relation to accounting matters and money transfers. DBK is not treated as a commercial bank for the purposes of this Prospectus. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the FMSA.

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. In 2003, all banks were requested to develop and install internal risk management systems.

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

In 2002, the NBK issued its Prudential Norms. The Prudential Norms have since been amended several times, including most recently in December 2004. The Prudential Norms establish certain capital adequacy requirements for Tier I and Tier II capital of Kazakhstan banks, limitations on a single borrower exposure, short and long-term liquidity requirements, limitations on currency exposure and limitations on investment by Kazakhstan banks into fixed and other non-financial assets. The Prudential Norms are fully applicable to the Bank.

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

The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system. In December 1999, a self-funded domestic deposit insurance scheme was established and as at 31 December 2004, 34 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal time deposits in any currency and current accounts and operates on a sliding scale of coverage up to a maximum amount per customer at any given bank. As at the date of this Prospectus, the insurance coverage is presently limited to personal time deposits and demand deposits in an amount of up to KZT7 million in any currency at any given bank. As of 2004, only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from individuals.

Current legislation requires the FMSA to approve any acquisition of a shareholding of 10 per cent. or more (whether held independently or jointly with another legal entity) in a Kazakhstan bank. Furthermore, a foreign entity holding 10 per cent. or more of a Kazakhstan bank must have a credit rating at least equal to that of the Republic of Kazakhstan.

Commercial Banks

According to the NBK, as at 31 December 2004, there were 35 banks in Kazakhstan, compared to 184 in mid-1994. This decrease is largely a result of the authorities' policies directed towards increased capitalisation, enforcement of prudential norms 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 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 of 31 December 2004, two commercial banks failed to comply with prudential regulatory requirements, compared to one as at 31 December 2003. These banks did not meet the current liquidity ratio, own capital ratios, single borrower exposure, the open currency position and the maximum asset investment ratios. The banking sector's provisions for bad debts as at 31 December 2004 amounted to KZT56.3 billion.

The financial standing of Kazakhstan's banks varies. As at 31 December 2004, 17 of the 35 commercial banks had registered capital of over KZT2 billion, 16 banks had registered capital of KZT1 billion to KZT2 billion and two banks had registered capital of KZT500 million to KZT1 billion. There are no banks with registered capital of less than KZT500 million; any bank whose capital falls below that level is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

Foreign Capital in the Banking Sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to operate as a bank in Kazakhstan. A "bank with foreign participation" is defined as any bank more than one-third of the shares of which are owned or controlled by a non-resident.

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. 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 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, Deutsche Bank, HSBC France, Commerzbank, Société Generale and ING Bank.

TAXATION

Kazakhstan Taxation

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

Gains realised by Non-Kazakhstan Holders or Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes in Kazakhstan will be subject to Kazakhstan income tax, unless the Notes are listed on the "A" or "B" lists of the KASE or, in the case of Non-Kazakhstan Holders holding Definitive Notes, such income tax is reduced by an applicable double taxation treaty.

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

EU Directive on the Taxation of Savings Income

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. Since 1 July 2005 Member States have been required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg instead impose a withholding system for a transitional period (unless during such period they elect otherwise).

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Moscow Narodny Bank Limited, Alpha Bank AE and JSC Bank Caspian (the "Managers") have, in a subscription agreement dated 12 October 2005 (the "Subscription Agreement") and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 99.672 per cent. of their principal amount less a combined management, underwriting and selling commission of 0.8 per cent. of their principal amount. The Issuer has also agreed to reimburse the Managers for certain of its expenses incurred in connection with the management of the issue of the Notes.

The Managers are entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Managers have agreed that, except as permitted by the Subscription Agreement, they will not offer, sell or deliver the Notes, as part of their distribution at any time or otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period 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.

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

Terms used in this section have the meanings given to them by Regulation S.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

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

Republic of Kazakhstan

Each Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

Russian Federation

Each Manager has represented and agreed that it has not offered and sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian law.

General

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

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code 23286882 and ISIN XS0232868827.

2. The Issuer has obtained all necessary consents, approvals and authorisations in Kazakhstan in connection with the issue, offer and sale of, and the performance of, the Notes. The creation and issue of the Notes was authorised by a duly authorised resolution of the Board of Directors of the Issuer dated 20 May 2005 and by a resolution of a duly convened General Shareholders' Meeting of the Issuer held on 27 May 2005.

3. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. In addition, the Bank will also apply for the Notes to be listed on the KASE as from (and including) the Closing Date.

4. For so long as any of the Notes is outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of the Principal Paying and Transfer Agent, namely:

   (a) the Trust Deed dated 17 October 2005 (which contains the forms of the Notes in global and definitive form); and

   (b) the Paying Agency Agreement dated 17 October 2005, between the Issuer and agents named therein.

5. For so long as 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 each Paying Agent, namely:

   (a) the audited consolidated financial statements of the Issuer for the years ended 31 December 2004 and 2003, prepared in accordance with IFRS;

   (b) the unaudited interim consolidated financial statements of the Issuer for the six months ended 30 June 2005, prepared in accordance with IFRS;

   (c) the latest publicly available audited consolidated annual and unaudited interim financial statements (if any) of the Bank prepared in accordance with IFRS;

   (d) the Bank's Charter; and

   (e) all reports, letters, and other documents, historical financial information, expert valuations and statements.

   The Issuer does not publish interim unaudited consolidated financial statements prepared in accordance with IFRS. The Issuer does not intend to publish such interim financial statements in the future, although to the extent that it does, such interim financial statements will be made available in London.

6. There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.

7. So far as the Issuer is aware, no person involved in the issue of the Notes has an interest in the issue of the Notes.

8. Neither the Issuer nor AIIG is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this Prospectus which may have or have had a significant effect on the financial position or profitability of the Issuer or AIIG, taken as a whole.

9. There has been no material adverse change in the prospects of the Bank and AIIG since 31 December 2004, nor has there been any significant change in the financial or trading position of the Bank and AIIG which has occurred since 30 June 2005.

10. The documents on display may be inspected by physical or electronic means.
11. The auditors of the Issuer are Deloitte & Touche. The Bank's consolidated financial statements for the years ended 31 December 2004 and 2003 were audited by Deloitte & Touche. Deloitte & Touche's audit reports are included in this Prospectus.
12. The total fees and expenses in connection with admission of the Notes to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market are expected to be approximately U.S.$500,000.

[THIS PAGE LEFT INTENTIONALLY BLANK]

INDEX TO FINANCIAL STATEMENTS

JOINT STOCK COMPANY

CASPIAN BANK

Interim Condensed Consolidated Financial Statements
For The Six Month Period Ended 30 June 2005

INTERIM CONSOLIDATED STATEMENT OF INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005

	Notes	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
		KZT thousands	
INTEREST INCOME			
Loans to customers	22	6,215,852	3,390,760
Investment Securities		344,538	223,906
Amounts due from credit institutions		73,517	16,239
		6,633,907	3,630,905
INTEREST EXPENSE			
Amounts due to customers	22	(883,233)	(690,530)
Amounts due to credit institutions		(515,733)	(187,054)
Subordinated loan		(482,460)	(437,166)
Debt securities issued		(432,725)	(118,422)
		(2,314,151)	(1,433,172)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		4,319,756	2,197,733
Impairment of interest earning assets	4	(817,216)	(507,301)
NET INTEREST INCOME		3,502,540	1,690,432
FEES AND COMMISSIONS			
Fee and commission income	5, 22	1,052,311	724,528
Fee and commission expense		(101,954)	(74,568)
		950,357	649,960
Gains less losses from trading securities		134,197	(95,061)
Gains less losses from foreign currencies			
– dealing		207,612	146,082
– translation differences		(247,383)	62,278
Underwriting income		46,613	9,612
Other income		247,514	40,875
NON INTEREST INCOME		388,553	163,786
Salaries and benefits	6	(1,172,638)	(632,781)
Depreciation		(101,019)	(41,929)
Administrative and operating expenses	6	(897,068)	(481,546)
Other impairment and provisions	4	11,090	69,402
NON INTEREST EXPENSE		(2,159,635)	(1,086,854)
INCOME BEFORE INCOME TAX EXPENSE		2,681,815	1,417,324
Income tax expense	7	(485,502)	(160,492)
NET INCOME		2,196,313	1,256,832

INTERIM CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2005

	Notes	30 June 2005 (unaudited)	31 December 2004 (unaudited)
		KZT thousands	
ASSETS:			
Cash and cash equivalents	9	8,439,865	9,587,033
Obligatory reserves	10	989,923	1,011,728
Trading securities	11	18,813,654	13,746,056
Amounts due from credit institutions	12	2,708,830	2,674,516
Loans to customers	13, 22	69,543,300	49,431,820
Investment securities available-for-sale	14	134,386	—
Property and equipment		2,997,264	2,539,425
Other assets		985,348	768,188
TOTAL ASSETS		104,612,570	79,758,766
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES:			
Amounts due to Government		66,808	73,260
Amounts due to credit institutions	15	30,070,881	20,314,228
Amounts due to customers	16, 22	36,200,953	31,695,136
Debt securities issued:			
– subordinated debt securities issued	17	10,574,513	10,572,891
– unsubordinated debt securities issued	17	13,142,540	6,629,142
Deferred tax liabilities	7	169,151	—
Provisions	4	165,054	189,735
Other liabilities		1,512,952	686,464
Total Liabilities		91,902,852	70,160,856
SHAREHOLDERS' EQUITY:			
Share capital	18	6,758,243	5,797,282
Additional paid-in capital		521,530	521,530
Treasury stock		(70,453)	(24,987)
Reserves		5,500,398	3,304,085
Total shareholders' equity		12,709,718	9,597,910
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		104,612,570	79,758,766
FINANCIAL COMMITMENTS AND CONTINGENCIES	19	22,760,381	15,903,307

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005

	Share Capital	Additional paid-in Capital	Treasury Stock	Statutory reserve	Revaluation reserve	Retained earnings	Total shareholders' equity
	KZT thousands						
31 December 2003	3,700,462	521,530	(487)	469,868	425,926	605,854	5,723,153
Amortization of property and equipment revaluation reserve	—	—	—	—	(2,288)	2,288	—
Net profit	—	—	—	—	—	1,256,832	1,256,832
30 June 2004 (unaudited)	3,700,462	521,530	(487)	469,868	423,638	1,864,974	6,979,985
Capital contributions	2,096,820	—	—	—	—	—	2,096,820
Treasury stock purchase	—	—	(24,500)	—	—	—	(24,500)
Revaluation of property and equipment, net of deferred tax	—	—	—	—	27,141	—	27,141
Dividends – preference shares	—	—	—	—	—	(2,366)	(2,366)
Amortization of property and equipment revaluation reserve	—	—	—	—	(7,180)	7,180	—
Net profit	—	—	—	—	—	520,830	520,830
31 December 2004	5,797,282	521,530	(24,987)	469,868	443,599	2,390,618	9,597,910
Capital contributions	960,961	—	—	—	—	—	960,961
Treasury stock purchase	—	—	(69,966)	—	—	—	(69,966)
Treasury stock sale	—	—	24,500	—	—	—	24,500
Net profit	—	—	—	—	—	2,196,313	2,196,313
30 June 2005	6,758,243	521,530	(70,453)	469,868	443,599	4,586,931	12,709,718

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005

	Notes	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
		KZT thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		2,681,815	1,417,324
Adjustments for:			
Impairment of interest earning assets		817,216	507,301
Other impairment and provisions		(11,090)	(69,402)
Depreciation		101,019	41,929
Gain on disposal of property and equipment		(12)	(5,374)
Unrealized (gain)/loss on trading securities		(140,244)	40,983
Unrealized foreign exchange loss		103,162	153,156
Cash flow from operating activity before changes in net operating assets and liabilities		3,551,866	2,085,917
Net (increase)/decrease in operating assets:			
Obligatory reserve		21,805	(181,768)
Trading securities		(4,927,354)	(3,132,645)
Amounts due from credit institutions		(34,314)	1,933,128
Loans to customers		(21,087,199)	(2,244,162)
Other assets		(294,610)	(434,864)
Net increase/(decrease) in operating liabilities			
Amounts due to Government		(6,452)	(15,548)
Amounts due to credit institutions		9,756,653	1,900,945
Amounts due to customers		4,505,817	(7,373,845)
Other liabilities		801,807	(759,912)
Cash outflow from operating activities before income taxes		(7,711,981)	(8,222,754)
Corporate income tax paid		(316,351)	(211,104)
Net cash outflow from operating activities		(8,028,332)	(8,433,858)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(718,415)	(408,946)
Proceeds from sale of property and equipment		159,569	16,339
Purchase of securities available-for-sale		(134,386)	—
Net cash outflow from investing activities		(693,232)	(392,607)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions		915,495	—
Proceeds from debt securities issued		6,515,020	5,130,226
Net cash flow from financing activities		7,430,515	5,130,226
EXCHANGE RATES CHANGES EFFECT ON CASH AND CASH EQUIVALENTS		143,881	(174,714)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(1,147,168)	(3,870,953)
CASH AND CASH EQUIVALENTS, beginning of the year	9	9,587,033	6,219,460
CASH AND CASH EQUIVALENTS, end of the year	9	8,439,865	2,348,507

1. ORGANISATION

JSC Bank Caspian (the "Bank") is a joint-stock company, which was incorporated in the Republic of Kazakhstan in December 1997. The Bank is regulated by the National Bank of the Republic of Kazakhstan (NBRK) and the Agency of the Republic of Kazakhstan on the regulation and the supervision of financial market and financial organizations (AFS) and conducts its business under general license number No. 245 on 1 March 2004. The Bank's primary business consists of commercial activities, trading with securities and foreign currencies, originating loans and guarantees.

The registered address of the Bank is 90 Adi Sharipov Street, Almaty, 050012, Republic of Kazakhstan.

As of 30 June 2005 and 31 December 2004 the Bank has 37 and 33 branches in the Republic of Kazakhstan, respectively.

The Bank is a parent company of the banking group (the "Group") which includes JSC Insurance Company Almaty International Insurance Group (AIIG) in the consolidated financial statements.

AIIG was formed as a joint stock company under the laws of the Republic of Kazakhstan in late 1994. The company's principal activity is provision of property and casualty insurance. The company possesses licenses No. DOS 5-2/1 and No. OS 5-2/1 for provision of non-life voluntary and obligatory insurance.

During the six-month period ended 30 June 2005 and 2004 the Group had an average of 2,430 and 1,421 employees, respectively.

As 30 June 2005 the following shareholders individually owned more than 5% of the issued shares:

Shareholder	30 June 2005
	(per cent.)
Iskakov S.K.	9.9
Robert Tech Inc.	9.5
Kim V.E.	9.5
Kim V.K.	7.8
JSC Leasing center Astana	6.8
Tshai U.A..	5.3
Other	51.2
Total	100.0

These consolidated financial statements were authorized for issue by the Group's management on 29 July 2005.

2. BASIS OF PREPARATION

Accounting basis

These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), unless otherwise indicated. These consolidated financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of financial assets held for trading and property and equipment and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

The Group maintains its records and prepares its consolidated financial statements in accordance with IFRS.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments.

Measurement currency

The measurement currency in these consolidated financial statements is the Kazakhstani Tenge.

3. SUMMARY OF THE ACCOUNTING POLICIES

Basis of consolidation

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

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting. Financial assets and liabilities are 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 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 remeasurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

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

Obligatory reserves

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

Trading securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at the quotes of the Kazakhstan Stock Exchange if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts due from credit institutions

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

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell (reverse repos') are recorded as amounts due from credit institutions or loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, 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 Group enters into various derivative financial instruments, primarily forwards in the foreign exchange 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. Derivatives, for which offsetting is performed are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Other derivative assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from trading securities.

Derivative instruments embedded in other financial instruments are treated as a separate derivative 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. At 30 June 2005 and 31 December 2004, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

Loans to customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between 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. Loans and advances to customers are carried net of any allowance for impairment.

Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has received all available collateral.

Non-accrual loans

Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowances for impairment of financial assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group 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 carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Investment securities available-for-sale

Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the consolidated statement of income, plus accrued coupon income. The Group uses quoted market prices to determine the fair value for the Group's securities available-for-sale. If such quotes do not exist, management estimation is used. Realised and unrealised gains and losses arising from changes in the fair value of securities available-for-sale are included in the consolidated statement of income in the period in which they arise as gain/(loss) on investment securities. Dividends received are included in dividend income in the consolidated statement of income.

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative and operating expenses.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and of the cities in which the Bank has offices and branches and its subsidiary is located. Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences except were the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss.

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

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

Property and equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Property is carried at revalued cost less accumulated depreciation and any accumulated impairment for diminution in value. Revaluations of property are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

Any revaluation increase arising on the revaluation of such property is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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
Land	—
Buildings	50
Furniture and fixtures	3-10
Vehicles	4-8

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. An impairment is recognized in the respective period and is included in administrative and operating expenses.

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

Amounts due to Government, credit institutions and to customers

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

Debt securities issued

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

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital, additional paid-in capital and treasury stock are recognized at restated cost. Gains and losses on sales of treasury stock are charged to additional paid-in capital.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preference shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated 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. The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income and interest accrued in prior years and not received is charged off against the allowance for losses. Subsequent payments by borrowers are applied entirely to principal if the estimated collectibility of the loan is low and to either principal or delinquent interest, based on the estimated collectibility of the loan and delinquent interest at the time of payment, if the Group has objective evidence that the loan and delinquent interest are reasonably assured of repayment within a reasonable period. A non-accrual loan may be restored to accrual status when all the Group has objective evidence that all principal and interest amounts contractually due are reasonably assured of timely repayment.

Underwriting Income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated profit and loss account as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

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

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for Insurance Losses and Loss Adjustment Expenses

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

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

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

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated balance sheets within other assets.

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses arising from these translations are recognized in the statement of income as gains less losses from foreign currencies.

Rates of exchange

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	30 June 2005	31 December 2004
KZT / 1 US Dollar	135.26	130.00
KZT / 1 Euro	163.00	177.10

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

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

	Loans to customers	Amounts due from credit institutions	Total
	(KZT thousands)	(KZT thousands)	(KZT thousands)
31 December 2003	1,283,495	—	1,283,495
Provision	507,301	—	507,301
Write-offs	(129,754)	—	(129,754)
30 June 2004	1,661,042	—	1,661,042
Provision	1,302,125	—	1,302,125
Write-offs	(354,794)	—	(354,794)
Recoveries	3,251	—	3,251
Transfers	(97,860)	—	(97,860)
31 December 2004	2,513,764	—	2,513,764
Provision	805,911	11,305	817,216
Write-offs	(332,439)	—	(332,439)
Recoveries	56,576	—	56,576
30 June 2005	3,043,812	11,305	3,055,117

The movements in allowances for provisions were as follows:

	Guarantees and credit commitments	Other assets	Total
	(KZT thousands)	(KZT thousands)	(KZT thousands)
31 December 2003	123,046	3,905	126,951
Provision	(69,303)	(99)	(69,402)
Write-offs	—	(429)	(429)
30 June 2004	53,743	3,377	57,120
Provision	135,992	935	136,927
Write-offs	—	(1,691)	(1,691)
Transfer	—	97,860	97,860
31 December 2004	189,735	100,481	290,216
Provision	(18,754)	7,664	(11,090)
Transfer	(5,927)	5,927	—
30 June 2005	165,054	114,072	279,126

5. FEE AND COMMISSION INCOME

Fee and commission income comprise:

	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
	(KZT thousands)	(KZT thousands)
Documentary operations	292,227	227,695
Cash operations	289,450	190,230
Settlements	183,681	156,219
Foreign exchange operations	79,188	63,475
Bank account serving	51,730	28,561
Other operations	156,035	58,348
Total fee and commission income	1,052,311	724,528

6. PAYROLL, ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits comprise:

	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
	(KZT thousands)	
Salaries and bonuses	1,050,286	565,328
Social security costs	122,352	67,453
Total salaries and benefits	1,172,638	632,781

Administrative and operating expenses comprise:

	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
	(KZT thousands)	
Administrative	178,935	83,536
Operating taxes	172,111	71,255
Marketing and advertising	123,014	48,962
Occupancy and rent	98,447	40,346
Communications	73,313	45,316
Business travel	52,918	36,246
Transportation	27,488	19,179
Security	24,100	16,049
Repair and maintenance of property and equipment	22,540	13,151
Fines and penalties	20,768	30,788
Entertainment	16,770	5,215
Other	86,664	71,503
Total administrative and operating expenses	897,068	481,546

7. TAXATION

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstani statutory tax regulations which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of exchange losses and other expenses and the tax-free regime for certain income under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 30 June 2005 and 31 December 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 30 June 2005, 31 December 2004, 30 June 2005, and 31 December 2003 comprise:

	30 June 2005 (unaudited)	31 December 2004	30 June 2004 (unaudited)	31 December 2003
Deferred assets:	(KZT thousands)			
Loans to customer	335,461	973,090	43,140	217,850
Other	45,834	—	7,539	169,963
Total deferred assets	381,295	973,090	50,679	387,813
Deferred liabilities:				
Fixed assets	(945,131)	(892,751)	(332,314)	(693,980)
Other	—	(8,048)	—	(6,363)
Total deferred liabilities	(945,131)	(900,799)	(332,314)	(700,343)
Net deferred assets/(liabilities)	(563,836)	72,291	(281,635)	(312,530)
Deferred tax assets/(liabilities) at the statutory rate (30%)	(169,151)	21,687	(84,490)	(93,759)
Less: valuation allowance	—	(21,687)	—	—
Net deferred tax liabilities	(169,151)	—	(84,490)	(93,759)

Relationships between tax expenses and accounting profit for the six-month ended 30 June 2005 and 2004 are explained as follows:

	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
	(KZT thousands)	
Income before income tax expense	2,681,815	1,417,324
Tax at the statutory rate (30%)	804,545	425,197
Permanent differences	(340,730)	(264,705)
Change in valuation allowance	21,687	—
Income tax expense	485,502	160,492

	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
	(KZT thousands)	
Current income tax	316,351	169,761
Deferred tax expense	169,151	(9,269)
Income tax expense	485,502	160,492

	30 June 2005 (unaudited)	30 June 2004 (unaudited)
	(KZT thousands)	
Deferred income tax liabilities		
As at beginning of the period	—	93,759
Increase of revaluation reserve	—	—
Deferred tax expense/(benefit)	169,151	(9,269)
As at end of the period	169,151	84,490

8. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

During six-month periods ended 30 June 2005 and 2004 the Group had no dilutive shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Six-month period ended 30 June 2005 (unaudited)	Six-month period ended 30 June 2004 (unaudited)
	(KZT thousands)	
Net income attributable to common shareholders for basic and diluted earnings per share, being net income less dividends accrued on preference shares	2,196,313	1,256,832
Weighted average number of common shares for basic and diluted earnings per share	11,457,630	9,165,588
Basic and diluted earnings per share	191.69	137.13

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Current accounts with NBRK	6,038,601	6,530,312
Cash on hand	1,892,113	1,780,653
Current accounts with credit institutions	509,151	1,276,068
Total cash and cash equivalents	8,439,865	9,587,033

At 30 June 2005 and 31 December 2004, 5 banks accounted for 67% and 83%, respectively, of total current accounts with credit institutions and represented 6% and 11%, respectively, of the Group's total shareholders' equity.

10. OBLIGATORY RESERVES

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

11. TRADING SECURITIES

Trading securities comprise:

	Interest to nominal	30 June 2005 (unaudited)	Interest to nominal	31 December 2004
	(per cent.)	(KTZ thousands)	(per cent.)	(KTZ thousands)
Debt securities				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	2.1-8.3	11,353,138	5.5-8.3	8,625,310
Notes of NBRK	—	3,563,343	—	2,892,929
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.1	2,143,085	11.1	2,128,030
Corporate bonds	6.5-8.0	1,055,493	8.0	96,158
Promissory notes of Kazakh corporations	5.4	698,595	10.0	3,629
Total trading securities		18,813,654		13,746,056

12. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Reverse repurchase agreements	801,486	1,250,555
Time deposits and loans	1,918,649	1,424,461
	2,720,135	2,674,516
	(11,305)	—
Total amounts due from credit institutions	2,708,830	2,674,516

At 30 June 2005 3 credit institutions accounted for 87% of time deposits and loans and represented 30% of the Group's total shareholders' equity. At 31 December 2004 5 credit institutions accounted for 93% of time deposits and loans and represented 14% of the Group's total shareholders' equity.

The Group had entered into reverse repurchase agreements with various undisclosed counterparties through KASE. At 30 June 2005, the subject of these agreements is notes of Kazakhstani corporations of KZT 551,175 thousand and bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 250,311 thousand. As of 31 December 2004 the subject of these agreements is bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 1,250,055 thousand.

13. LOANS TO CUSTOMERS

Loans to customers comprise:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Loans to customers	73,372,234	51,944,098
Overdrafts	214,878	1,486
	72,587,112	51,945,584
Allowance for loan losses	(3,043,812)	(2,513,764)
Total loans to customers	69,543,300	49,431,820

As of 30 June 2005 and 31 December 2004 included in loans to customers are non-accrual loans which amounted to KZT 1,224,448 thousand and KZT 819,717 thousand, respectively.

As of 30 June 2005 and 31 December 2004, the Group had a concentration of loans represented by KZT 17,036,488 thousand due from ten borrowers (23.65% of total gross loan portfolio) and KZT 13,704,018 thousand due from ten borrowers (26.38% of total gross loan portfolio), respectively. An allowance of KZT 162,071 thousand and KZT 139,711 thousand, respectively, was made against these loans.

As of 30 June 2005 and 31 December 2004, loans of KZT 3,302,784 thousand and KZT 2,654,462 thousand, respectively, were secured by 100% cash collateral.

As of 31 December, loans are made principally within Kazakhstan to the following sectors:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Trade	28,606,847	22,167,594
Individuals	19,746,798	12,676,684
Construction	9,872,534	5,893,845
Manufacturing	4,472,749	4,824,297
Services	4,786,418	2,874,051
Oil & Gas	1,570,906	1,247,044
Transport	1,404,141	596,893
Agriculture and food processing	803,307	989,912
Other	1,323,412	675,264
	72,587,112	51,945,584
Allowance for loan losses	(3,043,812)	(2,513,764)
Total loans to customers	69,543,300	49,431,820

14. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

During 2005 the Group purchased common shares of JSC Bank Centercredit. As of 30 June 2005 Group's share in JSC Bank Centercredit capital was 1.34%.

15. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Time deposits and loans	24,455,888	20,175,005
Repurchase agreements	5,500,242	—
Loans from the Small Business Development Fund	106,506	136,551
Current accounts	8,245	2,672
Total amounts due to credit institutions	30,070,881	20,314,228

At 30 June 2005 and 31 December 2004, amounts due to the Small Business Development Fund CJSC represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans.

At 30 June 2005 and 31 December 2004, 10 major credit institutions accounted for 45% and 74% of time deposits and loans, respectively.

16. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers comprise:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Time deposits	25,528,360	19,611,254
Current accounts	10,672,593	12,083,882
Total amounts due to customers	36,200,953	31,695,136
Held as security against letters of credit and guarantees	441,642	36,375
Held as security against loans to customers	3,302,784	2,654,462

At 31 December, analysis of customer accounts by sector follows:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Individuals	15,011,891	11,903,737
Insurance	5,600,696	3,023,994
Trade	4,269,685	3,736,127
Service	3,946,815	1,796,736
Construction	2,548,664	1,830,145
Manufacturing	1,277,688	1,300,865
Agriculture and food processing	1,049,678	528,443
Fuel, gas and chemicals	767,166	2,580,850
Transport and communication	603,194	2,854,664
Other	1,125,476	2,139,575
Total amounts due to customers	36,200,953	31,695,136

17. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date Month/year	Interest rate	30 June 2005 (unaudited)	31 December 2004
		%	(KZT thousands)	
Subordinated debt securities issued				
Third issue	December 2010	8.75%	7,489,735	7,489,015
Second issue	May 2010	9.50%	3,084,778	3,083,876
			10,574,513	10,572,891
Non-subordinated debt securities issued				
Fourth issue	June 2011	8.40%	6,651,844	6,629,142
First issue	January 2012	8.50%	3,510,450	—
Second issue	May 2015	8.50%	2,980,246	—
			13,142,540	6,629,142
Total debt securities issued			23,717,053	17,202,033

18. SHAREHOLDERS' EQUITY

Movement of shares authorized, fully paid and outstanding follows:

	Number of shares		Amount			
	Preference	Common	Preference	Common	Inflation	Total
			(KTZ thousands)			
31 December 2003	115,000	9,165,588	24,150	3,248,994	427,318	3,700,462
30 June 2004	115,000	9,165,588	24,150	3,248,994	427,318	3,700,462
Contributed in KZT	—	1,820,000	—	2,096,820	—	2,096,820
31 December 2004	115,000	10,985,588	24,150	5,345,814	427,318	5,797,282
Contributed in KZT	—	3,617,582	—	960,961	—	960,961
30 June 2005	115,000	14,603,170	24,150	6,306,775	427,318	6,758,243

As of 30 June 2005, 14,603,170 common shares and 115,000 preference shares were issued, fully paid and registered.

The share capital of the Group was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in Kazakhstani tenge. Preference shares are non-voting and guarantee annual dividends of not less than 21 tenge per share.

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

At 31 December, the Group's financial commitments and contingencies comprised the following:

	30 June 2005 (unaudited)	31 December 2004
	(KZT thousands)	
Credit related commitments		
Undrawn loan commitments	11,194,585	10,455,734
Guarantees	8,166,626	4,201,724
Letters of credit	3,808,972	1,471,959
	23,170,183	16,129,417
Lease commitments		
Not later than 1 year	196,894	—
	23,367,077	16,129,417
Less – cash collateral	(441,642)	(36,375)
Less – provisions	(165,054)	(189,735)
Financial commitments and contingencies	22,760,381	15,903,307

As of 30 June 2005 and 31 December 2004, guarantees and letters of credit of KZT 441,642 and KZT 36,375 thousand, respectively, were secured by the client's funds, and the bank did not create any provisions against these commitments.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as of 31 December 2004. As of 30 June 2005 the Group had capital commitment in amount of KZT 309,400 thousand.

Operating environment

The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes

Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the consolidated financial statements. Tax years remain open to review by the tax authorities for five years.

Pensions and retirement plans

Employees receive pension benefits in accordance with the laws and regulations of the Republic of Kazakhstan. As of 30 June 2005 and 31 December 2004, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

20. RISK MANAGEMENT POLICIES

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product, by industry sector, by region are approved quarterly by the Board of Directors. In the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure 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 consolidated financial statements and the disclosed financial commitments.

Concentration

At 31 December the geographical concentration of financial assets and liabilities is set out below:

	Kazakhstan	OECD	CIS and other foreign Countries	30 June 2005 (unaudited) Total
	(KTZ thousands)			
ASSETS				
Cash and cash equivalents	7,240,269	1,014,208	185,388	8,439,865
Obligatory reserves	989,923	—	—	989,923
Trading securities	18,813,654	—	—	18,813,654
Amounts due from credit institutions	2,720,135	—	—	2,720,135
Loans to customers	64,378,045	3,721,972	4,487,095	72,587,112
Investment securities available-for-sale	134,386	—	—	134,386
Other assets	836,093	81,232	30,308	947,633
TOTAL ASSETS	95,112,505	4,817,412	4,702,791	104,632,708
LIABILITIES				
Amounts due to Government	66,808	—	—	66,808
Amounts due to credit institutions	12,390,779	16,004,636	1,675,466	30,070,881
Amounts due to customers	33,554,920	943,296	1,702,737	36,200,953
Debt securities issued:				
-subordinated	10,574,513	—	—	10,574,513
-unsubordinated	13,142,540	—	—	13,142,540
Deferred tax liabilities	169,151	—	—	169,151
Other liabilities	1,484,038	19,439	9,475	1,512,952
TOTAL LIABILITIES	71,382,749	16,967,371	3,387,678	91,737,798
NET BALANCE SHEET POSITION	23,729,756	(12,149,959)	1,315,113	12,894,910

	Kazakhstan	OECD	CIS and other foreign Countries	31 December 2004 Total
	(KTZ thousands)			
ASSETS				
Cash and cash equivalents	8,325,087	1,097,829	164,117	9,587,033
Obligatory reserves	1,011,728	—	—	1,011,728
Trading securities	13,746,056	—	—	13,746,056
Amounts due from credit institutions	2,598,593	75,923	—	2,674,516
Loans to customers	44,149,287	2,382,821	5,413,476	51,945,584
Other assets	647,310	90,038	5,387	742,735
TOTAL ASSETS	70,478,061	3,646,611	5,582,980	79,707,652
LIABILITIES				
Amounts due to the Government	73,260	—	—	73,260
Amounts due to credit institutions	6,724,329	12,824,876	765,023	20,314,228
Amounts due to customers	29,024,415	823,429	1,847,292	31,695,136
Debt securities issued:				
-subordinated	10,572,891	—	—	10,572,891
-unsubordinated	6,629,142	—	—	6,629,142
Other liabilities	666,357	16,902	3,205	686,464
TOTAL LIABILITIES	53,690,394	13,665,207	2,615,520	69,971,121
NET BALANCE SHEET POSITION	16,787,667	(10,018,596)	2,967,460	9,736,531

As at 30 June 2005 and 31 December 2004, the above tables do not include the effect of allowances for loan losses of KZT 3,043,812 thousand and KZT 2,513,764 thousand, provision for amounts due from credit institutions KZT 11,305 thousand and nil, provisions for other assets of KZT 114,072 thousand and KZT 100,481 thousand, property and equipment net of accumulated depreciation of KZT 2,997,264 thousand and KZT 2,539,425 thousand, other non-monetary assets of KZT 151,787 thousand and KZT 125,934 thousand, and provisions for guarantees and credit related commitments of KZT 165,054 thousand and KZT 189,735 thousand, respectively.

Market Risk

The Group 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 Group 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. With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD) by branches and in total. These limits also comply with the minimum requirements of NBK. At December 31, the Group's exposure to foreign currency exchange rate risk follows:

	KZT	Freely convertible currencies	Non-convertible currencies	30 June 2005 (unaudited) Total
	(KTZ thousands)			
ASSETS				
Cash and cash equivalents	7,226,473	1,054,273	159,119	8,439,865
Obligatory reserves	989,923	—	—	989,923
Trading securities	15,873,910	2,939,744	—	18,813,654
Amounts due from credit institutions	2,720,135	—	—	2,720,135
Loans to customers	54,762,542	17,788,374	36,196	72,587,112
Investment securities available-for-sale	134,386	—	—	134,386
Other assets	793,328	142,532	11,773	947,633
TOTAL ASSETS	82,500,697	21,924,923	207,088	104,632,708
LIABILITIES				
Amounts due to Government	66,808	—	—	66,808
Amounts due to credit institutions	11,548,683	18,485,383	36,815	30,070,881
Amounts due to customers	27,658,201	8,221,892	320,860	36,200,953
Debt securities issued.				
– subordinated	10,574,513	—	—	10,574,513
– unsubordinated	13,142,540	—	—	13,142,540
Deferred tax liabilities	169,151	—	—	169,151
Other liabilities	1,479,462	31,368	2,122	1,512,952
TOTAL LIABILITIES	64,639,358	26,738,643	359,797	91,737,798
NET BALANCE SHEET POSITION	17,861,339	(4,813,720)	(152,709)	12,894,910

	KZT	Freely convertible currencies	Non-convertible currencies	31 December 2004 Total
	(KTZ thousands)			
ASSETS				
Cash and cash equivalents	7,843,838	1,631,821	111,374	9,587,033
Obligatory reserves	1,011,728	—	—	1,011,728
Trading securities	11,618,026	2,128,030	—	13,746,056
Amounts due from credit institutions	2,598,593	75,923	—	2,674,516
Loans to customers	37,850,166	14,095,418	—	51,945,584
Other assets	637,311	101,675	3,749	742,735
TOTAL ASSETS	61,559,662	18,032,867	115,123	79,707,652
LIABILITIES				
Amounts due to Government	73,260	—	—	73,260
Amounts due to credit institutions	2,711,393	17,599,527	3,308	20,314,228
Amounts due to customers	22,794,357	8,868,213	32,566	31,695,136
Debt securities issued:				
– subordinated	10,572,891	—	—	10,572,891
– unsubordinated	6,629,142	—	—	6,629,142
Other liabilities	617,504	68,186	774	686,464
TOTAL LIABILITIES	43,398,547	26,535,926	36,648	69,971,121
NET BALANCE SHEET POSITION	18,161,115	(8,503,059)	78,475	9,736,531

As at 30 June 2005 and 31 December 2004, the above tables do not include the effect of allowances for loan losses of KZT 3,043,812 thousand and KZT 2,513,764 thousand, provision for amounts due from credit institutions KZT 11,305 thousand and nil, provisions for other assets of KZT 114,072 thousand and KZT 100,481 thousand, property and equipment net of accumulated depreciation of KZT 2,997,264 thousand and KZT 2,539,425 thousand, other non-monetary assets of KZT 151,787 thousand and KZT 125,934 thousand, and provisions for guarantees and credit related commitments of KZT 165,054 thousand and KZT 189,735 thousand, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Kazakhstan.

The Group's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realize investments in non-monetary assets as measured in USD in these consolidated financial statements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities management Committee.

At 30 June 2005, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	KZT	USD	Other foreign currencies
	%	%	%
ASSETS			
Cash and cash equivalents	—	0.1-2.7	0.1-1.9
Trading securities	2.1-8.3	6.5-11.1	—
Amounts due from credit institutions	2.8-9.3	1.9-6	—
Loans to customers	6.0-25.0	5.0-19.0	6.0-16.0
LIABILITIES			
Amounts due to government	2.0-4.3	—	—
Amounts due to credit institutions	7.5-10.3	3.5-4.3	1.7-9.0
Amounts due to customers	3.0-11.0	1.7-7.5	2.0-7.3
Debt securities issued	8.4-9.5	—	—

At 31 December 2004, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	KZT	USD	Other foreign currencies
	%	%	%
ASSETS			
Cash and cash equivalents	—	0.1-2.0	0.1-2.0
Securities held-for-trading	2.9-8.3	1.7-5.2	—
Amounts due from credit institutions	7.5	2.0	—
Loans to customers	5.0-30.0	5.0-26.0	—
LIABILITIES			
Amounts due to government	2.0-4.3	—	—
Amounts due to credit institutions	6.0-7.5	1.0-11.8	2.2-6.4
Amounts due to customers	2.0-13.0	1.5-14.0	1.5-8.6
Debt securities issued	8.7-10.1	—	—

The Group continuously monitors its interest rate margin and consequently 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 financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date at 31 December:

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	30 June 2005 (unaudited) Total
	KZT'000	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*
ASSETS								
Cash and cash equivalents	8,439,865	—	—	—	—	—	—	8,439,865
Obligatory reserves	989,923	—	—	—	—	—	—	989,923
Trading securities	18,813,654	—	—	—	—	—	—	18,813,654
Amounts due from credit institutions	—	1,667,535	648,000	401,100	—	—	3,500	2,720,135
Loans to customers	—	1,534,407	2,779,033	30,434,663	32,721,404	2,218,230	2,899,375	72,587,112
Investment securities available-for-sale	—	—	—	—	—	134,386	—	134,386
Other assets	—	65,564	434,067	448,002	—	—	—	947,633
	28,243,442	3,267,506	3,861,100	31,283,765	32,721,404	2,352,616	2,902,875	104,632,708
LIABILITIES								
Amounts due to government	—	—	334	6,313	60,161	—	—	66,808
Amounts due to credit institutions	752,259	16,469,683	3,280,868	7,010,068	2,557,833	170	—	30,070,881
Amounts due to customers	10,672,593	1,967,373	4,620,371	10,366,697	8,555,919	18,000	—	36,200,953
Debt securities issued:								
- subordinated	—	—	—	69,928	—	10,504,585	—	10,574,513
- unsubordinated	—	132,222	—	84,090	—	12,926,228	—	13,142,540
Deferred tax liabilities	—	—	—	—	169,151	—	—	169,151
Other liabilities	803,525	647,876	—	61,551	—	—	—	1,512,952
	12,228,377	19,217,154	7,901,573	17,598,647	11,343,064	23,448,983	—	91,737,798
Net position	16,015,065	(15,949,648)	(4,040,473)	13,685,118	21,378,340	(21,096,367)	2,902,875	
Accumulated gap	16,015,065	65,417	(3,975,056)	9,710,062	31,088,402	9,992,035	12,894,910	

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	31 December 2004 (unaudited) Total
	KZT'000	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*	*KZT'000*
ASSETS								
Cash and cash equivalents	9,587,033	—	—	—	—	—	—	9,587,033
Obligatory reserves	1,011,728	—	—	—	—	—	—	1,011,728
Securities held-for-trading	13,746,056	—	—	—	—	—	—	13,746,056
Amounts due from credit institutions	—	1,652,319	534,575	487,622	—	—	—	2,674,516
Loans to customers	—	2,621,231	5,664,066	20,865,622	20,165,115	825,236	1,804,314	51,945,584
Other assets	—	208,800	49,601	467,113	—	17,221	—	742,735
	24,344,817	4,482,350	6,248,242	21,820,357	20,165,115	842,457	1,804,314	79,707,652
LIABILITIES								
Amounts due to government	—	—	246	7,557	65,457	—	—	73,260
Amounts due to credit institutions	2,673	4,565,797	7,194,787	6,260,807	2,289,918	246	—	20,314,228
Amounts due to customers	12,083,882	1,939,608	5,199,843	8,150,875	4,320,928	—	—	31,695,136
Debt securities issued:								
- subordinated	—	—	—	71,564	—	10,501,327	—	10,572,891
- unsubordinated	—	—	—	44,100	—	6,585,042	—	6,629,142
Other liabilities	110,750	220,568	—	355,146	—	—	—	686,464
	12,197,305	6,725,973	12,394,875	14,890,049	6,676,303	17,086,615	—	69,971,121
Net position	12,147,512	(2,243,623)	(6,146,634)	6,930,308	13,488,812	(16,244,158)	1,804,314	
Accumulated gap	12,147,512	9,903,889	3,757,255	10,687,563	24,176,375	7,932,217	9,736,531	

As at 30 June 2005 and 31 December 2004, the above tables do not include the effect of allowances for loan losses of KZT 3,043,812 thousand and KZT 2,513,764 thousand, provision for amounts due from credit institutions KZT 11,305 thousand and nil, provisions for other assets of KZT 114,072 thousand and KZT 100,481 thousand, property and equipment net of accumulated depreciation of KZT 2,997,264 thousand and KZT 2,539,425 thousand, other non-monetary assets of KZT 151,787 thousand and KZT 125,934 thousand, and provisions for guarantees and credit related commitments of KZT 165,054 thousand and KZT 189,735 thousand, respectively.

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international credit institutions. However, in the Kazakhstani 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. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 June 2005 and 31 December 2004 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Cash and cash equivalents

For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Amounts due to and from banks

As of 30 June 2005 and 31 December 2004, the carrying amount of amounts due to and from banks is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trading securities

As of 30 June 2005 and 31 December 2004 securities available-for-sale are stated at fair value. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. If such quotes do not exist, management estimation is used.

Customer accounts

As of 30 June 2005 and 31 December 2004 the carrying amount of short-term and long-term deposits and current accounts of the Group's customers is a reasonable estimate of their fair value.

Debt securities issued

Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates fair value.

22. RELATED PARTY TRANSACTION

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise.

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions with related parties:

	30 June 2005		31 December 2004	
	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category
	KZT'000	KZT'000	KZT'000	KZT'000
Balance sheet				
Loans to customers	76,493	72,587,112	169,225	51,945,584
Allowance for loan impairment	—	(3,043,812)	(1,699)	(2,513,764)
Amounts due to customers	1,267,801	36,200,953	410,639	31,695,136
Off-balance sheet				
Guarantees issued	9,885	8,166,626	—	4,201,724
Guarantees received	169	16,082,943	31,267	3,217,267

	Six-month period ended 30 June 2005		Six-month period ended 30 June 2004	
	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category
	KZT'000	KZT'000	KZT'000	KZT'000
Income statement				
Interest income on loans to customers	2,509	6,215,852	3,734	3,390,760
Fee and commission income	198	1,052,311	217	724,528
Interest expense on amounts due to customers	(31,788)	(883,233)	(18,777)	(690,530)

23. CAPITAL ADEQUACY

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, as of 30 June 2005 and 31 December 2004 was 23% and 17%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

24. SEGMENT INFORMATION

The Group's operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 "Segment Reporting". As shown in Note 20, the Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

25. SUBSEQUENT EVENTS

At the annual meeting of shareholders held on 27 May 2005 it was decided to issue Eurobonds in the amount of 200 million US Dollars and to attract a syndicated loan in the amount of 150 million US Dollars.

JOINT STOCK COMPANY

CASPIAN BANK

Consolidated Financial Statements
For The Year Ended 31 December 2004

An Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank Caspian:

We have audited the accompanying consolidated balance sheet of JSC Bank Caspian and its subsidiary (the "Group") as of 31 December 2004, the related consolidated statements of income, cash flows and changes in shareholders' equity ("the consolidated financial statements") for the year then ended. These consolidated Financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of 31 December 2003 and the year then ended were audited by another auditor, whose report dated 9 February 2004 expressed an unqualified opinion with regard to those financial statements.

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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2004, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

11 February 2005
Almaty

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004	2003
		(KZT thousands)	
INTEREST INCOME			
Loans to customer	26	7,482,812	4,376,557
Investment securities		492,315	579,713
Amounts due from credit institutions		45,871	13,750
		8,020,998	4,970,020
INTEREST EXPENSE			
Amounts due to customers	26	(1,378,353)	(1,819,579)
Subordinated loan		(914,006)	(195,133)
Amounts due to credit institutions	26	(497,362)	(238,630)
Debt securities issues		(337,499)	(241,200)
		(3,127,220)	(2,494,542)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		4,893,778	2,475,478
Impairment of interest earning assets	4	(1,809,426)	(732,695)
		3,084,352	1,742,783
FEES AND COMMISSIONS			
Fee and commission income	5, 26	1,484,225	1,186,280
Fee and commission expense		(221,934)	(88,039)
		1,262,291	1,098,241
Gains less losses from trading securities	6	(45,041)	33,825
Gains less losses from foreign currencies			
– dealing		464,499	220,372
– translation differences		60,238	(92,873)
Underwriting income		38,484	31,849
Other income	26	230,998	54,225
		749,178	247,398
NON INTEREST INCOME			
Salaries and benefits	7	(1,564,866)	(1,050,970)
Depreciation	15	(173,501)	(108,765)
Administration and operating expenses	7	(1,111,489)	(782,395)
Other impairment and provisions	4	(67,525)	(123,046)
NON INTEREST EXPENSE		(2,917,381)	(2,065,176)
INCOME BEFORE INCOME TAX EXPENSE		2,178,440	1,023,246
Income tax expense	8	(400,778)	(181,645)
NET INCOME		1,777,662	841,601

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2004

	Notes	2004	2003
		(KZT thousands)	
ASSETS:			
Cash and cash equivalents	10,26	9,587,033	6,219,460
Obligatory reserves	11	1,011,728	680,970
Trading securities	12	13,746,056	8,383,241
Amounts due from credit institutions	13	2,674,516	1,779,223
Loans to customers	14,26	49,431,820	35,459,390
Property and equipment	15	2,539,425	1,888,070
Other assets	16	768,188	325,446
TOTAL ASSETS		79,758,766	54,735,800
LIABILITIES			
Amounts due to Government	17	73,260	243,394
Amounts due to credit institutions	18,26	20,314,228	8,729,317
Amounts due to customers	19,26	31,695,136	30,022,490
Debt securities issued:.			
– subordinated debt securities issued	20	10,572,891	7,049,859
– unsubordinated debt securities issued	20	6,629,142	2,250,293
Deferred tax liabilities	8	—	93,759
Provisions	4	189,735	123,046
Other liabilities	21	686,464	500,489
Total liabilities		70,160,856	49,012,647
SHAREHOLDERS' EQUITY			
Share capital	22	5,797,282	3,700,462
Additional paid-in capital		521,530	521,530
Treasury stock		(24,987)	(487)
Reserves		3,304,085	1,501,648
Total shareholders' equity		9,597,910	5,723,153
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		79,758,766	54,735,800
FINANCIAL COMMITMENTS AND CONTINGENCIES	23	15,903,307	13,221,373

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share Capital	Additional paid in Capital	Treasury Stock	Convertible subordinated debt	Statutory reserve	Revaluation reserve	Retained earnings	Total shareholders' equity
				(KZT thousands)				
31 December 2002	1,756,828	433,095	(6,796)	779,250	292,157	232,738	(55,621)	3,431,651
Share capital increase	1,305,360	88,435	—	—	—	—	—	1,393,795
Treasury stock purchase	—	—	(37,611)	—	—	—	—	(37,611)
Treasury stock sale	—	—	43,920	—	—	—	—	43,920
Revaluation of property and equipment, net of deferred tax	—	—	—	—	—	193,188	—	193,188
Dividends – preference shares	—	—	—	—	—	—	(2,415)	(2,415)
Conversion of subordinated debt to common shares	638,274	—	—	(638,274)	—	—	—	—
Purchase of convertible subordinated debt	—	—	—	(140,976)	—	—	—	(140,976)
Transfers	—	—	—	—	177,711	—	(177,711)	—
Net profit	—	—	—	—	—	—	841,601	841,601
31 December 2003	3,700,462	521,530	(487)	—	469,868	425,926	605,854	5,723,153
Share capital increase	2,096,820	—	—	—	—	—	—	2,096,820
Treasury Stock	—	—	(24,500)	—	—	—	—	(24,500)
Revaluation of property and equipment, net of deferred tax	—	—	—	—	—	27,141	—	27,141
Dividends – preference shares	—	—	—	—	—	—	(2,366)	(2,366)
Amortization of property and equipment evaluation reserve	—	—	—	—	—	(9,468)	9,468	—
Net profit	—	—	—	—	—	—	1,777,662	1,777,662
31 December 2004	5,797,282	521,530	(24,987)	—	469,868	443,599	2,390,618	9,597,910

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004	2003
		(KZT thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		2,178,440	1,023,246
Adjustments for:			
Impairment of interest earning assets		1,809,426	732,695
Other impairment and provisions		67,525	123,046
Depreciation		173,501	108,765
Decrease in carrying amount of property and equipment arising from revaluation		—	43,878
(Gain)/loss on disposal of property and equipment		(26,420)	11,322
Unrealized loss/(gain) on trading securities		42,453	(57,944)
Unrealized foreign exchange loss		100,132	11,385
Cash flow from operating activity before changes in net operating assets and liabilities		4,345,057	1,996,393
Net (increase)/decrease in operating assets:			
Obligatory reserve		(330,758)	(369,463)
Trading securities		(5,405,268)	(3,250,191)
Amounts due from credit institutions		(895,293)	(1,779,223)
Loans to customers		(15,728,299)	(16,588,199)
Other assets		(359,001)	118,649
Net increase/(decrease) in operating liabilities			
Amounts due to Government		(170,134)	243,394
Amounts due to credit institutions		11,584,911	4,645,905
Amounts due to customers		1,672,646	11,555,699
Other liabilities		183,609	167,764
Cash used in operating activities before income taxes		(5,102,530)	(3,229,272)
Corporate income tax paid		(590,746)	(186,378)
Net cash used in operating activities		(5,693,276)	(3,415,650)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(801,696)	(469,373)
Proceeds from sale of property and equipment		42,033	57,714
Proceeds from sale of held-to-maturity investment securities		—	184,594
Net cash used in investing activities		(759,663)	(227,065)

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENT OF CASH FLOWS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004	2003
		(KZT thousands)	
CASH FLOW FROM FINANCING ACTIVITIES			
Capital contributions		2,096,820	1,393,795
Proceeds from debt securities issued		9,930,931	6,888,966
Redemption of debt securities issued		(2,029,050)	—
Treasury stock purchase		(24,500)	(37,611)
Treasury stock sale		—	43,920
Dividends on preference shares paid		—	(2,415)
Convertible subordinated debt		—	(140,976)
Net Cash provided by financing activities		9,974,201	8,145,679
EXCHANGE RATES CHANGES EFFECT ON CASH AND CASH EQUIVALENTS		(153,689)	(45,508)
NET CHANGE IN CASH AND CASH EQUIVALENTS		3,367,573	4,457,456
CASH AND CASH EQUIVALENTS, beginning of the year	10	6,219,460	1,762,004
CASH AND CASH EQUIVALENTS, end of the year	10	9,587,033	6,219,460
Supplementary information:			
Interest paid		3,637,883	2,027,881
Interest received		8,239,729	4,284,301

NOTES OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. ORGANISATION

JSC Bank Caspian (the "Bank") is a joint-stock company, which was incorporated in the Republic of Kazakhstan in December 1997. The Bank is regulated by the National Bank of the Republic of Kazakhstan (NBRK) and the Agency of the Republic of Kazakhstan on the regulation and the supervision of financial market and financial organizations (AFS) and conducts its business under general license number No. 245 on 1 March 2004. The Bank's primary business consists of commercial activities, trading with securities and foreign currencies, originating loans and guarantees.

The registered address of the Bank is 90 Adi Sharipov Street, Almaty, 050012, Republic of Kazakhstan. The Bank has 33 branches in the Republic of Kazakhstan.

The Bank is a parent company of the banking group (the "Group") which includes JSC Insurance Company Almaty International Insurance Group (AIIG) in the consolidated financial statements.

AIIG was formed as a joint stock company under the laws of the Republic of Kazakhstan in late 1994. The company's principal activity is provision of property and casualty insurance. The company possesses licenses No. DOS 5-2/1 and No. OS 5-2/1 for provision of non-life voluntary and obligatory insurance.

During 2004 and 2003 the Group had an average of 1344 and 966 employees, respectively.

As of 31 December 2004 the following shareholders individually owned more than 5% of the issued shares. As of 31 December 2004 4,785 shareholders owned 61.1% of the outstanding shares.

Shareholder	2004	2003
	%	%
Iskakov S.K.	10.4	–
Leasing Center Astana	9.1	8.1
Blooming Market Estate Inc	8.0	–
Industry investstroy	5.9	–
Fantasia	5.5	6.5
Kazakhstan Fuel Company	–	11.5
Caspian Investment Services Corporation	–	9.5
Madoc capital Limited Company	–	6.2
Nauryz Services Consulting Company LLP	–	6.0
Kim V.K.	–	5.9
Kim V.E.	–	5.6
Total	**38.9**	**59.0**

These consolidated financial statements were authorized for issue by the Group's management on 11 February 2005.

2. BASIS OF PREPARATION

Accounting basis

These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), unless otherwise indicated. These consolidated financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of financial assets held for trading and property and equipment and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

The Group maintains its records and prepares its consolidated financial statements in accordance with IFRS.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments.

Measurement currency

The measurement currency in these consolidated financial statements is the Kazakhstani Tenge.

3. SUMMARY OF THE ACCOUNTING POLICIES

Basis of consolidation

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

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting. Financial assets and liabilities are 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 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 remeasurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

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

Obligatory reserves

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

Trading securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at the quotes of the Kazakhstan Stock Exchange if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts due from credit institutions

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

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell (reverse repos') are recorded as amounts due from credit institutions or loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, 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 Group enters into various derivative financial instruments, primarily forwards in the foreign exchange 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. Derivatives, for which offsetting is performed are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Other derivative assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from trading securities.

Derivative instruments embedded in other financial instruments are treated as a separate derivative 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. At 31 December 2004 and 2003, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

Loans to customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between 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. Loans and advances to customers are carried net of any allowance for impairment.

Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has received all available collateral.

Non-accrual loans

Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowances for impairment of financial assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group 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 carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative and operating expenses.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and of the cities in which the Bank has offices and branches and its subsidiary is located. Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences except were the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss.

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

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

Property and equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Property is carried at revalued cost less accumulated depreciation and any accumulated impairment for diminution in value. Revaluations of property are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

Any revaluation increase arising on the revaluation of such property is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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
Land	–
Buildings	50
Furniture and fixtures	3-10
Vehicles	4-8

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. An impairment is recognized in the respective period and is included in administrative and operating expenses.

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

Amounts due to Government, credit institutions and to customers

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

Debt securities issued

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

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital, additional paid-in capital and treasury stock are recognized at restated cost. Gains and losses on sales of treasury stock are charged to additional paid-in capital.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preference shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated 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. The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income and interest accrued in prior years and not received is charged off against the allowance for losses. Subsequent payments by borrowers are applied entirely to principal if the estimated collectibility of the loan is low and to either principal or delinquent interest, based on the estimated collectibility of the loan and delinquent interest at the time of payment, if the Group has objective evidence that the loan and delinquent interest are reasonably assured of repayment within a reasonable period. A non-accrual loan may be restored to accrual status when all the Group has objective evidence that all principal and interest amounts contractually due are reasonably assured of timely repayment.

Underwriting Income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated profit and loss account as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

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

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for Insurance Losses and Loss Adjustment Expenses

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

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

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

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated balance sheets within other assets.

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

Foreign currency translation

Monetary assets and liabilities: denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses arising from these translations are recognized in the statement of income as gains less losses from foreign currencies.

Rates of exchange

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2004	31 December 2003
1 KZT /1 US Dollar	130.00	144.22
1 KZT/1 Euro	177.10	180.23

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. ALLOWANCES FOR LOSSES AND PROVISIONS

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

	Loans to Customers	Total
	(KZT thousands)	
31 December 2002	565,389	565,389
Provision	732,695	732,695
Write-offs	(32,294)	(32,294)
Recoveries	17,705	17,705
31 December 2003	1,283,495	1,283,495
Provision	1,809,426	1,809,426
Write-offs	(484,548)	(484,548)
Recoveries	3,251	3,251
Transfers	(97,860)	(97,860)
31 December 2004	2,513,764	2,513,764

The movements in allowances for provisions were as follows:

	Other assets	Guarantees and credit related commitments	Total
	(KZT thousands)		
31 December 2002	7,830	–	7,830
Provision	–	123,046	123,046
Write-offs	(3,925)	–	(3,925)
31 December 2003	3,905	123,046	126,951
Provision	836	66,689	67,525
Write-offs	(2,120)	–	(2,120)
Transfers	97,860	–	97,860
31 December 2004	100,481	189,735	290,216

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and letters of credit are recorded in liabilities.

5. FEE AND COMMISSION INCOME

Fee and commission income comprise:

	2004	2003
	(KZT thousands)	
Cash operations	465,169	320,797
Documentary operations	383,290	343,675
Settlements	340,976	290,747
Foreign exchange operations	152,871	141,665
Other operations	141,919	89,396
Total fee and commission income	1,484,225	1,186,280

6. GAINS LESS LOSSES FROM TRADING SECURITIES

Gains less losses from trading securities comprise:

	2004	2003
	(KZT thousands)	
Change in fair value of trading securities	(51,664)	(57,944)
Sales and redemptions	6,623	(24,119)
Gains less losses from trading securities	(45,041)	33,825

7. PAYROLL, ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits comprise:

	2004	2003
	(KZT thousands)	
Salaries and bonuses	1,401,107	891,376
Social security costs	163,759	159,594
Total salaries and benefits	1,564,866	1,050,970

Administrative and operating expenses comprise:

	2004	2003
	(KZT thousands)	
Operating taxes	172,278	124,144
Administrative	194,070	87,314
Communications	104,388	79,480
Business travel	103,370	52,017
Marketing and advertising	102,388	112,927
Occupancy and rent	100,320	73,997
Loss on property and equipment disposals	60,052	11,322
Repair and maintenance of property and equipment	52,123	33,639
Transportation	46,987	31,882
Security	34,746	23,534
Fines and penalties	34,317	–
Entertainment	27,148	9,626
Office supplies	21,361	21,979
Legal and consultancy	16,578	16,978
Decrease in the carrying amount of property arising on revaluation	–	43,878
Other	41,363	59,678
Total administrative and operating expenses	1,111,489	782,395

8. TAXATION

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstani statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2004 and 2003, Kazakhstan's tax rates for corporate income tax were 30% for non-insurance activities and 4% for insurance activities.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of exchange losses and other expenses and the tax-free regime for certain income under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 comprise:

	2004	2003
	(KZT thousands)	
Deferred assets:		
Allowances for losses and provisions	2,319	217,850
Loans to customer	970,771	–
Other	–	169,963
Total deferred assets	973,090	387,813
Deferred liabilities:		
Fixed assets	(892,751)	(693,980)
Other	(8,048)	(6,363)
Total deferred liabilities	(900,799)	(700,343)
Net deferred assets/(liabilities)	72,291	(312,530)
Deferred tax assets/(liabilities) at the statutory rate (30%)	21,687	(93,759)
Less: valuation allowance	(21,687)	–
Net deferred tax liabilities	–	(93,759)

Relationships between tax expenses and accounting profit for the year ended 31 December 2004 and 2003 are explained as follows:

	2004	2003
	(KZT thousands)	
Income before income tax expense	2,178,440	1,023,246
Tax at the statutory rate (30%)	653,532	306,974
State securities non-taxable income	(140,083)	(317,612)
Mortgage loans non-taxable income	(45,815)	–
Income of the insurance subsidiary taxed at different rates	(35,860)	(21,052)
Non deductible expenditures:		
Interest expense over deductible limits	–	226,766
Losses on disposal of property and equipment	492	3,397
Other permanent differences	(9,801)	(16,828)
Change in valuation allowance	(21,687)	–
Income tax expense	400,778	181,645

	2004	2003
	(KZT thousands)	
Current income tax expense	506,169	186,378
Deferred tax benefit	(105,391)	(4,733)
Income tax expense	400,778	181,645

	2004	2003
	(KZT thousands)	
Deferred liabilities:		
1 January	(93,759)	(15,697)
Increase of revaluation reserve	(11,632)	(82,795)
Deferred tax benefit	105,391	4,733
31 December	–	(93,759)

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had one type of dilutive shares, convertible debt. The convertible debt is assumed to have been converted into shares and the net profit is adjusted to eliminate the applicable interest expense less the tax effect.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2004	2003
	(KZT thousands)	
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on preference shares	1,775,296	839,186
Interest on convertible debt	–	195,133
Net income attributable to common shareholders for diluted earnings per share	1,775,296	1,034,319

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at 31 December is as follows:

	2004	2003
	(KZT thousands)	
Weighted average number of common shares for basic earnings per share	9,260,001	6,829,673
Effect of dilution: convertible debt	–	860,758
Adjusted weighted average number of common shares for diluted earnings per share	9,260,001	7,690,431

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2004	2003
	(KZT thousands)	
Current accounts with NBRK	6,530,312	3,767,636
Cash on hand	1,780,653	1,269,625
Current accounts with credit institutions	1,276,068	1,182,199
Total cash and cash equivalents	9,587,033	6,219,460

At 31 December 2004 and 2003, current accounts with OECD based banks were KZT 1,097,829 thousand and KZT 631,933 thousand, respectively.

At 31 December 2004 and 2003, 5 banks accounted for 83% and 82%, respectively, of total current accounts with credit institutions and represented 11% and 17%, respectively, of the Group's total shareholders' equity.

11. OBLIGATORY RESERVES

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

12. TRADING SECURITIES

Trading securities comprise:

	Interest to nominal	2004	Interest to nominal	2003
	%	(KZT thousands)	%	(KZT thousands)
Debt securities				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	5.5-8.3	8,625,310	6.0-17.1	5,055,979
Notes of NBRK	0.0	2,892,929		–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.1	2,128,030	11.1-13.6	3,068,303
Corporate bonds	8.0	96,158	10.0	146,420
Promissory notes of Kazakh corporations	10.0	3,629	10.0	112,539
Total trading securities		13,746,056		8,383,241
Subject to repurchase agreements		–		4,482,323

13. AMOUNTS DUE FROM CREDIT INSTITUTIONS

	2004	2003
	(KZT thousands)	
Reverse repurchase agreements	1,250,055	1,080,182
Time deposits and loans	1,424,461	699,041
Total amounts due from credit institutions	2,674,516	1,779,223

At 31 December 2004 and 2003, 5 credit institutions accounted for 93% and 86%, respectively, of time deposits and loans and represented 14% and 11%, respectively, of the Group's total shareholders' equity.

At 31 December 2004 and 2003, time deposits in the amount of KZT nil and KZT 582,217 thousand, respectively, were pledged to the counterparty banks as security for open letters of credit.

The Group had entered into reverse repurchase agreements with various undisclosed counterparties through KASE and directly with one credit institution. As of 31 December 2004 the subject of these agreements is bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 1,250,055 thousand. At 31 December 2003, the subject of these agreements is notes of NBRK of KZT 480,181 thousand and bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 600,001 thousand.

14. LOANS TO CUSTOMERS

	2004	2003
	(KZT thousands)	
Loans to customers	51,944,098	36,682,045
Overdrafts	1,486	60,840
	51,945,584	36,742,885
Allowance for loan losses	(2,513,764)	(1,283,495)
Total loans to customers	49,431,820	35,459,390

As of 31 December 2004 and 2003 included in loans to customers are non-accrual loans which amounted to KZT 819,717 thousand and KZT 434,664 thousand, respectively.

As of 31 December 2004 and 2003, the Group had a concentration of loans represented by KZT 13,704,018 thousand due from ten borrowers (26.38% of total gross loan portfolio) and KZT 13,888,421 thousand due from ten borrowers (37.95% of total gross loan portfolio), respectively. An allowance of KZT 139,711 thousand and KZT 43,201 thousand, respectively, was made against these loans.

As of 31 December 2004 and 2003, loans of KZT 2,654,462 thousand and KZT 7,625,548 thousand, respectively, were secured by 100% cash collateral.

As of 31 December, loans are made principally within Kazakhstan to the following sectors:

	2004	2003
	(KZT thousands)	
Trade	22,167,594	15,043,824
Individuals	12,676,684	3,471,849
Construction	5,893,845	3,340,336
Manufacturing	4,824,297	8,169,289
Services	2,874,051	3,075,482
Oil & Gaz	1,247,044	–
Agriculture and food processing	989,912	1,576,178
Transport	596,893	1,711,764
Other	675,264	354,163
	51,945,584	36,742,885
Allowance for loan losses	(2,513,764)	(1,283,495)
Total loans to customers	49,431,820	35,459,390

15. FIXED ASSETS, LESS ACCUMULATED DEPRECIATION

The movements of fixed assets were as follows:

	Land and buildings	Furniture and fixtures	Vehicles	Assets under construction	Total
	(KZT thousands)				
Cost or revaluation					
31 December 2003	1,683,972	469,591	189,734	82,837	2,426,134
Additions	493,410	204,606	63,513	40,167	801,696
Disposals	(12,953)	(29,01)	(26,785)	–	(68,739)
Revaluation	40,085	–	–	–	40,085
31 December 2004	2,204,514	645,196	226,462	123,004	3,199,176
Accumulated depreciation					
31 December 2003	280,679	202,931	54,454	–	538,064
Charge	35,864	110,843	26,794	–	173,501
Disposals	(4,613)	(23,406)	(25,107)	–	(53,126)
Revaluation	1,312	–	–	–	1,312
31 December 2004	313,242	290,368	56,141	–	659,751
Net book value:					
31 December 2004	1,891,272	354,828	170,321	123,004	2,539,425
31 December 2003	1,403,293	266,660	135,280	82,837	1,888,070

During 2002, the Group commenced the process of revaluing its buildings. The revaluation process for all buildings was completed in 2004. The valuation of certain buildings was performed by an independent appraisal firm as of 26 November 2004, 23 December 2003 and 12 November 2002. The basis used for the appraisal was fair market value under the open market premise of value. As of 31 December 2004 the revalued buildings are included above at the revalued net carrying amount of KZT 802,059 thousand. Had the revalued property been included at cost at 31 December 2004 and 2003, their net carrying amount would have amounted to KZT 358,496 thousand and KZT 429,995 thousand, respectively.

16. OTHER ASSETS

Other assets comprise:

	2004	2003
	(KZT thousands)	
Prepaid interest and commission expense	148,902	31,638
Prepayments and receivables on capital expenditures	138,164	20,774
Taxes receivable, other than income tax	133,755	41,818
Collateral obtained from defaulted borrowers	97,860	–
Insurance assets	93,922	39,125
Advances paid	85,525	37,748
Income tax prepaid	84,577	–
Inventory	28,074	34,821
Intangible assets	20,681	28,981
Due from employees	3,234	33,517
Other	33,975	60,929
	868,669	329,351
Allowance for losses	(100,481)	(3,905)
Total other assets	768,188	325,446

17. AMOUNTS DUE TO GOVERNMENT

Amounts due to Government comprise:

	2004	2003
	(KZT thousands)	
Amounts due to local government bodies	73,260	76,394
Amounts due to the Ministry of Agriculture of the Republic of Kazakhstan	–	167,000
Total amounts due to Government	73,260	243,394

At 31 December 2003, the amounts due to the Ministry of Agriculture of the Republic of Kazakhstan represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans. The Group's margin on pass-through loans ranges from 2.0% to 4.3% per annum.

18. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2004	2003
	(KZT thousands)	
Time deposits and loans	20,175,005	4,332,771
Loans from the Small Business Development Fund	136,551	227,266
Current accounts	2,672	121,216
Repurchase agreements	–	4,048,064
Total amounts due to Government	20,314,228	8,729,317

At 31 December 2004 and 2003, amounts due to the Small Business Development Fund CJSC represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans.

At 31 December 2004 and 2003, 10 major credit institutions accounted for 74% and 90% of time deposits and loans, respectively.

19. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers comprise:

	2004	2003
	(KZT thousands)	
Time deposits	19,611,254	23,232,407
Current accounts	12,083,882	6,790,083
Total amounts due to customers	31,695,136	30,022,490
Held as security against letters of credit and guarantees	36,375	803,572
Held as security against loans to customers	2,654,462	7,625,548

At 31 December, analysis of customer accounts by sector follows:

	2004	2003
	(KZT thousands)	
Individuals	11,903,737	6,585,938
Trade	3,736,127	8,804,949
Insurance	3,023,994	3,103,656
Transport	2,854,664	2,393,952
Fuel, gas and chemicals	2,580,850	416,678
Construction	1,830,145	1,299,423
Service	1,796,736	1,124,271
Manufacturing	1,300,865	2,701,973
Agriculture and food processing	528,443	923,968
Other	2,139,575	2,667,682
Total amounts due to customers	31,695,136	30,022,490

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date Month/year	Interest rate %	2004	2003
			(KZT thousands)	
Subordinated debt securities issued				
Third issue	Dec2010	8.75%	7,489,015	3,975,744
Second issue	May2010	9.5%	3,083,876	3,074,115
			10,572,891	7,049,859
Non-subordinated debt securities issued				
Fourth issue	Jun2011	8.40%	6,629,142	–
First issue	Jul2004	9.50%	–	2,250,293
			6,629,142	2,250,293
Total debt securities issued			17,202,033	9,300,152

21. OTHER LIABILITIES

Other liabilities comprise:

	2004	2003
	(KZT thousands)	
Taxes payable, other than income tax	242,462	151,516
Insurance liabilities	220,480	211,316
Due to employees	41,284	36,127
Interest and commission expenses prepaid	25,145	2,239
Accrued expenses	45,449	29,742
Other	111,644	69,549
Total other liabilities	686,464	500,489

22. SHAREHOLDERS' EQUITY

Movement of shares authorized, fully paid and outstanding follows:

	Number of Shares		Amount			
	Preference	Common	Preference	Common	Inflation	Total
			(KZT thousands)			
31 December 2002	115,000	6,216,000	24,150	1,305,360	427,318	1,756,828
Contributed in KZT		2,072,000		1,305,360		1,305,360
Capitalized convertible subordinated debt	–	877,588	–	638,274	–	638,274
31 December 2003	115,000	9,165,588	24,150	3,248,994	427,318	3,700,462
Contributed in KZT	–	1,820,000	–	2,096,820	–	2,096,820
31 December 2004	115,000	10,985,588	24,150	5,345,814	427,318	5,797,282

As of 31 December 2003, 10,985,588 common shares and 115,000 preference shares were issued, fully paid and registered.

The share capital of the Group was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in Kazakhstani tenge. Preference shares are non-voting and guarantee annual cumulative dividends of not less than 21 tenge per share.

During 2003, the Group repurchased KZT 140,976 of the convertible subordinated debt in accordance with the agreement with the holder of the convertible subordinated debt on the conversion of the debt.

During the years ended 31 December 2004 and 2003, the Group declared dividends on preference shares in the amount of KZT 2,366 thousand and KZT 2,415 thousand.

23. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

At 31 December, the Group's financial commitments and contingencies comprised the following:

	2004	2003
	(KTZ thousands)	
Credit related commitments		
Undrawn loan commitments	10,455,734	7,170,125
Guarantees	4,201,724	4,777,821
Letters of credit	1,471,959	2,126,048
	16,129,417	14,073,994
Lease commitments		
Not later than 1 year	–	73,997
	16,129,417	14,147,991
Less – cash collateral	(36,375)	(803,572)
Less – provisions	(189,735)	(123,046)
Financial commitments and contingencies	15,903,307	13,221,373

As of 31 December 2004 and 2003, guarantees and letters of credit of KZT 36,375 thousand and KZT 803,572 thousand, respectively, were secured by the client's funds, and the bank did not create any provisions against these commitments.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as of 31 December 2004.
Operating environment

The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes

Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the consolidated financial statements. Tax years remain open to review by the tax authorities for five years.

Pensions and retirement plans

Employees receive pension benefits in accordance with the laws and regulations of the Republic of Kazakhstan. As of 31 December 2004 and 2003, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

4. RISK MANAGEMENT POLICIES

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product, by industry sector, by region are approved quarterly by the Board of Directors. In the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure 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 consolidated financial statements and the disclosed financial commitments.

Concentration

At 31 December the geographical concentration of financial assets and liabilities is set out below:

	2004			
	Kazakhstan	**OECD**	**CIS and other foreign Countries**	**Total**
	(KZT thousands)			
ASSETS				
Cash and cash equivalents	8,325,087	1,097,829	164,117	9,587,033
Obligatory reserves	1,011,728	–	–	1,011,728
Trading securities	13,746,056	–	–	13,746,056
Amounts due from credit institutions	2,598,593	75,923	–	2,674,516
Loans to customers	44,149,287	2,382,821	5,413,476	51,945,584
Other assets	647,310	90,038	5,387	742,735
TOTAL ASSETS	70,478,061	3,646,611	5,582,980	79,707,652
LIABILITIES				
Amounts due to the Government	73,260	–	–	73,260
Amounts due to credit institutions	6,724,329	12,824,876	765,023	20,314,228
Amounts due to customers	29,024,415	823,429	1,847,292	31,695,228
Debt securities issued subordinated	10,572,891	–	–	10,572,891
Debt securities issued non-subordinated	6,629,142	–	–	6,629,142
Other liabilities	666,357	16,902	3,205	686,464
TOTAL LIABILITIES	53,690,394	13,665,207	2,615,520	69,971,121
NET BALANCE SHEET POSITION	16,787,667	(10,018,596)	2,967,460	9,736,531

	2003			
	Kazakhstan	**OECD**	**CIS and other foreign Countries**	**Total**
	(KZT thousands)			
ASSETS				
Cash and cash equivalents	4,527,996	1,119,961	571,503	6,219,460
Obligatory reserves	680,970	–	–	680,970
Trading securities	8,383,241	–	–	8,383,241
Amounts due from credit institutions	1,293,680	485,543	–	1,779,223
Loans to customers	33,562,436	626,406	2,554,043	36,742,885
Other assets	243,079	21,438	1,031	265,548
TOTAL ASSETS	48,691,402	2,253,348	3,126,577	54,071,327
LIABILITIES				
Amounts due to government	243,394	–	–	243,394
Amounts due to credit institutions	4,874,017	3,380,999	474,301	8,729,317
Amounts due to customers	20,837,480	1,065,246	8,119,764	30,022,490
Debt securities issued subordinated	7,049,859	–	–	7,049,859
Debt securities issued unsubordinated	2,250,293	–	–	2,250,293
Deferred tax liabilities	93,759	–	–	93,759
Other liabilities	480,866	16,119	3,504	500,489
TOTAL LIABILITIES	35,829,668	4,462,364	8,597,569	48,889,601
NET BALANCE SHEET POSITION	12,861,734	(2,209,016)	(5,470,992)	5,181,726

The above tables do not include the effect of allowances for losses of KZT 2,513,764 thousand and KZT 1,283,495 thousand, provisions for other assets of KZT 100,481 thousand and KZT 3,905 thousand, property and equipment net of accumulated depreciation of KZT 2,539,425 thousand and KZT 1,888,070 thousand, other non-monetary assets of KZT 125,934 thousand and KZT 63,803 thousand, and provisions for guarantees and credit related commitments of KZT 189,735 thousand and KZT 123,046 thousand as of 31 December 2004 and 2003, respectively.

Market Risk

The Group 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 Group 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. With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD) by branches and in total. These limits also comply with the minimum requirements of NBK. At December 31, the Group's exposure to foreign currency exchange rate risk follows:

				2004
	KZT	**Freely convertible currencies**	**Non-convertible currencies**	**Total**
	(KZT thousands)			
ASSETS				
Cash and cash equivalents	7,843,838	1,631,821	111,374	9,587,033
Trading securities	1,011,728	–	–	1,011,728
Amounts due from credit institutions	11,618,026	2,128,030	–	13,746,056
Loans to customers	2,598,593	75,923	–	2,674,516
Deferred tax assets	37,850,166	14,095,418	–	51,945,584
Other assets	637,311	101,675	3,749	742,735
TOTAL ASSETS	61,559,662	18,032,867	115,123	79,707,652
LIABILITIES				
Amounts due to government	73,260	–	–	73,260
Amounts due to credit institutions	2,711,393	17,599,527	3,308	20,314,228
Amounts due to customers	22,794,357	8,868,213	32,566	31,695,136
Debt securities issued subordinated	10,572,891	–	–	10,572,891
Debt securities issued unsubordinated	6,629,142	–	–	6,629,142
Other liabilities	617,504	68,186	774	686,464
TOTAL LIABILITIES	43,398,547	26,535,926	36,648	69,971,121
NET BALANCE SHEET POSITION	18,161,115	(8,503,059)	78,475	9,736,531

				2003
	KZT	Freely convertible currencies	Non-convertible currencies	Total
	(KZT thousands)			
ASSETS				
Cash and cash equivalents	4,523,398	1,485,623	210,439	6,219,460
Obligatory reserves	680,970	–	–	680,970
Trading securities	5,168,518	3,214,723	–	8,383,241
Amounts due from credit institutions	1,369,948	409,275	–	1,779,223
Loans to customers	22,099,863	14,643,022	–	36,742,885
Other assets	234,295	30,988	265	265,548
TOTAL ASSETS	34,076,992	19,783,631	210,704	54,071,327
LIABILITIES				
Amounts due to government	243,394	–	–	243,394
Amounts due to credit institutions	4,272,988	4,352,565	103,764	8,729,317
Amounts due to customers	17,089,705	12,910,860	21,925	30,022,490
Debt securities issued subordinated	7,049,859	–	–	7,049,859
Debt securities issued unsubordinated	–	2,250,293	–	2,250,293
Deferred tax liabilities	93,759	–	–	93,759
Other liabilities	426,308	73,761	420	500,489
TOTAL LIABILITIES	29,176,013	19,587,479	126,109	48,889,601
NET BALANCE SHEET POSITION	4,900,979	196,152	84,595	5,181,726

The above tables do not include the effect of allowances for losses of KZT 2,513,764 thousand and KZT 1,283,495 thousand, provisions for other assets of KZT 100,481 thousand and KZT 3,905 thousand, property and equipment net of accumulated depreciation of KZT 2,539,425 thousand and KZT 1,888,070 thousand, other non-monetary assets of KZT 125,934 thousand and KZT 63,803 thousand, and provisions for guarantees and credit related commitments of KZT 189,735 thousand and KZT 123,046 thousand as of 31 December 2004 and 2003, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Kazakhstan.

The above KZT denominated assets include assets, which are indexed to the USD and revalued, based on the changes of market exchange rate as of 31 December 2004 and 2003, to reflect the effect of any devaluation in the KZT against the USD. As of 31 December 2004 and 2003, such assets amounted to KZT 44,362 thousand and KZT 3,452,153 thousand, respectively.

The above KZT denominated liabilities include liabilities, which are indexed to the USD and revalued, based on the changes of market exchange rate as of 31 December 2004 and 2003, to reflect the effect of any devaluation in the KZT against the USD. As of 31 December 2004 and 2003, such liabilities amounted to KZT 10,572,891 thousand and KZT 7,049,859 thousand, respectively.

The Group's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realize investments in non-monetary assets as measured in USD in these consolidated financial statements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities management Committee.

At 31 December 2004, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	KZT	USD	Other foreign currencies
	%	%	%
ASSETS			
Cash and cash equivalents	–	0.1-2.0	0.1-2.0
Securities held-for-trading	2.9-8.3	1.7-5.2	–
Amounts due from credit institutions	7.5	2.0	–
Loans to customers	5.0-30.0	5.0-26.0	–
LIABILITIES			
Amounts due to government	2.0-4.3	–	–
Amounts due to credit institutions	6.0-7.5	1.0-11.8	2.2-6.4
Amounts due to customers	2.0-13.0	1.5-14.0	1.5-8.6
Debt securities issued	8.7-10.1	–	–

At 31 December 2003, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	KZT	USD	Other foreign currencies
	%	%	%
ASSETS			
Cash and cash equivalents	–	0.2-2.0	0.5-4.0
Securities held-for-trading	6.0-17.1	10.0-13.6	–
Amounts due from credit institutions	2.3-18.0	–	–
Loans to customers	5.0-26.0	5.0-26.0	–
LIABILITIES			
Amounts due to government	0.0-7.7	–	–
Amounts due to credit institutions	11.5	1.0-9.0	1.7-9.0
Amounts due to customers	2.0-17.8	2.0-14.0	1.8-8.5
Debt securities issued	8.8-9.5	–	–

The Group continuously monitors its interest rate margin and consequently 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 financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date at 31 December:

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years'	Overdue	31 December 2004 Total
	(KZT thousands)							
ASSETS								
Cash and cash	9,587,033	–	–	–	–	–	–	9,587,033
Obligatory reserves	1,011,728	–	–	–	–	–	–	1,011,728
Securities held-for-trading	13,746,056	–	–	–	–	–	–	13,746,056
Amounts due from credit institutions	–	1,652,319	534,575	487,622	–	–	–	2,674,516
Loans to customers	–	2,621,231	5,664,066	20,865,622	20,165,115	825,236	1,804,314	51,945,584
Other assets	–	208,800	49,601	467,113	–	17,221	–	742,735
	24,344,817	4,482,350	6,248,242	21,820,357	20,165,115	842,457	1,804,314	79,707,652
LIABILITIES								
Amounts due to government	–	–	246	7,557	65,457	–	–	73,260
Amounts due to credit institutions	2,673	4,565,797	7,194,787	6,260,807	2,289,918	246	–	20,314,228
Amounts due to customers	12,083,882	1,939,608	5,199,843	8,150,875	4,320,928	–	–	31,695,136
Debt securities issued subordinated	–	–	–	71,564	–	10,501,327	–	10,572,891
Debt securities issued unsubordinated	–	–	–	44,100	–	6,585,042	–	6,629,142
Other liabilities	110,750	220,568	–	355,146	–	–	–	686,464
	12,197,305	6,725,973	12,394,876	14,890,049	6,676,303	17,086,615	–	69,971,121
Net position	12,147,512	(2,243,623)	(6,146,634)	6,930,308	13,488,812	(16,244,158)	1,804,314	
Accumulated gap	12,147,512	9,903,889	3,757,255	10,687,563	24,176,375	7,932,217	9,736,531	

	Demand	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years'	Overdue	31 December 2003 Total
	(KZT thousands)							
ASSETS								
Cash and cash	6,219,460	–	–	–	–	–	–	6,219,460
Obligatory reserves	680,970	–	–	–	–	–	–	680,970
Trading securities	8,383,241	–	–	–	–	–	–	8,383,241
Amounts due from credit institutions	–	1,080,495	–	696,709	2,019	–	–	1,779,223
Loans to customers	–	1,056,667	5,107,840	17,961,440	11,712,353	38,346	866,239	36,742,885
Other assets	–	49,541	31,036	135,378	32,372	17,221	–	265,548
	15,283,671	2,186,703	5,138,876	18,793,527	11,746,744	55,567	866,239	54,071,327
LIABILITIES								
Amounts due to government	–	–	283	2,344	73,767	167,000	–	243,394
Amounts due to credit institutions	331,006	4,206,181	628,384	2,823,650	739,926	170	–	8,729,317
Amounts due to customers	6,580,293	2,195,605	7,130,143	11,650,738	2,465,711	–	–	30,022,490
Debt securities issued subordinated	–	–	–	49,357	–	7,000,502	–	7,049,859
Debt securities issued unsubordinated	–	95,335		2,154,958	–	–	–	2,250,293
Deferred tax liabilities	–		–	–	93,759	–	–	93,759
Other liabilities	53,530	170,550	53,976	221,724	709	–	–	500,489
	6,964,829	6,667,671	7,812,786	16,902,771	3,373,872	7,167,672	–	48,889,601
Net position	8,318,842	(4,480,968)	(2,673,910)	1,890,756	8,372,872	(7,112,105)	866,239	5,181,726
Accumulated gap	8,318,842	3,837,874	1,163,964	3,054,720	11,427,592	4,315,487	5,181,726	

The above tables do not include the effect of allowances for losses of KZT 2,513,764 thousand and KZT 1,283,495 thousand, provisions for other assets of KZT 100,481 thousand and KZT 3,905 thousand, property and equipment net of accumulated depreciation of KZT 2,539,425 thousand and KZT 1,888,070 thousand, other non-monetary assets of KZT 125,934 thousand and KZT 63,803 thousand, and provisions for guarantees and credit related commitments of KZT 189,735 thousand and KZT 123,046 thousand as of 31 December 2004 and 2003, respectively.

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international credit institutions. However, in the Kazakhstani 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. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2004 and 2003 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents

For these short-term instruments the carrying amount is a reasonable estimate of fair value. Amounts due to and from banks

As of 31 December 2004 and 2003, the carrying amount of amounts due to and from banks is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trading securities

As of 31 December 2004 and 2003 securities available-for-sale are stated at fair value. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. If such quotes do not exist, management estimation is used.

Customer accounts

As of 31 December 2004 and 2003 the carrying amount of short-term and long-term deposits and current accounts of the Group's customers is a reasonable estimate of their fair value.

Debt securities issued

Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates fair value.

26. RELATED PARTY TRANSACTION

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise;

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. At 31 December, the Group had the following transactions with related parties:

	2004		2003	
	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category
	(KZT thousands)			
Balance sheet				
Cash and cash equivalents	–	9,587,033	431,282	6,219,460
Loans to customers	169,225	51,945,584	247,000	36,742,885
Allowance for loan impairment	(1,699)	(2,513,764)	(73,210)	(1,283,495)
Amounts due to credit institutions	–	20,314,228	72,972	8,729,317
Amounts due to customers	410,639	31,695,136	279,587	30,022,490
Off-balance sheet				
Guarantees issued	–	4,201,724	10,962	4,777,821
Guarantees received	31,267	3,217,267	43,027	2,680,052
Income statement				
Interest income on loans to customers	5,745	7,482,812	28,917	4,376,557
Fee and commission income	482	1,484,812	369	1,186,280
Other income	–	230,998	19	54,225
Interest expense on amounts due to customers	(21,872)	(1,378,353)	(7,241)	(1,819,579)
Interest expense on amounts due to credit institutions	–	(497,362)	(430)	(238,630)

Cash and cash equivalents are represented by current accounts with two Russian commercial banks, affiliated to the Group.

27. CAPITAL ADEQUACY

The Group's international risk based capital adequacy ratio for tier one, computed in accordance with the Basle Accord guidelines issued in 1988, as of 31 December 2004 and 2003 was 17% and 15%, respectively. These ratios exceeded the minimum ratio of 4% recommended by the Basle Accord.

28. SEGMENT INFORMATION

The Group's operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 "Segment Reporting". As shown in Note 24, the Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

JOINT STOCK COMPANY

CASPIAN BANK

Consolidated Financial Statements
For The Years Ended 31 December 2003 and 2002

Deloitte

Deloitte & Touche, LLP
Furmanov str., 240-v
Almaty, 050059
Kazakhstan

Tel: +7(3272)58 13 40
Fax: +7(3272)58 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank Caspian:

We have audited the accompanying consolidated balance sheets of JSC Bank Caspian and its subsidiary (the "Group") as of 31 December 2003 and 2002, and the related consolidated statements of income, cash flows and changes in shareholders' equity (the "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements as of 31 December 2001 and for the year then ended were audited by another auditor, whose report dated 17 May 2002 expressed an unqualified opinion with regard to those consolidated financial statements.

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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

29 July 2005
Almaty

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Notes	2003	2002
		(KZT thousands)	
INTEREST INCOME			
Loans to customers	26	4,376,557	1,871,959
Investment Securities		579,713	364,195
Amounts due from credit institutions		13,750	46,748
		4,970,020	2,282,902
INTEREST EXPENSE			
Amounts due to customers	26	(1,819,579)	(974,633)
Debt securities issued		(241,200)	(14,594)
Amounts due to credit institutions	26	(238,630)	(145,072)
Subordinated loan		(195,133)	(187,838)
		(2,494,542)	(1,322,137)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		2,475,478	960,765
Impairment of interest earning assets	4	(732,695)	(223,586)
NET INTEREST INCOME		1,742,783	728,179
FEES AND COMMISSIONS			
Fee and commission income	5,26	1,186,280	690,231
Fee and commission expense		(88,039)	(138,859)
		1,098,241	551,372
Gains less losses from trading securities	6	33,825	192,659
Gains less losses from foreign currencies			
– dealing		220,372	111,542
– translation differences		(92,873)	83,335
Underwriting Income		31,849	10,203
Other Income	26	54,225	38,664
NON INTEREST INCOME		247,398	436,403
Salaries and benefits	7	(1,050,970)	(684,906)
Depreciation	15	(108,765)	(76,248)
Administrative and operating expenses	7	(782,395)	(515,492)
Other impairment and provisions	4	(123,046)	(42,519)
NON INTEREST EXPENSE		(2,065,176)	(1,319,165)
INCOME BEFORE INCOME TAX EXPENSE		1,023,246	396,789
Income tax (expense)/benefit	8	(181,645)	8,984
NET INCOME		841,601	405,773
Earnings per share		**KZT**	**KZT**
Basic	9	125.76	81.74
Diluted	9	125.76	81.41

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2003 AND 2002

	Notes	2003	2002
		(KZT thousands)	
ASSETS:			
Cash and cash equivalents	10, 26	6,219,460	1,762,004
Obligatory reserves	11	680,970	311,507
Trading securities	12	8,383,241	5,259,700
Amounts due from credit institutions	13	1,779,223	–
Loans to customers	14, 26	35,459,390	19,776,189
Property and equipment	15	1,888,070	1,364,393
Other assets	16	325,446	267,669
TOTAL ASSETS		54,735,800	28,741,462
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES:			
Amounts due to Government	17	243,394	–
Amounts due to credit institutions	18, 26	8,729,317	4,083,412
Amounts due to customers	19, 26	30,022,490	18,466,791
Debt securities issued:			
– subordinated debt securities issued	20	7,049,859	–
– unsubordinated debt securities issued	20	2,250,293	2,411,186
Deferred tax liabilities	8	93,759	15,697
Provisions	4	123,046	–
Other liabilities	21	500,489	332,725
Total liabilities		49,012,647	25,309,811
SHAREHOLDERS' EQUITY:			
Share capital	22	3,700,462	1,756,828
Additional paid-in capital		521,530	433,095
Treasury stock		(487)	(6,796)
Convertible subordinated debt		–	779,250
Reserves		1,501,648	469,274
Total shareholders' equity		5,723,153	3,431,651
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		54,735,800	28,741,462
FINANCIAL COMMITMENTS AND CONTINGENCIES	23	13,158,345	5,751,711

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Share Capital	Additional paid-in capital	Treasury stock	Convertible subordinated debt	Statutory reserve	Revaluation reserve	(Accumulated deficit)/Retained earnings	Total shareholders' equity
	(KTZ thousands)							
31 December 2001	1,427,338	80,124	(6,797)	–	208,043	–	(369,478)	1,339,230
Capital contributions.	329,490	352,971	–	–	–	–	–	682,461
Revaluation of property and equipment, net of deferred tax	–	–	–	–	–	232,738	–	232,738
Dividends – Preference shares	–	–	–	–	–	–	(2,415)	(2,415)
Reserves released of deconsolidation of special purpose entities.	–	–	–	–	–	–	(5,387)	(5,387)
Treasury stock sale	–	–	1	–	–	–	–	1
Convertible subordinated debt issuance	–	–	–	779,250	–	–	–	779,250
Transfers	–	–	–	–	84,114	–	(84,114)	–
Net income	–	–	–	–	–	–	405,773	405,773
31 December 2002	1,756,828	433,095	(6,796)	779,250	292,157	232,738	(55,621)	3,431,651
Capital contributions.	1,305,360	88,435	–	–	–	–	–	1,393,795
Treasury stock purchase . . .	–	–	(37,611)	–	–	–	–	(37,611)
Treasury stock sale	–	–	43,920	–	–	–	–	43,920
Revaluation of property and equipment, net of deferred tax	–	–	–	–	–	193,188	–	193,188
Dividends – preference shares.	–	–	–	–	–	–	(2,415)	(2,415)
Conversion of subordinated debt to common shares . .	638,274	–	–	(638,274)	–	–	–	–
Purchase of convertible subordinated debt	–	–	–	(140,976)	–	–	–	(140,976)
Transfers	–	–	–	–	177,711		(177,711)	–
Net profit.	–	–	–	–	–	–	841,601	841,601
31 December 2003	3,700,462	521,530	(487)	–	469,868	425,926	605,854	5,723,153

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Notes	2003	2002
		(KZT thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax expense		1,023,246	396,789
Adjustments for:			
Impairment of interest earning assets		732,695	275,105
Other impairment and provisions		123,046	–
Depreciation		108,765	76,248
Decrease in carrying amount of property and equipment arising from revaluation		43,878	–
Loss on disposal of property and equipment		11,322	13,428
Unrealized gain on trading securities		(57,944)	(67,709)
Unrealized foreign exchange loss/(gain)		11,385	(16,310)
Cash flow from operating activity before changes in net operating assets and liabilities		1,996,393	677,551
Net (increase)/decrease in operating assets:			
Obligatory reserve		(369,463)	78,391
Trading securities		(3,065,597)	(3,384,736)
Amounts due from credit institutions		(1,779,223)	2,704
Loans to customers		(16,344,094)	(12,808,609)
Other assets		(57,777)	(4,196)
Net increase/(decrease) in operating liabilities			
Amounts due to Government		243,394	–
Amounts due to credit institutions		4,645,905	2,252,986
Amounts due to customers		11,555,699	7,996,170
Other liabilities		167,764	81,553
Cash used in operating activities before income taxes		(3,006,999)	(5,108,186)
Corporate income tax paid		(186,378)	(4,868)
Net cash used in operating activities		(3,193,377)	(5,113,054)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(469,373)	(313,220)
Proceeds from sale of property and equipment		57,714	187,285
Net cash used in investing activities		(411,659)	(125,935)

JOINT STOCK COMPANY BANK CASPIAN

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002 (CONTINUED)

	Notes	2003	2002
		(KZT thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions		1,393,795	682,461
Proceeds from debt securities issued		6,888,966	1,566,736
Treasury stock purchase		(37,611)	–
Treasury stock sale		43,920	1
Dividends on preference shares paid		(2,415)	–
Convertible subordinated debt		(140,976)	779,250
Net cash provided by financing activities		8,145,679	3,028,448
EXCHANGE RATES CHANGES EFFECT ON CASH AND CASH EQUIVALENTS		(45,508)	77,025
NET CHANGE IN CASH AND CASH EQUIVALENTS		4,457,456	(2,133,516)
CASH AND CASH EQUIVALENTS, beginning of the year	10	1,762,004	3,895,520
CASH AND CASH EQUIVALENTS, end of the year	10	6,219,460	1,762,004
Supplementary information:			
Interest paid		2,027,881	874,511
Interest received		4,284,301	2,104,949

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

1. ORGANISATION

JSC Bank Caspian (the "Bank") is a joint-stock company, which was incorporated in the Republic of Kazakhstan in December 1997. The Bank is regulated by the National Bank of the Republic of Kazakhstan ("NBRK") and the Agency of the Republic of Kazakhstan on the regulation and the supervision of financial market and financial organizations ("AFS") and conducts its business under general license No. 245 on 1 March 2004, issued by AFS. The Bank's primary business consists of commercial activities, trading with securities and foreign currencies, originating loans and guarantees.

The registered address of the Bank is 90 Adi Sharipov Street, Almaty 050012, Republic of Kazakhstan.

As of 31 December 2003 and 2002 the Bank had 21 and 16 branches in the Republic of Kazakhstan.

The Bank is a parent company of the banking group (the "Group") which includes JSC Insurance Company Almaty International Insurance Group ("AIIG") in the consolidated financial statements.

AIIG was formed as a joint stock company under the laws of the Republic of Kazakhstan in late 1994. The company's principal activity is provision of property and casualty insurance. The company possesses licenses No. DOS 5-2/1 and No. OS 5-2/1 dated 3 December 2002 for provision of non-life voluntary and obligatory insurance issued by NBRK.

During 2003 and 2002 the Group had an average of 966 and 789 employees, respectively.

As of 31 December 2003 and 2002 4793 and 4801 shareholders owned 40.7% and 32.3% of the outstanding shares, respectively. As of 31 December 2003 and 2002 the following shareholders individually owned more than 5% of the issued shares:

Shareholder	2003	2002
	(per cent.)	
JSC Kazakhstan Fuel Company	11.5	16.3
Caspian Investment Services Corporation	9.5	–
JSC Leasing Center Astana	8.1	8.6
Fantasia LLP	6.5	–
Madoc Capital Limited Company	6.2	–
Nauryz Services Consulting Company LLP	6.0	–
Kim V.K.	5.9	6.2
Kim V.E.	5.6	–
JSC Halyk Bank of Kazakhstan	–	11.9
Floodgate holding	–	7.0
Dostar holding	–	6.2
Aikas	–	6.2
West Asia financial Ltd.	–	5.3
Other less than 5%	40.7	32.3
Total	100.0	100.0

These consolidated financial statements were authorized for issue by the Group's Management on 29 July 2005.

2. BASIS OF PREPARATION

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), unless otherwise indicated. These consolidated financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of financial assets held for trading and property and equipment and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

The Group maintains its records and prepares its consolidated financial statements in accordance with IFRS.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments and revaluation of property and equipment.

During 2002, the Group was required to maintain its records and prepare its financial statements for regulatory purposes in KZT in accordance with Kazakh accounting and banking legislation and related instructions ("KAL"). The consolidated financial statements for 2002 were based on the Group's statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 between KAL and IFRS is presented later in this note. Starting January 1, 2003, the Group maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS. The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of trading securities as well as revaluation of property and equipment.

Shareholders' equity as of 31 December 2002 and net income for the year than ended are reconciled between KAL and IFRS as follows:

	2002	
	Shareholders' equity	Net income
	(KZT thousands)	
Kazakhstani accounting legislation	2,741,300	560,496
Allowance for loan losses	(53,559)	24,553
Realized income on securities	–	(237,970)
Revaluation of property and equipment	(15,367)	–
Additional depreciation on property and equipment	(55,463)	(15,387)
Convertible subordinated debt	779,250	–
Other	35,490	74,081
IFRS	3,431,651	405,773

Measurement currency

The measurement currency in these consolidated financial statements is the Kazakhstani Tenge.

3. SUMMARY OF THE ACCOUNTING POLICIES

Basis of consolidation

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

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting. Financial assets and liabilities are 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 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 consolidated statement of income. The accounting policies for subsequent remeasurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

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

Obligatory reserves

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

Trading securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at the quotes of the Kazakhstan Stock Exchange if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts due from credit institutions

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

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell (reverse repos') are recorded as amounts due from credit institutions or loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, 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 Group enters into various derivative financial instruments, primarily forwards in the foreign exchange 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. Derivatives, for which offsetting is performed are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Other derivative assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from trading securities.

Derivative instruments embedded in other financial instruments are treated as a separate derivative 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. At 31 December 2003 and 2002, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

Loans to customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between 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. Loans and advances to customers are carried net of any allowance for impairment.

Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has received all available collateral.

Non-accrual loans

Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowances for impairment of financial assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group 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 carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative and operating expenses.

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 temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences except were the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss.

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

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

Property and equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Property is carried at revalued cost less accumulated depreciation and any accumulated impairment for diminution in value. Revaluations of property are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

Any revaluation increase arising on the revaluation of such property is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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
Land	–
Buildings	50
Furniture and fixtures	3-10
Vehicles	4-8

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. An impairment is recognized in the respective period and is included in administrative and operating expenses.

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

Amounts due to Government, credit institutions and to customers

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

Debt securities issued

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

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital, additional paid-in capital and treasury stock are recognized at restated cost. Gains and losses on sales of treasury stock are charged to additional paid-in capital.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preference shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated 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. The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Commissions and other income are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income and interest accrued in prior years and not received is charged off against the allowance for losses. Subsequent payments by borrowers are applied entirely to principal if the estimated collectibility of the loan is low and to either principal or delinquent interest, based on the estimated collectibility of the loan and delinquent interest at the time of payment, if the Group has objective evidence that the loan and delinquent interest are reasonably assured of repayment within a reasonable period. A non-accrual loan may be restored to accrual status when all the Group has objective evidence that all principal and interest amounts contractually due are reasonably assured of timely repayment.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated profit and loss account as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

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

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for insurance losses and loss adjustment expenses

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

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

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

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated balance sheets within other assets.

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses arising from these translations are recognized in the statement of income as gains less losses from foreign currencies.

Rates of exchange

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2003	31 December 2002
KZT/1 US Dollar	144.22	155.85
KZT/1 Euro	180.23	162.61

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

The movements in allowances for impairment and provisions were as follows:

	Loans to customers	Due from credit institutions	Total
	(KZT thousands)		
31 December 2001	375,371	47,250	422,621
Provision	232,586	–	232,586
Write-offs	(135,528)	(47,250)	(182,778)
Recoveries	92,960	–	92,960
31 December 2002	565,389	–	565,389
Provision	732,695	–	732,695
Write-offs	(32,294)	–	(32,294)
Recoveries	17,705	–	17,705
31 December 2003	1,283,495	–	1,283,495

	Guarantees and credit related commitments	Other Assets	Total
	(KZT thousands)		
31 December 2001	–	24,703	24,703
Provision	–	42,519	42,519
Write-offs	–	(59,392)	(59,392)
31 December 2002	–	7,830	7,830
Provision	123,046	–	123,046
Write-offs	–	(3,925)	(3,925)
31 December 2003	123,046	3,905	126,951

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

5. FEE AND COMMISSION INCOME

Fee and commission income comprises:

	2003	2002
	(KZT thousands)	
Documentary operations	343,675	64,448
Cash operations	320,797	186,542
Settlements	290,747	203,726
Foreign exchange operations	141,665	107,604
Current account servicing	36,873	19,788
Other operations	52,523	108,123
Total fee and commission income	1,186,280	690,231

6. GAINS LESS LOSSES FROM TRADING SECURITIES

Gains less losses from trading securities comprise:

	2003	2002
	(KZT thousands)	
Change in fair value of trading securities	57,944	67,709
Sales and redemptions	(24,119)	124,950
Gains less losses from trading securities	33,825	192,659

7. PAYROLL, ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits comprise:

	2003	2002
	(KZT thousands)	
Salaries and bonuses	891,376	584,261
Social security costs	159,594	100,645
Total salaries and benefits	1,050,970	684,906

Administrative and operating expenses comprise:

	2003	2002
	(KZT thousands)	
Operating taxes	124,144	60,681
Marketing and advertising	112,927	38,052
Administrative	87,314	83,556
Communications	79,480	41,998
Occupancy and rent	73,997	69,701
Business travel	52,017	39,690
Decrease in the carrying amount of property arising on revaluation	43,878	–
Repair and maintenance of property and equipment	33,639	24,518
Transportation	31,882	23,597
Security	23,534	18,169
Office supplies	21,979	16,702
Legal and consultancy	16,978	40,451
Loss on property and equipment disposals	11,322	13,428
Entertainment	9,626	2,306
Other	59,678	42,643
Total administrative and operating expenses	782,395	515,492

8. TAXATION

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstani statutory tax regulations which may differ from International Financial Reporting

Standards. For the years ended 31 December 2003 and 2002, Kazakhstan's tax rates for corporate income tax were 30% for non-insurance activities and 4% for insurance activities.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of exchange losses and other expenses and the tax-free regime for certain income under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003 and 2002 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003 and 2002 comprise:

	2003	2002
	(KZT thousands)	
Deferred assets:		
Allowances for losses and provisions	217,850	305,167
Other	169,963	24,500
Total deferred assets	387,813	329,667
Deferred liabilities:		
Property and equipment	(693,980)	(381,990)
Others	(6,363)	–
Total deferred liabilities	(700,343)	(381,990)
Net deferred liabilities	(312,530)	(52,323)
Deferred tax liabilities at the statutory rate (30%)	(93,759)	(15,697)

Relationships between tax expenses and accounting profit for the years ended 31 December 2003 and 2002 are explained as follows:

	2003	2002
	(KZT thousands)	
Income before income tax expense	1,023,246	396,789
Tax at the statutory rate (30%)	306,974	119,037
Permanent difference	(125,329)	(128,021)
Income tax expense (benefit)	181,645	(8,984)

	2003	2002
	(KZT thousands)	
Current income tax expense	186,378	4,846
Deferred tax benefit	(4,733)	(13,830)
Income tax expense (benefit)	181,645	(8,984)

	2003	2002
	(KZT thousands)	
Deferred income tax liabilities		
At beginning of the year	(15,697)	(29,527)
Increase of revaluation reserve	(82,795)	–
Deferred tax benefit	4,733	13,830
At end of the year	(93,759)	(15,697)

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had one type of dilutive shares, convertible debt. The convertible debt is assumed to have been converted into shares and the net profit is adjusted to eliminate the applicable interest expense less the tax effect.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2003	2002
	(KZT thousands)	
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on preference shares	839,186	403,358
Interest on convertible debt, net of tax effect	–	12,849
Net income attributable to common shareholders for diluted earnings per share	839,186	416,207

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at 31 December is as follows:

	2003	2002
Weighted average number of common shares for basic earnings per share	6,672,700	4,934,700
Effect of dilution: Convertible debt	–	177,922
Adjusted weighted average number of common shares for diluted earnings per share	6,672,700	5,112,622
Earnings per share – basic	125.76	81.74
Earnings per share – diluted	125.76	81.41

During 2003 the Group had outstanding subordinated debt convertible into common shares. Effect of dilution of the debt would be 227.33 KZT showing that the securities were anti-dilutive and, therefore, were not included into calculation of diluted earnings per share.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2003	2002
	(KZT thousands)	
Current accounts with NBRK	3,767,636	339,940
Cash on hand	1,269,625	512,330
Current accounts with credit institutions	1,182,199	647,276
Time deposits and loans with contractual maturity of less than 90 days	–	262,458
Total cash and cash equivalents	6,219,460	1,762,004

At 31 December 2003 and 2002, current accounts with OECD based banks were KZT 631,933 thousand and KZT 561,459 thousand, respectively.

At 31 December 2003 and 2002, 5 banks accounted for 82%, and 98%, respectively, of total current accounts with credit institutions and represented 17% and 18%, respectively, of the Group’s total shareholders’ equity.

At 31 December 2002, time deposits and loans with contractual maturity of less than 90 days represent balances with two non-OECD based banks and carried interest at rates ranging from 6% to 10% per annum. The amounts were paid in January 2003 upon maturity.

11. OBLIGATORY RESERVES

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

12. TRADING SECURITIES

Trading securities comprise:

	Interest to nominal	2003	Interest to nominal	2002
	(per cent.)	(KZT thousands)	(per cent.)	(KZT thousands)
Debt securities				
Bonds of the Ministry of Finance of the republic of Kazakhstan	6.0-17.1	5,055,979	8.0-9.0	1,599,676
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.1-13.6	3,068,303	11.1-13.6	3,345,058
Corporate bonds	10.0	146,420	10.0	314,966
Promissory notes of Kazakh corporations	10.0	112,539		–
Total trading securities		8,383,241		5,259,700
Subject to repurchase agreements		4,482,323		2,225,829
Pledged as collateral for borrowings from other banks		–		376,603

13. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	2003	2002
	(KZT thousands)	
Reverse repurchase agreements	1,080,182	–
Time deposits and loans	699,041	–
Total amounts due from credit institutions	1,779,223	–

At 31 December 2003, 5 credit institutions accounted for 86% of time deposits and loans and represented 11% of the Group's total shareholders' equity.

At 31 December 2003 and 2002, time deposits in the amount of KZT 582,217 thousand and KZT nil, respectively, were pledged to the counterparty banks as security for open letters of credit.

The Group had entered into reverse repurchase agreements with various undisclosed counterparties through KASE and directly with one credit institution. As at 31 December 2003 the subject of these agreements is notes of NBRK of KZT 480,181 thousand and bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 600,001 thousand.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	2003	2002
	(KZT thousands)	
Loans to customers	36,682,045	20,341,578
Overdrafts	60,840	–
	36,742,885	20,341,578
Allowance for loan impairment	(1,283,495)	(565,389)
Total loans to customers	35,459,390	19,776,189

As of 31 December 2003 and 2002 included in loans to customers are non-accrual loans which amounted to KZT 434,664 thousand and KZT 84,715, respectively.

As of 31 December 2003 and 2002, the Group had a concentration of loans represented by KZT 13,888,421 thousand due from ten borrowers (37.95% of total gross loan portfolio) and KZT 5,300,221 thousand due from ten borrowers (26.63% of total gross loan portfolio), respectively. As of 31 December 2003 and 2002 an allowance of KZT 121,766 thousand and KZT 43,201 thousand, respectively, was made against these loans.

As of 31 December 2003 and 2002 loans of KZT 7,562,520 thousand and KZT 6,165,339 thousand, respectively, were secured by 100% cash collateral.

As of 31 December, loans are made principally within Kazakhstan to the following sectors:

	2003	2002
	(KZT thousands)	
Trade	15,043,824	4,933,274
Manufacturing	8,169,289	10,202,374
Individuals	3,471,849	459,751
Construction	3,340,336	1,269,802
Services	3,075,482	1,454,149
Transport and communication	1,711,764	526,588
Agriculture and food processing	1,576,178	1,291,263
Other	354,163	204,377
	36,742,885	20,341,578
Allowance for loan impairment	(1,283,495)	(565,389)
Total loans to customers	35,459,390	19,776,189

15. PROPERTY AND EQUIPMENT

The movements of property and equipment were as follows:

	Land and buildings	Furniture and fixtures	Vehicles	Assets under construction	Total
	(KZT thousands)				
Cost					
31 December 2001	657,824	434,157	130,965	419,480	1,642,426
Additions	54,328	219,855	39,037	–	313,220
Disposals	(251,832)	(280,475)	(40,353)	(30,721)	(603,381)
Revaluation	296,316	1,829	–	–	298,145
Transfer	343,999	–	–	(343,999)	–
31 December 2002	1,100,635	375,366	129,649	44,760	1,650,410
Additions	242,749	116,360	72,187	38,077	469,373
Disposals	(61,398)	(22,135)	(12,102)	–	(95,635)
Revaluation	401,986	–	–	–	401,986
31 December 2003	1,683,972	469,591	189,734	82,837	2,426,134
Accumulated depreciation					
31 December 2001	188,070	298,197	60,763	–	547,030
Charge	4,991	56,432	14,825	–	76,248
Disposals	(161,899)	(205,063)	(35,706)	–	(402,668)
Revaluation	66,537	(1,130)	–	–	65,407
31 December 2002	97,699	148,436	39,882	–	286,017
Charge	22,323	66,734	19,708	–	108,765
Disposals	(9,224)	(12,239)	(5,136)	–	(26,599)
Revaluation	169,881	–	–	–	169,881
31 December 2003	280,679	202,931	54,454	–	538,064
Net book value:					
31 December 2003	1,403,293	266,660	135,280	82,837	1,888,070
31 December 2002	1,002,936	226,930	89,767	44,760	1,364,393

In 2002 the Group commenced the process of revaluing its buildings. The revaluation process is planned to be completed during 2004 for all buildings. The valuation of certain buildings was performed by an independent appraisal firm as of 23 December 2003 and 12 November 2002. The basis used for the appraisal was fair market value under the open market premise of value. As of 31 December 2003 and 2002 the resulting revaluation surplus for 2003 of KZT 275,983 thousand and for 2002 of KZT 232,738 thousand are recorded in revaluation reserve in shareholders' equity, and the resulting decrease in the carrying amount of KZT 43,878 thousand and KZT nil, respectively, arising on the revaluation of the buildings is charged as an expense and recorded within administrative and operating expenses (Note 7). At 31 December 2003 and 2002 the revalued buildings are included above at the revalued net carrying amount of KZT 661,455 thousand and KZT 475,998 thousand, respectively. Had the property revalued in 2003 and 2002 been included at cost at 31 December 2003 and 2002, their net carrying amount would have amounted to KZT 429,995 thousand and KZT 246,711 thousand, respectively.

16. OTHER ASSETS

Other assets comprise:

	2003	2002
	(KZT thousands)	
Taxes receivable, other than income tax	41,818	39,317
Insurance assets	39,125	59,321
Advances paid	37,748	69,928
Inventory	34,821	18,089
Due from employees	33,517	2,227
Prepaid commission expense	31,638	–
Intangible assets	28,981	19,282
Prepayment and receivables on capital expenditures	20,774	8,825
Income tax prepaid	–	2,718
Other	60,929	55,792
	329,351	275,499
Allowance for losses	(3,905)	(7,830)
Total other assets	325,446	267,669

17. AMOUNTS DUE TO GOVERNMENT

Amounts due to Government comprise:

	2003	2002
	(KZT thousands)	
Amounts due to the Ministry of Agriculture of the Republic of Kazakhstan	167,000	–
Amounts due to local government bodies	76,394	–
Total amounts due to Government	243,394	–

At 31 December 2003, the amounts due to the Ministry of Agriculture of the Republic of Kazakhstan represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans. The Group's margin on pass-through loans ranges from 3.8% to 10.0% per annum.

18. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2003	2002
	(KZT thousands)	
Time deposits and loans	4,332,771	1,526,258
Repurchase agreements	4,048,064	2,010,003
Loans from the Small Business Development Fund	227,266	326,389
Current accounts	121,216	220,762
Total amounts due to credit institutions	8,729,317	4,083,412

At 31 December 2003 and 2002, amounts due to the Small Business Development Fund CJSC represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Group bears the credit risk in connection with these loans.

At 31 December 2003, 10 major credit institutions accounted for 90% of time deposits and loans, respectively. At 31 December 2002, 9 major credit institutions accounted for 100% of time deposits and loans.

19. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers comprise:

	2003	2002
	(KZT thousands)	
Time deposits	23,232,407	14,704,806
Current accounts	6,790,083	3,761,985
Total amounts due to customers	30,022,490	18,466,791
Held as security against letters of credit and guarantees	803,572	1,315
Held as security against loans to customers	7,625,548	6,165,339

At 31 December, analysis of customer accounts by sector as follows:

	2003	2002
	(KZT thousands)	
Trade	8,804,949	6,811,503
Individuals	6,585,938	3,761,985
Insurance	3,103,656	955,992
Manufacturing	2,701,973	995,042
Transport and communication	2,393,952	423,750
Construction	1,299,423	1,678,501
Service	1,124,271	586,447
Agriculture and food processing	923,968	854,717
Fuel, gas and chemicals	416,678	274,582
Other	2,667,682	2,124,272
Total amounts due to customers	**30,022,490**	**18,466,791**

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date	Interest rate	2003	2002
	Month/year	(per cent.)	(KZT thousands)	
Subordinated debt securities issued				
Third issue	December 2010	8.75%	3,975,744	–
Second issue	May 2010	9.50%	3,074,115	–
			7,049,859	–
Non-subordinated debt securities issued				
First issue	July 2004	9.50%	2,250,293	2,411,186
			2,250,293	2,411,186
Total debt securities issued			9,300,152	2,411,186

21. OTHER LIABILITIES

Other liabilities comprise:

	2003	2002
	(KZT thousands)	
Insurance liabilities	211,316	85,714
Taxes payable, other than income tax	151,516	9,944
Due to employees	36,127	21,353
Accrued expenses	29,742	57,661
Commission expenses prepaid	2,239	59
Other	69,549	157,994
Total other liabilities	500,489	332,725

22. SHAREHOLDERS' EQUITY

Movement of shares authorised, fully paid and outstanding as follows:

	Number of shares		Amount			
	Preference	Common	Preference	Common	Inflation	Total
			(KZT thousands)			
31 December 2001	115,000	4,647,000	24,150	975,870	427,318	1,427,338
Contributed in KZT	–	1,569,000	–	329,490	–	329,490
31 December 2002	115,000	6,216,000	24,150	1,305,360	427,318	1,756,828
Contributed in KZT	–	2,072,000	–	1,305,360	–	1,305,360
Capitalised convertible subordinated debt	–	877,588	–	638,274	–	638,274
31 December 2003	115,000	9,165,588	24,150	3,248,994	427,318	3,700,462

As of 31 December 2003 and 2002, 9,165,588 and 6,216,000 common shares and 115,000 preference shares were issued, fully paid and registered.

The share capital of the Group was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in Kazakhstani tenge. Preference shares are non-voting and guarantee annual cumulative dividends of not less than 21 tenge per share.

In 2003 amendments to the share capital of the Group were approved by shareholders as follows:

- The share capital was increased through the sales of 2,072,000 common shares of 630 tenge placement value each and an average premium of 42.68 tenge per share.
- The share capital was increased by KZT 638,274 thousand, through the conversion of the convertible subordinated debt for 877,588 common shares of 727.30 tenge placement value each.

During 2003, the Group repurchased KZT 140,976 thousand of the convertible subordinated debt in accordance with the agreement with the holder of the convertible subordinated debt on the conversion of the debt.

During the years ended 31 December 2003 and 2002, the Group declared dividends on preference shares in the amount of KZT 2,415 thousand in each year. In accordance with the resolutions of the Annual Shareholders' Meeting held on 30 April 2003 and 23 May 2002, the Group transferred KZT 177,711 thousand and KZT 84,114 thousand from retained earnings to the statutory reserve, respectively.

23. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated balance sheets.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

At 31 December, the Group's financial commitments and contingencies comprised the following:

	2003	2002
	(KZT thousands)	
Undrawn loan commitments	7,170,125	2,266,067
Guarantees	4,777,821	2,919,493
Letters of credit	2,126,048	497,765
	14,073,994	5,683,325
Lease commitments		
Not later than 1 year	73,997	69,701
	14,147,991	5,753,026
Less – cash collateral	(866,600)	(1,315)
Less – provisions	(123,046)	–
Financial commitments and contingencies	13,158,345	5,751,711

As of 31 December 2003 and 2002, guarantees and letters of credit of KZT 866,600 thousand and KZT 1,315 thousand respectively were secured by the client's funds, and the bank did not create any provisions against these commitments.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as of 31 December 2003 and 2002.

Operating environment

The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. The management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes

Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the consolidated financial statements. Tax years remain open to review by the tax authorities for five years.

Pensions and retirement plans

Employees receive pension benefits in accordance with the laws and regulations of the Republic of Kazakhstan. As of 31 December 2003 and 2002, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

24. RISK MANAGEMENT POLICIES

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product, by industry sector, by region are approved quarterly by the Board of Directors. In the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure 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 consolidated financial statements and the disclosed financial commitments.

Concentration

At 31 December the geographical concentration of financial assets and liabilities is set out below:

	Kazakhstan	OECD	CIS and other foreign countries	2003 Total
	(KZT thousands)			
Assets				
Cash and cash equivalents	4,527,996	1,119,961	571,503	6,219,460
Obligatory reserves	680,970	–	–	680,970
Trading securities	8,383,241	–	–	8,383,241
Amounts due from credit institutions	1,293,680	485,543	–	1,779,223
Loans to customers	33,562,436	626,406	2,554,043	36,742,885
Other assets	243,079	21,438	1,031	265,548
Total Assets	48,691,402	2,253,348	3,126,577	54,071,327
Liabilities				
Amounts due to Government	243,394	–	–	243,394
Amounts due to credit institutions	4,874,017	3,380,999	474,301	8,729,317
Amounts due to customers	20,837,480	1,065,246	8,119,764	30,022,490
Debt securities issued subordinated	7,049,859	–	–	7,049,859
Debt securities issued unsubordinated	2,250,293	–	–	2,250,293
Deferred tax liabilities	93,759	–	–	93,759
Other liabilities	480,866	16,119	3,504	500,489
Total Liabilities	35,829,668	4,462,364	8,597,569	48,889,601
Net balance sheet position	12,861,734	(2,209,016)	(5,470,992)	5,181,726

	Kazakhstan	OECD	CIS and other foreign countries	2002 Total
	(KZT thousands)			
Assets				
Cash and cash equivalents	686,471	725,313	350,220	1,762,004
Obligatory reserves	311,507	–	–	311,507
Trading securities	5,259,700	–	–	5,259,700
Loans to customers	19,460,064	117,359	764,155	20,341,578
Other assets	230,247	4,787	2,994	238,028
Total Assets	25,947,989	847,459	1,117,369	27,912,817
Liabilities				
Amounts due to credit institutions	3,743,606	119,288	220,518	4,083,412
Amounts due to customers	10,019,099	1,948,651	6,499,041	18,466,791
Debt securities issued unsubordinated	2,411,186	–	–	2,411,186
Deferred tax liabilities	15,697	–	–	15,697
Other liabilities	70,918	251,594	10,213	332,725
Total Liabilities	16,260,506	2,319,533	6,729,772	25,309,811
Net balance sheet position	9,687,483	(1,472,074)	(5,612,403)	2,603,006

As of 31 December 2003 and 2002 the above tables do not include the effect of allowances for losses of KZT 1,283,495 thousand and KZT 565,389 thousand, provisions for other assets of KZT 3,905 thousand

and KZT 7,830 thousand, property and equipment net of accumulated depreciation of KZT 1,888,070 thousand and KZT 1,364,393 thousand, other non-monetary assets of KZT 63,803 thousand and KZT 37,471 thousand, and provisions for guarantees and credit related commitments of KZT 123,046 thousand and KZT nil thousand as of 31 December 2003 and 2002, respectively.

Market Risk

The Group 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 Group 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. With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD) by branches and in total. These limits also comply with the minimum requirements of NBK. At December 31, the Group's exposure to foreign currency exchange rate risk follows:

	KZT	Freely convertible currencies	Non-convertible currencies	2003 Total
	(KZT thousands)			
Assets				
Cash and cash equivalents	4,523,398	1,485,623	210,439	6,219,460
Obligatory reserves	680,970	–	–	680,970
Trading securities	5,168,518	3,214,723	–	8,383,241
Amounts due from credit institutions	1,369,948	409,275	–	1,779,223
Loans to customers	22,099,863	14,643,022	–	36,742,885
Other assets	234,295	30,988	265	265,548
Total Assets	34,076,992	19,783,631	210,704	54,071,327
Liabilities				
Amounts due to Government	243,394	–	–	243,394
Amounts due to credit institutions	4,272,988	4,352,565	103,764	8,729,317
Amounts due to customers	17,089,705	12,910,860	21,925	30,022,490
Debt securities issued subordinated	7,049,859	–	–	7,049,859
Debt securities issued unsubordinated	–	2,250,293	–	2,250,293
Deferred tax liabilities	93,759	–	–	93,759
Other liabilities	426,308	73,761	420	500,489
Total Liabilities	29,176,013	19,587,479	126,109	48,889,601
Net balance sheet position	4,900,979	196,152	84,595	5,181,726

	KZT	Freely convertible currencies	Non-convertible currencies	2002 Total
	(KZT thousands)			
Assets				
Cash and cash equivalents	682,600	1,046,635	32,769	1,762,004
Obligatory reserves	311,507	–	–	311,507
Trading securities	1,914,642	3,345,058	–	5,259,700
Loans to customers	4,292,970	16,048,608	–	20,341,578
Other assets	103,786	133,728	514	238,028
Total Assets	7,305,505	20,574,029	33,283	27,912,817
Liabilities				
Amounts due to credit institutions	2,201,146	1,882,190	76	4,083,412
Amounts due to customers	6,478,630	11,975,882	12,279	18,466,791
Debt securities issued unsubordinated	–	2,411,186	–	2,411,186
Deferred tax liabilities	15,697	–	–	15,697
Other liabilities	212,124	118,384	2,217	332,725
Total Liabilities	8,907,597	16,387,642	14,572	25,309,811
Net balance sheet position	(1,602,092)	4,186,387	18,711	2,603,006

As of 31 December 2003 and 2002 the above tables do not include the effect of allowances for losses of KZT 1,283,495 thousand and KZT 565,389 thousand, provisions for other assets of KZT 3,905 thousand and KZT 7,830 thousand, property and equipment net of accumulated depreciation of KZT 1,888,070 thousand and KZT 1,364,393 thousand, other non-monetary assets of KZT 63,803 thousand and KZT 37,471 thousand, and provisions for guarantees and credit related commitments of KZT 123,046 thousand and KZT nil thousand as of 31 December 2003 and 2002, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Kazakhstan.

The above KZT denominated assets include assets, which are indexed to the USD and revalued, based on the changes of market exchange rate as of 31 December 2003 and 2002, to reflect the effect of any devaluation in the KZT against the USD. As of 31 December 2003 and 2002, such assets amounted to KZT 3,452,153 thousand and KZT 986,250 thousand, respectively.

The above KZT denominated liabilities include liabilities, which are indexed to the USD and revalued, based on the changes of market exchange rate as of 31 December 2003 and 2002, to reflect the effect of any devaluation in the KZT against the USD. As of 31 December 2003 and 2002, such liabilities amounted to KZT 7,049,859 thousand and KZT 2,411,186 thousand, respectively.

The Group's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realize investments in non-monetary assets as measured in USD in these consolidated financial statements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee.

At 31 December 2003 and 2002, the interest rates by currencies for interest earning/ bearing monetary financial instruments were as follows:

	KZT	USD	2003 Other foreign currencies
		(per cent.)	
Assets			
Cash and cash equivalents	–	0.2-2.0	0.5-4.0
Trading securities	6.0-17.1	10.0-13.6	–
Amounts due from credit institutions	2.3-18.0	–	–
Loans to customers	5.0-26.0	5.0-26.0	–
Liabilities			
Amounts due to Government	0.0-7.7	–	–
Amounts due to credit institutions	11.5	1.0-9.0	1.7-9.0
Amounts due to customers	2.0-17.8	2.0-14.0	1.8-8.5
Debt securities issued	8.8-9.5	–	–

	KZT	USD	2002 Other foreign currencies
		(per cent.)	
Assets			
Cash and cash equivalents	–	0.2-10.0	0.5-4.0
Trading securities	8.0-9.0	10.0-13.6	–
Loans to customers	5.0-25.0	5.0-25.0	–
Liabilities			
Amounts due to Government	–	–	–
Amounts due to credit institutions	12.0	1.0-14.0	–
Amounts due to customers	3.5-17.0	2.5-11.0	2.5-8.5
Debt securities issued	9.5	–	–

The Group continuously monitors its interest rate margin and consequently 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 financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the consolidated balance sheet date to the contractual maturity date at 31 December:

	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	31 December 2003 Total
	(KZT thousands)							
Assets								
Cash and cash equivalents	6,219,460	–	–	–	–	–	–	6,219,460
Obligatory reserves	680,970	–	–	–	–	–	–	680,970
Trading securities	8,383,241	–	–	–	–	–	–	8,383,241
Amounts due from credit institutions	–	1,080,495	–	696,709	2,019	–	–	1,779,223
Loans to customers	–	1,056,667	5,107,840	17,961,440	11,712,353	38,346	866,239	36,742,885
Other assets	–	49,541	31,036	135,378	32,372	17,221	–	265,548
	15,283,671	2,186,703	5,138,876	18,793,527	11,746,744	55,567	866,239	54,071,327
Liabilities								
Amounts due to government	–	–	283	2,344	73,767	167,000	–	243,394
Amounts due to credit institutions	331,006	4,206,181	628,384	2,823,650	739,926	170	–	8,729,317
Amounts due to customers	6,580,293	2,195,605	7,130,143	11,650,738	2,465,711	–	–	30,022,490
Debt securities issued subordinated	–	–	–	49,357	–	7,000,502	–	7,049,859
Debt securities issued unsubordinated	–	95,335	–	2,154,958	–	–	–	2,250,293
Deferred tax liabilities	–	–	–	–	93,759	–	–	93,759
Other liabilities	53,530	170,550	53,976	221,724	709	–	–	500,489
	6,964,829	6,667,671	7,812,786	16,902,771	3,373,872	7,167,672	–	48,889,601
Net position	8,318,842	(4,480,968)	(2,673,910)	1,890,756	8,372,872	(7,112,105)	866,239	5,181,726
Accumulated gap	8,318,842	3,837,874	1,163,964	3,054,720	11,427,592	4,315,487	5,181,726	

	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	31 December 2002 Total
	(KZT thousands)							
Assets								
Cash and cash equivalents	1,404,152	352,547	5,305	–	–	–	–	1,762,004
Obligatory reserves	311,507	–	–	–	–	–	–	311,507
Trading securities	5,075,106	–	–	–	184,594	–	–	5,259,700
Loans to customers	–	188,124	4,405,521	7,227,468	8,507,284	–	13,181	20,341,578
Other assets	–	602	48,499	128,094	59,654	–	1,179	238,028
	6,790,765	541,273	4,459,325	7,355,562	8,751,532	–	14,360	27,912,817
Liabilities								
Amounts due to credit institutions	220,762	2,010,003	746,838	–	1,105,809	–	–	4,083,412
Amounts due to customers	3,799,412	1,215,483	2,182,575	5,049,511	6,219,810	–	–	18,466,791
Debt securities issued unsubordinated	–	102,858	–	–	2,308,328	–	–	2,411,186
Deferred tax liabilities	–	–	–	–	15,697	–	–	15,697
Other liabilities	46,938	97,856	27,485	139,433	21,013	–	–	332,725
	4,067,112	3,426,200	2,956,898	5,188,944	9,670,657	–	–	25,309,811
Net position	2,723,653	(2,884,927)	1,502,427	2,166,618	(919,125)	–	14,360	2,603,006
Accumulated gap	2,723,653	(161,274)	1,341,153	3,507,771	2,588,646	2,588,646	2,603,006	

As of 31 December 2003 and 2002 the above tables do not include the effect of allowances for losses of KZT 1,283,495 thousand and KZT 565,389 thousand, provisions for other assets of KZT 3,905 thousand and KZT 7,830 thousand, property and equipment net of accumulated depreciation of KZT 1,888,070 thousand and KZT 1,364,393 thousand, other non-monetary assets of KZT 63,803 thousand and KZT 37,741 thousand, and provisions for guarantees and credit related commitments of KZT 123,046 thousand and KZT nil thousand as of 31 December 2003 and 2002, respectively.

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international credit institutions. However, in the Kazakhstani 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. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2003 and 2002 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents

For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Amounts due to and from credit institutions

As of 31 December 2003 and 2002, the carrying amount of amounts due to and from credit institutions is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan impairment is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trading securities

As of 31 December 2003 and 2002 trading securities are stated at fair value. Fair value of trading securities was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. If such quotes do not exist, management estimation is used.

Due to customer

As of 31 December 2003 and 2002 the carrying amount of short-term and long-term deposits and current accounts of the Group's customers is a reasonable estimate of their fair value.

Debt securities issued

Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates fair value.

26. RELATED PARTY TRANSACTION

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise.

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. At 31 December, the Group had the following transactions with related parties:

	2003		2002	
	Related party transactions	Total asset or liability category	Related party transactions	Total asset or liability category
	(KZT thousands)			
Balance sheet				
Cash and cash equivalents	431,282	6,219,460	–	1,762,004
Loans to Customers	247,000	36,742,885	183,277	20,341,578
Allowance for loans impairment	(73,210)	(1,283,495)	–	(565,389)
Amounts due to credit institutions	(72,972)	(8,729,317)	–	(4,083,412)
Amounts due to customers	(279,587)	(30,022,490)	(346,905)	(18,466,791)
Off-balance sheet				
Guarantees issued	10,962	4,777,821	249,295	2,919,493
Guarantees received	43,027	2,680,052	21,674	1,299,538
Income statement				
Interest income on loans to customers	28,917	4,376,557	11,274	1,871,959
Fee and commission income	369	1,186,280	18,866	690,231
Other income	19	54,225	–	38,664
Interest expense on amounts due to customers	(7,241)	(1,819,579)	(12,624)	(974,633)
Interest expense on amounts due to credit institutions	(430)	(238,630)	–	(145,072)

Cash and cash equivalents are represented by current accounts with two Russian commercial banks, affiliated to the Group.

27. CAPITAL ADEQUACY

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, as of 31 December 2003 and 2002 was 24% and 21%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

28. SEGMENT INFORMATION

The Group's operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 "Segment Reporting". As shown in Note 24, the Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

29. SUBSEQUENT EVENTS

At the annual meeting of shareholders held on 27 May 2005 it was decided to issue Eurobonds in the amount of 200 million US Dollars and to attract a syndicated loan in the amount of 150 million US Dollars.

REGISTERED OFFICE OF THE ISSUER

JSC Bank Caspian
90 Adi Sharipov Street
Almaty 050012
Kazakhstan

PRINCIPAL PAYING AND TRANSFER AGENT

Citibank N.A., London
5 Carmelite Street
London EC4V 0PA
England

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
England

REGISTRAR

Citibank N.A., London
5 Carmelite Street
London EC4V 0PA
England

LEGAL ADVISERS

To the Issuer as to English law:
Mayer, Brown, Rowe & Maw LLP
11 Pilgrim Street
London EC4V 6RW
England

To the Lead Manager as to English law:
White & Case LLP
5 Old Broad Street
London EC2N 1DW
England

To the Lead Manager as to Kazakhstan law:
White & Case LLP
64 Amangeldy Street
Almaty 480012
Kazakhstan

INDEPENDENT AUDITORS TO THE ISSUER

Deloitte & Touche
240-v Furmanov Street
Almaty 480099
Kazakhstan

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
England

Capital Printing Systems (UK) Limited 30388